PRACTICE EXAM 15: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

This practice exam contains 100 multiple-choice questions covering all six content domains of the IRS Special Enrollment Examination (SEE) Part 1: Individuals, weighted to mirror the official exam's domain proportions. Select the single best answer for each question. An Answer Key and full explanations follow the questions. Time allotted for the actual SEE Part 1 exam is 3.5 hours; use this same time limit for a realistic simulation.

1. A preparer's client provides a Form 1099-INT with the client's name misspelled and an account number the client does not recognize. What is the preparer's generally recommended first step regarding this specific document discrepancy?

A. Automatically include the income on the return without any further verification, since the form was provided by a financial institution
B. Automatically exclude the income entirely, assuming the document must belong to someone else since the account is unrecognized
C. Refuse to prepare the return at all until the client obtains a corrected form from the issuing financial institution
D. Contact the client to verify whether the account actually belongs to the client before including the reported interest income on the return

2. A preparer's client asks whether the preparer generally must retain a signed copy of Form 8879 after e-filing a return. What is the general recordkeeping requirement regarding this specific IRS e-file authorization form?

A. Generally no; Form 8879 generally may be discarded immediately once the return is actually electronically transmitted and accepted by the IRS
B. Generally yes, but only for a period of exactly thirty days, rather than the longer specific retention period that actually generally applies
C. Generally yes; the preparer must generally retain the signed Form 8879 for a specific minimum retention period, generally three years from the later of the due date or filing date

D. Generally no; only the taxpayer, and never the preparer, bears any retention obligation regarding this specific e-file authorization document

3. A preparer's client asks whether a preparer generally has a duty to inquire further when a client's stated occupation seems inconsistent with the type of income the client reports. What is the general answer to this specific question?

A. Generally no; a preparer generally has no duty at all to ever compare a client's stated occupation against the client's own reported income

B. Generally yes; an apparent inconsistency between a client's stated occupation and reported income generally triggers a duty to make reasonable additional inquiries before relying on the information

C. Generally yes, but only if the client's own reported income actually exceeds a specific minimum statutory dollar threshold amount for the year

D. Generally no; occupation and income are generally treated as entirely unrelated data points with no bearing on any preparer inquiry obligation

4. A preparer's client asks about the general purpose of an IRS Identity Protection PIN, an IP PIN, in the context of preventing fraudulent return filing. What is the general purpose this specific six-digit number serves?

A. Generally serves as an additional identity verification number a taxpayer must include on the return, helping prevent an identity thief from filing a fraudulent return using that taxpayer's information

B. Generally serves as the taxpayer's own required tax identification number, replacing the taxpayer's Social Security number entirely for all return purposes

C. Generally serves as a formal password the taxpayer uses to access their own bank account, rather than any type of IRS identity verification tool

D. Generally serves no actual practical purpose at all, existing only as an optional cosmetic addition with no genuine effect on return processing

5. A preparer's client asks whether a preparer is generally permitted to advertise specific guaranteed refund amounts to attract new clients. What is the general Circular 230 standard regarding this specific type of advertising practice?

A. Generally prohibited; advertising is generally subject to a standard prohibiting false, fraudulent, or misleading statements, and guaranteeing a specific refund amount before actually reviewing a client's own facts is generally considered misleading

B. Generally fully permitted without any restriction at all, since Circular 230 generally imposes no advertising standards on a paid preparer of any kind

C. Generally permitted only if the guaranteed refund amount actually turns out to be accurate once the return is actually completed and filed

D. Generally prohibited only for an Enrolled Agent specifically, with a CPA or attorney generally being entirely exempt from this type of advertising restriction

6. A preparer's client asks whether the preparer generally has an obligation to inform the client about the potential consequences of amending a prior-year return, such as reopening the statute of limitations for that specific year. What is the general answer to this specific question?

A. Generally no; a preparer generally has no obligation at all to discuss any consequence of amending a return, beyond simply preparing the amendment itself

B. Generally yes; a preparer generally should advise the client of relevant consequences, such as the potential effect on the statute of limitations, before the client decides whether to actually file the amendment

C. Generally yes, but only if the amendment actually results in additional tax owed, with no similar obligation applying to an amendment resulting in a refund

D. Generally no; discussing consequences of an amended return is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

7. A preparer's client asks about the general difference between an IRS Revenue Ruling and an IRS Private Letter Ruling. What is the general distinction between these two specific types of IRS guidance?

A. A Revenue Ruling and a Private Letter Ruling are generally functionally identical documents in every respect, with no meaningful distinction between the two

B. A Private Letter Ruling generally applies to taxpayers generally, while a Revenue Ruling generally applies only to the specific requesting taxpayer, the exact reverse of the correct treatment

C. A Private Letter Ruling generally carries greater precedential weight than a Revenue Ruling, the exact reverse of the correct general relationship between these two types of guidance

D. A Revenue Ruling generally applies to taxpayers generally and may be cited as precedent, while a Private Letter Ruling generally applies only to the specific requesting taxpayer and generally may not be cited as precedent

8. A preparer's client asks whether a preparer generally needs to keep a record of the specific date a client actually signed Form 8879, separate from simply retaining the signed form itself. What is the general answer to this specific question?

A. Generally, a preparer generally must maintain an entirely separate standalone log tracking every client's own signature date, apart from the actual signed form itself
B. Generally, the specific signature date generally has no relevance at all to any preparer recordkeeping requirement, regardless of when the client actually signed
C. Generally, the signature date is generally already part of the properly completed Form 8879 itself, so retaining the signed form generally satisfies this specific recordkeeping requirement
D. Generally, only the IRS itself, and never the preparer, bears any responsibility for tracking the specific date a taxpayer actually signed Form 8879

9. A preparer's client asks about the general purpose of the IRS's e-Services online platform for a tax professional. What is the general purpose this specific platform generally serves for a preparer?

A. Generally provides a tax professional online access to tools such as transcript delivery, TIN matching, and the ability to manage power of attorney authorizations electronically
B. Generally serves exclusively as the platform a taxpayer personally uses to file their own individual income tax return directly with the IRS
C. Generally serves no actual practical purpose at all for a tax professional, existing only as a purely informational website with no functional tools
D. Generally serves exclusively as a payment portal for a preparer to pay the preparer's own personal individual income tax liability each year

10. A preparer's client asks whether a preparer generally has an obligation to disclose to a new client any prior disciplinary action taken against the preparer by the IRS Office of Professional Responsibility. What is the general answer to this specific question?

A. Generally yes; a preparer must always proactively disclose every single prior disciplinary action to every new client before any engagement can actually begin

B. Generally no; a preparer is generally strictly and absolutely prohibited from ever disclosing any prior disciplinary action to any client under any circumstances

C. Generally yes, but only if the prior disciplinary action actually resulted in the preparer's own credential being permanently and completely revoked by the IRS

D. Generally, there is no blanket universal disclosure requirement, though a preparer generally must not misrepresent their own credentials or standing, and certain circumstances may separately require specific disclosure

11. A preparer's client asks about the general difference between a taxpayer's own copy of a filed return and an IRS transcript of that same return. What is the general distinction between these two specific documents?

A. A taxpayer's own copy and an IRS transcript are generally functionally identical documents in every respect, with no meaningful distinction between the two

B. An IRS transcript generally contains more detailed line-item information than a taxpayer's own actual copy of the originally filed return itself

C. A taxpayer's own copy is generally the actual document as originally filed, while an IRS transcript generally reflects the return's data as actually processed and recorded in IRS systems, which may generally differ if adjustments were made

D. A taxpayer's own copy is generally available only from the IRS directly, while an IRS transcript is generally available only from the taxpayer's own preparer

12. A preparer's client asks whether the preparer generally has an obligation to advise the client about record retention requirements for supporting documentation after the return is actually filed. What is the general answer to this specific question?

A. Generally no; a preparer generally has no obligation at all to discuss record retention, since that responsibility belongs entirely and exclusively to the client

B. Generally yes; a preparer generally provides better client service by advising the client to retain supporting records for the applicable statute of limitations period, generally three years, though longer in certain situations

C. Generally yes, but only if the client's return actually results in a refund, with no similar advisory obligation applying to a return showing a balance due

D. Generally no; record retention advice is generally considered a form of unauthorized legal advice, regardless of the preparer's own specific professional credential

13. A preparer's client asks about the general purpose of the IRS Where's My Refund online tool. What is the general purpose this specific tool generally serves for a taxpayer?

A. Generally allows a taxpayer to check the current processing status of a filed return and the expected timing of any resulting refund
B. Generally allows a taxpayer to actually electronically file an original return directly through this specific tool, rather than through any other approved e-file method
C. Generally allows a taxpayer to directly modify or amend a previously filed return, rather than simply checking on that return's current processing status
D. Generally serves no actual practical purpose at all for a taxpayer, existing only as a purely informational webpage with no functional status-checking capability

14. A preparer's client asks whether a preparer generally must obtain a new signed engagement letter each year, or whether a single engagement letter signed years earlier generally remains valid indefinitely. What is the general recommended best practice regarding this specific question?

A. Generally, a single engagement letter signed years earlier generally remains valid indefinitely, with no need at all to ever update or renew it
B. Generally, an engagement letter is generally required only for a client's very first year with the preparer, and never again in any subsequent year
C. Generally, best practice recommends obtaining a new or updated engagement letter each year, since the scope of services and applicable fees can generally change from year to year
D. Generally, engagement letters are generally considered entirely unnecessary formalities with no genuine practical value to either the preparer or the client

15. A preparer's client asks whether a preparer generally has an ethical obligation to decline an engagement if the preparer lacks sufficient expertise in a specialized area relevant to that client's own particular return, such as a complex foreign trust filing. What is the general answer to this specific question?

A. Generally no; a preparer generally may accept any engagement at all, regardless of the preparer's own actual level of expertise in that specific specialized area

B. Generally yes; a preparer generally should decline an engagement, or associate with someone who has the requisite expertise, rather than accepting work beyond the preparer's own actual competence

C. Generally yes, but only if the client actually specifically asks the preparer directly whether the preparer possesses relevant expertise in that particular area

D. Generally no; competence requirements generally apply only to an attorney or a CPA, with an Enrolled Agent generally being entirely exempt from this standard

16. A preparer's client asks whether a preparer generally must file Form 1040 electronically, or whether a client may generally insist on paper filing even when the preparer is otherwise subject to the e-file mandate. What is the general answer to this specific question?

A. Generally, a taxpayer generally has no right at all to opt out of e-filing, meaning the preparer must always e-file regardless of the client's own specific wishes

B. Generally, only a corporate taxpayer may generally opt out of e-filing, with an individual taxpayer generally never actually being permitted to request paper filing instead

C. Generally, opting out of e-filing generally requires a specific court order, rather than simply the client's own explicit written election communicated to the preparer

D. Generally, a taxpayer may generally elect to opt out of e-filing and have the return paper-filed instead, even when the preparer would otherwise be subject to the e-file mandate for that return

17. A taxpayer's Form 1099-DIV reports a qualified dividend from a domestic corporation the taxpayer held for 45 days around the ex-dividend date, satisfying the minimum holding period for qualified dividend treatment. How is this specific dividend generally taxed?

A. Generally taxed entirely at the taxpayer's own highest ordinary marginal tax rate, exactly the same treatment that generally applies to a nonqualified dividend

B. Generally entirely tax-exempt, since a qualified dividend meeting the minimum holding period is generally excluded from taxable income altogether under current law

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

D. Generally taxed at the applicable preferential 0%, 15%, or 20% capital gain rate, rather than at the taxpayer's own higher ordinary marginal income tax rate

18. A taxpayer's total income includes a payment received from a former spouse designated as alimony under a divorce agreement executed after 2018. How is this specific post-2018 alimony payment generally treated for the recipient?

A. Generally fully includible in the recipient's gross income, exactly the same treatment that historically applied to alimony under a pre-2019 divorce agreement

B. Generally not includible in the recipient's gross income, since alimony under a post-2018 divorce agreement is generally neither deductible by the payer nor taxable to the recipient

C. Generally taxable only at a specific reduced flat 10% rate reserved specifically for post-2018 alimony payments under current federal tax law

D. Generally treated as self-employment income to the recipient, subjecting the alimony payment to self-employment tax in addition to any regular income tax

19. A taxpayer's total income includes a payment received from a home warranty company for a covered appliance repair at the taxpayer's own rental property. How is this specific home warranty reimbursement generally treated?

A. Generally fully taxable as ordinary income in addition to the taxpayer also separately deducting the full repair expense, resulting in a double tax benefit

B. Generally entirely tax-exempt, exactly the same treatment that generally applies to a gift received from an unrelated third party under current federal tax law

C. Generally not separately taxable income, since the reimbursement generally offsets the deductible repair expense, resulting in no net additional taxable income to the taxpayer

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

20. A taxpayer's total income includes interest earned on a tax refund the taxpayer received from a state, separate from the underlying state refund amount itself. How is this specific interest-on-state-refund amount generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary interest income in the year actually received, separate from and regardless of whether the underlying state refund principal amount itself is actually taxable

B. Generally entirely tax-exempt, exactly the same treatment that generally applies to the underlying state refund principal amount when that amount is not taxable

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for interest paid on a state tax refund under current federal tax law
D. Generally treated as a nontaxable return of the taxpayer's own overpaid state tax, rather than as any form of currently taxable interest income

21. A taxpayer's total income includes a distribution from a Roth 401(k) plan that does not yet meet the applicable five-year holding period requirement for a qualified distribution, taken when the taxpayer is age 45. How is the earnings portion of this specific nonqualified distribution generally treated?

A. Generally entirely tax-exempt, exactly the same treatment that generally applies to a properly qualified Roth 401(k) distribution meeting all applicable requirements
B. Generally taxable as ordinary income and generally subject to the 10% early distribution penalty, since the distribution does not meet the requirements to be treated as a qualified Roth distribution
C. Generally taxable only at a specific reduced flat 10% rate reserved specifically for a nonqualified Roth 401(k) distribution, rather than at ordinary income rates
D. Generally treated as a nontaxable return of the taxpayer's own original after-tax contributions, rather than as any form of currently taxable earnings

22. A taxpayer's total income includes a payment received from a mineral rights lease, specifically an oil and gas royalty payment, for extraction occurring on land the taxpayer owns. How is this specific royalty income generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary income, reported on Schedule E, though the taxpayer may generally also be eligible for a depletion deduction to recover the underlying mineral asset's basis
B. Generally entirely tax-exempt, since royalty income from a mineral rights lease is generally treated as a nontaxable return of the taxpayer's own land basis
C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for oil and gas royalty income under current federal tax law
D. Generally treated as self-employment income requiring self-employment tax, exactly the same treatment that generally applies to income from an active oil and gas business

23. A taxpayer's total income includes a payment received from an employer as a relocation bonus, structured as a genuine reimbursement of substantiated moving expenses under an accountable plan arrangement that meets all applicable IRS requirements. How is this specific accountable plan reimbursement generally treated?

A. Generally fully taxable as ordinary wage income, exactly the same treatment that generally applies to an unsubstantiated relocation payment made outside an accountable plan

B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a relocation reimbursement under current federal tax law, rather than being excluded

C. Generally not includible in the employee's taxable wages, since a properly substantiated reimbursement under a genuine accountable plan is generally excluded from taxable compensation

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

24. A taxpayer's total income includes a payment received as a legal settlement for a breach of contract claim against a former business partner, where the settlement compensates the taxpayer for lost anticipated business profits. How is this specific breach of contract settlement generally treated?

A. Generally entirely tax-exempt, since any settlement arising from a breach of contract claim is generally treated identically to a settlement for personal physical injury

B. Generally taxable only as to 50% of the settlement amount, with the remaining 50% generally treated as an entirely tax-exempt return of capital

C. Generally treated as a nontaxable gift from the former business partner, rather than as any form of currently taxable compensation for lost business profits

D. Generally fully taxable as ordinary income, since the settlement generally compensates for lost business profits that would themselves have been taxable had they actually been earned

25. A taxpayer's total income includes a payment received from an employer under a supplemental unemployment benefit plan, providing additional income to a laid-off employee beyond standard state unemployment compensation. How is this specific supplemental unemployment benefit generally treated?

A. Generally fully taxable as ordinary income, reported similar to wages, since a supplemental unemployment benefit plan payment is generally treated as taxable compensation rather than as excludable unemployment compensation

B. Generally entirely tax-exempt, exactly the same treatment that generally applies to standard state unemployment compensation under a specific historical exclusion no longer in effect

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a supplemental unemployment benefit under current federal tax law, rather than at ordinary rates

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

26. A taxpayer's total income includes a payment received from a peer-to-peer payment app for splitting a shared dinner bill with friends, an amount that does not represent payment for goods or services. How is this specific reimbursement-type payment 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 payment received for an actual service performed
B. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for peer-to-peer payment app transactions under current federal tax law
C. Generally not taxable income, since a reimbursement among friends for a shared personal expense generally does not represent payment for goods or services rendered
D. Generally treated as self-employment income, subjecting the reimbursement to self-employment tax in addition to any regular income tax that might otherwise apply

27. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to satisfy an IRS levy placed directly against that specific IRA account for unpaid back taxes. How is this specific levy-related distribution generally treated regarding the 10% early distribution penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a distribution made to satisfy an IRS levy is generally excluded from taxable income altogether
B. Generally excepted from the 10% early distribution penalty, since the distribution was made pursuant to an IRS levy against the IRA itself, though the distribution remains includible in ordinary taxable income
C. Generally still subject to the full 10% early distribution penalty in every case, since the specific IRS levy exception generally applies only to a qualified plan, not an IRA
D. Generally excepted from ordinary income tax entirely, but the 10% early distribution penalty generally still fully applies regardless of the underlying IRS levy involved

28. A taxpayer's total income includes amounts received as a scholarship covering both qualified tuition and a separate stipend for room and board at a degree-seeking program. How is the room and board portion of this specific scholarship generally treated?

A. Generally entirely tax-exempt, exactly the same treatment that generally applies to the portion of the scholarship actually used for qualified tuition and required course materials

B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for the room and board portion of a scholarship under current federal tax law

C. Generally treated as self-employment income, subjecting the room and board portion of the scholarship to self-employment tax in addition to any regular income tax

D. Generally fully taxable as other income, since a scholarship amount used for room and board, rather than for qualified tuition and required course materials, is generally not excludable from gross income

29. A taxpayer's total income includes a payment received from an insurance company as a disability benefit under a policy the taxpayer's employer paid for entirely with after-tax dollars, with no portion of the premium ever deducted by the employer as a pretax benefit. How is this specific disability benefit generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a disability benefit paid under a policy the employer funded with pretax dollars

B. Generally taxable only as to 50% of the benefit amount, with the remaining 50% generally treated as an entirely tax-exempt return of the employee's own premium

C. Generally entirely tax-exempt, since a disability benefit paid under a policy funded entirely with after-tax premium dollars is generally excludable from the recipient's taxable income

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

30. A taxpayer's total income includes a payment received from a former employer as a payment for a covenant not to compete, agreed to as part of the sale of the taxpayer's own small business. How is this specific covenant not to compete payment generally treated?

A. Generally entirely tax-exempt, since a payment for a covenant not to compete is generally treated as a nontaxable return of the taxpayer's own original business investment

B. Generally fully taxable as ordinary income, since a payment for a covenant not to compete generally represents compensation for the taxpayer's agreement to refrain from a specific future activity

C. Generally treated entirely as long-term capital gain, exactly the same treatment that generally applies to the separate gain on the actual sale of the business itself

D. Generally treated as a nontaxable gift from the purchasing party, rather than as any form of currently taxable compensation for the covenant not to compete

31. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took while totally and permanently disabled, as defined under the specific applicable IRA distribution exception. How is this specific disability-related distribution generally treated regarding the 10% early distribution penalty?

A. Generally excepted from the 10% early distribution penalty under the specific disability exception, though the distribution itself remains includible in the taxpayer's ordinary taxable income

B. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a distribution taken due to disability is generally excluded from taxable income altogether

C. Generally still subject to the full 10% early distribution penalty in every case, since the specific disability exception generally applies only to a qualified plan, not an IRA

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

32. A taxpayer's total income includes a payment received from a state as a hazard pay bonus for the taxpayer's own work as an essential frontline worker during a declared public health emergency. How is this specific hazard pay bonus generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since a hazard pay bonus is generally treated identically to a qualified disaster relief payment excludable under the specific applicable statutory provision

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

C. Generally treated as a nontaxable gift from the state government, rather than as any form of currently taxable compensation for the taxpayer's own work

D. Generally fully taxable as ordinary income, since a hazard pay bonus generally represents compensation for the taxpayer's own work performed, rather than a nontaxable disaster relief payment

33. A taxpayer's total income includes a distribution from a health savings account used to pay for a qualifying medical expense the taxpayer incurred and paid for out of pocket in a prior tax year, reimbursed from the HSA in the current year. How is this specific reimbursement generally treated?

A. Generally fully taxable as ordinary income to the extent the distribution actually exceeds the original amount the taxpayer paid out of pocket for the qualifying expense

B. Generally entirely tax-exempt, provided the taxpayer did not previously deduct the expense and the HSA was already established at the time the original expense was actually incurred

C. Generally subject to the 20% additional tax penalty automatically, regardless of whether the underlying original expense actually qualified as a genuine qualifying medical expense

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

34. A taxpayer's total income includes a payment received from a life settlement company for selling the taxpayer's own existing life insurance policy to that company for an amount exceeding the policy's cash surrender value but less than its full face value. How is this specific life settlement sale 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 fully taxable entirely as ordinary income, exactly the same treatment that generally applies to a simple surrender of the policy directly to the issuing insurance company

C. Generally treated as part ordinary income and part capital gain, with the portion up to cash surrender value taxed similarly to a policy surrender, and any additional amount generally treated as capital gain

D. Generally treated as self-employment income, subjecting the entire life settlement sale proceeds to self-employment tax in addition to any regular income tax

35. A taxpayer's total income includes a payment received as a reward from a bank for opening a new checking account, structured as a cash bonus rather than as interest paid on any account balance. How is this specific bank account opening bonus generally treated?

A. Generally fully taxable as other income, reported on Form 1099-INT or Form 1099-MISC depending on how the bank characterizes and reports the specific bonus payment

B. Generally entirely tax-exempt, since a bank account opening bonus is generally treated as a nontaxable rebate rather than as any form of taxable income

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a bank account opening bonus under current federal tax law, rather than at ordinary rates

D. Generally treated as a nontaxable gift from the bank, rather than as any form of currently taxable income received by the account holder

36. A taxpayer's total income includes a payment received from a qualified retirement plan as a return of the taxpayer's own excess elective deferral contribution, corrected before the applicable tax filing deadline, along with the attributable earnings on that excess amount. How is the earnings portion generally treated?

A. Generally entirely tax-exempt, exactly the same treatment that generally applies to the timely corrected excess elective deferral principal amount that is being returned to the taxpayer

B. Generally subject to the 10% early distribution penalty automatically, regardless of the taxpayer's own age at the specific time the corrective distribution is actually made

C. Generally treated as a nontaxable return of the taxpayer's own original invested capital, rather than as any form of currently taxable earnings on that excess amount

D. Generally taxable as ordinary income in the year actually distributed, separate from the timely corrected excess deferral itself, which is generally taxable in the year originally contributed rather than the year of the corrective distribution

37. A taxpayer is age 67 and files as single, claiming the standard deduction rather than itemizing. What is the general effect of the taxpayer's age on the standard deduction amount?

A. The taxpayer's age generally has no effect at all on the standard deduction, since only blindness generally qualifies a taxpayer for any additional deduction amount

B. The taxpayer generally loses eligibility for the standard deduction entirely once reaching age 65, and must generally itemize deductions instead for that specific year

C. The taxpayer generally qualifies for an additional standard deduction amount on top of the base standard deduction, since the taxpayer has reached the applicable age-65 threshold

D. The taxpayer's standard deduction is generally reduced, rather than increased, once the taxpayer reaches age 65, reflecting a general phase-down of the base amount

38. A taxpayer itemizes deductions and incurred substantial unreimbursed medical expenses during the year. What is the general threshold a taxpayer's medical expenses must exceed before any amount becomes deductible?

A. Generally, only the portion of unreimbursed qualifying medical expenses exceeding 7.5% of the taxpayer's adjusted gross income is generally deductible as an itemized deduction

B. Generally, the entire amount of any unreimbursed qualifying medical expense is fully deductible, with no percentage-of-income floor applying to this itemized deduction category

C. Generally, only medical expenses exceeding 20% of adjusted gross income are deductible, using the same specific floor that generally applies to casualty losses

D. Generally, medical expenses are deductible only above a fixed dollar floor of $10,000, unrelated to the taxpayer's own adjusted gross income for the year

39. A taxpayer itemizes deductions and paid substantial state income tax, real estate tax, and personal property tax during the year. What is the general limitation on the deduction for these combined state and local taxes?

A. Generally, there is no dollar limitation at all on the combined state and local tax deduction, and the full amount paid is generally fully deductible

B. Generally, the combined state and local tax deduction is capped specifically at $25,000, rather than at the lower cap that most taxpayers generally assume applies

C. Generally, only property tax is subject to any dollar cap, while state income tax and sales tax generally remain fully deductible without any limitation

D. Generally, the combined deduction for state and local income, sales, and property taxes is generally capped at $10,000 total, regardless of the actual amount paid

40. A taxpayer itemizes deductions and paid mortgage interest on acquisition debt used to buy the taxpayer's own primary residence, with the debt balance well under the applicable current-law limit. How is this qualifying mortgage interest generally treated?

A. Generally entirely nondeductible, since mortgage interest deductions were generally eliminated in full under current law for any taxpayer regardless of the debt's origination date

B. Generally fully deductible as an itemized deduction, since interest on acquisition debt within the applicable current-law principal limit generally qualifies as deductible qualified residence interest

C. Generally deductible only at a specific reduced flat 50% rate of the interest actually paid, rather than being fully deductible in the full amount paid

D. Generally deductible only if the taxpayer itemizes and the underlying property is a genuine second home, rather than the taxpayer's own actual primary residence

41. A taxpayer itemizes deductions and made a cash contribution directly to a qualified public charity during the year. What is the general adjusted gross income percentage limitation applicable to this specific type of cash charitable contribution?

A. Generally limited to only 20% of the taxpayer's adjusted gross income, the same lower percentage limitation that generally applies to a gift of appreciated capital gain property

B. Generally subject to no percentage limitation at all, meaning the entire cash contribution amount is always fully deductible regardless of the taxpayer's own income level

C. Generally limited to 60% of the taxpayer's adjusted gross income for the year, with any excess contribution amount generally eligible to be carried forward for up to five years

D. Generally limited to a flat dollar cap of $5,000 per year, rather than to any percentage-of-income based limitation on the specific contribution amount

42. A taxpayer age 72 directs the taxpayer's IRA custodian to transfer funds directly from the taxpayer's traditional IRA to a qualified public charity, rather than first taking a personal distribution. What is the general tax treatment of this qualified charitable distribution?

A. Generally excluded from the taxpayer's gross income entirely, up to the applicable annual limit, and the excluded amount generally also counts toward satisfying the taxpayer's required minimum distribution

B. Generally fully includible in the taxpayer's gross income first, with a separate itemized charitable deduction then available to offset that same specific income amount

C. Generally subject to the 10% early distribution penalty, since the taxpayer directed the transfer directly to a charity rather than actually receiving the funds personally

D. Generally treated identically to a nonqualified distribution, providing no special tax benefit at all beyond what a normal personal IRA distribution would generally provide

43. A taxpayer claims the Child Tax Credit for a qualifying child, and the taxpayer's tax liability is lower than the full potential credit amount. What is the general treatment of any Child Tax Credit amount that exceeds the taxpayer's tax liability?

A. Generally, the entire Child Tax Credit is always fully refundable without any limitation at all, regardless of the taxpayer's own earned income for the year

B. Generally, a portion of the credit is generally refundable as the additional child tax credit, subject to specific applicable earned income and dollar limitations on that refundable portion

C. Generally, any excess credit amount is entirely forfeited and lost, since the Child Tax Credit is generally treated as an entirely nonrefundable credit in every case

D. Generally, the excess credit amount is generally carried forward and applied against the taxpayer's tax liability in a future tax year, rather than refunded currently

44. A taxpayer pays a licensed daycare provider to care for the taxpayer's two qualifying young children so the taxpayer can work full-time. What is the general purpose of the Child and Dependent Care Credit in this specific situation?

A. Generally provides a fully refundable credit equal to 100% of all qualifying childcare expenses actually paid, regardless of the taxpayer's own specific tax liability amount

B. Generally provides an above-the-line deduction for childcare expenses, rather than any form of tax credit, reducing the taxpayer's adjusted gross income directly instead

C. Generally provides a credit available only to a taxpayer who is self-employed, with an employed taxpayer generally being entirely ineligible for this specific credit

D. Generally provides a nonrefundable credit based on a percentage of qualifying care expenses, up to an applicable dollar limit, incurred so the taxpayer could work or look for work

45. A taxpayer with two qualifying children and modest earned income within the applicable eligibility range claims the Earned Income Tax Credit. What is the general nature of this specific credit?

A. Generally a nonrefundable credit, meaning any credit amount exceeding the taxpayer's own tax liability is generally forfeited rather than paid out as a refund

B. Generally an above-the-line deduction rather than any form of tax credit, reducing the taxpayer's adjusted gross income directly rather than the taxpayer's actual tax liability

C. Generally available only to a taxpayer with zero qualifying children, with a taxpayer claiming one or more qualifying children generally being entirely ineligible instead

D. Generally a refundable credit, meaning the taxpayer generally receives the full credit amount even if it exceeds the taxpayer's own total tax liability for the year

46. A taxpayer's dependent child is in the first year of a degree program at an eligible institution, enrolled at least half-time. What is the general advantage of the American Opportunity Tax Credit compared to the Lifetime Learning Credit for this specific first-year student?

A. Generally, the American Opportunity Tax Credit generally offers a higher maximum credit amount and is generally partially refundable, unlike the entirely nonrefundable Lifetime Learning Credit

B. Generally, the two credits are generally functionally identical in every material respect, including maximum amount and refundability, with no meaningful advantage to either credit

C. Generally, the Lifetime Learning Credit generally offers a higher maximum credit amount than the American Opportunity Tax Credit, the exact reverse of the actual relationship

D. Generally, only the Lifetime Learning Credit is generally available for an undergraduate student, with the American Opportunity Tax Credit being reserved exclusively for graduate study

47. A taxpayer paid interest during the year on a qualified student loan used solely to fund the taxpayer's own prior undergraduate education. What is the general treatment of this qualifying student loan interest?

A. Generally deductible only as an itemized deduction, meaning a taxpayer claiming the standard deduction generally receives no tax benefit at all from this specific interest

B. Generally deductible as an above-the-line adjustment to income, up to an applicable annual dollar cap, subject to a phase-out based on the taxpayer's modified adjusted gross income

C. Generally entirely nondeductible under current law, since the deduction for qualified student loan interest was generally eliminated in full for every taxpayer regardless of income

D. Generally deductible in an unlimited amount with no applicable dollar cap or income-based phase-out limitation of any kind applying to this specific interest deduction

48. A taxpayer works as a kindergarten teacher at a qualifying elementary school and personally purchased classroom supplies during the year using the taxpayer's own funds, without any employer reimbursement. What is the general treatment of this specific educator expense?

A. Generally deductible only as a miscellaneous itemized deduction subject to a 2%-of-adjusted-gross-income floor, rather than as any form of above-the-line adjustment to income

B. Generally entirely nondeductible, since an employee's own unreimbursed job-related expense is generally never deductible in any form under current federal tax law

C. Generally deductible as an above-the-line adjustment to income, up to an applicable annual dollar limit, available even to a taxpayer who claims the standard deduction

D. Generally deductible in an unlimited amount with no applicable annual dollar limit capping the specific amount an eligible educator may generally deduct each year

49. A taxpayer contributes to a health savings account through payroll deduction while covered under a qualifying high-deductible health plan. What is the general treatment of the taxpayer's own direct HSA contribution made outside of any payroll deduction arrangement?

A. Generally deductible only as an itemized deduction subject to the same 7.5%-of-adjusted-gross-income floor that generally applies to unreimbursed qualifying medical expenses
B. Generally entirely nondeductible, since only a contribution actually made through an employer's own payroll deduction arrangement generally qualifies for any tax benefit at all
C. Generally deductible in an unlimited amount with no applicable annual contribution limit capping the specific amount a taxpayer may generally deduct in a given year
D. Generally deductible as an above-the-line adjustment to income, up to the applicable annual contribution limit, available even to a taxpayer who claims the standard deduction

50. A taxpayer actively participates in an employer-sponsored retirement plan and also contributes to a traditional IRA, with modified adjusted gross income falling within the applicable phase-out range for an active participant. What is the general effect on the taxpayer's traditional IRA deduction?

A. Generally, the traditional IRA deduction is generally entirely unaffected by active participation in an employer plan, regardless of the taxpayer's own modified adjusted gross income level
B. Generally, the traditional IRA deduction is generally entirely and completely eliminated the moment a taxpayer becomes an active participant in any employer-sponsored retirement plan
C. Generally, the traditional IRA deduction is generally partially phased out and reduced, rather than either being fully allowed or being entirely disallowed, based on where income falls within the range
D. Generally, active participation in an employer plan generally affects only a Roth IRA contribution limit, and generally has no bearing at all on a traditional IRA deduction

51. A taxpayer who is self-employed pays premiums for a qualifying health insurance policy covering the taxpayer and the taxpayer's family, and the taxpayer is not eligible to participate in any subsidized employer-sponsored plan. What is the general treatment of these self-employed health insurance premiums?

A. Generally deductible only as an itemized deduction subject to the same 7.5%-of-adjusted-gross-income floor that generally applies to other unreimbursed qualifying medical expenses

B. Generally deductible as an above-the-line adjustment to income, limited to the taxpayer's own net self-employment earnings, available even to a taxpayer who claims the standard deduction

C. Generally entirely nondeductible, since health insurance premiums paid by a self-employed taxpayer are generally treated the same as a nondeductible personal living expense

D. Generally deductible only for the taxpayer's own coverage, with premiums covering the taxpayer's spouse and dependents generally being entirely excluded from this specific deduction

52. A taxpayer operates a qualifying sole proprietorship reported on Schedule C and has qualified business income within the applicable taxable income threshold. What is the general nature of the deduction available under the qualified business income provisions?

A. Generally a deduction of up to 20% of the taxpayer's qualified business income, taken as a below-the-line deduction that is generally available whether or not the taxpayer itemizes

B. Generally a deduction of up to 50% of the taxpayer's qualified business income, generally available only to a taxpayer who also separately itemizes deductions for the year

C. Generally an above-the-line adjustment to income rather than a below-the-line deduction, directly reducing the taxpayer's adjusted gross income before any itemized deduction computation

D. Generally a fully refundable credit rather than any form of deduction, generally paid out even if it exceeds the taxpayer's own total tax liability

53. A taxpayer's personal vehicle was damaged in a wildfire that the President formally declared a federal disaster, and the taxpayer itemizes deductions. What is the general current-law limitation on deducting this specific casualty loss?

A. Generally, a personal casualty loss remains fully deductible under current law regardless of whether the underlying event was ever formally declared a federal disaster of any kind

B. Generally, a personal casualty loss is generally entirely nondeductible under current law in every case, even when the loss actually arose from a declared federal disaster

C. Generally, a personal casualty loss is generally deductible only if the loss actually arose from an event the President formally declared a federal disaster, unlike the broader pre-2018 rule

D. Generally, a personal casualty loss is generally deductible only for business-use property, with loss to any personal-use property generally being entirely excluded regardless of cause

54. A taxpayer itemizes deductions and had gambling winnings reported on Form W-2G, along with separate gambling losses substantiated by the taxpayer's own contemporaneous records. What is the general limitation on deducting these gambling losses?

A. Generally, gambling losses are generally fully deductible in an unlimited amount, even when the losses actually exceed the taxpayer's own total reported gambling winnings for the year

B. Generally, gambling losses are generally deductible as an itemized deduction only up to the amount of the taxpayer's own reported gambling winnings for the year, and never beyond

C. Generally, gambling losses are generally deductible as an above-the-line adjustment to income, rather than as an itemized deduction subject to any specific winnings-based limitation

D. Generally, gambling losses are generally entirely nondeductible in every case, regardless of the specific amount of the taxpayer's own reported gambling winnings for the year

55. A taxpayer finalized the legal adoption of an eligible child during the year and incurred substantial qualifying adoption expenses, including agency fees and legal costs. What is the general nature of the tax benefit available for these qualifying adoption expenses?

A. Generally a fully refundable credit, meaning the taxpayer generally receives the full credit amount as a refund even where it actually exceeds the taxpayer's own tax liability

B. Generally an above-the-line deduction rather than any form of tax credit, directly reducing the taxpayer's own adjusted gross income for the applicable tax year

C. Generally available only for the adoption of a taxpayer's own stepchild, with the adoption of an unrelated eligible child generally being entirely ineligible for this benefit

D. Generally a nonrefundable credit, up to an applicable per-child dollar limit, subject to phase-out based on the taxpayer's modified adjusted gross income for the applicable year

56. A taxpayer with modest income contributes to the taxpayer's own traditional IRA during the year and is not a full-time student or claimed as another taxpayer's dependent. What is the general purpose of the Retirement Savings Contributions Credit, commonly called the Saver's Credit, in this situation?

A. Generally provides a nonrefundable credit, based on an applicable percentage of the taxpayer's own qualifying retirement contribution, with the specific applicable percentage generally decreasing as income rises

B. Generally provides a fully refundable credit equal to 100% of the taxpayer's own qualifying retirement contribution, regardless of the taxpayer's own specific income level for the year
C. Generally provides an above-the-line deduction for the retirement contribution, rather than any form of tax credit, in addition to the taxpayer's own regular IRA deduction
D. Generally provides a credit available only to a taxpayer who contributes to a Roth IRA, with a taxpayer contributing to a traditional IRA generally being ineligible

57. A taxpayer's filing status determines which tax rate schedule applies to the taxpayer's taxable income. What is the general effect of choosing married filing separately instead of married filing jointly on many credit and deduction eligibility rules?

A. Generally, filing status generally has no effect at all on credit or deduction eligibility, since every eligibility rule generally applies identically regardless of chosen filing status
B. Generally, a taxpayer filing married filing separately generally becomes eligible for additional credits not available to a taxpayer who instead files married filing jointly
C. Generally, married filing separately status generally applies only to a couple who are legally separated, rather than remaining an available election for any married couple
D. Generally, a taxpayer filing married filing separately generally becomes ineligible for several specific credits and deductions, or faces generally reduced applicable limits, compared to filing jointly

58. A taxpayer sold a capital asset held for eighteen months before the sale, realizing a gain on the transaction. How is this specific gain generally characterized and taxed?

A. Generally characterized as short-term capital gain, since an eighteen-month holding period is generally treated as less than the one-year threshold required for long-term treatment
B. Generally characterized as long-term capital gain, since the asset was held for more than one year, and generally taxed at the applicable preferential long-term capital gain rate
C. Generally characterized as ordinary income rather than as any form of capital gain, regardless of how long the taxpayer actually held the underlying capital asset
D. Generally characterized as long-term capital gain, but nonetheless taxed at the taxpayer's own higher ordinary marginal income tax rate rather than at any preferential rate

59. A taxpayer sold shares of stock at a loss and, within the 30 days following the sale, repurchased substantially identical shares in the same company. What is the general effect of the wash sale rule on this specific realized loss?

A. Generally, the realized loss is generally disallowed for current deduction purposes, and the disallowed loss amount is generally added to the basis of the newly repurchased shares instead

B. Generally, the realized loss remains fully deductible in the current year without any limitation, since the wash sale rule generally applies only to a gain, not a loss

C. Generally, the realized loss is generally permanently and entirely forfeited, with no portion of the disallowed loss amount ever recoverable through any later increased basis adjustment

D. Generally, the wash sale rule generally applies only when the repurchase occurs in a tax-advantaged retirement account, rather than in any ordinary taxable brokerage account

60. A taxpayer's net investment income, including interest, dividends, and capital gain, is subject to the Net Investment Income Tax in addition to regular income tax. What generally triggers this additional 3.8% tax?

A. Generally applies to every taxpayer with any net investment income at all, regardless of the taxpayer's own total modified adjusted gross income for the applicable year

B. Generally applies only to a taxpayer who is self-employed, with a taxpayer earning solely wage income generally being entirely exempt from this specific additional tax

C. Generally applies to a taxpayer whose modified adjusted gross income exceeds an applicable statutory threshold based on filing status, applied to the lesser of net investment income or the excess over that threshold

D. Generally applies as a flat replacement for regular income tax on investment income, rather than as an additional tax layered on top of the regular tax

61. A taxpayer's earned income from wages is subject to the Additional Medicare Tax once the taxpayer's income exceeds an applicable statutory threshold. What is the general rate and trigger for this specific additional tax?

A. Generally an additional 0.9% tax applies to wages, and self-employment income, exceeding an applicable statutory threshold based on the taxpayer's filing status for the year

B. Generally an additional 3.8% tax applies to all wage income once the taxpayer's total wages exceed a specific applicable statutory threshold, mirroring the investment income tax rate

C. Generally applies only to self-employment income, with wage income from a traditional employer generally being entirely exempt from any form of additional Medicare tax

D. Generally applies as a flat replacement for the regular 1.45% Medicare tax, rather than as an additional tax layered on top of the regular Medicare tax

62. A taxpayer's income includes a preference item that must be added back when calculating exposure to the alternative minimum tax. What is the general purpose of the alternative minimum tax system?

A. Generally functions as a simple flat replacement for the regular tax system, applying identically to every taxpayer regardless of the taxpayer's own specific income composition
B. Generally applies only to a corporation, with an individual taxpayer generally being entirely exempt from any exposure to the alternative minimum tax system
C. Generally ensures a taxpayer with substantial preference items and adjustments pays at least a specific minimum level of tax, computed under a generally more limited separate parallel system
D. Generally provides an additional tax benefit reducing a taxpayer's regular tax liability, rather than functioning as any form of separate minimum tax computation

63. A taxpayer's dependent child under age 18 has unearned income from investments exceeding an applicable annual threshold. What is the general effect of the kiddie tax on this specific child's unearned income?

A. Generally, the child's unearned income is generally entirely tax-exempt regardless of amount, since a dependent child generally owes no tax at all on any investment income
B. Generally, the kiddie tax generally applies only to a child's earned wage income, with a child's unearned investment income generally being entirely exempt from this rule
C. Generally, the child's unearned income is generally taxed at a flat 37% rate regardless of the parent's own actual marginal tax rate for the applicable year
D. Generally, the child's unearned income above the applicable threshold is generally taxed at the parent's own higher marginal tax rate, rather than at the child's generally lower individual rate

64. A self-employed taxpayer's net earnings from self-employment exceed the applicable minimum threshold requiring self-employment tax. What two federal payroll-type taxes does the self-employment tax generally represent?

A. Generally represents only the employee share of Social Security and Medicare tax, with no equivalent employer-share portion applying to a self-employed taxpayer's own earnings

B. Generally represents the self-employed equivalent of both the employer and employee shares of Social Security and Medicare tax that a traditional employee and employer would otherwise split

C. Generally represents federal income tax withholding, rather than any form of Social Security or Medicare tax, applied specifically to self-employment earnings

D. Generally represents a flat replacement for regular income tax on self-employment earnings, rather than an additional tax layered on top of regular income tax

65. A taxpayer's total tax liability includes an underpayment penalty because the taxpayer did not pay enough tax throughout the year through withholding and estimated payments. What generally allows a taxpayer to avoid this specific underpayment penalty?

A. Generally avoided only if the taxpayer pays the full balance due by the original filing deadline, regardless of how little was actually paid throughout the year itself

B. Generally avoided if the taxpayer's total withholding and timely estimated payments equal at least the applicable safe harbor percentage of either the current year's tax or the prior year's tax

C. Generally avoided automatically for every taxpayer whose total tax liability for the year is under a specific fixed dollar threshold amount, regardless of prior-year tax

D. Generally avoided only if the taxpayer requests a formal filing extension, since an extension generally also extends the specific deadline for making timely estimated tax payments

66. A taxpayer's rental real estate activity generates a loss for the year, and the taxpayer does not qualify as a real estate professional. What is the general limitation on deducting this specific passive rental loss against the taxpayer's other nonpassive income?

A. Generally, the rental loss is generally fully deductible against any type of income without any limitation at all, regardless of the taxpayer's own level of participation

B. Generally, the rental loss is generally entirely nondeductible in every case, with no exception at all available regardless of the taxpayer's own specific participation level

C. Generally, the rental loss is generally deductible only against the taxpayer's own capital gain income, rather than against either passive income or nonpassive ordinary income

D. Generally, the rental loss is generally treated as a passive loss deductible only against passive income, though an active participant may generally deduct up to a specific limited amount against nonpassive income, subject to phase-out

67. A taxpayer's capital losses for the year exceed the taxpayer's capital gains for that same year. What is the general annual limitation on deducting this net capital loss against the taxpayer's other ordinary income?

A. Generally limited to $3,000 per year against ordinary income, with any excess net capital loss amount generally eligible to be carried forward indefinitely to a future tax year
B. Generally, the entire net capital loss is fully deductible against ordinary income in the current year, with no specific annual dollar limitation applying to this deduction
C. Generally limited to $10,000 per year against ordinary income, the same higher dollar figure that generally applies to the separate state and local tax deduction cap
D. Generally, a net capital loss is generally entirely nondeductible against ordinary income in every case, and may generally only offset a future year's capital gain

68. A taxpayer's Social Security benefits may become partially taxable depending on the taxpayer's combined income for the year. What generally determines whether, and how much of, a taxpayer's Social Security benefit becomes taxable?

A. Generally, Social Security benefits are generally always entirely tax-exempt in full, regardless of the taxpayer's own total combined income level for the applicable tax year
B. Generally, Social Security benefits are generally always entirely taxable in full, regardless of the taxpayer's own total combined income level for the applicable tax year
C. Generally determined by comparing the taxpayer's combined income, generally adjusted gross income plus tax-exempt interest plus half of Social Security benefits, against applicable statutory base amounts for the filing status
D. Generally determined solely by the taxpayer's age at the specific time benefits are first actually claimed, rather than by the taxpayer's own actual combined income level

69. A taxpayer exercises an incentive stock option and holds the acquired shares, triggering a specific adjustment relevant to the alternative minimum tax calculation. What is the general AMT treatment of this specific bargain element upon exercise?

A. Generally, the bargain element is generally entirely excluded from both regular taxable income and alternative minimum taxable income at the specific time of exercise

B. Generally, the bargain element, the excess of fair market value over the exercise price, is generally included as a positive adjustment when computing alternative minimum taxable income
C. Generally, the bargain element is generally taxed immediately as ordinary income for regular tax purposes at the specific time of exercise, rather than being an AMT adjustment
D. Generally, the bargain element generally triggers self-employment tax at the specific time of exercise, rather than triggering any form of alternative minimum tax adjustment

70. A taxpayer's traditional IRA converts to a Roth IRA during the year, a transaction the taxpayer elected voluntarily. How is the taxable portion of this specific Roth conversion generally treated?

A. Generally includible in the taxpayer's ordinary taxable income for the year of conversion, though generally not subject to the separate 10% early distribution penalty on the converted amount
B. Generally entirely tax-exempt, exactly the same treatment that generally applies to a properly qualified distribution taken directly from an already-established Roth IRA account
C. Generally subject to the 10% early distribution penalty on the full converted amount, in addition to the amount being includible in the taxpayer's ordinary taxable income
D. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a Roth conversion, rather than at the taxpayer's own ordinary income tax rate

71. A taxpayer's federal income tax liability is reduced through a foreign tax credit for income tax the taxpayer actually paid to a foreign country on foreign-source income. What is the general purpose of this specific credit?

A. Generally applies only to a taxpayer who is a nonresident alien, with a United States citizen generally being entirely ineligible for any form of foreign tax credit
B. Generally functions as a full exclusion of all foreign-source income from United States taxation entirely, rather than functioning as any form of tax credit
C. Generally helps prevent the same specific item of foreign-source income from being subjected to double taxation, once by the foreign country and again by the United States
D. Generally provides a credit for a foreign sales tax or value-added tax paid, rather than for any foreign income tax actually paid on foreign-source income

72. A taxpayer's income tax return reflects a net operating loss carryforward from a prior business year, available to offset the taxpayer's current-year taxable income. What is the general current-law limitation on using this specific net operating loss carryforward?

A. Generally, the net operating loss deduction generally has no limitation at all under current law, and may generally offset 100% of the taxpayer's current-year taxable income

B. Generally, a net operating loss carryforward generally expires after exactly two years under current law, rather than generally remaining available to carry forward indefinitely

C. Generally, a net operating loss may generally only be carried back to a prior tax year under current law, rather than ever being carried forward

D. Generally, the net operating loss deduction is generally limited to 80% of the taxpayer's taxable income for the year, computed before applying the net operating loss deduction itself

73. A taxpayer's income includes both ordinary income and a qualified dividend taxed at the preferential capital gain rate, requiring use of the Qualified Dividends and Capital Gain Tax Worksheet. What is the general purpose of this specific worksheet?

A. Generally ensures the taxpayer's entire total income, including both ordinary income and qualified dividends, is taxed uniformly at a single flat preferential capital gain rate

B. Generally ensures the taxpayer's qualified dividend is instead taxed at the taxpayer's own higher ordinary marginal tax rate, rather than at any preferential capital gain rate

C. Generally ensures the taxpayer's ordinary income is taxed at the applicable ordinary rates while the qualified dividend and net capital gain portion is separately taxed at the applicable preferential rate

D. Generally applies only when computing the separate alternative minimum tax liability, rather than applying to the taxpayer's regular tax liability computation for the year

74. A taxpayer's federal estimated tax payments are due in four installments throughout the year based on the taxpayer's own projected tax liability. What generally determines whether a taxpayer must actually make these quarterly estimated payments?

A. Generally required of every taxpayer with any tax liability at all, regardless of how much the taxpayer's own withholding already covers of that total liability

B. Generally required only of a taxpayer who is self-employed, with a taxpayer who receives only wage income generally being entirely exempt from any estimated payment obligation

C. Generally required only in the taxpayer's very first year of filing a return, and generally never again in any subsequent year regardless of income composition

D. Generally required if the taxpayer expects to owe at least a specific applicable minimum amount in tax after withholding, and withholding alone is not expected to meet the applicable safe harbor

75. A taxpayer asks a preparer for general guidance on the tax implications of withdrawing retirement funds early to cover an unexpected large expense, before actually taking any distribution. What is the general value of the preparer providing this type of proactive advisory guidance?

A. Generally provides no meaningful value at all, since a preparer's role is generally limited strictly to preparing a return after a transaction has already occurred
B. Generally allows the taxpayer to weigh the applicable tax and penalty consequences before acting, potentially avoiding an unnecessary or poorly timed early distribution decision
C. Generally obligates the preparer to make the actual withdrawal decision on the taxpayer's own behalf, rather than simply explaining the applicable tax consequences involved
D. Generally is prohibited under Circular 230, since a preparer is generally not permitted to discuss any transaction the taxpayer has not yet actually completed

76. A taxpayer approaching retirement asks a preparer for general guidance on the tax differences between drawing down a traditional IRA versus a Roth IRA first in retirement. What is the general planning consideration a preparer would generally discuss?

A. Generally discusses how each account's own distribution is taxed, along with how required minimum distributions and the taxpayer's own current versus expected future tax bracket generally affect the optimal drawdown order
B. Generally discusses only the specific administrative paperwork required to actually open each type of account, rather than any of the applicable tax consequences of drawing funds
C. Generally advises that the drawdown order generally makes no tax difference at all, since a traditional IRA and a Roth IRA are always taxed identically
D. Generally advises that a taxpayer must always draw down the Roth IRA first in every case, regardless of the taxpayer's own specific individual tax situation

77. A taxpayer asks a preparer whether bunching multiple years of charitable contributions into a single tax year could provide any general tax advantage. What is the general planning rationale behind this specific bunching strategy?

A. Generally provides no tax advantage at all, since a taxpayer's total charitable deduction over multiple years is generally identical regardless of how the contributions are timed

B. Generally allows the taxpayer's itemized deductions to exceed the standard deduction in the bunched year, while claiming the standard deduction in the other years, generally maximizing the total tax benefit
C. Generally is prohibited under current law, since a taxpayer is generally required to spread charitable contributions evenly across multiple years rather than bunching them
D. Generally applies only to a taxpayer who does not itemize in any year, providing no benefit at all to a taxpayer who itemizes deductions every year

78. A taxpayer asks a preparer for general guidance on the tax treatment of converting a portion of a traditional IRA to a Roth IRA during a specific low-income year. What is the general planning advantage of this specific timing?

A. Generally provides no timing advantage at all, since a Roth conversion is generally taxed at an identical flat rate regardless of the taxpayer's own income level
B. Generally allows the taxpayer to avoid recognizing any taxable income at all on the conversion, regardless of the specific tax year in which the conversion actually occurs
C. Generally allows the taxpayer to recognize the taxable conversion income while in a generally lower marginal tax bracket, potentially reducing the overall tax cost of the conversion
D. Generally is prohibited during a low-income year specifically, since current law generally requires a Roth conversion to occur only during a taxpayer's higher-income years

79. A taxpayer asks a preparer for general guidance on the tax consequences of gifting appreciated stock to an adult child in a lower tax bracket, rather than selling the stock and gifting cash. What is the general planning advantage of gifting the appreciated stock directly?

A. Generally allows the recipient to eventually sell the stock and recognize the gain at the recipient's own generally lower applicable capital gain tax rate, rather than the donor recognizing the gain first
B. Generally provides no advantage at all, since gifting appreciated stock is always taxed identically to gifting the equivalent amount of cash under current federal tax law
C. Generally triggers immediate taxable gain recognition to the original donor at the specific time of the gift, regardless of whether the recipient ever actually sells the stock
D. Generally is prohibited under current law, since a taxpayer is generally not permitted to gift appreciated stock directly to a family member in a lower bracket

80. A taxpayer asks a preparer for general guidance on how filing status choice could affect the taxpayer's own eligibility for certain income-based tax benefits in a year involving a significant life change, such as a divorce finalized late in the year. What general advice would a preparer typically provide?

A. Generally advises the taxpayer that filing status is generally determined by marital status as of January 1, regardless of any change in marital status later in that same year
B. Generally advises the taxpayer that filing status generally has no effect at all on eligibility for any income-based tax benefit, regardless of the taxpayer's own specific circumstances
C. Generally advises the taxpayer that the preparer is generally prohibited from discussing the tax effect of a divorce, since that topic is reserved exclusively for a family law attorney
D. Generally advises the taxpayer that filing status is generally determined by marital status as of December 31, and generally recommends modeling the tax outcome under the applicable resulting status

81. A taxpayer asks a preparer for general guidance on the tax advantage of maximizing pretax contributions to an employer-sponsored retirement plan during a specific high-income year. What is the general planning rationale a preparer would typically explain?

A. Generally provides no tax advantage at all, since a pretax retirement contribution is generally taxed immediately in the same year it is actually contributed regardless of amount
B. Generally triggers an immediate 10% early distribution penalty on the full contributed amount, regardless of the taxpayer's own current age at the time of contribution
C. Generally reduces the taxpayer's current-year taxable income dollar for dollar by the contribution amount, potentially lowering the taxpayer's marginal tax bracket for that specific high-income year
D. Generally is available only to a self-employed taxpayer, with an employee of a traditional employer generally being entirely ineligible to make any pretax retirement contribution

82. A taxpayer asks a preparer for general guidance on the potential tax consequences of taking a large one-time capital gain in the same year the taxpayer also expects to claim Social Security benefits. What general planning consideration would a preparer typically raise?

A. Generally raises the concern that the additional capital gain generally increases the taxpayer's combined income, potentially causing a larger percentage of Social Security benefits to become taxable for that year
B. Generally raises no concern at all, since Social Security benefit taxability is generally entirely unrelated to and unaffected by any capital gain the taxpayer separately recognizes

C. Generally raises the concern that recognizing any capital gain generally disqualifies the taxpayer from ever receiving Social Security benefits at all in that specific tax year

D. Generally raises the concern that the capital gain generally must be reported directly on the taxpayer's own Social Security benefit statement, rather than on the tax return

83. A taxpayer asks a preparer for general guidance on structuring estimated tax payments after starting a new consulting side business while also remaining a traditional W-2 employee. What general advice would a preparer typically provide?

A. Generally advises the taxpayer that no additional withholding or estimated payment is ever necessary, since the taxpayer's existing wage withholding automatically covers all self-employment income

B. Generally advises the taxpayer to either increase wage withholding or begin making quarterly estimated payments to cover the additional tax generated by the new self-employment income

C. Generally advises the taxpayer that self-employment income is generally entirely exempt from any income tax, and only regular wage income generally requires any withholding

D. Generally advises the taxpayer to immediately stop the existing W-2 wage withholding entirely, relying instead exclusively on quarterly estimated payments for the entire tax liability

84. A taxpayer asks a preparer for general guidance on the tax implications of paying down a mortgage early versus investing the same funds instead. What general factor would a preparer typically identify as most relevant to this specific comparison?

A. Generally identifies that mortgage interest is always fully deductible regardless of whether the taxpayer itemizes, making early payoff generally always the clearly superior tax choice

B. Generally identifies that investment returns are always entirely tax-exempt regardless of account type, making investing generally always the clearly superior choice over early payoff

C. Generally identifies that this comparison involves no relevant tax consideration at all, since it is generally treated as a purely personal financial choice unrelated to taxes

D. Generally identifies the comparison between the mortgage's own after-tax interest rate and the taxpayer's own reasonably expected after-tax investment return as the most relevant general factor

85. A taxpayer asks a preparer for general guidance on the general tax advantage of contributing to a 529 education savings plan for a young grandchild rather than simply gifting cash directly each year. What general benefit would a preparer typically explain?

A. Generally explains that a 529 plan contribution is always immediately deductible in full on the contributor's own federal income tax return, regardless of the applicable state's own rules
B. Generally explains that a 529 plan generally provides no tax advantage at all compared to simply gifting the equivalent amount of cash directly to the grandchild
C. Generally explains that 529 plan funds may generally be withdrawn for any purpose at all with no tax consequence, exactly the same treatment as gifting cash directly
D. Generally explains that qualified 529 plan earnings generally grow tax-deferred and are generally entirely tax-free when withdrawn for the beneficiary's own qualified education expenses

86. A taxpayer asks a preparer for general guidance on the tax consequences of taking a home equity loan and using the proceeds to pay off unrelated high-interest personal credit card debt. What general limitation would a preparer typically explain about deducting the interest on this specific loan?

A. Generally explains that interest on a home equity loan is generally deductible only if the loan proceeds were actually used to buy, build, or substantially improve the home securing the loan
B. Generally explains that interest on any home equity loan is always fully deductible in full, regardless of how the taxpayer actually chooses to use the loan proceeds
C. Generally explains that interest on a home equity loan used to pay off credit card debt is generally deductible as a specific miscellaneous itemized deduction instead
D. Generally explains that a home equity loan itself is entirely prohibited under current law when the stated purpose is paying off any unrelated existing personal debt

87. A taxpayer asks a preparer for general guidance on why the timing of recognizing investment losses before year-end, commonly called tax-loss harvesting, could provide a general tax benefit. What general rationale would a preparer typically explain?

A. Generally explains that tax-loss harvesting generally provides no tax benefit at all, since a realized investment loss is generally never deductible against any other type of income
B. Generally explains that realizing a loss before year-end generally allows the taxpayer to offset other realized capital gains, and potentially up to $3,000 of ordinary income, reducing the taxpayer's overall current-year tax
C. Generally explains that a realized investment loss must generally be carried forward indefinitely and can never actually offset any of the taxpayer's income in the current year

D. Generally explains that tax-loss harvesting is generally prohibited under current law whenever the taxpayer intends to repurchase the exact same security at any point in the future

88. A decedent's estate must file a final individual income tax return covering the period from the start of the tax year through the decedent's date of death. What is the general filing requirement regarding this specific final return?

A. Generally, no final individual income tax return is ever required at all once a taxpayer has actually died, regardless of the amount of income earned before death
B. Generally, the final return must generally cover a full twelve-month period regardless of the actual date of death, rather than stopping at the date of death itself
C. Generally, a final Form 1040 must generally be filed reporting the decedent's income from January 1 through the actual date of death, using the decedent's normal accounting method
D. Generally, the final return is generally optional and may be filed at the estate's own sole discretion, rather than representing any mandatory filing obligation at all

89. A trust distributes all of its current-year income to its beneficiaries under the trust's own governing terms. What is the general tax effect of this specific distribution on the trust's own income tax liability?

A. Generally, the distributed income remains fully taxable to the trust itself, with the beneficiaries generally receiving the distribution entirely tax-free regardless of the trust's own distribution
B. Generally, the distributed income is generally taxed twice, once to the trust and again separately to each beneficiary who actually received a portion of that distribution
C. Generally, the distributed income is generally entirely tax-exempt to both the trust and the beneficiaries, regardless of the underlying character of the income actually distributed
D. Generally, the distributed income is generally taxable to the beneficiaries who actually received it, rather than to the trust itself, under the general conduit principle applicable to a simple trust

90. A nonresident alien earns United States-source income during the year and must determine the applicable individual income tax filing requirement. What form does a nonresident alien generally use to report this specific United States-source income?

A. Generally files the identical standard Form 1040 used by a United States citizen, since no separate specific return exists for a nonresident alien taxpayer

B. Generally files Form 1065, the specific return generally reserved for a partnership, rather than any return designed for an individual nonresident alien taxpayer

C. Generally files Form 1040-NR, the specific return designed for a nonresident alien reporting United States-source income subject to United States federal income tax

D. Generally files no return at all, since a nonresident alien is generally entirely exempt from United States federal income tax on any United States-source income

91. A taxpayer received a Schedule K-1 from a partnership reporting the taxpayer's own distributive share of partnership income for the year. What is the general tax treatment of this specific reported income to the individual partner?

A. Generally taxable to the individual partner in the year earned by the partnership, regardless of whether the partnership actually distributed any cash to that specific partner during the year

B. Generally taxable to the individual partner only in the specific later year the partnership actually distributes cash, rather than in the year the income was actually earned

C. Generally entirely tax-exempt to the individual partner, since a partnership itself is generally the entity directly responsible for paying tax on all partnership income

D. Generally taxed twice, once directly to the partnership entity itself and again separately to the individual partner receiving the specific Schedule K-1 for the year

92. A taxpayer owns shares in an S corporation and receives a Schedule K-1 reporting the taxpayer's own pro rata share of the corporation's income for the year. How is this specific reported income generally treated for the individual shareholder?

A. Generally entirely tax-exempt to the individual shareholder, since an S corporation itself is generally the entity directly responsible for paying tax on all its own income

B. Generally taxable to the individual shareholder as ordinary or other applicable income in the year earned, passed through in a manner similar to a partnership, rather than taxed at the entity level

C. Generally taxed twice, once directly at the S corporation entity level and again separately to the individual shareholder receiving the specific Schedule K-1 for that year

D. Generally taxable to the individual shareholder only in the specific later year the S corporation actually distributes cash, rather than in the year the income was actually earned

93. A married couple's household includes a household employee, such as a nanny, paid wages exceeding the applicable annual threshold requiring the couple to address household employment tax obligations. What is the general mechanism used to report and pay this specific household employment tax?

A. Generally reported using Schedule C, the same specific schedule generally used to report a taxpayer's own self-employment business income and related expenses for the year
B. Generally reported using Schedule H, attached to the couple's own Form 1040, generally covering the household employer's own Social Security, Medicare, and applicable federal unemployment tax obligations
C. Generally reported using Schedule E, the same specific schedule generally used to report a taxpayer's own rental real estate or partnership pass-through income for the year
D. Generally, no reporting obligation at all applies to household employment, regardless of the specific total wages actually paid to a household employee during the year

94. A taxpayer's tax home and abode are both located in a foreign country for the entire tax year, and the taxpayer qualifies under the applicable physical presence or bona fide residence test. What general tax benefit becomes available regarding the taxpayer's foreign earned income?

A. Generally allows the taxpayer to exclude all worldwide income, both foreign and any United States-source income, entirely from United States gross income without any specific limitation
B. Generally provides no tax benefit at all, since a United States citizen generally remains fully taxable on all foreign earned income regardless of where actually earned
C. Generally allows the taxpayer to defer United States tax on foreign earned income indefinitely, rather than excluding a specific applicable dollar amount from gross income currently
D. Generally allows the taxpayer to elect to exclude a specific applicable amount of foreign earned income from United States gross income under the foreign earned income exclusion

95. A taxpayer files an amended individual income tax return using Form 1040-X to correct an error discovered on a previously filed original return. What is the general statute of limitations period for filing this specific amended return to claim a refund?

A. Generally, the amended return must generally be filed within exactly one year from the date the original return was actually filed, with no alternative later measuring date ever available
B. Generally, no statute of limitations at all applies to filing an amended return, meaning a taxpayer may generally file Form 1040-X at any time without any restriction

C. Generally, the amended return must generally be filed within three years from the date the original return was actually filed, or within two years from when the tax was actually paid, whichever is later

D. Generally, the amended return must generally be filed within exactly ten years from the date the original return was actually filed, mirroring the specific collection statute period

96. A minor child's parent maintains custodial control over a Uniform Transfers to Minors Act account established for that specific child's benefit, and the account generates investment income during the year. Whose taxpayer identification number is generally used to report this specific account income?

A. Generally, the child's own taxpayer identification number is generally used to report the account's income, since the account is generally treated as the child's own property for tax purposes

B. Generally, the custodial parent's own taxpayer identification number is generally used to report the account's income, since the parent generally maintains full legal control over the account

C. Generally, no taxpayer identification number at all is required for this specific type of account, since the account's income is generally entirely tax-exempt regardless of amount

D. Generally, the taxpayer identification number used generally depends entirely on the specific financial institution's own internal policy, rather than on any consistent applicable general tax rule

97. A taxpayer's individual income tax return reports income earned from a business operated as a single-member limited liability company, with no separate entity-level election made. How is this specific single-member LLC generally treated for federal income tax purposes?

A. Generally treated as a disregarded entity by default, meaning the LLC's own income and expenses are generally reported directly on the individual owner's own Schedule C

B. Generally treated automatically as a C corporation by default, requiring the LLC to generally file a wholly separate corporate income tax return apart from the owner's own return

C. Generally treated automatically as a partnership by default, requiring the LLC to generally file a separate partnership return despite having only a single individual owner

D. Generally treated as entirely tax-exempt by default, since a single-member LLC generally has no federal income tax filing obligation at all regardless of the entity's own income

98. A taxpayer's individual income tax return includes income from a grantor trust the taxpayer personally established and over which the taxpayer retained specific powers described under the applicable grantor trust rules. How is this specific grantor trust's income generally treated?

A. Generally taxable exclusively to the trust itself as a wholly separate taxpaying entity, with the individual grantor generally bearing no personal tax liability at all regarding that income

B. Generally taxable directly to the taxpayer-grantor personally, rather than to the trust itself, since the grantor trust rules generally treat the grantor as the owner of the trust's own income for tax purposes

C. Generally entirely tax-exempt to both the grantor and the trust itself, regardless of the specific powers the grantor actually retained over the trust under its own governing terms

D. Generally taxable to the trust's own eventual beneficiaries currently, even though the trust itself has not actually made any distribution of income to those beneficiaries during the year

99. A taxpayer's individual income tax return reports rental real estate income from a residential property the taxpayer owns and rents to unrelated tenants. What schedule does an individual taxpayer generally use to report this specific rental real estate activity?

A. Generally reported on Schedule C, the same specific schedule generally used to report a taxpayer's own active self-employment trade or business income for the year

B. Generally reported on Schedule D, the specific schedule generally reserved for reporting an individual taxpayer's own capital gain or capital loss transactions for the year

C. Generally reported on Schedule E, the specific schedule generally used to report an individual taxpayer's own rental real estate, royalty, and pass-through partnership or S corporation income

D. Generally reported on Schedule A, the specific schedule generally reserved for reporting an individual taxpayer's own itemized deductions rather than any item of rental income

100. A taxpayer's individual income tax return must address income earned by a qualifying widow or widower whose spouse died during one of the two preceding tax years, and who maintains a household for a dependent child. What general filing status benefit is generally available to this specific taxpayer?

A. Generally must generally file as single in every case following a spouse's death, regardless of whether the taxpayer actually maintains a household for a qualifying dependent child

B. Generally must generally file as head of household in every case following a spouse's death, rather than ever being eligible for the qualifying surviving spouse status

C. Generally loses all favorable filing status treatment entirely and permanently the moment a spouse actually dies, regardless of the taxpayer's own household or dependent situation

D. Generally may generally use the qualifying surviving spouse filing status for up to two years after the spouse's death, generally applying the same favorable tax rate schedule as married filing jointly

Answer Key and Explanations — Practice Exam 15

1. D — When a source document contains inconsistencies, such as a misspelled name or an unrecognized account number, a preparer should generally contact the client directly to confirm ownership and accuracy before including or excluding the reported income, rather than assuming either way without first asking, consistent with general preparer due diligence standards.

2. C — A preparer generally must retain the signed Form 8879 for a specific minimum retention period, generally three years measured from the later of the return's due date or its actual filing date, consistent with the general preparer recordkeeping requirements applicable to an e-filed individual income tax return under current IRS guidance.

3. B — An apparent inconsistency between a client's stated occupation and the type of income reported generally triggers a preparer's duty to make reasonable additional inquiries, since simply accepting facially inconsistent information without further inquiry would generally fall short of the preparer's general due diligence obligations under applicable professional standards for return preparation.

4. A — An IP PIN generally serves as an additional six-digit identity verification number that a taxpayer includes on the return, helping prevent an identity thief from successfully filing a fraudulent return using that taxpayer's own stolen identifying information, since a return filed without the correct IP PIN is generally rejected by the IRS.

5. A — Circular 230 generally prohibits false, fraudulent, or misleading advertising, and guaranteeing a specific refund amount before actually reviewing a client's own particular facts and circumstances is generally considered a misleading practice, since no preparer can genuinely know the correct outcome before actually preparing and thoroughly reviewing the taxpayer's complete return.

6. B — A preparer generally should advise a client of relevant consequences before filing an amended return, such as the potential effect on the statute of limitations for that specific tax year, consistent with the general professional standard of ensuring a client can make an informed decision about proceeding with the amendment.

7. D — A Revenue Ruling generally represents the IRS's official published position on a specific issue, applicable to taxpayers generally and citable as authority, while a Private Letter Ruling generally applies only to the specific taxpayer who requested it and generally may not be cited as precedent by any other taxpayer or preparer.

8. C — The signature date is generally already captured as part of a properly completed Form 8879 itself, so retaining the properly signed form generally satisfies the preparer's recordkeeping obligation regarding that specific date, without requiring a separate standalone log tracking apart from the actual signed e-file authorization document itself each year.

9. A — The IRS e-Services platform generally provides a registered tax professional online access to a suite of tools, including transcript delivery, TIN matching to verify client identifying information, and the ability to electronically submit and manage power of attorney authorizations, streamlining several routine administrative tasks a preparer regularly performs for clients.

10. D — There is generally no blanket requirement to proactively disclose every prior disciplinary action to a new client, though a preparer generally must not misrepresent their own credentials, qualifications, or standing, and certain specific circumstances, such as a direct client inquiry, may separately require honest disclosure of that relevant disciplinary history.

11. C — A taxpayer's own copy of a filed return generally reflects the actual document as originally submitted, while an IRS transcript generally reflects the return's data as actually processed and recorded within IRS systems, which can generally differ from the original filing if the IRS made any subsequent adjustment or correction to that return.

12. B — A preparer generally provides better, more valuable client service by advising the client to retain supporting documentation for at least the applicable statute of limitations period, generally three years from filing, though a longer period may be appropriate in certain situations, such as a substantial understatement of income or a claimed bad debt.

13. A — The IRS Where's My Refund tool generally allows a taxpayer to check the current processing status of an already-filed return and the expected general timing of any resulting refund, using basic identifying information such as the taxpayer's Social Security number, filing status, and the exact expected whole-dollar refund amount claimed.

14. C — Best practice generally recommends obtaining a new or updated engagement letter each year, rather than relying indefinitely on one signed years earlier, since the specific scope of services, applicable fees, and other relevant terms can generally change from year to year, and a current letter generally helps avoid future misunderstandings.

15. B — A preparer generally should decline an engagement involving a specialized area beyond the preparer's own actual competence, such as a complex foreign trust filing, or should associate with someone who has the requisite expertise, consistent with the general professional obligation to provide only services the preparer is genuinely qualified to perform.

16. D — A taxpayer generally retains the right to elect to opt out of e-filing and have the return paper-filed instead, even when the preparer is otherwise subject to the IRS e-file mandate, generally documented through a specific written opt-out statement the taxpayer signs, reflecting the taxpayer's own ultimate control over how the return is submitted.

17. D — A qualified dividend meeting the applicable minimum holding period requirement is generally taxed at the same preferential 0%, 15%, or 20% capital gain rate that applies to long-term capital gain, rather than at the taxpayer's own higher ordinary marginal income tax rate that would generally apply to a nonqualified dividend.

18. B — Under current law, alimony paid under a divorce or separation agreement executed after 2018 is generally neither deductible by the paying spouse nor includible in the recipient's gross income, a significant change from the historical treatment that applied to alimony paid under an agreement executed before 2019 under prior law.

19. C — A home warranty reimbursement for a covered rental property repair is generally not separately taxable income to the taxpayer, since the reimbursement generally offsets the otherwise deductible repair expense, resulting in no net additional taxable income, consistent with the general principle that a reimbursed expense does not generate a net tax benefit or detriment.

20. A — Interest a state pays on a delayed or overdue state tax refund is generally fully taxable as ordinary interest income to the taxpayer in the year actually received, regardless of whether the underlying state refund principal itself is taxable under the tax benefit rule, since the interest portion is treated as a wholly separate item of income.

21. B — The earnings portion of a nonqualified Roth 401(k) distribution, one that does not meet the applicable five-year holding period and other qualified distribution requirements, is generally taxable as ordinary income and generally subject to the 10% early distribution penalty, since the account has not yet satisfied the requirements for tax-free qualified distribution treatment.

22. A — Oil and gas royalty income received from a mineral rights lease is generally fully taxable as ordinary income, reported on Schedule E, though the taxpayer may generally also be eligible for a depletion deduction, either cost or percentage depletion, to help recover the underlying mineral asset's basis over the productive life of the lease.

23. C — A reimbursement made under a genuine accountable plan, one that meets all applicable IRS substantiation and excess-return requirements, is generally not includible in the employee's taxable wages, a distinct and generally more favorable treatment from an unsubstantiated relocation payment made outside an accountable plan, which is generally fully taxable as ordinary wage income to the employee.

24. D — A settlement payment compensating a taxpayer for lost anticipated business profits arising from a breach of contract claim is generally fully taxable as ordinary income, since the settlement generally stands in the place of the business profits that would themselves have been taxable had the underlying contract actually been performed and those profits actually earned.

25. A — A supplemental unemployment benefit paid by a former employer, providing additional income beyond standard state unemployment compensation, is generally fully taxable as ordinary income, generally reported and treated similar to wages for tax purposes, distinct from standard state unemployment compensation, which is separately reported but also generally fully taxable under current law.

26. C — A payment received through a peer-to-peer payment app that simply reimburses a friend for a shared personal expense, such as splitting a dinner bill, is generally not taxable income, since the payment does not represent compensation for goods or services rendered, even if the payment happens to be reported on a Form 1099-K by the app.

27. B — A traditional IRA distribution made pursuant to an IRS levy against the IRA account itself is generally excepted from the 10% early distribution penalty, since the taxpayer did not voluntarily choose to take the distribution, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, since only the penalty, not the tax, is excepted here.

28. D — The portion of a scholarship used for room and board is generally fully taxable as other income, since the tax-free scholarship exclusion generally applies only to amounts used for qualified tuition and required course-related fees, books, and supplies, distinguishing that excludable portion from amounts used for a student's own general living expenses like room and board.

29. C — A disability benefit received under a policy funded entirely with after-tax premium dollars, meaning the premium was never deducted by the employer as a pretax benefit to the employee, is generally entirely tax-exempt to the recipient, a distinct general treatment from a disability benefit paid under a policy the employer funded using pretax dollars, which is generally fully taxable.

30. B — A payment received for a covenant not to compete, agreed to as part of a business sale, is generally fully taxable as ordinary income, since the payment represents compensation for the taxpayer's agreement to refrain from a specific future competing activity, distinct from the separate capital gain recognized on the sale of the underlying business assets.

31. A — A traditional IRA distribution taken while the taxpayer is totally and permanently disabled, as defined under the specific applicable statutory standard, is generally excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, since only the penalty, not the underlying tax, is excepted under this specific disability provision.

32. D — A hazard pay bonus paid to an essential frontline worker for work actually performed during a declared public health emergency is generally fully taxable as ordinary income, since the payment generally represents compensation for services rendered, rather than a nontaxable qualified disaster relief payment, which is generally reserved for reimbursement of specific personal expenses rather than compensation for work performed.

33. B — An HSA distribution used to reimburse a qualifying medical expense the taxpayer previously paid out of pocket, even in a prior tax year, is generally entirely tax-exempt, provided the taxpayer did not previously deduct that same expense elsewhere and the HSA was already established at the time the original qualifying expense was actually incurred by the taxpayer.

34. C — A life settlement sale, where a taxpayer sells an existing life insurance policy to a third-party company for more than its cash surrender value, is generally treated using a bifurcated approach, with proceeds up to cash surrender value taxed similarly to a policy surrender, and any excess proceeds treated as capital gain from the sale.

35. A — A cash bonus received for opening a new bank account is generally fully taxable as other income to the recipient, generally reported by the bank on either Form 1099-INT or Form 1099-MISC depending on how the specific bank characterizes the bonus payment, distinguishing this type of promotional bonus from a nontaxable rebate tied to an actual purchase transaction.

36. D — The earnings attributable to a timely corrected excess elective deferral are generally taxable as ordinary income in the year the corrective distribution is actually made, while the excess deferral principal amount itself is generally taxable in the original year contributed, rather than in the later year the corrective distribution occurs.

37. C — A taxpayer who is age 65 or older generally qualifies for an additional standard deduction amount added onto the base standard deduction available for the taxpayer's own filing status, and this additional amount generally increases even further if the taxpayer is also legally blind, per the applicable current-year inflation-adjusted figures.

38. A — A taxpayer's unreimbursed qualifying medical expenses are generally deductible as an itemized deduction only to the extent the total amount exceeds 7.5% of the taxpayer's adjusted gross income for the year, meaning only the expenses above that specific percentage floor actually reduce the taxpayer's own taxable income for the year.

39. D — The combined itemized deduction for state and local income, sales, and property taxes is generally subject to a $10,000 cap, meaning a taxpayer who paid more than that combined amount generally cannot deduct the excess, regardless of how much was actually paid in total state and local taxes for the year.

40. B — Interest paid on acquisition debt used to buy, build, or substantially improve a taxpayer's own qualified residence is generally fully deductible as an itemized deduction, provided the underlying debt remains within the applicable current-law principal limit, making qualified residence interest one of the more commonly claimed itemized deduction categories overall.

41. C — A cash contribution made directly to a qualified public charity is generally deductible up to 60% of the taxpayer's adjusted gross income for the year, and any contribution amount exceeding that specific percentage limitation generally may be carried forward and deducted in one of the five tax years that follow.

42. A — A qualified charitable distribution made directly from a traditional IRA to an eligible charity by a taxpayer who has reached the applicable QCD age is generally excluded from gross income up to the annual limit, and the excluded amount generally also counts toward satisfying that year's required minimum distribution, without requiring itemization.

43. B — When a taxpayer's Child Tax Credit exceeds the taxpayer's tax liability, a portion of the excess is generally refundable through the additional child tax credit, subject to specific applicable earned income thresholds and a maximum refundable dollar amount per qualifying child, rather than the entire credit being either fully refundable or fully forfeited.

44. D — The Child and Dependent Care Credit generally provides a nonrefundable credit equal to a percentage of qualifying care expenses, up to an applicable per-child dollar limit, paid so the taxpayer, and the taxpayer's spouse if married filing jointly, could work or actively look for work, with the applicable percentage generally decreasing as income rises.

45. D — The Earned Income Tax Credit is generally a fully refundable credit, meaning an eligible taxpayer generally receives the full credit amount as a refund even if it exceeds the taxpayer's total tax liability, with the specific credit amount generally varying based on earned income, filing status, and the number of qualifying children.

46. A — The American Opportunity Tax Credit generally offers a higher maximum annual credit amount than the Lifetime Learning Credit and is generally up to 40% refundable, while the Lifetime Learning Credit is generally entirely nonrefundable, though the Lifetime Learning Credit generally remains available for a broader range of education beyond the first four years.

47. B — Interest paid on a qualified student loan used to fund the taxpayer's own qualified higher education expenses is generally deductible as an above-the-line adjustment to income, available even to a taxpayer claiming the standard deduction, up to an applicable annual dollar cap, subject to phase-out as the taxpayer's modified adjusted gross income rises.

48. C — An eligible educator's unreimbursed classroom expense, such as supplies purchased for the taxpayer's own classroom, is generally deductible as an above-the-line adjustment to income up to an applicable annual dollar limit, meaning the deduction generally remains available even to a taxpayer who does not itemize and instead claims the standard deduction.

49. D — A taxpayer's own direct contribution to a health savings account, made outside of any employer payroll deduction arrangement, is generally deductible as an above-the-line adjustment to income, up to the applicable annual contribution limit, available even to a taxpayer who does not itemize and instead claims the standard deduction for the year.

50. C — When a taxpayer actively participates in an employer-sponsored retirement plan and modified adjusted gross income falls within the applicable phase-out range, the traditional IRA deduction is generally partially reduced on a sliding scale, becoming fully unavailable once income exceeds the top of that specific applicable range for the taxpayer's filing status.

51. B — A self-employed taxpayer's premiums for qualifying health insurance covering the taxpayer and the taxpayer's family are generally deductible as an above-the-line adjustment to income, limited to the taxpayer's net self-employment earnings, and available even without itemizing, provided the taxpayer is not eligible to participate in a subsidized employer-sponsored plan through either spouse's employer.

52. A — The qualified business income deduction generally allows an eligible taxpayer to deduct up to 20% of qualified business income from a qualifying sole proprietorship or other pass-through entity, taken as a below-the-line deduction available regardless of whether the taxpayer itemizes, though the deduction is generally subject to income-based limitations above the applicable threshold.

53. C — Under current law, a personal casualty loss is generally deductible as an itemized deduction only if the loss actually arose from an event the President formally declared a federal disaster, a significantly narrower rule than the broader pre-2018 standard, and the deductible amount generally remains subject to the applicable per-event and 10%-of-AGI floors.

54. B — A taxpayer's substantiated gambling losses are generally deductible as an itemized deduction only up to the amount of the taxpayer's own gambling winnings reported for the year, meaning a taxpayer with losses exceeding winnings generally cannot deduct that excess amount, and a taxpayer claiming the standard deduction generally receives no benefit from this deduction at all.

55. D — The adoption credit is generally a nonrefundable credit for qualifying adoption expenses, such as agency fees, legal costs, and other reasonable and necessary expenses, up to an applicable per-child dollar limit, and the credit is generally subject to phase-out once the taxpayer's modified adjusted gross income exceeds the applicable threshold for the year.

56. A — The Saver's Credit generally provides an eligible lower-income taxpayer a nonrefundable credit based on an applicable percentage, 50%, 20%, or 10%, of the taxpayer's own qualifying retirement contribution up to a specific applicable dollar limit, with the applicable percentage generally decreasing as the taxpayer's income rises within the applicable eligibility range.

57. D — A taxpayer who elects married filing separately generally becomes ineligible for several credits, including the standard education credits and the earned income credit, and generally faces reduced applicable limits on other provisions, such as the capital loss deduction, compared to the more favorable treatment generally available under married filing jointly status.

58. B — A gain on the sale of a capital asset held for more than one year, such as eighteen months, is generally characterized as long-term capital gain and is generally taxed at the applicable preferential 0%, 15%, or 20% rate, rather than at the taxpayer's own higher ordinary marginal income tax rate that applies to short-term gain.

59. A — Under the wash sale rule, a loss realized on the sale of stock is generally disallowed for current deduction purposes when substantially identical shares are repurchased within the 30 days before or after the sale, and the disallowed loss amount is generally added to the basis of the newly acquired replacement shares, deferring the loss.

60. C — The Net Investment Income Tax generally applies a 3.8% additional tax to the lesser of a taxpayer's net investment income or the amount by which the taxpayer's modified adjusted gross income exceeds an applicable statutory threshold based on filing status, meaning a taxpayer below that specific threshold generally owes no additional tax regardless of investment income.

61. A — The Additional Medicare Tax generally imposes an extra 0.9% tax on wages and self-employment income exceeding an applicable statutory threshold based on the taxpayer's own filing status, and this additional tax generally applies on top of, rather than instead of, the regular 1.45% Medicare tax already applicable to earned income.

62. C — The alternative minimum tax generally ensures that a taxpayer with substantial preference items and adjustments, such as certain deductions not allowed under the parallel system, still pays at least a specific minimum level of tax, computed by adding back disallowed items and applying a separate rate structure, with the taxpayer generally owing the higher of the two results.

63. D — Under the kiddie tax rules, a dependent child's net unearned income above the applicable annual threshold is generally taxed using rates generally applicable to trusts and estates, which often approximates or reflects the parent's own higher marginal rate, rather than the child's own generally lower individual rate, limiting the tax benefit of shifting investment income to a child.

64. B — Self-employment tax generally represents the self-employed taxpayer's obligation to pay both the employer and employee shares of Social Security and Medicare tax, since a self-employed individual has no separate employer to split this specific payroll tax burden with, unlike a traditional employee whose employer generally pays half of these same combined taxes.

65. B — A taxpayer generally avoids the underpayment penalty by meeting an applicable safe harbor, generally paying through withholding and timely estimated payments at least 90% of the current year's tax liability or a specified percentage of the prior year's tax liability, whichever is smaller, with a higher percentage generally required for a higher-income taxpayer.

66. D — A rental real estate loss is generally treated as a passive activity loss, deductible only against passive income, though a taxpayer who actively participates may generally deduct up to a specific limited annual amount, commonly $25,000, against nonpassive income, with that specific allowance generally phased out as the taxpayer's modified adjusted gross income rises above an applicable threshold.

67. A — A taxpayer's net capital loss is generally deductible against ordinary income only up to $3,000 per year, and any net capital loss amount exceeding that specific annual limitation generally may be carried forward indefinitely to offset capital gain, and ultimately ordinary income up to the same annual limit, in one or more future tax years.

68. C — Whether a taxpayer's Social Security benefits become taxable, and up to what percentage, generally depends on comparing the taxpayer's combined income, generally adjusted gross income plus tax-exempt interest plus half of Social Security benefits, against applicable statutory base amounts tied to filing status, with up to 85% of benefits potentially becoming taxable above the higher threshold.

69. B — Upon exercising an incentive stock option and holding the acquired shares, the bargain element, the excess of the stock's fair market value over the exercise price, is generally not taxable for regular tax purposes at exercise, but is generally included as a positive adjustment when computing alternative minimum taxable income, potentially triggering AMT liability in that year.

70. A — The taxable portion of a voluntary Roth IRA conversion, generally the pre-tax amount converted, is generally includible in the taxpayer's ordinary taxable income for the year of conversion, but the conversion itself is generally not subject to the separate 10% early distribution penalty, since the funds remain within a retirement account rather than being withdrawn.

71. C — The foreign tax credit generally allows a taxpayer to credit foreign income tax actually paid against the taxpayer's own United States federal income tax liability, generally helping to prevent the same specific item of foreign-source income from being subjected to double taxation by both the foreign country and the United States on that identical income.

72. D — Under current law, a net operating loss carryforward is generally limited to offsetting up to 80% of the taxpayer's taxable income for the carryforward year, computed before applying the net operating loss deduction itself, and the loss generally may be carried forward indefinitely, rather than expiring after a fixed specific number of years.

73. C — The Qualified Dividends and Capital Gain Tax Worksheet generally ensures that a taxpayer's ordinary taxable income is taxed using the applicable ordinary income tax rate schedule, while the qualified dividend and net long-term capital gain portion of income is separately computed and taxed at the applicable preferential 0%, 15%, or 20% rate, rather than blending the two.

74. D — A taxpayer generally must make quarterly estimated tax payments if the taxpayer expects to owe at least a specific applicable minimum amount in tax after subtracting withholding, and the taxpayer's withholding alone is not expected to satisfy the applicable safe harbor percentage of either the current or prior year's tax liability, regardless of whether the taxpayer is self-employed.

75. B — Proactive advisory guidance generally allows a taxpayer to understand the applicable tax and potential early distribution penalty consequences of a contemplated retirement withdrawal before acting, helping the taxpayer make a more informed decision and potentially avoid an unnecessary tax cost, consistent with a preparer's general role in serving the client's broader financial interests.

76. A — A preparer would generally discuss how a traditional IRA distribution is generally taxable as ordinary income while a qualified Roth IRA distribution is generally tax-free, how required minimum distributions apply differently to each, and how the taxpayer's own current versus expected future tax bracket generally informs which account to draw down first for tax efficiency.

77. B — Bunching charitable contributions into a single tax year generally allows a taxpayer's total itemized deductions to exceed the standard deduction in that specific bunched year, while the taxpayer generally claims the standard deduction in the intervening years, potentially generally maximizing the taxpayer's total combined tax benefit compared to giving the same total amount evenly each year.

78. C — Converting a traditional IRA to a Roth IRA during a specific low-income year generally allows the taxpayer to recognize the taxable conversion amount while in a generally lower marginal tax bracket than might otherwise apply, potentially generally reducing the overall tax cost of the conversion compared to converting during a higher-income year.

79. A — Gifting appreciated stock directly, rather than selling it and gifting the cash proceeds, generally allows the recipient to eventually sell the stock and recognize the built-in gain at the recipient's own generally lower applicable capital gain tax rate, rather than the donor recognizing and paying tax on that same gain first at the donor's own higher rate.

80. D — A preparer would generally advise the taxpayer that filing status is generally determined by the taxpayer's marital status as of December 31 of the tax year, and would generally recommend modeling the taxpayer's expected tax outcome under the applicable resulting filing status, since a life change like a finalized divorce can generally affect eligibility for several income-based tax benefits.

81. C — A preparer would generally explain that maximizing pretax contributions to an employer-sponsored retirement plan generally reduces the taxpayer's current-year taxable income dollar for dollar by the contributed amount, which can generally lower the taxpayer's effective marginal tax bracket in a specific high-income year, while the contribution and its earnings generally continue growing tax-deferred until withdrawal.

82. A — A preparer would generally raise the consideration that a large one-time capital gain generally increases the taxpayer's combined income figure used to determine Social Security benefit taxability, potentially causing a larger percentage, up to 85%, of the taxpayer's Social Security benefits to become taxable for that specific year, an effect the taxpayer may want to plan around.

83. B — A preparer would generally advise a taxpayer who starts a new consulting side business while remaining a W-2 employee to either increase wage withholding through an updated Form W-4 or begin making quarterly estimated tax payments, since the additional self-employment income generally is not otherwise covered by the taxpayer's existing wage withholding and could otherwise trigger an underpayment penalty.

84. D — A preparer would generally identify the comparison between the mortgage's own effective after-tax interest cost, considering whether the taxpayer actually itemizes and benefits from the mortgage interest deduction, against the taxpayer's own reasonably expected after-tax investment return, as the most relevant general factor in weighing early mortgage payoff against investing the same available funds instead.

85. D — A preparer would generally explain that funds contributed to a 529 education savings plan generally grow tax-deferred, and that a qualified withdrawal used for the beneficiary's own qualified education expenses is generally entirely tax-free, an advantage that gifting cash directly, without the tax-advantaged wrapper, generally does not provide, even though the federal contribution itself is generally not deductible.

86. A — A preparer would generally explain that under current law, interest on a home equity loan is generally deductible as qualified residence interest only if the loan proceeds were actually used to buy, build, or substantially improve the specific home securing that loan, meaning interest on funds used instead to pay off unrelated credit card debt is generally not deductible.

87. B — A preparer would generally explain that recognizing an investment loss before year-end, tax-loss harvesting, generally allows the taxpayer to offset other realized capital gains for the year, and potentially up to $3,000 of ordinary income if losses exceed gains, generally reducing the taxpayer's overall current-year tax liability, provided the taxpayer avoids triggering the wash sale rule on any repurchase.

88. C — A decedent's final individual income tax return generally must be filed reporting all income actually received from January 1 through the specific date of death, using the decedent's normal method of accounting, with the return generally filed by the decedent's surviving spouse, executor, or other personal representative on the decedent's behalf.

89. D — When a trust distributes its current-year income to its beneficiaries, the trust generally receives a distribution deduction, and the distributed income generally becomes taxable to the beneficiaries who actually received it, rather than to the trust itself, consistent with the general conduit principle that governs how a simple trust's income is generally taxed.

90. C — A nonresident alien with United States-source income generally files Form 1040-NR, the specific return designed for reporting income subject to United States federal income tax, which generally applies different rules than the standard Form 1040, including generally limited deduction and credit eligibility compared to a United States citizen or resident alien taxpayer.

91. A — A partner's distributive share of partnership income, as reported on Schedule K-1, is generally taxable to that individual partner in the year the partnership actually earns the income, regardless of whether the partnership actually distributes any corresponding cash to the partner that year, consistent with a partnership's general treatment as a pass-through entity rather than a taxpaying entity itself.

92. B — An S corporation shareholder's pro rata share of the corporation's income, as reported on Schedule K-1, is generally taxable to that individual shareholder in the year earned, passed through to the shareholder's own individual return in a manner similar to a partnership, rather than being taxed at the entity level, since an S corporation is generally itself a pass-through entity.

93. B — Household employment tax obligations, commonly called the nanny tax, are generally reported using Schedule H, attached to the household employer's own individual Form 1040, generally covering the employer's share of Social Security and Medicare tax, along with any applicable federal unemployment tax, once wages paid to a household employee exceed the applicable annual dollar threshold.

94. D — A qualifying taxpayer whose tax home and abode are in a foreign country generally may elect to exclude a specific applicable amount of foreign earned income from United States gross income under the foreign earned income exclusion, provided the taxpayer satisfies either the bona fide residence test or the physical presence test for the applicable tax year.

95. C — A taxpayer generally must file Form 1040-X to claim a refund within three years from the date the original return was actually filed, or within two years from the date the tax was actually paid, whichever of these two specific measuring dates is later, consistent with the general refund claim statute of limitations applicable to an individual income tax return.

96. A — A Uniform Transfers to Minors Act account is generally treated as the property of the minor child, even though a custodial parent generally maintains legal control over the account, so the child's own taxpayer identification number is generally used to report the account's investment income, which may then generally be subject to the kiddie tax rules discussed under Domain 4.

97. A — A single-member limited liability company is generally treated as a disregarded entity for federal income tax purposes by default, absent an affirmative election to be taxed as a corporation, meaning the LLC's own business income and expenses are generally reported directly on the individual owner's own Schedule C, attached to that owner's individual Form 1040.

98. B — Under the grantor trust rules, when a taxpayer retains specific powers over a trust the taxpayer personally established, such as the power to revoke, the trust's own income is generally taxable directly to the taxpayer-grantor personally, rather than to the trust or its eventual beneficiaries, since the grantor is treated as the owner of the trust's assets.

99. C — An individual taxpayer generally reports rental real estate income and related expenses on Schedule E, the specific schedule also generally used to report royalty income and an individual's own pass-through share of partnership or S corporation income, distinguishing this generally passive activity reporting from the Schedule C generally used for an active self-employment trade or business.

100. D — A taxpayer whose spouse died during one of the two preceding tax years, and who maintains a household for a dependent child, generally may use the qualifying surviving spouse filing status for up to two years following the year of death, generally applying the same favorable tax rate schedule and standard deduction amount that applies under married filing jointly status.