PRACTICE EXAM 14: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

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

1. A preparer's client asks whether the preparer must independently verify every single figure a client provides, such as a claimed charitable contribution amount, before including it on the return. What is the general standard a preparer must generally apply to client-provided information?

A. Generally, a preparer must always independently audit and verify every single figure a client provides, regardless of whether the information appears reasonable or consistent
B. Generally, a preparer may generally rely in good faith on client-provided information without independent verification, unless the information appears incomplete, inconsistent, or otherwise questionable on its face
C. Generally, a preparer may never rely on any client-provided information at all, requiring separate third-party documentation for every single line item on the return
D. Generally, a preparer bears no responsibility at all for any client-provided information, regardless of how obviously incomplete or inconsistent that information might actually appear

2. A preparer's client asks about the general purpose of Form 8867, the Paid Preparer's Due Diligence Checklist, in connection with claiming certain refundable credits on a return. What is the general purpose this specific form serves?

A. Generally documents that the preparer actually performed the required knowledge, inquiry, and computation steps for certain credits, such as the EITC, before claiming them on the return
B. Generally serves as the taxpayer's own signed authorization for the preparer to electronically file the return, functioning as a substitute for Form 8879
C. Generally serves as a formal written engagement letter between the preparer and the client, documenting the overall scope of the preparer's own services

D. Generally serves only as an internal firm billing record, with no actual connection at all to the underlying due diligence requirements for any specific credit

3. A preparer's client asks whether a preparer generally needs the client's own written consent before disclosing the client's tax return information to a third-party software provider used solely to prepare the return. What is the general answer to this specific question under Section 7216?

A. Generally, a preparer always needs separate written consent before disclosing any information at all to any third party, with no exception ever applying under Section 7216

B. Generally, Section 7216 applies only to disclosures made to a government agency, with any disclosure to a private third-party software provider entirely unregulated

C. Generally, a preparer may freely disclose any client information to any third party for any purpose at all, without ever needing consent under Section 7216

D. Generally, disclosure to a third party solely for the purpose of actually preparing the return is generally permitted without separate written consent, since it falls within an exception for return preparation itself

4. A preparer's client asks about the general purpose of an IRS Centralized Authorization File number, a CAF number, assigned to a preparer who files Form 2848 power of attorney authorizations. What is the general purpose of this specific CAF number?

A. Generally serves as the preparer's own required tax identification number for filing the preparer's own personal individual income tax return each year

B. Generally serves as a formal license the IRS issues authorizing the preparer to actually practice law before the United States Tax Court

C. Generally serves as a unique tracking identifier the IRS uses to record and manage a representative's various power of attorney authorizations across multiple different clients

D. Generally serves no actual practical purpose at all, existing only as a purely historical administrative artifact with no current use by the IRS

5. A preparer's client asks whether a preparer is generally permitted to prepare a return for a fee without holding any specific credential, such as CPA, attorney, or Enrolled Agent status. What is the general answer to this specific question?

A. Generally no; federal law generally requires every single paid preparer nationwide to hold one of these three specific credentials before preparing any return for a fee

B. Generally no; only an Enrolled Agent may ever generally prepare a return for a fee, with a CPA or attorney generally being entirely prohibited from doing so

C. Generally yes; an uncredentialed preparer may generally prepare returns for a fee, though such a preparer generally has limited or no representation rights before the IRS in an examination

D. Generally yes, but only if the uncredentialed preparer first obtains a specific separate federal preparer's license issued directly by the United States Department of the Treasury

6. A preparer's client asks about the general difference between an IRS Notice of Deficiency and an IRS Final Notice of Intent to Levy. What is the general distinction between these two specific types of IRS notices?

A. A Notice of Deficiency and a Final Notice of Intent to Levy are generally functionally identical documents in every respect, with no meaningful distinction between the two

B. A Notice of Deficiency generally relates to actual collection of an unpaid balance, while a Final Notice of Intent to Levy generally relates to a proposed assessment

C. A Final Notice of Intent to Levy is generally issued only to a corporate taxpayer, with an individual taxpayer generally never actually receiving this specific type of notice

D. A Notice of Deficiency generally relates to a proposed additional tax assessment and starts the period to petition Tax Court, while a Final Notice of Intent to Levy generally relates to actual collection of an already-assessed unpaid balance

7. A preparer's client asks whether a preparer generally has an ethical obligation to correct an error the preparer discovers in the client's own current-year return before it is actually filed, even though the client is pressuring the preparer to file it immediately. What is the general answer to this specific question?

A. Generally yes; a preparer generally has an obligation to advise the client of the error and should generally not knowingly file a return the preparer knows to be materially inaccurate

B. Generally no; a preparer generally has no obligation at all to correct any known error, and must generally simply file whatever return the client actually demands

C. Generally yes, but only if the specific error actually benefits the taxpayer, with a preparer generally having no similar obligation regarding an error that harms the taxpayer

D. Generally no; correcting an error before filing is generally considered entirely optional, left solely to the preparer's own personal discretion in every single situation

8. A preparer's client asks about the general difference between an original due date and an extended due date for an individual income tax return, and whether filing an extension also extends the time to actually pay any tax owed. What is the general answer to this specific question?

A. Generally, an extension generally extends both the time to file the return and the time to pay any tax owed, with no payment at all generally required until the extended due date
B. Generally, an extension generally extends only the time to file the return itself, not the time to pay any tax actually owed, which generally remains due by the original due date
C. Generally, filing an extension generally eliminates the taxpayer's underlying tax liability entirely, rather than merely extending the specific deadline to file the return itself
D. Generally, an extension generally applies only to a corporate tax return, with an individual taxpayer generally never actually being eligible to file any extension at all

9. A preparer's client asks whether the preparer generally must retain documentation showing how a specific due diligence inquiry regarding the Earned Income Tax Credit was actually resolved, beyond simply completing Form 8867 itself. What is the general answer to this specific recordkeeping question?

A. Generally yes; a preparer generally must retain contemporaneous records of any additional inquiries made and the client's responses, beyond simply completing the Form 8867 checklist itself
B. Generally no; completing Form 8867 itself is generally considered fully sufficient documentation, with no additional recordkeeping of any kind at all generally required
C. Generally no; a preparer generally has no recordkeeping obligation at all regarding the EITC, since Form 8867 itself is generally an entirely optional form to complete
D. Generally yes, but only for a period of exactly one year, rather than the longer specific retention period that actually generally applies to preparer due diligence records

10. A preparer's client asks whether a preparer generally has a specific professional obligation to keep current on changes in the federal tax law that could affect the preparer's own clients. What is the general answer to this specific continuing competence question?

A. Generally no; a preparer generally has no obligation at all to stay current on tax law changes, since a return can generally always be prepared using entirely outdated information

B. Generally yes, but only an attorney, and no other type of preparer, generally has any obligation at all to stay current on relevant changes in the tax law

C. Generally no; only the IRS itself generally bears any responsibility for staying current on tax law changes, with individual preparers generally bearing no such responsibility at all

D. Generally yes; a preparer generally has an ongoing professional obligation to maintain competence, including staying current on relevant changes in the tax law, as part of general professional standards

11. A preparer's client asks whether the preparer generally must inform the client of the specific reasons a particular tax position was taken on the client's return, or whether simply filing the return without further explanation is generally sufficient. What is the general answer to this specific question?

A. Generally, a preparer generally has no obligation at all to ever explain any specific position taken on a return, even if the client actually specifically asks for that explanation

B. Generally, a preparer should generally be prepared to explain the reasoning behind a return's material positions to the client upon request, consistent with general professional transparency standards

C. Generally, a preparer generally must proactively provide a detailed written memorandum explaining every single line item on the return, regardless of whether the client actually requests one

D. Generally, explaining the reasoning behind a return's positions is generally considered entirely optional, left solely to the preparer's own personal discretion in every single situation

12. A preparer's client asks whether a preparer generally has an obligation to advise a client about a potential tax-saving opportunity the preparer notices while preparing the current return, even though the client did not specifically ask about that particular opportunity. What is the general answer to this specific question?

A. Generally, a preparer is generally strictly and absolutely prohibited from ever mentioning any tax-saving opportunity the client did not specifically and explicitly ask about in advance

B. Generally, a preparer generally must charge a separate, additional formal consulting fee before being legally permitted to mention any tax-saving opportunity noticed during return preparation

C. Generally, while not always a strict legal obligation, a preparer generally provides better client service by proactively mentioning a clearly relevant tax-saving opportunity the preparer actually notices during preparation

D. Generally, mentioning a potential tax-saving opportunity is generally considered a form of unauthorized practice of law, regardless of the preparer's own actual professional credential

13. A preparer's client asks whether a preparer generally must verify a client's identity before preparing a return, given ongoing IRS concerns about identity theft and fraudulent return filing. What is the general recommended practice regarding this specific identity verification step?

A. Generally, a preparer should generally verify a new client's identity using a government-issued photo identification document, as part of general best practices to help prevent identity theft-related fraud
B. Generally, a preparer generally has no need at all to verify any client's identity, since the IRS itself generally bears sole and exclusive responsibility for identity verification
C. Generally, identity verification is generally required only for a client's very first tax return ever filed in that client's own lifetime, and never again afterward
D. Generally, a preparer generally may verify identity only through an unverified verbal statement from the client, since requesting any physical document is generally considered inappropriate

14. A preparer's client asks about the general purpose of the IRS's Taxpayer Bill of Rights, and whether it generally provides any specific protections relevant to a client undergoing an examination. What is the general purpose of this specific Taxpayer Bill of Rights?

A. Generally provides no actual substantive rights at all, existing only as a purely symbolic, non-binding document with no actual practical application to any specific IRS interaction
B. Generally provides a general framework of ten specific fundamental rights, including the right to quality service, the right to challenge the IRS's position, and the right to representation, applicable throughout the examination process
C. Generally applies only to a corporate taxpayer undergoing an examination, with an individual taxpayer generally receiving no protection at all under this specific framework
D. Generally provides only a single specific right, the right to a full refund of any tax owed, with no other broader protection at all provided to the taxpayer

15. A preparer's client asks about the general purpose of an IRS Form SS-4 and whether the preparer can generally assist a self-employed client in obtaining an Employer Identification Number for a new sole proprietorship business. What is the general answer to this specific question?

A. Generally, Form SS-4 is generally used exclusively to apply for a Social Security number, with no actual relationship at all to obtaining any Employer Identification Number

B. Generally, a preparer is generally strictly and absolutely prohibited from ever assisting a client with obtaining an Employer Identification Number under any circumstances at all

C. Generally, an Employer Identification Number is generally required only for a business that actually has employees, with a sole proprietorship generally never needing to obtain one

D. Generally, Form SS-4 is generally used to apply for an Employer Identification Number, and a preparer may generally assist a client in completing and submitting this specific application

16. A preparer's client asks whether the preparer generally must disclose to the IRS, on the return itself, that a particular tax return position taken is contrary to a specific published IRS revenue ruling. What is the general answer to this specific disclosure question?

A. Generally, no disclosure of any kind is ever actually required at all, regardless of how directly a specific position actually contradicts a published IRS revenue ruling

B. Generally, disclosure is generally required only when the specific position actually favors the IRS, rather than when the specific position actually favors the taxpayer

C. Generally, disclosure is generally required using Form 8275 or Form 8275-R when a position lacks a realistic possibility of success but has at least a reasonable basis, helping avoid certain accuracy-related penalties

D. Generally, disclosure is generally accomplished only through a separate formal written letter mailed directly to the IRS Commissioner, rather than through any specific attached disclosure form

17. A taxpayer's Form 1099-B reports the sale of cryptocurrency held as a capital asset for investment purposes, sold at a gain after being held for eight months. How is this specific cryptocurrency gain generally treated for federal income tax purposes?

A. Generally treated as short-term capital gain, since the cryptocurrency was actually held for eight months, less than the one-year threshold required for long-term capital gain treatment

B. Generally treated as long-term capital gain, regardless of the taxpayer's own actual specific holding period in the cryptocurrency before the sale actually occurred

C. Generally entirely tax-exempt, since cryptocurrency is generally treated as currency rather than as property for federal income tax purposes under current law

D. Generally treated as ordinary self-employment income, subjecting the gain to self-employment tax in addition to any regular income tax that might otherwise apply

18. A taxpayer received a Form 1099-NEC reporting nonemployee compensation for services performed as an independent contractor, with no expenses deducted against that income. How is this specific nonemployee compensation generally treated for federal income tax purposes?

A. Generally treated exactly the same as wage income reported on Form W-2, with the payer generally required to have withheld income and employment tax from the payment

B. Generally entirely tax-exempt, since nonemployee compensation is generally treated as a nontaxable reimbursement for the specific independent contractor's own business expenses

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

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

19. A taxpayer's total income includes a payment received from a former employer as liquidated damages under the Age Discrimination in Employment Act, in a settlement that does not allocate any portion to personal physical injury. How is this specific liquidated damages payment generally treated?

A. Generally entirely tax-exempt, since any settlement related to employment discrimination is generally treated identically to a settlement for an actual personal physical injury

B. Generally fully taxable as ordinary income, since liquidated damages under this type of employment discrimination statute generally do not qualify for the personal physical injury exclusion

C. Generally taxable only as to 50% of the settlement amount, with the remaining 50% generally treated as an entirely tax-exempt personal injury recovery instead

D. Generally treated as a nontaxable gift from the former employer, rather than as any form of currently taxable compensation for the underlying discrimination claim

20. A taxpayer's total income includes distributions received from a qualified employee stock purchase plan, an ESPP, where the taxpayer purchased employer stock at a discount through payroll deductions and later sold the shares in a disqualifying disposition. How is the discount portion generally treated in this specific situation?

A. Generally treated entirely as long-term capital gain in every case, regardless of whether the disposition actually qualifies as a disqualifying disposition under the specific ESPP rules

B. Generally entirely tax-exempt, exactly the same treatment that generally applies to a qualifying disposition that meets the applicable ESPP holding period requirements

C. Generally treated as self-employment income, subjecting the entire discount amount to self-employment tax in addition to any regular income tax that might otherwise apply

D. Generally treated as ordinary compensation income in the year of the disqualifying disposition, with any additional gain beyond the discount generally treated as capital gain

21. A taxpayer's total income includes a distribution from a traditional IRA that the taxpayer, now age 68, receives as a normal retirement distribution. How is this specific normal IRA distribution generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since any IRA distribution taken after the taxpayer reaches age 65 is generally treated as a fully tax-free qualified distribution

B. Generally fully taxable as ordinary income in the year actually received, to the extent the distribution consists of previously untaxed pretax contributions and earnings

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a normal retirement-age IRA distribution under current federal tax law

D. Generally subject to the 10% early distribution penalty, regardless of the taxpayer's own actual age at the specific time the distribution was actually received

22. A taxpayer's total income includes a bonus payment received under an employer's nonqualified deferred compensation arrangement, where the taxpayer elected years earlier to defer receipt of the bonus until a specific future date. How is this specific deferred bonus generally treated once actually paid?

A. Generally fully taxable as ordinary income in the original year the bonus was actually earned, rather than in the later year it was actually paid under the deferral election

B. Generally entirely tax-exempt, since a properly structured nonqualified deferred compensation arrangement generally results in the deferred bonus never actually becoming taxable at all

C. Generally fully taxable as ordinary income in the year actually paid to the taxpayer under the terms of the deferral election, consistent with the specific deferred payment date

D. Generally taxed at a special flat 10% rate, rather than at the taxpayer's own regular ordinary marginal income tax rate that actually applies to this type of income

23. A taxpayer's total income includes a payment received from a state as compensation for property taken through eminent domain, where the amount received exceeds the taxpayer's adjusted basis in the condemned property. How is this specific excess condemnation payment generally treated?

A. Generally treated as taxable capital gain to the extent the condemnation award exceeds the taxpayer's adjusted basis in the property, though deferral may generally be available through a qualifying replacement property purchase

B. Generally entirely tax-exempt, since any payment received through eminent domain condemnation proceedings is generally treated as a nontaxable government transfer payment

C. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to rental income earned from that same property before its actual condemnation

D. Generally treated as self-employment income, subjecting the excess condemnation payment to self-employment tax in addition to any regular income tax that might otherwise apply

24. A taxpayer's total income includes interest earned on a taxable municipal bond, one that does not meet the specific requirements for federal tax-exempt treatment despite being issued by a state or local government entity. How is this specific taxable municipal bond interest generally treated?

A. Generally entirely tax-exempt, since interest on any bond issued by a state or local government entity is always automatically treated as federally tax-exempt income

B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for taxable municipal bond interest under current federal tax law, rather than at ordinary rates

C. Generally treated as a nontaxable return of the taxpayer's own original invested capital, rather than as any form of currently taxable interest income received

D. Generally fully taxable as ordinary interest income, since not every bond issued by a state or local government entity actually qualifies for the specific federal tax-exempt treatment

25. A taxpayer's total income includes a payment received from a class action lawsuit settlement related to a defective consumer product the taxpayer purchased, where the settlement compensates the taxpayer for the product's diminished value rather than for any personal injury. How is this specific settlement payment generally treated?

A. Generally treated as a reduction of the taxpayer's basis in the product, with any amount received exceeding that basis generally treated as taxable income

B. Generally fully taxable as ordinary income in the year actually received, exactly the same treatment that generally applies to a settlement for lost wages

C. Generally entirely tax-exempt in every case, regardless of the specific amount received or the taxpayer's own original purchase price for the defective product

D. Generally treated as self-employment income, subjecting the entire settlement amount to self-employment tax in addition to any regular income tax that might otherwise apply

26. A taxpayer's total income includes distributions received from a traditional 401(k) plan that the taxpayer, now age 55, took after being formally separated from service with the specific employer sponsoring that plan during or after the year the taxpayer turned 55. How is this specific distribution generally treated regarding the 10% early distribution penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a distribution taken after separation from service at any age is always fully excluded from income

B. Generally excepted from the 10% early distribution penalty under the specific age-55 separation from service exception, though the distribution itself remains includible in ordinary taxable income

C. Generally still subject to the full 10% early distribution penalty in every case, since the specific age-55 separation from service exception generally applies only to an IRA, not a 401(k)

D. Generally excepted from ordinary income tax entirely, but the 10% early distribution penalty generally still fully applies regardless of the taxpayer's own actual age at separation

27. A taxpayer's total income includes a payment received as a rebate from a manufacturer for purchasing a specific consumer product, where the rebate is generally treated as a reduction in the purchase price rather than as separate income. How is this specific manufacturer rebate generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary income in the year actually received, exactly the same treatment that generally applies to income earned from operating an active trade or business

B. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for manufacturer rebate payments under current federal tax law, rather than at ordinary rates

C. Generally treated as self-employment income, subjecting the manufacturer rebate to self-employment tax in addition to any regular income tax that might otherwise apply

D. Generally not taxable income, since a manufacturer rebate is generally treated as an adjustment to the purchase price of the product, rather than as separate taxable income to the purchaser

28. A taxpayer's total income includes a distribution received from a traditional IRA used to make a first-time home purchase, with the taxpayer, spouse, and their respective prior home ownership history all actually meeting the specific first-time homebuyer definition under the applicable IRA distribution exception. How is this specific distribution generally treated regarding the 10% early distribution penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a distribution used for a first-time home purchase is generally excluded from taxable income altogether

B. Generally still subject to the full 10% early distribution penalty in every case, since the specific first-time homebuyer exception generally applies only to a Roth IRA, not a traditional IRA

C. Generally excepted from the 10% early distribution penalty up to a specific lifetime dollar limitation for a qualifying first-time homebuyer distribution, though the distribution itself remains includible in ordinary taxable income

D. Generally excepted from ordinary income tax entirely, but the 10% early distribution penalty generally still fully applies regardless of the qualifying first-time homebuyer status involved

29. A taxpayer's total income includes a payment received from an employer as a moving expense reimbursement for relocating to a new job location, under current law which has generally suspended the moving expense deduction for most civilian taxpayers. How is this specific employer reimbursement generally treated?

A. Generally entirely tax-exempt, since an employer-provided moving expense reimbursement is generally always excluded from an employee's taxable wages under current federal tax law

B. Generally fully taxable as wages to the employee, since the moving expense exclusion for a reimbursement is generally suspended under current law for most civilian taxpayers, absent a specific exception such as for Armed Forces members

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for moving expense reimbursements under current federal tax law, rather than at ordinary wage rates

D. Generally treated as self-employment income to the employee, subjecting the moving reimbursement to self-employment tax rather than to regular employment tax withholding

30. A taxpayer's total income includes a payment received as a stipend for participating in a clinical drug trial conducted by a pharmaceutical research company, where the taxpayer is not otherwise employed by that company. How is this specific clinical trial stipend generally treated for federal income tax purposes?

A. Generally fully taxable as other income, reported on the taxpayer's return, since a stipend for participating in a clinical trial generally represents compensation for the taxpayer's own participation and time

B. Generally entirely tax-exempt, since a clinical trial stipend is generally treated as a nontaxable reimbursement for the taxpayer's own related medical costs and general inconvenience

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for clinical trial stipend payments under current federal tax law, rather than at ordinary rates

D. Generally treated as a nontaxable gift from the pharmaceutical company, rather than as any form of currently taxable compensation for the taxpayer's own trial participation

31. A taxpayer's total income includes a payment received as a state income tax refund from a prior year in which the taxpayer itemized deductions and received a full federal tax benefit from deducting the entire amount of state income tax actually paid that year. How is this specific refund generally treated for the current tax year?

A. Generally entirely tax-exempt, since a state income tax refund is generally never taxable at the federal level, regardless of whether the taxpayer actually itemized deductions in the prior year

B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a state tax refund under current federal tax law, rather than at ordinary income tax rates

C. Generally fully taxable as other income in the current year, since the taxpayer generally received a full federal tax benefit from deducting the corresponding state tax in the prior year

D. Generally treated as a nontaxable return of the taxpayer's own overpaid state tax, rather than as any form of currently taxable other income under the tax benefit rule

32. A taxpayer's total income includes amounts received from renting out a vacation home that the taxpayer also personally uses for a significant number of days during the year, exceeding the applicable statutory threshold that would classify the home as a personal residence for tax purposes. How are the associated rental expenses generally treated in this specific mixed-use situation?

A. Generally fully deductible without any limitation at all, exactly the same treatment that generally applies to a rental property with no personal use by the owner at all

B. Generally entirely disallowed in full, since any personal use of a rental property at all automatically and entirely eliminates any possible rental expense deduction whatsoever

C. Generally deductible only as a nonrefundable tax credit, rather than as any form of rental expense deduction subject to the applicable personal-use limitation rules

D. Generally limited to the amount of rental income actually received, since the home is generally treated as a personal residence when personal use exceeds the applicable statutory threshold, limiting deductible rental losses

33. A taxpayer's total income includes interest income earned on a certificate of deposit held within a traditional IRA, where the CD matured during the year but the proceeds were not actually withdrawn from the IRA. How is this specific CD interest earned within the IRA generally treated for the current tax year?

A. Generally not currently taxable, since interest earned within a traditional IRA generally accumulates on a tax-deferred basis until amounts are actually distributed from the account

B. Generally fully currently taxable as ordinary interest income, exactly the same treatment that generally applies to interest earned on a CD held in a taxable brokerage account

C. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for interest earned within a traditional IRA under current federal tax law

D. Generally entirely and permanently tax-exempt, exactly the same treatment that generally applies to a qualified distribution from a properly established Roth IRA account

34. A taxpayer's total income includes a payment received from a life insurance policy the taxpayer surrendered for its cash value during the year, where the cash value received exceeds the total premiums the taxpayer had actually paid into the policy over its lifetime. How is this specific excess amount generally treated?

A. Generally entirely tax-exempt, exactly the same treatment that generally applies to a life insurance death benefit paid to a beneficiary upon the insured's own actual death

B. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for a life insurance policy surrender under current federal tax law, rather than at ordinary rates

C. Generally treated as self-employment income, subjecting the entire excess amount to self-employment tax in addition to any regular income tax that might otherwise apply

D. Generally fully taxable as ordinary income, to the extent the cash value received actually exceeds the taxpayer's total premiums paid, since gain is only recognized to that specific extent

35. A taxpayer's total income includes a payment received from a state as a one-time general welfare assistance payment, provided based on financial need rather than in connection with any specific disaster. How is this specific general welfare payment generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to income earned from operating an active trade or business by that same taxpayer

B. Generally excludable from federal gross income under the general welfare exclusion doctrine, since the payment was generally based on individual or family need rather than being compensation for services rendered

C. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for a general welfare assistance payment under current federal tax law, rather than at ordinary rates

D. Generally treated as self-employment income, subjecting the general welfare payment to self-employment tax in addition to any regular income tax that might otherwise apply

36. A taxpayer's total income includes a payment received from an employer under a nonqualified stock appreciation rights plan, where the taxpayer received a cash payment equal to the appreciation in the employer's own stock value over a specific measurement period. How is this specific stock appreciation rights payment generally treated?

A. Generally entirely tax-exempt, since a stock appreciation rights payment is generally treated identically to a qualified distribution from a properly established Roth-type retirement account

B. Generally treated entirely as long-term capital gain, exactly the same treatment that generally applies to a gain on the sale of actual employer stock held for more than one year

C. Generally fully taxable as ordinary compensation income in the year the cash payment is actually received by the employee, subject to standard payroll tax withholding requirements

D. Generally treated as a nontaxable return of the employee's own original invested capital, rather than as any form of currently taxable compensation income received from the employer

37. A taxpayer's total itemized deductions include $5,000 paid for unreimbursed prescription medications and $2,000 paid for over-the-counter medications not prescribed by a physician, all related to the taxpayer's own ongoing chronic medical condition. How are these two specific categories of medication expense generally treated?

A. Generally, both the $5,000 in prescription medications and the $2,000 in over-the-counter medications are generally fully deductible as a qualifying medical expense on Schedule A

B. Generally, only the $5,000 in prescription medications is generally deductible as a qualifying medical expense, while over-the-counter medications not prescribed by a physician are generally not deductible

C. Generally, only the $2,000 in over-the-counter medications is generally deductible, while the $5,000 in prescription medications is generally not deductible under current law

D. Generally, neither category of medication expense is generally deductible at all, since medication expenses in general are generally excluded from the definition of a qualifying medical expense

38. A taxpayer's total itemized deductions include $3,000 in unreimbursed expenses paid to a tax-qualified continuing education program required to maintain the taxpayer's own professional license, incurred while the taxpayer was self-employed rather than working as a common-law employee. How is this specific continuing education expense generally treated?

A. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, exactly the same treatment that would generally apply to a common-law employee

B. Generally not deductible at all under current law, regardless of whether the taxpayer incurred the expense while self-employed or while working as a common-law employee

C. Generally deductible only as a nonrefundable tax credit, rather than as any form of ordinary and necessary business expense deduction on Schedule C

D. Generally deductible as an ordinary and necessary business expense on Schedule C, rather than being limited to itemized deduction treatment, since the taxpayer incurred the expense while self-employed

39. A taxpayer's total Child Tax Credit calculation involves a 17-year-old dependent who turned 17 during the tax year, disqualifying that dependent from the standard Child Tax Credit's age requirement. What credit, if any, generally remains available for this specific dependent?

A. Generally the Credit for Other Dependents may still be available for this dependent, since it generally applies to a qualifying dependent who does not meet the Child Tax Credit's specific under-17 age requirement

B. Generally no credit of any kind remains available at all for this dependent, since turning 17 during the year generally eliminates eligibility for every dependent-related credit

C. Generally the full Child Tax Credit remains fully available for this dependent, since the age requirement generally only applies to a dependent who turns 18, not 17

D. Generally only a specific separate itemized deduction remains available for this dependent, since the Credit for Other Dependents generally does not exist under current law

40. A taxpayer's total itemized deductions include $6,000 in unreimbursed expenses paid for orthodontic treatment for the taxpayer's own dependent child, a treatment generally recognized as a legitimate qualifying medical expense rather than a purely cosmetic procedure. How is this specific orthodontic expense generally treated?

A. Generally not deductible at all, since orthodontic treatment is generally always classified as a purely cosmetic procedure, regardless of the treatment's own actual specific medical purpose

B. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

C. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed medical expenses

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

41. A taxpayer's total itemized deductions include $8,000 in mortgage interest on home equity debt used specifically to substantially improve the taxpayer's primary residence, with the taxpayer's total combined acquisition and home equity debt remaining within the applicable current-law debt limit. How is this specific home equity debt interest generally treated?

A. Generally not deductible at all under current law, since interest on any home equity debt, regardless of its actual specific use, is generally always entirely nondeductible

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 on Schedule A

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

D. Generally fully deductible as home mortgage interest, since the home equity debt proceeds were actually used to substantially improve the home, satisfying the applicable current-law requirement for deductibility

42. A taxpayer's total Foreign Tax Credit versus Foreign Earned Income Exclusion comparison involves a taxpayer who could potentially claim either benefit for the same foreign-source income, but not claim the Foreign Tax Credit for foreign tax paid on income that was also actually excluded under the exclusion. What is the general reason for this specific coordination rule?

A. Generally prevents a taxpayer from receiving a double tax benefit, since claiming the Foreign Tax Credit for tax paid on income already excluded from taxation would generally allow a credit against tax that was never actually owed

B. Generally has no actual specific purpose at all, existing only as an arbitrary and purely technical administrative restriction with no genuine underlying policy rationale

C. Generally exists solely to increase the total amount of tax revenue collected by the IRS, rather than to prevent any type of double tax benefit to the taxpayer

D. Generally applies only to a taxpayer who is self-employed while working abroad, with an employee taxpayer generally never actually being subject to this specific coordination rule

43. A taxpayer's total itemized deductions include $500 in unreimbursed expenses paid for a smoking cessation program specifically recommended by the taxpayer's own treating physician. How is this specific smoking cessation program expense generally treated for itemized medical expense deduction purposes?

A. Generally not deductible at all, since a smoking cessation program is generally always classified as a purely personal lifestyle expense rather than a genuine medical expense

B. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

C. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

44. A taxpayer's total Adoption Credit calculation involves a domestic special-needs adoption that the taxpayer successfully finalized during the tax year, where the taxpayer's actual qualified adoption expenses were relatively modest compared to the full statutory maximum credit amount. How is the credit generally calculated in this specific special-needs situation?

A. Generally, the credit is generally limited strictly to the taxpayer's own actual qualified adoption expenses incurred, exactly the same limitation that would generally apply to a non-special-needs adoption

B. Generally, the full maximum Adoption Credit amount is generally allowed for a finalized domestic special-needs adoption, regardless of the taxpayer's own actual specific qualified adoption expenses incurred

C. Generally, no credit at all is generally available for a special-needs adoption, since this specific credit generally applies only to a non-special-needs domestic or international adoption

D. Generally, the credit is generally limited to exactly 50% of the full statutory maximum credit amount, regardless of the taxpayer's own actual qualified adoption expenses incurred

45. A taxpayer's total itemized deductions include $1,200 in unreimbursed expenses paid for a specially trained diabetic alert service animal that assists the taxpayer in monitoring the taxpayer's own diagnosed chronic medical condition. How is this specific service animal expense generally treated?

A. Generally not deductible at all, since expenses related to any animal, including a specially trained medical service animal, are never treated as a qualifying medical expense

B. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses

C. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

46. A taxpayer's total qualifying expenses for the Child and Dependent Care Credit include amounts paid to a live-in nanny who also performs some general household duties unrelated to childcare, such as light housekeeping. How is the nanny's total compensation generally treated for purposes of the credit?

A. Generally, the nanny's entire total compensation, including amounts for unrelated general household duties, is generally treated as a fully qualifying expense for purposes of the credit

B. Generally, none of the nanny's compensation is generally treated as a qualifying expense at all, since a live-in nanny is generally never eligible for credit-qualifying treatment

C. Generally, only the portion of the nanny's compensation actually allocable to childcare services is generally treated as a qualifying expense, with compensation for unrelated general household duties generally excluded

D. Generally, the nanny's compensation is generally treated as a qualifying medical expense deduction instead, rather than as any form of qualifying expense for the Child and Dependent Care Credit

47. A taxpayer's total itemized deductions include $4,500 in unreimbursed expenses paid for transportation to and from medical appointments related to the taxpayer's own ongoing cancer treatment, calculated using the applicable standard medical mileage rate rather than actual vehicle expenses. How is this specific medical transportation expense generally treated?

A. Generally deductible as a qualifying medical expense on Schedule A, using the applicable standard medical mileage rate, subject to the same overall 7.5% AGI floor that applies to other medical expenses
B. Generally not deductible at all, since transportation to and from a medical appointment is generally never treated as a qualifying medical expense under any circumstances
C. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor
D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

48. A taxpayer's total Lifetime Learning Credit calculation involves a taxpayer's own single continuing education course taken to improve job skills, with the family's modified AGI falling within the applicable phase-out range for the credit. How is the otherwise allowable Lifetime Learning Credit generally treated in this specific phase-out situation?

A. Generally entirely eliminated in full the moment modified AGI enters the applicable phase-out range by even a single dollar, with no gradual reduction ever actually applying
B. Generally entirely unaffected by the taxpayer's modified AGI, since the Lifetime Learning Credit generally has no income-based phase-out limitation of any kind under current law
C. Generally converted automatically into a fully refundable credit once modified AGI enters the applicable phase-out range, rather than being reduced in any way at all
D. Generally reduced proportionally as the taxpayer's modified AGI rises within the applicable phase-out range, rather than being either fully allowed or fully eliminated at any single specific income point

49. A taxpayer's total itemized deductions include $2,500 in unreimbursed expenses paid for a weight-loss program specifically prescribed by a physician to treat the taxpayer's own diagnosed obesity, a recognized specific disease, rather than for general purely cosmetic weight-loss purposes. How is this specific weight-loss program expense generally treated?

A. Generally not deductible at all, since any weight-loss program is generally always classified as a purely personal lifestyle expense rather than a genuine medical expense

B. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses

C. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

50. A taxpayer's total itemized deductions include $700 in unreimbursed expenses paid for eyeglasses and contact lenses prescribed by an optometrist to correct the taxpayer's own vision impairment. How is this specific vision correction expense generally treated for itemized medical expense deduction purposes?

A. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses

B. Generally not deductible at all, since eyeglasses and contact lenses are generally always classified as a purely cosmetic personal expense rather than a genuine medical expense

C. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

51. A taxpayer's total itemized deductions include $1,000 in unreimbursed expenses paid for a home security system installed primarily to protect the taxpayer's own general property, with only an incidental, secondary benefit to the taxpayer's home office space used for a qualifying business. How is this specific home security expense generally treated for the home office deduction?

A. Generally the entire full cost of the home security system is generally deductible as part of the home office deduction, without any allocation at all based on the actual business-use percentage

B. Generally none of the home security system expense is generally deductible at all, since a home security system is generally always classified as an entirely nondeductible personal expense

C. Generally only the business-use percentage of the home security system expense is generally deductible as part of the home office deduction, based on the qualifying home office's own actual percentage of total home square footage

D. Generally the entire home security system expense is generally deductible as a nonrefundable tax credit instead, rather than as any part of the home office deduction calculation

52. A taxpayer's total Saver's Credit calculation involves a taxpayer who contributed to a Roth IRA rather than a traditional IRA during the year, with the taxpayer's AGI falling within the applicable 20% credit-rate tier for the taxpayer's filing status. How is a Roth IRA contribution generally treated for Saver's Credit eligibility purposes?

A. Generally entirely ineligible for the Saver's Credit, since the credit generally applies only to a contribution made to a traditional IRA, and never to a Roth IRA contribution

B. Generally eligible for the Saver's Credit, but only at a specific reduced flat 5% credit rate reserved specifically for a Roth IRA contribution, rather than the taxpayer's own applicable tier

C. Generally eligible for the Saver's Credit only if the Roth IRA contribution actually exceeds a specific minimum statutory dollar threshold amount not otherwise required for a traditional IRA

D. Generally treated the same as a traditional IRA contribution for Saver's Credit purposes, since the credit generally applies to a qualifying contribution to either a traditional or a Roth IRA

53. A taxpayer's total itemized deductions include $900 in unreimbursed expenses paid for acupuncture treatments received to manage the taxpayer's own chronic pain condition, a treatment generally recognized as a legitimate alternative medical treatment rather than an unproven or purely elective procedure. How is this specific acupuncture expense generally treated?

A. Generally not deductible at all, since acupuncture is generally always classified as an entirely unproven or purely elective procedure rather than a genuine medical expense

B. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

C. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

D. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses

54. A taxpayer's total EITC calculation involves a taxpayer who is a qualifying child of another taxpayer, such as an 18-year-old full-time student still living with and supported by a parent, who otherwise has qualifying earned income from a part-time job. How is this specific taxpayer's own EITC eligibility generally treated?

A. Generally fully eligible for the EITC at the standard applicable credit rate, exactly the same treatment that generally applies to any non-dependent taxpayer with similar earned income

B. Generally eligible for the EITC, but only at a specific reduced flat 5% credit rate reserved specifically for a taxpayer who is also a qualifying child of another taxpayer

C. Generally entirely ineligible for the EITC, since a taxpayer who is themselves the qualifying child of another taxpayer is generally excluded from claiming the credit on their own separate return

D. Generally eligible for the EITC only if the taxpayer's own part-time job earned income actually exceeds a specific minimum statutory dollar threshold amount for the year

55. A taxpayer's total itemized deductions include $3,200 in unreimbursed expenses paid for a nursing home facility for the taxpayer's own dependent parent, where the primary reason for placement was to receive available medical care, rather than merely for custodial or general personal care purposes. How is this specific nursing home expense generally treated?

A. Generally fully deductible as a qualifying medical expense on Schedule A, including both the medical care and the associated meals and lodging portion, subject to the same overall 7.5% AGI floor

B. Generally not deductible at all, since any nursing home expense is generally always classified as a purely personal or custodial expense rather than a genuine medical expense

C. Generally deductible only as to the specific medical care portion, with the associated meals and lodging portion generally always entirely excluded from any medical expense deduction

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

56. A taxpayer's total itemized deductions include $1,500 in unreimbursed expenses paid for a hearing aid prescribed by an audiologist to correct the taxpayer's own diagnosed hearing impairment. How is this specific hearing aid expense generally treated for itemized medical expense deduction purposes?

A. Generally not deductible at all, since a hearing aid is generally always classified as a purely cosmetic personal expense rather than a genuine medical expense

B. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses

C. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction subject to the applicable 7.5% AGI floor

57. A taxpayer's total tax liability calculation involves the general concept of adjusted gross income, AGI, relevant as the specific starting point for calculating several other limitations elsewhere on the return, such as the medical expense floor. What is the general significance of AGI in this overall calculation?

A. Generally serves as a key intermediate figure, computed after above-the-line adjustments but before the standard or itemized deduction, used as the base for numerous other limitations and phase-outs throughout the return

B. Generally serves no actual practical purpose at all in the overall tax calculation, existing only as a purely informational figure with no bearing on any other specific calculation

C. Generally represents the taxpayer's final taxable income figure, meaning the same figure to which the applicable tax rate schedule is actually directly applied

D. Generally represents only the taxpayer's total gross wages, excluding every other type of income the taxpayer might have separately received during the year

58. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss on a wash sale that occurs entirely within a tax-advantaged account, such as an IRA, rather than in a taxable brokerage account. What is the general treatment of a wash sale occurring entirely within an IRA?

A. Generally, the wash sale rule generally never applies at all to any transaction occurring entirely within a tax-advantaged account such as an IRA, regardless of the specific circumstances

B. Generally, a wash sale occurring within an IRA generally results in the entire IRA becoming immediately disqualified, losing its tax-advantaged status entirely for that specific tax year

C. Generally, the wash sale rule can still generally apply, but since losses within an IRA are not otherwise deductible, the practical effect is generally that the disallowed loss provides no future tax benefit at all

D. Generally, a wash sale occurring within an IRA generally has no effect at all, since IRA transactions are generally never subject to any specific loss limitation or disallowance rule

59. A taxpayer's total tax liability calculation involves the general concept of a specific tax credit versus a specific tax deduction that both reduce a taxpayer's overall tax liability, but through fundamentally different mechanisms. What is the general order of operations for applying these two types of tax benefits?

A. Generally, credits are generally applied first to reduce taxable income, before deductions are then separately applied afterward to further reduce the resulting computed tax liability

B. Generally, deductions are generally applied first to reduce taxable income, and the resulting tax liability is then computed before credits are generally applied afterward to further reduce that computed liability

C. Generally, deductions and credits are generally applied simultaneously in combination, with no specific meaningful order of operations at all between the two distinct types of tax benefits

D. Generally, only one of the two types of tax benefit, either a deduction or a credit, may ever actually be claimed on a single individual income tax return

60. A taxpayer's total tax liability calculation involves the general concept of the specific tax treatment of a taxpayer's net operating loss carryforward interacting with the Alternative Minimum Tax calculation. What is the general relationship between an NOL carryforward and the separate AMT calculation?

A. Generally, the NOL carryforward generally has no relevance at all to the separate AMT calculation, with the AMT calculation generally starting entirely from scratch without reference to any prior loss

B. Generally, the regular tax NOL deduction is generally used identically and without modification for both the regular tax calculation and the entirely separate AMT calculation

C. Generally, an NOL carryforward generally eliminates the AMT calculation entirely for that specific tax year, regardless of the taxpayer's own other separate tax preference items

D. Generally, a separate AMT-specific net operating loss deduction, calculated using AMT rules, is generally used for purposes of the AMT calculation, rather than the regular tax NOL deduction being used directly

61. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain on the sale of a partnership interest, where the partnership itself holds certain hot assets, such as unrealized receivables. How is the portion of gain attributable to these specific hot assets generally treated?

A. Generally treated entirely as long-term capital gain in every case, regardless of the specific composition of the underlying partnership's own assets at the time of the sale
B. Generally entirely tax-exempt, since gain attributable to a partnership's own hot assets is generally excluded from taxable income altogether under the specific applicable hot asset rules
C. Generally treated as self-employment income, subjecting the entire gain amount attributable to hot assets to self-employment tax in addition to any regular income tax that might apply
D. Generally treated as ordinary income, rather than capital gain, to the extent the gain is attributable to the partnership's own hot assets, such as unrealized receivables or substantially appreciated inventory

62. A taxpayer's total tax liability calculation involves the general concept of a specific penalty for the substantial understatement of income tax, distinct from the more general negligence-based accuracy-related penalty. What generally triggers this specific substantial understatement penalty component?

A. Generally triggered when the understatement of tax exceeds the greater of a specific percentage of the tax required to be shown on the return or a specific minimum flat dollar amount
B. Generally triggered by any understatement of tax at all, regardless of how small the specific dollar amount of that particular understatement actually happens to be
C. Generally triggered only when a taxpayer is also separately and simultaneously found guilty of criminal tax fraud beyond a reasonable doubt in a separate court proceeding
D. Generally triggered only when the taxpayer's total tax liability for the year actually exceeds a specific extremely high minimum statutory income threshold amount

63. A taxpayer's total tax liability calculation involves the general concept of a specific taxpayer's recognized gain or loss calculation when property is transferred between spouses incident to a divorce. What is the general tax treatment of this specific type of interspousal property transfer?

A. Generally, the transferring spouse generally recognizes taxable gain or loss immediately, exactly the same treatment that would generally apply to a sale of that same property to an unrelated third party
B. Generally, no gain or loss is generally recognized on a property transfer between spouses, or former spouses, that is made incident to a divorce, with the receiving spouse generally taking a carryover basis in the transferred property

C. Generally, the receiving spouse generally receives a fully stepped-up fair market value basis in the transferred property, rather than a carryover basis from the transferring spouse

D. Generally, this specific type of interspousal property transfer is generally entirely prohibited under current federal tax law, requiring the property to instead be formally sold to a third party

64. A taxpayer's total tax liability calculation involves the general concept of a specific taxpayer's recognized gain on the sale of qualified small business stock, held for more than five years, potentially eligible for a specific statutory gain exclusion under Section 1202. What is the general purpose of this specific Section 1202 exclusion?

A. Generally requires the taxpayer to fully include 100% of any gain on qualified small business stock in taxable income, with no exclusion of any kind ever actually available

B. Generally applies only to a loss on qualified small business stock, rather than to any gain the taxpayer might actually recognize on the sale of that same stock

C. Generally allows a taxpayer to exclude a specific percentage, potentially up to 100%, of eligible gain on the sale of qualified small business stock meeting specific statutory requirements, encouraging investment in small business

D. Generally applies only to a corporate taxpayer selling qualified small business stock, with an individual taxpayer generally being entirely ineligible for this specific gain exclusion

65. A taxpayer's total tax liability calculation involves the general concept of the specific character of gain or loss on the sale of Section 1231 property, generally depreciable business property or business real estate held for more than one year. What is the general rule for characterizing this specific type of gain or loss?

A. Generally, net Section 1231 gain is generally treated as ordinary income, while net Section 1231 loss is generally treated as capital loss, exactly the reverse of the correct general treatment

B. Generally, both net Section 1231 gain and net Section 1231 loss are always generally treated identically as ordinary income or ordinary loss, with no distinction between the two

C. Generally, both net Section 1231 gain and net Section 1231 loss are always generally treated identically as capital gain or capital loss, with no distinction between the two

D. Generally, net Section 1231 gain is generally treated as long-term capital gain, while net Section 1231 loss is generally treated as ordinary loss, reflecting a generally favorable best-of-both-worlds treatment

66. A taxpayer's total tax liability calculation involves the general concept of a specific taxpayer's recognized gain on a like-kind exchange of real property where the taxpayer also receives cash boot in addition to the replacement real property received. How is this specific cash boot generally treated?

A. Generally, the receipt of any cash boot at all generally entirely disqualifies the transaction from any like-kind exchange deferral treatment, requiring full gain recognition on the entire transaction

B. Generally, the receipt of cash boot generally triggers recognition of gain, up to the lesser of the realized gain or the amount of boot actually received, even though the overall exchange otherwise qualifies for like-kind exchange deferral treatment

C. Generally, the receipt of cash boot generally has no effect at all on the amount of gain recognized, with the entire exchange remaining fully tax-deferred regardless of any boot received

D. Generally, the receipt of cash boot is generally treated as an entirely tax-exempt return of the taxpayer's own original capital, rather than as any form of currently taxable gain

67. A taxpayer's total tax liability calculation involves the general concept of a specific taxpayer's recognized gain or loss calculation on property received as a gift, where the taxpayer's basis for calculating a subsequent loss differs from the basis used for calculating a subsequent gain. What is the general rule governing this specific dual-basis situation for gifted property?

A. Generally, the donee always simply uses the same single identical basis figure for calculating both a subsequent gain and a subsequent loss, with no distinction ever actually made between the two

B. Generally, the donee's basis for both gain and loss is generally the property's fair market value at the time of the gift, rather than the donor's own original adjusted basis

C. Generally, the donee's basis for gain is generally the donor's own adjusted basis, while the donee's basis for loss is generally the lesser of the donor's basis or the property's fair market value at the time of the gift

D. Generally, gifted property generally has no basis at all for tax purposes, meaning any subsequent sale of that gifted property generally results in the entire sale proceeds being treated as taxable gain

68. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss on the sale of inherited property, relevant to the specific basis the taxpayer, as the heir, generally uses for that inherited property. What is the general rule for determining a taxpayer's basis in inherited property?

A. Generally, the taxpayer's basis in inherited property is generally the property's fair market value as of the date of the original decedent's death, often referred to as a stepped-up basis

B. Generally, the taxpayer's basis in inherited property is generally the original decedent's own adjusted basis in the property immediately before that decedent's own actual death, a simple carryover basis

C. Generally, inherited property generally has no basis at all for tax purposes, meaning any subsequent sale of that inherited property generally results in the entire sale proceeds being treated as taxable gain

D. Generally, the taxpayer's basis in inherited property is generally always $0, regardless of the property's own actual fair market value at the specific time of the original decedent's death

69. A taxpayer's total tax liability calculation involves the general concept of a specific taxpayer's recognized gain or loss calculation on the sale of Section 1245 property, generally depreciable personal property used in a trade or business. How is gain on the sale of this specific type of property generally treated, to the extent of prior depreciation claimed?

A. Generally treated entirely as long-term capital gain in every case, regardless of the specific amount of prior depreciation the taxpayer had actually claimed on that property

B. Generally entirely tax-exempt, since gain on Section 1245 property is generally excluded from taxable income altogether under the specific applicable depreciation recapture rules

C. Generally treated as ordinary income through depreciation recapture, up to the amount of depreciation previously claimed on the property, with any remaining gain beyond that recaptured amount generally treated as Section 1231 gain

D. Generally treated as self-employment income, subjecting the entire gain amount on the Section 1245 property to self-employment tax in addition to any regular income tax

70. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss calculation on a short sale of stock, where the taxpayer sells borrowed shares and later closes the position by actually purchasing replacement shares. When is gain or loss on this specific short sale transaction generally recognized?

A. Generally recognized at the time the initial short sale itself is actually made, rather than at the later time the taxpayer actually closes out that specific short position

B. Generally recognized when the short sale is actually closed, meaning when the taxpayer actually delivers replacement shares to cover the short position, rather than at the earlier time the initial short sale itself was made

C. Generally never actually recognized at all under any circumstances, since a short sale is generally treated as an entirely tax-exempt type of transaction under current federal tax law

D. Generally recognized ratably over the entire specific period the short position actually remains open, rather than being recognized entirely at either the opening or the closing of that position

71. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss calculation on the sale of a partial interest in property, such as selling a 25% ownership interest in a piece of investment real estate while retaining the remaining 75% interest. How is the taxpayer's basis generally allocated for this specific partial sale?

A. Generally, the taxpayer's entire total basis in the entire property is generally allocated entirely to the portion sold, leaving the retained portion with a resulting $0 basis

B. Generally, the taxpayer's entire total basis in the entire property is generally allocated entirely to the portion retained, leaving the sold portion with a resulting $0 basis

C. Generally, no basis allocation of any kind is ever actually required at all for a partial sale, with the entire sale proceeds simply treated as fully taxable gain

D. Generally, the taxpayer's total basis in the entire property is generally allocated proportionally between the portion sold and the portion retained, based on the relative fair market value or other reasonable allocation method

72. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss calculation on property converted from personal use to business or income-producing use, and later sold at a loss. What is the general rule for the taxpayer's basis in calculating that subsequent loss?

A. Generally, the taxpayer's basis for calculating a subsequent loss is generally the lesser of the property's adjusted basis or its fair market value at the specific time of the conversion to business or income-producing use

B. Generally, the taxpayer's basis for calculating a subsequent loss is generally always simply the property's original purchase price, regardless of the property's own fair market value at the time of conversion

C. Generally, the taxpayer's basis for calculating a subsequent loss is generally always the property's fair market value at the specific time the property is actually sold at a loss

D. Generally, converted property generally has no basis at all for tax purposes, meaning any subsequent sale of that converted property at a loss generally results in a fully nondeductible outcome

73. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss calculation on the exchange of property for stock in a corporation, where the taxpayer, along with other transferors, ends up in control of the corporation immediately after the exchange under Section 351. What is the general tax treatment of this specific type of incorporation transaction?

A. Generally, the transferring taxpayer generally recognizes taxable gain or loss immediately in full, exactly the same treatment that would generally apply to an outright sale of that same property to an unrelated third party

B. Generally, this specific type of Section 351 incorporation transaction is generally entirely prohibited under current federal tax law, requiring the property to instead be formally sold to the corporation

C. Generally, only a loss, and never a gain, is generally recognized on this specific type of transaction, regardless of whether the transferors actually end up in control of the corporation

D. Generally, no gain or loss is generally recognized on the transfer of property to a corporation solely in exchange for stock, provided the transferors are in control of the corporation immediately after the exchange, subject to certain conditions

74. A taxpayer's total tax liability calculation involves the general concept of a taxpayer's recognized gain or loss calculation on the sale of a taxpayer's own principal residence used partly for a qualifying home office, where the home office portion does not qualify for the Section 121 exclusion. How is gain allocable to that specific home office portion generally treated?

A. Generally, the entire gain, including the portion allocable to the home office, is generally fully excludable under Section 121, without any specific limitation for the depreciation actually claimed

B. Generally, gain allocable to the home office portion is generally entirely tax-exempt, exactly the same treatment that generally applies to the remaining personal-use portion of the residence

C. Generally, gain allocable to the home office portion is generally not eligible for the Section 121 exclusion to the extent of depreciation claimed on that portion, and is generally taxed as depreciation recapture and remaining capital gain

D. Generally, gain allocable to the home office portion is generally treated as self-employment income, subjecting it to self-employment tax rather than to any capital gain treatment

75. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of taking a lump-sum pension distribution versus electing a lifetime monthly annuity payment option from the same employer pension plan. What is one general factor the Enrolled Agent might discuss regarding this specific comparison?

A. A lump-sum distribution generally provides greater flexibility and control over investment decisions but shifts investment and longevity risk to the taxpayer, while a lifetime annuity generally provides predictable guaranteed income but less flexibility
B. A lump-sum distribution and a lifetime annuity option are generally functionally identical in every respect, with no meaningful trade-off at all between the two specific options
C. A lifetime annuity option generally always provides a larger total lifetime payout than a lump-sum distribution, regardless of the taxpayer's own actual longevity or investment returns
D. A lump-sum distribution is generally never actually taxable at all, unlike a lifetime annuity option, which is generally always fully taxable in the year of the initial election

76. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to make a large deductible traditional IRA contribution in a year the taxpayer expects unusually high income, compared to skipping the contribution and instead investing in a taxable account. What is the general reasoning behind this specific timing strategy?

A. The specific timing of a deductible traditional IRA contribution generally has no effect at all on the resulting tax savings, regardless of the taxpayer's own marginal tax bracket
B. Making the deductible contribution in a high-income year can generally provide a greater current tax benefit, since the deduction is generally worth more in tax savings when it offsets income taxed at a higher marginal rate
C. Making the deductible contribution in a low-income year would generally always produce greater tax savings than making it in a high-income year, the exact reverse of the correct reasoning
D. A deductible traditional IRA contribution is generally worth exactly the same fixed dollar amount in tax savings, regardless of the taxpayer's own specific marginal tax bracket for that year

77. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of establishing an irrevocable life insurance trust, an ILIT, as part of the taxpayer's own broader estate planning strategy. What is one general purpose of this specific type of trust that the Enrolled Agent might discuss?

A. An ILIT can generally help remove the life insurance policy's death benefit from the taxpayer's own taxable estate, potentially reducing overall estate tax exposure, provided the trust is properly structured and funded

B. An ILIT generally has no effect at all on the taxpayer's own taxable estate, since life insurance proceeds are always automatically excluded from a taxpayer's estate regardless of ownership

C. An ILIT generally requires the taxpayer to personally retain full ownership and control over the life insurance policy, rather than transferring that ownership to the trust itself

D. An ILIT generally converts the life insurance policy's death benefit into currently taxable ordinary income to the trust's own beneficiaries, rather than remaining a tax-favored transfer

78. A taxpayer asks an Enrolled Agent for general guidance on the tax advisability of paying for a dependent's college tuition directly to the educational institution, rather than gifting the equivalent cash amount to the dependent first. What is one general advantage of the direct tuition payment approach the Enrolled Agent might mention?

A. A payment made directly to an educational institution for tuition generally has no advantage at all over gifting the equivalent cash amount, with both approaches generally treated identically

B. A payment made directly to an educational institution for tuition generally always counts against the annual gift tax exclusion, exactly the same treatment that generally applies to a cash gift

C. A payment made directly to an educational institution for tuition is generally treated as fully taxable income to the dependent receiving the educational benefit, unlike a comparable cash gift

D. A payment made directly to an educational institution for tuition is generally excluded from gift tax considerations entirely, regardless of the payment amount, unlike a cash gift, which may generally count against the annual gift tax exclusion

79. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to take Social Security benefits while still working, given the taxpayer has not yet reached full retirement age. What is one general consideration the Enrolled Agent might discuss regarding this specific situation?

A. Generally, Social Security benefits are generally never affected at all by a taxpayer's own continued earned income, regardless of the taxpayer's own specific age when benefits are first claimed

B. Generally, Social Security benefits claimed before full retirement age are generally permanently and entirely eliminated the moment the taxpayer earns even a single dollar of additional income

C. Generally, Social Security benefits claimed before full retirement age may generally be temporarily reduced under the earnings test if the taxpayer's earned income exceeds a specific applicable annual limit while still working

D. Generally, the earnings test generally applies only to a self-employed taxpayer, with a taxpayer who is a common-law employee generally being entirely exempt from this specific limitation

80. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of establishing a 401(k) plan loan versus taking a hardship withdrawal, specifically regarding the general impact each option has on the taxpayer's own future retirement account growth. What is one general consideration the Enrolled Agent might discuss?

A. Neither a 401(k) loan nor a hardship withdrawal ever actually has any effect at all on the taxpayer's own future retirement account growth, regardless of the specific amount involved

B. Both a 401(k) loan and a hardship withdrawal generally reduce the amount of funds actually remaining invested and growing within the account, though a properly repaid loan generally restores that reduced balance over time

C. A 401(k) loan generally always increases the taxpayer's own future retirement account growth, while a hardship withdrawal generally always decreases that same future account growth

D. A hardship withdrawal generally always increases the taxpayer's own future retirement account growth, while a 401(k) loan generally always decreases that same future account growth

81. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of establishing a health savings account eligible high-deductible health plan versus a traditional lower-deductible health plan, specifically regarding the general tax planning opportunity an HSA-eligible plan provides. What is one general consideration the Enrolled Agent might discuss?

A. An HSA-eligible high-deductible health plan generally allows the taxpayer to make tax-advantaged HSA contributions, providing a general planning opportunity not available under a traditional lower-deductible plan that lacks HSA eligibility

B. A traditional lower-deductible health plan generally always provides the exact same HSA contribution eligibility that an HSA-eligible high-deductible health plan generally provides, with no meaningful distinction

C. An HSA-eligible high-deductible health plan generally eliminates the taxpayer's ability to make any tax-advantaged retirement account contribution of any kind for that same specific tax year

D. Neither an HSA-eligible high-deductible health plan nor a traditional lower-deductible health plan generally provides the taxpayer any tax planning opportunity at all related to healthcare costs

82. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to take a larger current-year withdrawal from a traditional IRA specifically to fund a Roth conversion in a year the taxpayer also expects to owe additional tax from an unrelated capital gain. What is one general consideration relevant to this specific combined situation?

A. Combining a Roth conversion with an unrelated capital gain in the same year generally has no cumulative effect at all on the taxpayer's own overall marginal tax bracket for that year

B. Combining a Roth conversion with an unrelated capital gain in the same year can generally push more of the total combined income into a higher marginal tax bracket than if the two events were spread across different years

C. A Roth conversion and a capital gain are generally taxed using two entirely separate and independent tax rate schedules, meaning the two amounts are never actually combined for bracket purposes

D. Combining a Roth conversion with an unrelated capital gain in the same year generally always results in a lower total combined tax liability than spreading the two events across separate years

83. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to establish a donor-advised fund contribution using appreciated long-term stock, rather than cash, as the actual contributed asset. What is one general advantage of contributing appreciated stock to a donor-advised fund, compared to cash?

A. Contributing appreciated long-term stock generally provides no advantage at all compared to contributing the equivalent amount of cash, with both approaches generally treated identically for tax purposes

B. Contributing appreciated long-term stock generally requires the taxpayer to first recognize the built-in capital gain, unlike contributing cash, which generally has no such gain recognition requirement

C. Contributing appreciated long-term stock generally allows the taxpayer to deduct the stock's full fair market value while also generally avoiding recognition of the capital gain built into that appreciated stock

D. Contributing appreciated long-term stock generally limits the taxpayer's charitable deduction strictly to the stock's own original cost basis, rather than its current fair market value

84. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to convert a rental property into the taxpayer's own primary residence, specifically regarding the general effect this conversion has on the taxpayer's eventual eligibility for the Section 121 home sale exclusion. What is one general consideration the Enrolled Agent might discuss?

A. Converting a rental property to a primary residence generally has no effect at all on the taxpayer's eventual Section 121 exclusion eligibility, regardless of the prior rental period's length
B. A period of prior nonqualified rental use generally has no effect at all on the amount of gain eligible for the Section 121 exclusion, provided the taxpayer eventually meets the ownership and use tests
C. Converting a rental property to a primary residence generally disqualifies the taxpayer entirely and permanently from ever claiming any Section 121 exclusion on that specific property in the future
D. A period of prior nonqualified rental use generally reduces the portion of gain eligible for the Section 121 exclusion upon a later sale, even after the property is converted to and used as a primary residence

85. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to maximize contributions to a dependent care flexible spending account versus claiming the Child and Dependent Care Credit directly, given the taxpayer cannot generally use both benefits for the same specific dollar of qualifying expense. What is one general factor the Enrolled Agent might discuss?

A. Generally, the dependent care FSA and the Child and Dependent Care Credit generally always provide the exact same identical tax savings, regardless of the taxpayer's own specific income level
B. Generally, a taxpayer should generally always choose the Child and Dependent Care Credit over the dependent care FSA in every single situation, regardless of the taxpayer's own specific income level
C. Generally, a taxpayer should generally compare the tax savings from excluding income through the dependent care FSA against the tax savings from claiming the credit, since the FSA is often, but not always, more advantageous for a higher-income taxpayer
D. Generally, a taxpayer should generally always choose the dependent care FSA over the Child and Dependent Care Credit in every single situation, regardless of the taxpayer's own specific income level

86. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to name a charity as the designated beneficiary of a traditional IRA, rather than naming an individual family member as beneficiary. What is one general tax advantage of this specific charitable beneficiary designation?

A. A charity named as an IRA beneficiary generally must pay the same ordinary income tax on the inherited proceeds that an individual beneficiary would generally also have to pay

B. A charity generally receives the inherited IRA proceeds entirely tax-free, since a qualified charity is generally exempt from income tax, unlike an individual beneficiary, who generally must pay ordinary income tax on inherited traditional IRA distributions

C. Naming a charity as an IRA beneficiary generally has no tax advantage at all compared to naming an individual family member, with both approaches generally treated identically

D. Naming a charity as an IRA beneficiary generally requires the taxpayer to pay gift tax on the IRA balance immediately, unlike naming an individual family member as beneficiary

87. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to defer claiming Social Security benefits until age 70, specifically regarding the general interaction between this delay and the taxpayer's own separate required minimum distributions from a traditional IRA. What is one general consideration relevant to this specific combined situation?

A. Delaying Social Security benefits generally eliminates the taxpayer's own separate required minimum distribution obligation entirely, regardless of the taxpayer's own actual traditional IRA account balance

B. Required minimum distributions from a traditional IRA generally cannot begin at all until the taxpayer has actually already begun separately claiming Social Security retirement benefits

C. Delaying Social Security benefits and taking required minimum distributions generally always results in exactly the same combined taxable income, regardless of the specific timing of either income source

D. Delaying Social Security while simultaneously taking required minimum distributions can generally result in a specific window of years with comparatively lower combined taxable income, which some taxpayers use for Roth conversion planning

88. A taxpayer's individual income tax return reflects income earned by a taxpayer who is a resident of a community property state, where the taxpayer's spouse separately earned significant wage income during the year, and the couple files as Married Filing Separately rather than jointly. How is this specific community property income generally treated?

A. Generally, each spouse generally reports one-half of the couple's total combined community property income on their own separate return, regardless of which specific spouse actually earned that particular income

B. Generally, each spouse generally reports only the income that spouse individually and actually earned, with no specific community property income-splitting rule applying at all in this situation

C. Generally, the spouse with the higher total income generally reports the entire couple's combined income, while the other spouse generally reports none of that combined income at all

D. Generally, community property income is generally entirely excluded from taxation altogether when a married couple elects to file as Married Filing Separately rather than jointly

89. A taxpayer's individual income tax return reflects a distribution received from a decedent's traditional IRA by the decedent's own surviving spouse, who elects to treat the inherited IRA as the surviving spouse's own IRA, rather than as an inherited IRA. What is the general effect of this specific spousal rollover election?

A. Generally has no effect at all on the applicable required minimum distribution rules, with the surviving spouse generally remaining subject to the exact same rules that would apply to any non-spouse beneficiary

B. Generally requires the surviving spouse to immediately and fully distribute the entire inherited IRA balance within a single tax year, rather than allowing any further tax deferral

C. Generally allows the surviving spouse to apply the surviving spouse's own required minimum distribution rules and age-based early distribution penalty exception, rather than the more restrictive rules that generally apply to a non-spouse beneficiary

D. Generally converts the inherited traditional IRA into a Roth IRA automatically, requiring the surviving spouse to immediately recognize the entire account balance as taxable income

90. A taxpayer's individual income tax return reflects income earned by the taxpayer as a real estate agent classified as a statutory nonemployee under the specific qualified real estate agent provisions, rather than as either a common-law employee or a general independent contractor. How is this specific statutory nonemployee's own income generally treated?

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

B. Generally treated as self-employment income reportable on Schedule C, since a qualified real estate agent meeting the specific statutory nonemployee requirements is generally treated as self-employed for federal tax purposes

C. Generally entirely tax-exempt, since a statutory nonemployee's own income is generally treated as a nontaxable form of compensation under the specific applicable statutory provisions

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

91. A taxpayer's individual income tax return reflects income earned by the taxpayer as a Native American tribal member, receiving a per capita distribution of gaming revenue from the taxpayer's own tribe's gaming operations conducted on tribal land. How is this specific per capita gaming distribution generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary income to the tribal member, since a per capita distribution of tribal gaming revenue is generally not covered by any specific federal income tax exemption for tribal income

B. Generally entirely tax-exempt, since any income a Native American tribal member receives from that member's own tribe is generally always fully excluded from federal taxable income

C. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for tribal per capita gaming distributions under current federal tax law, rather than at ordinary rates

D. Generally treated as self-employment income, subjecting the per capita gaming distribution to self-employment tax in addition to any regular income tax that might otherwise apply

92. A taxpayer's individual income tax return reflects income earned by the taxpayer as a member of the U.S. Foreign Service stationed abroad, receiving both a base salary and a separate cost-of-living allowance intended to offset the generally higher cost of living in the taxpayer's specific foreign duty station. How is this specific cost-of-living allowance generally treated?

A. Generally fully taxable as ordinary wage income, exactly the same treatment that generally applies to the taxpayer's own separate base salary received from the U.S. Foreign Service

B. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for a cost-of-living allowance paid to a U.S. government employee stationed abroad

C. Generally treated as self-employment income, subjecting the cost-of-living allowance to self-employment tax in addition to any regular income tax that might otherwise apply

D. Generally excludable from federal taxable income, since a qualifying cost-of-living allowance paid to certain U.S. government employees stationed abroad is generally excluded under a specific statutory provision

93. A taxpayer's individual income tax return reflects income earned by the taxpayer as an Olympic or Paralympic medalist, receiving both a medal and a separate cash award from the United States Olympic and Paralympic Committee for the taxpayer's own athletic achievement. How is this specific medal and cash award generally treated for taxpayers below the applicable AGI threshold?

A. Generally fully taxable as ordinary income in every case, regardless of the taxpayer's own specific AGI level or the specific value of the medal and cash award received

B. Generally excludable from federal taxable income for a taxpayer whose AGI does not exceed the applicable statutory threshold, under a specific exclusion enacted for Olympic and Paralympic medal and prize winnings

C. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for Olympic and Paralympic medal and prize winnings under current federal tax law

D. Generally treated as self-employment income, subjecting the medal and cash award to self-employment tax in addition to any regular income tax that might otherwise apply

94. A taxpayer's individual income tax return reflects income earned by the taxpayer as a volunteer firefighter or emergency medical responder, receiving a modest length-of-service award or a small annual stipend from the local government the taxpayer serves. How is this specific volunteer firefighter benefit generally treated, up to the applicable statutory limit?

A. Generally fully taxable as ordinary income in every case, regardless of the specific small dollar amount of the length-of-service award or stipend actually received by the volunteer

B. Generally entirely and permanently tax-exempt without any dollar limit at all, regardless of how large the length-of-service award or annual stipend actually happens to be

C. Generally treated as self-employment income, subjecting the volunteer firefighter benefit to self-employment tax in addition to any regular income tax that might otherwise apply

D. Generally excludable from federal taxable income up to a specific applicable annual statutory dollar limit for a qualifying volunteer firefighter or emergency responder benefit, with any excess generally taxable

95. A taxpayer's individual income tax return reflects a distribution received from a decedent's traditional IRA by the decedent's own minor child, who qualifies as an eligible designated beneficiary under the specific applicable statutory category for a minor child of the original account owner. How are required minimum distributions generally treated for this specific eligible designated beneficiary?

A. Generally must be fully distributed from the inherited IRA within exactly one single year following the original account owner's death, rather than over any longer specific distribution period

B. Generally has no distribution requirement of any kind at all, allowing the minor child to indefinitely retain the inherited IRA funds within the account without any specific withdrawal deadline

C. Generally may be stretched over the minor child's own life expectancy until the child reaches the age of majority, at which point the remaining account balance generally must be fully distributed within 10 years
D. Generally must be fully distributed from the inherited IRA within exactly five years following the original account owner's death, rather than over the minor child's own life expectancy

96. A taxpayer's individual income tax return reflects income earned by the taxpayer as a participant in a qualified opportunity zone fund investment, where the taxpayer previously deferred capital gain by timely reinvesting the gain proceeds into the qualified opportunity fund. What is the general tax treatment of this specific deferred gain?

A. Generally, the deferred gain is generally recognized on the earlier of the date the qualified opportunity fund investment is actually sold or a specific statutory deferral deadline date, subject to potential basis step-up benefits
B. Generally, the deferred gain is generally entirely and permanently forgiven in full, regardless of when the taxpayer eventually actually sells the qualified opportunity fund investment itself
C. Generally, the deferred gain is generally recognized immediately and fully in the same year the original qualified opportunity fund investment was actually first made by the taxpayer
D. Generally, the deferred gain is generally taxed at a special flat 10% rate, rather than at the taxpayer's own regular applicable long-term or short-term capital gain rate

97. A taxpayer's individual income tax return reflects income earned by the taxpayer as a participant in a company's nonqualified employee stock purchase plan that does not meet the specific statutory requirements to be treated as a tax-favored qualified Section 423 ESPP. How is a discount received under this specific nonqualified plan generally treated?

A. Generally fully taxable as ordinary compensation income at the time of purchase, equal to the difference between the stock's fair market value and the discounted purchase price actually paid by the employee
B. Generally entirely tax-exempt at the time of purchase, exactly the same treatment that generally applies to a discount received under a properly qualified Section 423 ESPP
C. Generally treated entirely as long-term capital gain at the time of purchase, exactly the same treatment that generally applies to a gain on stock held for more than one year
D. Generally treated as a nontaxable return of the employee's own original invested capital, rather than as any form of currently taxable compensation income received from the employer

98. A taxpayer's individual income tax return reflects income earned by the taxpayer as a participant in a qualifying combat zone military pay exclusion, where the taxpayer served in a designated combat zone for part of the tax year while serving as an enlisted member of the U.S. Armed Forces. How is this specific combat zone pay generally treated?

A. Generally fully taxable as ordinary military pay, exactly the same treatment that generally applies to the taxpayer's own regular military pay received while stationed outside any designated combat zone

B. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for combat zone military pay under current federal tax law, rather than being fully excluded

C. Generally excludable from federal taxable income for the specific months the enlisted taxpayer actually served in the designated combat zone, up to certain applicable limits that generally do not apply to enlisted personnel

D. Generally treated as self-employment income, subjecting the combat zone military pay to self-employment tax in addition to any regular income tax that might otherwise apply

99. A taxpayer's individual income tax return reflects income earned by the taxpayer as a beneficiary of a qualified funeral trust established to prepay the taxpayer's own eventual funeral expenses. How is the income earned within this specific qualified funeral trust generally treated for federal income tax purposes?

A. Generally, all income earned within a qualified funeral trust is generally always taxed directly and entirely to the individual beneficiary who established that specific trust, with no separate entity election ever available

B. Generally, the trustee may generally elect to have the qualified funeral trust taxed as a separate entity, rather than the income being taxed directly to the individual beneficiary who established the trust

C. Generally, income earned within a qualified funeral trust is generally entirely and permanently tax-exempt, regardless of whether the trustee actually makes any specific separate entity election

D. Generally, income earned within a qualified funeral trust is generally treated as self-employment income to the beneficiary, subjecting it to self-employment tax in addition to any regular income tax

100. A taxpayer's individual income tax return reflects income earned by the taxpayer as a recipient of a qualified Medicaid waiver payment for providing in-home care to the taxpayer's own disabled family member under a state Medicaid home and community-based services waiver program. How is this specific Medicaid waiver payment generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary self-employment income in every case, regardless of the specific care relationship between the taxpayer-caregiver and the disabled family member being cared for

B. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for a Medicaid waiver payment under current federal tax law, rather than being potentially excludable

C. Generally treated as a nontaxable gift from the state Medicaid program, rather than as either potentially excludable difficulty-of-care income or as taxable compensation for services

D. Generally excludable from federal gross income under a specific IRS administrative position treating certain qualifying Medicaid waiver payments as difficulty-of-care payments, similar to the treatment for a qualified foster care payment

Answer Key and Explanations — Practice Exam 14

1. B — A preparer may generally rely in good faith on information a client provides without independently auditing or verifying every figure, unless that information appears incomplete, inconsistent, or otherwise questionable, in which case the preparer has a duty to make further reasonable inquiries before relying on it in preparing the return.

2. A — Form 8867 documents that a paid preparer actually performed the required knowledge, inquiry, and computation steps before claiming certain credits, such as the EITC, Child Tax Credit, or American Opportunity Credit, on a client's return, reflecting the preparer's specific additional due diligence obligation applicable to these particular credits under the law.

3. D — Under Section 7216, a disclosure made to a third party solely for the specific purpose of actually preparing the return, such as sharing data with tax preparation software, is generally permitted without separate written client consent, since this type of disclosure generally falls within a specific exception for uses and disclosures made in connection with return preparation itself.

4. C — A CAF number generally serves as a unique tracking identifier the IRS assigns to a representative, allowing the IRS to record and manage that representative's various power of attorney authorizations across multiple different clients, helping IRS personnel quickly verify a representative's authority when that representative contacts the IRS regarding a specific client's account.

5. C — An uncredentialed preparer may generally prepare tax returns for a fee, since no federal law generally requires a specific credential to prepare a return, though such a preparer generally has limited or no representation rights before the IRS in an examination, unlike a CPA, attorney, or Enrolled Agent, who generally holds full representation rights.

6. D — A Notice of Deficiency generally relates to a proposed additional tax assessment, generally starting the specific period during which a taxpayer may petition the U.S. Tax Court, while a Final

Notice of Intent to Levy generally relates to the IRS's actual collection of an already-assessed unpaid balance, generally starting the taxpayer's separate right to a collection due process hearing.

7. A — A preparer generally has an ethical and professional obligation to advise the client of a known material error before filing, and generally should not knowingly file a return the preparer knows to be materially inaccurate, even under client pressure, since doing so could generally expose both the client and the preparer to significant penalties.

8. B — A properly filed extension generally extends only the time to actually file the return itself, not the time to pay any tax owed, which generally remains due by the original due date; a taxpayer who does not pay the estimated amount owed by that original date generally remains subject to interest and a failure-to-pay penalty.

9. A — A preparer generally must retain contemporaneous records documenting any additional inquiries made and the client's specific responses, beyond simply completing the Form 8867 checklist itself, since the underlying due diligence requirement generally requires the preparer to actually demonstrate that the required knowledge and inquiry steps were genuinely performed, not merely that the form was completed.

10. D — A preparer generally has an ongoing professional obligation to maintain competence, which generally includes staying reasonably current on relevant changes in federal tax law that could affect the preparer's own clients, consistent with general professional standards of conduct, including continuing education requirements that generally apply to a credentialed preparer such as an Enrolled Agent.

11. B — A preparer should generally be prepared to explain the reasoning behind a return's material positions to the client upon request, consistent with general professional transparency standards, since a client generally has a legitimate interest in understanding the basis for positions taken on their own return, even though a detailed unsolicited written explanation is not generally required for every line item.

12. C — While proactively advising on unrelated matters is not always a strict legal obligation, a preparer generally provides better, more valuable client service by proactively mentioning a clearly relevant tax-saving opportunity the preparer actually notices while preparing the current return, consistent with the general professional standard of providing competent and genuinely helpful service to the client.

13. A — A preparer should generally verify a new client's identity using a government-issued photo identification document, as part of general recommended best practices intended to help prevent identity theft-related fraud, given ongoing and significant IRS concerns about fraudulent returns filed using a stolen taxpayer identity, particularly for a client the preparer has not previously worked with before.

14. B — The Taxpayer Bill of Rights provides a framework of ten fundamental rights, including the right to quality service, the right to challenge the IRS's position and be heard, the right to appeal an IRS decision, and the right to retain representation, all remaining applicable throughout an examination or other IRS interaction.

15. D — Form SS-4 is generally used to apply for an Employer Identification Number, a unique number the IRS assigns to a business entity, including a sole proprietorship that may need one for banking or other specific purposes, and a preparer may generally assist a client in properly completing and submitting this specific application to the IRS.

16. C — When a return position lacks a realistic possibility of success on its merits but still has a reasonable basis, disclosure using Form 8275, or Form 8275-R for a position contrary to a regulation, is generally required to adequately disclose the position and helps avoid certain accuracy-related penalties that might otherwise apply.

17. A — The IRS generally treats cryptocurrency as property, not currency, for federal income tax purposes, so a sale at a gain is generally treated as a capital gain; since this cryptocurrency was actually held for only eight months, less than the required one-year threshold, the resulting gain is generally treated as short-term capital gain.

18. C — Nonemployee compensation reported on Form 1099-NEC is generally treated as self-employment income, reportable on Schedule C, and generally subject to self-employment tax, covering both the employer and employee equivalent shares of Social Security and Medicare tax, in addition to regular federal income tax on the taxpayer's resulting net profit from the independent contractor activity.

19. B — Liquidated damages received under the Age Discrimination in Employment Act are generally fully taxable as ordinary income, since this type of settlement generally does not qualify for the specific exclusion available for damages received on account of an actual personal physical injury or physical sickness, a distinct general treatment from a settlement specifically allocated to compensate for such an injury.

20. D — In a disqualifying disposition, where ESPP shares are sold before satisfying the applicable holding period requirements, the discount received at purchase is generally treated as ordinary compensation income in the year of that disqualifying sale, with any additional gain beyond the discount amount generally treated as capital gain, based on the taxpayer's specific holding period in the shares.

21. B — A normal distribution from a traditional IRA taken after the taxpayer reaches retirement age is generally fully taxable as ordinary income when received, to the extent it consists of previously untaxed contributions and earnings, though it is not subject to the 10% early distribution penalty since this taxpayer is well past that age threshold.

22. C — A bonus deferred under a properly structured nonqualified deferred compensation arrangement is generally fully taxable as ordinary income in the year it is actually paid to the taxpayer, consistent with the deferred payment date elected years earlier, rather than in the year the bonus was originally earned, reflecting deferral of both receipt and taxation.

23. A — A condemnation award received through eminent domain is generally treated as an involuntary conversion, with any amount exceeding the taxpayer's adjusted basis in the property generally treated as taxable capital gain, though the taxpayer may generally be able to defer recognizing that gain by timely reinvesting the proceeds in qualifying replacement property under the specific involuntary conversion deferral rules.

24. D — Interest on a taxable municipal bond, one issued by a state or local government entity but that does not meet the specific statutory requirements for federal tax-exempt treatment, such as certain bonds used to finance private activities, is generally fully taxable as ordinary interest income, since not every bond issued by a governmental entity actually qualifies for federal tax exemption.

25. A — A settlement payment compensating a taxpayer for a product's diminished value, rather than for personal injury, is generally treated as a recovery of capital, reducing the taxpayer's basis in the product, with any amount received that actually exceeds the taxpayer's original basis generally treated as taxable income, similar to the general tax treatment of other types of property-related settlement recoveries.

26. B — A distribution from a 401(k) plan taken after separating from service with the sponsoring employer during or after the year the taxpayer turns 55 is generally excepted from the 10% early distribution penalty under this age-55 separation exception, though the distribution remains includible in ordinary taxable income, since only the penalty is excepted.

27. D — A manufacturer rebate received for purchasing a consumer product is generally not taxable income, since the rebate is treated as an adjustment reducing the purchase price of the product, rather than as separate taxable income to the purchaser, consistent with treating a rebate as a price reduction rather than compensation or other income.

28. C — A traditional IRA distribution used for a qualifying first-time home purchase is generally excepted from the 10% early distribution penalty up to a specific lifetime dollar limitation, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, since only the early distribution penalty, not the underlying income tax, is excepted under this specific first-time homebuyer provision.

29. B — Under current law, an employer-provided moving expense reimbursement is generally fully taxable as wages to the employee, since both the moving expense deduction and the related exclusion for an employer reimbursement have generally been suspended for most civilian taxpayers, absent a specific narrow exception, such as for an active-duty member of the Armed Forces moving pursuant to a military order.

30. A — A stipend received for participating in a clinical drug trial is generally fully taxable as other income, reported on the taxpayer's return, since it generally represents compensation for the taxpayer's time and participation, rather than a tax-exempt reimbursement, though the exact reporting classification can vary with the specific payment's structure.

31. C — Under the tax benefit rule, a state income tax refund is generally fully taxable as other income to the extent the taxpayer received a federal tax benefit from deducting the corresponding state tax in the prior year; since this taxpayer received a full benefit from itemizing, the current-year refund is generally fully taxable.

32. D — When a taxpayer's personal use of a vacation rental home exceeds the applicable threshold, generally the greater of 14 days or 10% of days rented, the home is treated as a personal residence, and rental expense deductions are generally limited to rental income actually received, preventing a deductible net rental loss.

33. A — Interest earned on a certificate of deposit held within a traditional IRA is generally not currently taxable in the year earned, since income earned within an IRA accumulates tax-deferred; taxation is generally deferred until the taxpayer actually takes a distribution from the account, at which point it is taxed as ordinary income.

34. D — When a taxpayer surrenders a life insurance policy for its cash value, gain is generally fully taxable as ordinary income to the extent the cash value received actually exceeds the taxpayer's total premiums paid into the policy over its lifetime, since only that specific excess amount, reflecting the policy's actual gain, is treated as taxable income upon the policy's surrender.

35. B — A general welfare assistance payment provided by a governmental unit based on individual or family need is generally excludable from federal gross income under the general welfare exclusion doctrine, since it is not compensation for services rendered but instead intended to promote general welfare, unlike taxable compensation for actual work performed.

36. C — A cash payment received under a nonqualified stock appreciation rights plan is generally fully taxable as ordinary compensation income when actually received, subject to standard federal income and employment tax withholding, since it represents additional compensation tied to the employer's stock performance, rather than an actual sale of owned stock.

37. B — Generally, only prescription medications are deductible as a qualifying medical expense; here, the $5,000 in prescription medications generally qualifies, while the $2,000 in over-the-counter medications not prescribed by a physician generally does not qualify as a deductible medical expense, absent a specific prescription from a licensed healthcare provider for that particular medication.

38. D — Continuing education expenses required to maintain a professional license, incurred by a self-employed taxpayer in connection with that trade or business, are generally deductible as an ordinary and necessary business expense directly on Schedule C, rather than limited to itemized deduction treatment, a more favorable result than for a common-law employee.

39. A — While a dependent who turns 17 during the tax year no longer qualifies for the Child Tax Credit's under-17 requirement, the separate Credit for Other Dependents generally remains available, provided the dependent otherwise meets the qualifying child or qualifying relative tests, though it is a smaller nonrefundable amount than the standard credit.

40. C — Orthodontic treatment generally recognized as a legitimate medical treatment, rather than a purely cosmetic procedure, is generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed qualifying medical expenses claimed on the return, consistent with the general treatment of other necessary dental and orthodontic care.

41. D — Under current law, interest on home equity debt is generally deductible as home mortgage interest only when proceeds are actually used to buy, build, or substantially improve the home securing the debt; since this debt was actually used to improve the primary residence, and combined debt stays within the limit, the interest is fully deductible.

42. A — This coordination rule generally prevents a taxpayer from receiving an improper double tax benefit, since claiming the Foreign Tax Credit for tax paid on income also excluded under the Foreign Earned Income Exclusion would allow a credit against U.S. tax that was never actually owed on that already-excluded income in the first place.

43. C — A smoking cessation program is generally recognized as a legitimate qualifying medical expense and is generally deductible on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed medical expenses, reflecting the IRS's general recognition that treatment for nicotine addiction serves a genuine medical purpose rather than being a purely personal or cosmetic expense.

44. B — For a finalized domestic special-needs adoption, the Adoption Credit is generally allowed at the full statutory maximum amount, regardless of the taxpayer's own actual qualified adoption expenses incurred, a more favorable treatment than a non-special-needs adoption, where the credit is limited strictly to actual qualified expenses, up to that same maximum.

45. B — Unreimbursed expenses for a specially trained service animal assisting a taxpayer with a diagnosed medical condition, such as a diabetic alert dog, are generally deductible as a qualifying medical expense on Schedule A, subject to the same 7.5% AGI floor applying to other medical expenses, consistent with treatment of similar medical equipment.

46. C — When a household employee, such as a live-in nanny, performs both childcare and unrelated household duties, only the portion of compensation actually allocable to childcare is generally treated as a qualifying expense for the Child and Dependent Care Credit, with compensation for unrelated duties, such as housekeeping, generally excluded from the calculation.

47. A — Transportation expenses to and from medical appointments, calculated using the applicable standard medical mileage rate published annually by the IRS, are generally deductible as a qualifying medical expense on Schedule A, subject to the same 7.5% AGI floor applying to other unreimbursed medical expenses claimed on that same year's return.

48. D — When a taxpayer's modified AGI falls within the applicable phase-out range for the Lifetime Learning Credit, the otherwise allowable credit is generally reduced proportionally as modified AGI rises within that range, gradually phasing out the credit rather than eliminating it entirely at the very first dollar the taxpayer's income actually enters the applicable phase-out range for that taxpayer's filing status.

49. B — A weight-loss program specifically prescribed by a physician to treat a diagnosed disease, such as obesity, is generally deductible as a qualifying medical expense on Schedule A, subject to the same

7.5% AGI floor applying to other medical expenses, unlike a program undertaken for general health improvement or cosmetic purposes, which does not qualify.

50. A — Prescribed eyeglasses and contact lenses used to correct a diagnosed vision impairment are generally recognized as a legitimate qualifying medical expense and are generally deductible on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed medical expenses claimed on the return, consistent with the general treatment of other necessary corrective medical devices and equipment.

51. C — For an expense benefiting the entire home, such as a home security system, only the business-use percentage, generally based on the home office's actual percentage of total home square footage, is generally deductible as part of the home office deduction, rather than the entire cost being fully deductible or entirely disallowed.

52. D — A contribution to a Roth IRA is generally treated the same as a traditional IRA contribution for purposes of the Retirement Savings Contributions Credit, since the Saver's Credit applies to a qualifying contribution to either type of IRA, calculated using the applicable credit-rate tier, here 20%, based on AGI and filing status.

53. D — Acupuncture treatment, generally recognized by the IRS as a legitimate qualifying medical expense when used to treat a diagnosed medical condition, is generally deductible on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed medical expenses claimed on the return, consistent with the general treatment of other recognized alternative or complementary medical treatments.

54. C — A taxpayer who is themselves the qualifying child of another taxpayer, such as this 18-year-old full-time student living with and supported by a parent, is generally entirely ineligible to claim the EITC on their own return, since the statute excludes a qualifying child of another person, regardless of that taxpayer's own earned income.

55. A — When the primary reason for a dependent's placement in a nursing home is to receive available medical care, rather than merely custodial or personal care, the entire cost, including medical care and associated meals and lodging, is generally fully deductible as a qualifying medical expense, subject to the same 7.5% AGI floor.

56. B — A hearing aid prescribed to correct a diagnosed hearing impairment is generally recognized as a legitimate qualifying medical expense and is generally deductible on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed medical expenses claimed on the return, consistent with the general treatment of other necessary corrective medical devices and equipment.

57. A — Adjusted gross income generally serves as a key intermediate figure in the overall tax calculation, computed after certain above-the-line adjustments but before the standard or itemized deduction, and generally serves as the base figure used for numerous other limitations and phase-outs found elsewhere on the return, such as the 7.5% medical expense floor and various credit phase-out thresholds.

58. C — The wash sale rule can still generally apply even when replacement shares are purchased within a tax-advantaged account like an IRA, but since losses within an IRA are not otherwise deductible anyway, the practical effect is that any disallowed loss provides no future tax benefit, since it cannot increase the IRA's own basis.

59. B — Under the general order of operations for computing federal income tax, deductions are applied first, reducing taxable income before the rate schedule computes tax liability, and credits are then applied afterward, directly reducing that already-computed liability dollar-for-dollar, rather than the two benefit types being applied simultaneously or in some other order.

60. D — For purposes of the Alternative Minimum Tax calculation, a separate AMT-specific net operating loss deduction, generally computed using the applicable AMT adjustment and preference item rules, is generally used, rather than simply carrying over the regular tax NOL deduction unmodified, reflecting the general principle that the AMT calculation generally uses its own distinct set of computational rules throughout.

61. D — When a partner sells a partnership interest, the portion of gain attributable to the partnership's own hot assets, such as unrealized receivables or substantially appreciated inventory, is generally treated as ordinary income rather than capital gain under the hot asset rules, distinct from the remaining gain, which continues to be capital gain.

62. A — The substantial understatement penalty component of the accuracy-related penalty is generally triggered when the understatement of tax exceeds the greater of 10% of the tax required to be shown on the return or a minimum flat amount, generally $5,000 for an individual, distinct from the separate negligence-based penalty component itself.

63. B — Under the rule governing property transfers between spouses, no gain or loss is generally recognized on a transfer between spouses, or between former spouses when made incident to a divorce, with the receiving spouse generally taking a carryover basis equal to the transferring spouse's own adjusted basis immediately before the transfer occurred.

64. C — Section 1202 generally allows an eligible individual taxpayer to exclude a specific percentage, potentially up to 100% depending on the stock's specific acquisition date, of eligible gain recognized on the sale of qualified small business stock held for more than five years and meeting specific statutory requirements, a general provision intended to encourage investment in qualifying small business corporations.

65. D — Under the Section 1231 netting rules, a net Section 1231 gain for the year is generally treated as long-term capital gain, benefiting from the lower preferential rates, while a net Section 1231 loss is generally treated as an ordinary loss, fully deductible against ordinary income, a favorable combination sometimes called best-of-both-worlds treatment.

66. B — In an otherwise qualifying like-kind exchange of real property, receipt of cash boot in addition to replacement property generally triggers recognition of gain, up to the lesser of the taxpayer's total realized gain or the actual amount of boot received, while remaining gain, if any, continues to be deferred under the nonrecognition rules.

67. C — Under the dual-basis rule for gifted property, a donee's basis for calculating a subsequent gain is generally the donor's own adjusted basis, often called a carryover basis, while the donee's basis for a subsequent loss is generally the lesser of that carryover basis or the property's fair market value when the gift was made.

68. A — A taxpayer's basis in inherited property is generally the property's fair market value as of the decedent's date of death, often called a stepped-up basis, rather than a carryover of the decedent's own original adjusted basis, which can significantly reduce or eliminate taxable gain if the heir sells relatively soon after death.

69. C — Under the Section 1245 depreciation recapture rules, gain on the sale of depreciable personal property used in a trade or business is generally treated as ordinary income, up to the depreciation previously claimed on that property, with any remaining gain treated as Section 1231 gain, eligible for favorable long-term capital gain rates.

70. B — Gain or loss on a short sale of stock is generally recognized when the short sale is actually closed, meaning when the taxpayer delivers replacement shares to the lender to cover the position, rather than at the earlier time the initial short sale was made, since economic gain or loss is not fixed until closing.

71. D — When a taxpayer sells only a partial interest in property, such as a 25% ownership interest, while retaining the remainder, the total basis in the property is generally allocated proportionally between the portion sold and the portion retained, based on relative fair market value or another reasonable method, rather than to just one portion.

72. A — When property is converted from personal to business or income-producing use and later sold at a loss, the taxpayer's basis for calculating that loss is generally the lesser of the property's adjusted basis or its fair market value at conversion, a rule preventing a deduction for value decline while the property was still personal-use.

73. D — Under Section 351, no gain or loss is generally recognized on transferring property to a corporation solely in exchange for stock, provided the transferors together control the corporation immediately after the exchange, subject to conditions such as the receipt of boot, a specific nonrecognition provision generally facilitating tax-free corporate formation.

74. C — Gain allocable to a qualifying home office used within an otherwise excludable principal residence is generally not eligible for the Section 121 exclusion to the extent of depreciation actually claimed on that portion, taxed instead as unrecaptured depreciation, while the remaining home office gain continues to qualify for the exclusion.

75. A — An Enrolled Agent might explain that a lump-sum pension distribution generally provides greater flexibility and control over investment decisions, particularly if rolled into an IRA, but shifts investment and longevity risk to the taxpayer, while a lifetime annuity option generally provides predictable guaranteed income but less flexibility and no residual value.

76. B — An Enrolled Agent might explain that making a deductible traditional IRA contribution in a year of unusually high income can generally provide a greater current tax benefit, since a dollar of deduction is generally worth more in tax savings when it offsets income that would otherwise be taxed at a higher marginal rate.

77. A — An Enrolled Agent might discuss that an irrevocable life insurance trust can generally help remove the policy's death benefit from the taxpayer's own taxable estate, potentially reducing estate tax exposure, provided the trust is properly structured, funded, and the taxpayer relinquishes sufficient ownership and control, since improper structuring can defeat this goal.

78. D — An Enrolled Agent might mention that a payment made directly to an educational institution for a dependent's tuition is generally excluded from gift tax considerations under a specific statutory exclusion, regardless of amount, unlike gifting the equivalent cash directly to the dependent, which may count against the annual gift tax exclusion.

79. C — An Enrolled Agent might explain that Social Security benefits claimed before full retirement age may generally be temporarily reduced under the earnings test if earned income while still working exceeds the applicable annual limit, though the reduction is not permanent, since withheld benefits are generally credited back through a higher future benefit.

80. B — An Enrolled Agent might explain that both a 401(k) plan loan and a hardship withdrawal generally reduce funds remaining invested within the account when taken, though a properly repaid loan generally restores that balance over time as repayments are made, while a hardship withdrawal generally permanently reduces the balance, since it is not repaid.

81. A — An Enrolled Agent might generally explain that enrolling in an HSA-eligible high-deductible health plan generally allows the taxpayer to make tax-advantaged contributions to a Health Savings Account, providing a general tax planning opportunity, including the triple tax advantage discussed elsewhere, that is generally not available to a taxpayer enrolled in a traditional lower-deductible health plan lacking HSA eligibility.

82. B — An Enrolled Agent might explain that combining a Roth conversion with an unrelated capital gain in the same year can generally push more combined income into a higher marginal tax bracket than if the two events were spread across different years, since both amounts generally stack on top of other income for bracket purposes.

83. C — An Enrolled Agent might explain that contributing appreciated long-term stock to a donor-advised fund generally allows the taxpayer to deduct the stock's full current fair market value, subject to applicable AGI limitations, while also avoiding recognition of the built-in capital gain, an advantage not available when simply contributing cash instead.

84. D — An Enrolled Agent might explain that a period of prior nonqualified rental use, generally use before the property became the taxpayer's primary residence, generally reduces the gain eligible for the

Section 121 exclusion upon a later sale, even after conversion and eventually satisfying the ownership and use tests, under a specific allocation rule.

85. C — An Enrolled Agent might explain that a taxpayer should generally compare tax savings from excluding income through a dependent care FSA against savings from claiming the Child and Dependent Care Credit directly, since the FSA is often more advantageous for a higher-income taxpayer, while the credit can be more advantageous for a lower-income taxpayer.

86. B — An Enrolled Agent might explain that a qualified charity named as beneficiary of a traditional IRA generally receives the inherited proceeds entirely tax-free, since the charity is exempt from income tax, unlike an individual beneficiary, who must generally pay ordinary income tax on inherited IRA distributions, an efficient way to fulfill charitable intent.

87. D — An Enrolled Agent might explain that delaying Social Security until age 70 while required minimum distributions from a traditional IRA separately begin can create a window of years with comparatively lower combined taxable income before Social Security begins, a window some taxpayers strategically use for additional Roth conversion planning at a lower rate.

88. A — In a community property state, when a married couple files as Married Filing Separately, each spouse generally reports one-half of the couple's total community property income on their own separate return, regardless of which spouse actually earned it, reflecting the principle that income earned during marriage generally belongs equally to both spouses.

89. C — A surviving spouse's election to treat an inherited traditional IRA as their own IRA generally allows applying the surviving spouse's own required minimum distribution rules, based on that spouse's own age, and the same early distribution penalty exception available on any own IRA, rather than the more restrictive rules applying to a non-spouse beneficiary.

90. B — A qualified real estate agent meeting the specific statutory nonemployee requirements, generally including compensation directly tied to sales output rather than hours worked, and a written contract stating the agent will not be treated as an employee, is generally treated as self-employed, reporting income on Schedule C and paying self-employment tax on net profit.

91. A — A per capita distribution of gaming revenue paid to a Native American tribal member from that tribe's own gaming operations is generally fully taxable as ordinary income, since this type of distribution is not covered by any specific federal exemption applicable to tribal income, distinguishing it from certain other tribal trust income categories.

92. D — A qualifying cost-of-living allowance paid to certain U.S. government civilian employees, including a Foreign Service member, stationed outside the continental United States is generally excludable from federal taxable income under a specific statutory provision, distinct from the employee's own base salary, which remains fully taxable as ordinary wage income regardless.

93. B — Under a specific statutory exclusion, the value of an Olympic or Paralympic medal and any related cash prize from the U.S. Olympic and Paralympic Committee is generally excludable from federal taxable income for a taxpayer whose AGI does not exceed the applicable threshold, a benefit that phases out once AGI exceeds that threshold.

94. D — A qualifying length-of-service award or modest annual stipend paid to a volunteer firefighter or emergency medical responder is generally excludable from federal taxable income up to a specific applicable annual statutory dollar limit, with any amount received in excess of that specific limit generally becoming taxable, reflecting a targeted general benefit intended to support this type of volunteer public service.

95. C — A minor child of the original account owner, treated as an eligible designated beneficiary under the applicable statutory category, may generally stretch required minimum distributions over that child's own life expectancy until reaching the age of majority, at which point the 10-year rule begins, requiring full distribution within that following period.

96. A — Under the qualified opportunity zone rules, previously deferred capital gain is generally recognized on the earlier of the date the taxpayer actually sells or disposes of the qualified opportunity fund investment or a specific statutory deferral deadline, with potential eligibility for a basis step-up depending on how long the investment was held.

97. A — A discount received under a nonqualified employee stock purchase plan, one not meeting the requirements of a qualified Section 423 plan, is generally fully taxable as ordinary compensation income at purchase, equal to the difference between fair market value and the discounted price paid, a less favorable treatment than deferred taxation under a qualified ESPP.

98. C — Military pay received by an enlisted member of the U.S. Armed Forces for service in a designated combat zone is generally excludable from federal taxable income for each month the taxpayer actually served in that zone, a generally unlimited exclusion for enlisted personnel, distinct from the more limited exclusion applying to a commissioned officer's pay.

99. B — For a qualified funeral trust, the trustee may generally elect to have the trust itself taxed as a separate entity on income the trust earns, rather than that income being taxed directly to the individual beneficiary who established the trust, a simplification provision recognizing the often numerous small trusts a single funeral home may administer.

100. D — Under a specific IRS administrative position, certain qualifying Medicaid waiver payments received for providing in-home care to a disabled individual, including a family member, under a state home and community-based services waiver program are generally excludable from federal gross income, treated similarly to a difficulty-of-care payment under the foster care exclusion.