PRACTICE EXAM 16: 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 W-2 showing withheld federal income tax that appears unusually high relative to the client's reported wages for the year. What is the preparer's generally recommended approach to this specific discrepancy?

A. Generally verify the figures with the client and, if warranted, contact the employer or review the client's own pay stubs before relying on the form as presented
B. Generally accept the form exactly as presented without any further verification, since an employer-issued Form W-2 is generally presumed accurate in every case
C. Generally reduce the reported withholding amount by half automatically, assuming a clerical error occurred regardless of any further investigation into the actual figures
D. Generally refuse to prepare the return at all until the employer issues a corrected form, even where the client could simply confirm the figures directly

2. A preparer's client asks about the general retention period for copies of a client's own filed tax return and supporting workpapers maintained by the preparer's own office. What is the general recommended retention practice?

A. Generally recommends discarding all client records immediately after each return is actually filed and accepted, since no retention obligation applies to a preparer's own office
B. Generally recommends retaining records for exactly thirty days only, rather than for any longer period tied to the applicable statute of limitations
C. Generally recommends retaining records indefinitely without any defined period, since no general best-practice guideline exists regarding a preparer's own recordkeeping

D. Generally recommends retaining copies of filed returns and key supporting workpapers for at least the applicable statute of limitations period, generally three years, though often longer as a best practice

3. A preparer's new client previously self-prepared returns and now asks the preparer to review the client's last two prior-year returns before preparing the current year. What is the general value of this specific prior-year review?

A. Generally provides no value at all, since a preparer's review should generally be limited strictly to the current tax year with no reference to prior years

B. Generally obligates the preparer to amend both prior-year returns automatically, regardless of whether either return actually contained any identifiable error

C. Generally allows the preparer to identify carryovers, consistency issues, or missed items that could affect the current-year return before it is actually prepared

D. Generally is prohibited under Circular 230, since a preparer is generally not permitted to review a return the preparer did not personally prepare

4. A preparer's client asks whether the preparer generally must verify a dependent's Social Security number before claiming that dependent on the client's return. What is the general answer to this specific verification question?

A. Generally no; a preparer generally may rely entirely on the client's own verbal statement of a dependent's Social Security number without ever reviewing any document

B. Generally yes; a preparer generally should verify the dependent's Social Security number against a reliable source document, since an incorrect number can generally cause the return to be rejected or flagged

C. Generally yes, but only if the dependent is actually claimed for the child tax credit, with no similar verification obligation applying to any other dependent

D. Generally no; Social Security number verification is generally considered the sole responsibility of the IRS, rather than any responsibility belonging to the preparer

5. A preparer's client asks about the general purpose of Form 2848, Power of Attorney and Declaration of Representative. What is the general purpose this specific form generally serves for a preparer?

A. Generally authorizes a preparer to actually sign and file the client's own return without the client's own separate signature or authorization ever being required

B. Generally serves no actual practical purpose at all, existing only as an optional cosmetic form with no genuine effect on a preparer's representation authority

C. Generally authorizes the client to represent the preparer before the IRS, the exact reverse of the form's actual general purpose and function

D. Generally authorizes a preparer to represent the client before the IRS, including receiving confidential tax information and engaging in discussions on the client's behalf

6. A preparer's client asks whether the preparer generally has an obligation to inform the client of a substantial understatement of tax discovered on a prior-year return the preparer did not originally prepare. What is the general answer to this specific question?

A. Generally no; a preparer generally has no obligation at all to mention any error found on a return the preparer did not personally prepare

B. Generally yes; a preparer generally must advise the client of the error and the consequences of not correcting it, though the preparer generally is not required to notify the IRS directly

C. Generally yes; a preparer generally must immediately notify the IRS directly of the error, regardless of whether the client actually wishes to correct it

D. Generally no; discussing a prior preparer's error is generally considered a form of unauthorized practice, regardless of the preparer's own specific professional credential

7. A preparer's client asks about the general difference between an IRS notice and an IRS audit in the context of a discrepancy on a previously filed return. What is the general distinction between these two specific types of IRS contact?

A. A notice generally addresses a specific identified discrepancy, often resolved through correspondence, while a full audit generally involves a broader examination of the return's overall accuracy

B. A notice and a full audit are generally functionally identical events in every respect, with no meaningful distinction between the two types of IRS contact

C. A full audit generally addresses only a minor computational error, while a notice generally involves the broadest and most comprehensive examination of an entire return

D. A notice generally results automatically in criminal prosecution, while a full audit generally results only in a simple correspondence exchange with no further consequence

8. A preparer's client asks whether a preparer generally must sign the client's return as the paid preparer even if the client ultimately files the return without the preparer's assistance. What is the general answer to this specific question?

A. Generally yes; a preparer generally must sign every return the preparer ever reviews in any capacity, regardless of whether the preparer actually prepared that return

B. Generally yes, but only if the client actually pays the preparer's full standard fee, with no similar signature obligation applying to a reduced-fee engagement

C. Generally no; a preparer generally signs only a return the preparer actually prepared for compensation, and generally should not sign a return the preparer did not actually prepare

D. Generally no; signature requirements generally apply only to a CPA or attorney, with an Enrolled Agent generally being entirely exempt from any signature obligation

9. A preparer's client asks about the general purpose of Form 8821, Tax Information Authorization, compared to Form 2848. What is the general distinction between these two specific IRS authorization forms?

A. Form 8821 and Form 2848 are generally functionally identical forms in every respect, with no meaningful distinction between the two specific authorization documents

B. Form 8821 generally grants full representation authority before the IRS, while Form 2848 generally grants only the narrower authority to receive information

C. Form 8821 generally applies only to a business entity, while Form 2848 generally applies only to an individual taxpayer, based strictly on entity type

D. Form 8821 generally authorizes a designee to receive confidential tax information only, without granting the broader representation authority that Form 2848 generally grants

10. A preparer's client asks whether the preparer generally has an obligation to keep the client's personal information secure, including electronic files containing Social Security numbers and financial data. What is the general answer to this specific question?

A. Generally no; a preparer generally has no obligation at all to protect client information, since data security is generally considered solely the client's own responsibility

B. Generally yes; a preparer generally must implement reasonable safeguards to protect client information, consistent with applicable data security and privacy standards for a tax professional

C. Generally yes, but only for a client whose return actually results in a refund, with no similar obligation applying to a client owing additional tax

D. Generally no; data security obligations generally apply only to a financial institution, with a tax preparer generally being entirely exempt from any such standard

11. A preparer's client asks whether the preparer generally must obtain a signed disclosure consent from the client before sharing the client's tax return information with a third-party financial planner at the client's request. What is the general answer to this specific question?

A. Generally yes; a preparer generally must obtain the client's written consent under applicable disclosure rules before sharing tax return information with a non-IRS third party

B. Generally no; a preparer generally may share any client information freely with any third party without ever obtaining the client's own written consent first

C. Generally yes, but only if the third party is actually another tax preparer, with no similar consent requirement applying to any other type of professional

D. Generally no; disclosure consent requirements generally apply only to a CPA firm, with an Enrolled Agent generally being entirely exempt from this specific requirement

12. A preparer's client asks about the general purpose of the IRS Taxpayer Advocate Service in the context of an unresolved account issue. What is the general purpose this specific independent organization generally serves for a taxpayer?

A. Generally serves exclusively as a taxpayer's own personal legal representative in a criminal tax proceeding, rather than as any type of administrative assistance resource

B. Generally serves no actual practical purpose at all for a taxpayer, existing only as a purely informational website with no functional casework capability

C. Generally serves exclusively as a private third-party mediation service entirely unaffiliated with the IRS, rather than as any form of internal IRS resource

D. Generally provides an independent channel within the IRS to help a taxpayer resolve a problem not resolved through normal channels, particularly where the taxpayer faces significant hardship

13. A preparer's client asks whether the preparer generally must maintain professional liability insurance, commonly called errors and omissions coverage. What is the general recommended best practice regarding this specific type of coverage?

A. Generally, professional liability insurance is generally legally required in every jurisdiction for every paid preparer, with no exception applying under any circumstance

B. Generally, professional liability insurance generally provides no meaningful protection at all, since a preparer generally cannot be held liable for any preparation error

C. Generally, while not always legally mandated, maintaining professional liability insurance is generally recommended as a best practice to protect the preparer against a potential claim of error

D. Generally, professional liability insurance is generally relevant only to an attorney, with a preparer holding any other credential generally facing no similar exposure

14. A preparer's client asks whether the preparer generally must inquire about a client's virtual currency transactions when preparing the client's individual income tax return. What is the general answer to this specific question?

A. Generally no; a preparer generally has no obligation at all to ask about virtual currency, since such transactions are generally treated as entirely nontaxable under current law

B. Generally yes; a preparer generally should ask the client about any virtual currency activity, since such transactions generally can trigger taxable events requiring accurate reporting on the return

C. Generally yes, but only if the client actually volunteers the information first, with no independent inquiry obligation resting on the preparer in any other circumstance

D. Generally no; virtual currency inquiry obligations generally apply only to a CPA, with an Enrolled Agent generally being entirely exempt from this specific due diligence step

15. A preparer's client asks whether the preparer generally has a duty to correct a client's own material misstatement discovered during the engagement, such as an inflated business expense deduction the client insists on claiming. What is the general answer to this specific question?

A. Generally yes; a preparer generally must advise the client the position is unsupportable and generally should decline to sign or file the return if the client insists on the misstatement

B. Generally no; a preparer generally must claim any deduction the client requests regardless of whether the preparer believes the deduction is actually supportable under the facts

C. Generally yes, but only if the misstated deduction actually exceeds a specific fixed dollar threshold, with a smaller misstatement generally requiring no preparer action at all
D. Generally no; correcting a client's own misstatement is generally considered a form of unauthorized legal advice, regardless of the preparer's own specific professional credential

16. A preparer's client asks about the general effect of the IRS's automated underreporter program on a return that omits a specific item of income reported to the IRS by a third party, such as a brokerage. What is the general effect of this specific program?

A. Generally, the program generally has no actual effect on any filed return, existing only as an internal IRS recordkeeping system with no notice-generating function
B. Generally, the program generally results automatically in a full field audit of the return, rather than in any simpler correspondence-based notice being issued first
C. Generally, the program generally matches third-party reported information against the filed return and generally issues a notice, such as a CP2000, when a discrepancy is actually detected
D. Generally, the program generally applies only to a business return, with an individual taxpayer's own return generally being entirely exempt from this specific matching process

17. A taxpayer's total income includes a bonus paid by an employer specifically tied to the taxpayer's individual sales performance for the year, paid through the normal payroll system. How is this specific sales performance bonus generally treated?

A. Generally fully taxable as ordinary wage income, subject to regular income tax withholding and employment tax in the same manner as the taxpayer's other regular wages
B. Generally entirely tax-exempt, since a performance-based bonus is generally treated as a nontaxable gift from the employer rather than as any form of taxable compensation
C. Generally taxable only at a specific reduced flat 10% rate reserved specifically for a performance bonus, rather than at the taxpayer's own ordinary wage rate
D. Generally treated as self-employment income, subjecting the bonus to self-employment tax rather than to the regular payroll withholding that generally applies to wages

18. A taxpayer's total income includes interest earned on a series of municipal bonds issued by the taxpayer's own state of residence. How is this specific municipal bond interest generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary interest income for federal purposes, exactly the same treatment that generally applies to interest earned on a corporate bond

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

C. Generally treated as a qualified dividend eligible for the preferential capital gain rate, rather than as any form of interest income for tax purposes

D. Generally excluded from federal taxable income, since interest on a qualifying municipal bond is generally exempt from federal income tax, though it may still be reportable

19. A taxpayer's total income includes a payment received from a former employer as severance pay following an involuntary layoff. How is this specific severance payment generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since severance pay following an involuntary layoff is generally treated as a nontaxable form of unemployment-related compensation under current law

B. Generally taxable only at a specific reduced flat 10% rate reserved specifically for severance pay, rather than at the taxpayer's own ordinary wage tax rate

C. Generally fully taxable as ordinary wage income, subject to regular income tax withholding and employment tax, in the same general manner as the taxpayer's other regular wages

D. Generally treated as self-employment income, subjecting the severance payment to self-employment tax rather than to the regular payroll withholding that generally applies to wages

20. A taxpayer's total income includes a distribution received from a traditional pension plan upon reaching normal retirement age, funded entirely with pretax employer and employee contributions. How is this specific pension distribution generally treated?

A. Generally entirely tax-exempt, since a pension distribution received at normal retirement age is generally treated as a nontaxable return of the employee's own contributions

B. Generally fully taxable as ordinary income in the year actually received, since the distribution generally represents a payout of previously untaxed pretax contributions and earnings

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

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

21. A taxpayer's total income includes a cash gift received from a parent during the year, well under the applicable annual gift tax exclusion amount. How is this specific cash gift generally treated for the recipient's own federal income tax purposes?

A. Generally fully taxable as ordinary income to the recipient, exactly the same treatment that generally applies to compensation received for an actual service performed
B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a cash gift under current federal tax law, rather than being entirely excluded
C. Generally not includible in the recipient's gross income, since a bona fide gift is generally excluded from the recipient's taxable income regardless of the specific amount received
D. Generally treated as self-employment income, subjecting the cash gift to self-employment tax in addition to any regular income tax that might otherwise apply

22. A taxpayer's total income includes a payment received from a landlord as compensation for the taxpayer's early termination of a residential lease the taxpayer had signed as tenant. How is this specific lease termination payment generally treated for the tenant-recipient?

A. Generally entirely tax-exempt, since a lease termination payment received by a tenant is generally treated identically to a nontaxable security deposit refund under current law
B. Generally fully taxable as other income, since the payment generally compensates the tenant for relinquishing a contractual right rather than representing any form of nontaxable gift
C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a lease termination payment under current federal tax law, rather than at ordinary rates
D. Generally treated as self-employment income, subjecting the lease termination payment to self-employment tax in addition to any regular income tax that might otherwise apply

23. A taxpayer's total income includes a payment received from a class action lawsuit settlement, specifically compensating the taxpayer for a defective consumer product that caused no personal physical injury. How is this specific settlement payment generally treated?

A. Generally fully taxable as ordinary income, since a settlement compensating for economic loss on a defective product, without any personal physical injury, is generally not excludable from gross income

B. Generally entirely tax-exempt, since any class action settlement payment is generally treated identically to a settlement for personal physical injury or physical sickness

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

D. Generally treated as a nontaxable gift from the settling defendant, rather than as any form of currently taxable compensation for the underlying economic loss

24. A taxpayer's total income includes a distribution received from a 457 deferred compensation plan sponsored by the taxpayer's state and local government employer, taken after separating from service. How is this specific 457 plan distribution generally treated regarding the 10% early distribution penalty?

A. Generally subject to the full 10% early distribution penalty in every case, exactly the same treatment that generally applies to an early distribution from a traditional 401(k) plan

B. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a 457 plan distribution is generally excluded from taxable income altogether under current law

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

D. Generally not subject to the 10% early distribution penalty, since a governmental 457 plan distribution taken after separation from service is generally excepted from that specific penalty, though the distribution remains taxable

25. A taxpayer's total income includes a payment received as a jury duty fee from a local court, which the taxpayer's employer required the taxpayer to remit to the employer since the employer continued paying the taxpayer's full regular salary during the jury service. How is this arrangement generally treated?

A. Generally, the jury duty fee is generally entirely excluded from the taxpayer's gross income, with no offsetting deduction of any kind required or available

B. Generally, the jury duty fee is generally taxable, but no offsetting deduction is generally available for the amount the taxpayer actually remitted to the employer

C. Generally, the jury duty fee is generally included in the taxpayer's gross income, with an offsetting above-the-line deduction generally available for the specific amount remitted to the employer

D. Generally, the jury duty fee is generally treated as self-employment income, subjecting the fee to self-employment tax regardless of the amount remitted to the employer

26. A taxpayer's total income includes a payment received from a former employer for unused accrued vacation time, paid out in a lump sum upon the taxpayer's voluntary resignation. How is this specific accrued vacation payout generally treated?

A. Generally entirely tax-exempt, since a lump-sum accrued vacation payout is generally treated as a nontaxable return of the employee's own previously earned time off

B. Generally taxable only at a specific reduced flat 10% rate reserved specifically for an accrued vacation payout, rather than at the taxpayer's own ordinary wage rate

C. Generally treated as self-employment income, subjecting the accrued vacation payout to self-employment tax rather than to the regular payroll withholding that generally applies to wages

D. Generally fully taxable as ordinary wage income, subject to regular income tax withholding and employment tax, in the same general manner as the taxpayer's other regular wages

27. A taxpayer's total income includes a distribution from a traditional IRA taken to pay for the taxpayer's own qualified higher education expenses at an eligible institution. How is this specific distribution generally treated regarding the 10% early distribution penalty?

A. Generally excepted from the 10% early distribution penalty under the specific qualified higher education expense 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 used for qualified higher education expenses is generally excluded from taxable income altogether

C. Generally still subject to the full 10% early distribution penalty in every case, since the specific education expense exception generally applies only to a Roth IRA, not a traditional 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 qualifying education expenses

28. A taxpayer's total income includes rent received from a family member occupying the taxpayer's second home at a rate substantially below the property's actual fair rental value. What is the general effect of this below-market rental arrangement on the taxpayer's deductible rental expenses?

A. Generally, the property remains fully treated as a genuine rental property in every respect, and the taxpayer's rental expenses generally remain fully deductible without any limitation

B. Generally, the property is generally treated as a personal residence rather than a genuine rental property, and the taxpayer's deductible expenses are generally limited to the amount of rental income actually reported

C. Generally, the below-market rent generally has no effect at all on either the taxpayer's rental income reporting or the deductibility of the taxpayer's associated rental expenses

D. Generally, the below-market rent generally converts the arrangement into a nontaxable gift transaction, requiring the taxpayer to report no rental income at all for the year

29. A taxpayer's total income includes a payment received from an employer as a signing bonus for accepting a new job offer, paid before the taxpayer actually begins work. How is this specific signing bonus generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since a signing bonus paid before the taxpayer actually begins work is generally treated as a nontaxable gift from the new employer

B. Generally fully taxable as ordinary wage income in the year actually received, subject to regular income tax withholding and employment tax in the same manner as regular wages

C. Generally taxable only at a specific reduced flat 10% rate reserved specifically for a signing bonus, rather than at the taxpayer's own ordinary wage tax rate

D. Generally treated as self-employment income, subjecting the signing bonus to self-employment tax rather than to the regular payroll withholding that generally applies to wages

30. A taxpayer's total income includes a distribution received from a SIMPLE IRA within the first two years of participation, taken at age 45 without qualifying for any specific penalty exception. How is this specific early SIMPLE IRA distribution generally treated regarding the early distribution penalty?

A. Generally subject to the standard 10% early distribution penalty, the same specific penalty rate that generally applies to an early distribution from a traditional IRA at any time

B. Generally entirely excepted from any early distribution penalty at all, since a SIMPLE IRA distribution is generally treated more favorably than a traditional IRA distribution

C. Generally subject to a heightened 25% early distribution penalty, rather than the standard 10% penalty, since the distribution occurred within the first two years of the taxpayer's own participation

D. Generally subject to no penalty at all, but the distribution itself is generally entirely tax-exempt regardless of the taxpayer's own age at the time of distribution

31. A taxpayer's total income includes a payment received from a crowdfunding campaign the taxpayer organized to cover the taxpayer's own unexpected medical expenses, where contributors received nothing of value in return and acted out of detached generosity. How are these specific crowdfunding contributions generally treated?

A. Generally not taxable income to the recipient, since a contribution made without any expectation of a return benefit and out of detached generosity is generally treated as a nontaxable gift

B. Generally fully taxable as ordinary income to the recipient in the year actually received, exactly the same treatment that generally applies to compensation for an actual service

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for crowdfunding proceeds under current federal tax law, rather than being entirely excluded

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

32. A taxpayer's total income includes a distribution received from a nonqualified deferred compensation plan, paid according to a fixed schedule the taxpayer irrevocably elected years earlier while still actively employed. How is this specific nonqualified deferred compensation distribution generally treated?

A. Generally entirely tax-exempt, since a nonqualified deferred compensation distribution is generally treated as a nontaxable return of the taxpayer's own already-taxed compensation

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

C. Generally treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to the sale of an appreciated capital asset

D. Generally fully taxable as ordinary income in the year actually received according to the taxpayer's own irrevocable election, since the compensation was never previously subject to federal income tax

33. A taxpayer's total income includes a payment received from an insurance company as a return of premium under a term life insurance policy that expired without a death benefit claim, where the policy included a specific return-of-premium rider. How is this specific return-of-premium payment generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a life insurance death benefit paid to a beneficiary upon the insured's own actual death

B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a return-of-premium payment under current federal tax law, rather than being entirely excluded

C. Generally not taxable income, since the payment generally represents a nontaxable return of the taxpayer's own previously paid, nondeductible premium dollars, rather than any form of investment gain

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

34. A taxpayer's total income includes a distribution received from a qualified tuition program, a 529 plan, used entirely to pay for the beneficiary's own qualifying elementary and secondary school tuition, within the applicable annual limit for that specific purpose. How is this specific distribution generally treated?

A. Generally fully taxable as ordinary income, since the tax-free 529 plan exclusion is generally limited exclusively to qualifying postsecondary higher education expenses under current law

B. Generally taxable only as to 50% of the distribution amount, with the remaining 50% generally treated as an entirely tax-exempt qualifying education expense distribution

C. Generally treated as self-employment income, subjecting the 529 plan distribution to self-employment tax in addition to any regular income tax that might otherwise apply

D. Generally entirely tax-exempt, since a 529 plan distribution used for qualifying elementary or secondary school tuition, within the applicable annual limit, is generally treated as a qualified education expense

35. A taxpayer's total income includes a payment received from a former spouse as a property settlement in connection with the taxpayer's divorce, specifically an equalizing cash payment tied to the division of marital property rather than to spousal support. How is this specific property settlement payment generally treated?

A. Generally not taxable income to the recipient, since a genuine property settlement payment made incident to divorce is generally treated as a nontaxable transfer between spouses rather than as income

B. Generally fully taxable as ordinary income to the recipient, exactly the same treatment that generally applies to a spousal support or alimony payment received under current law

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a property settlement payment under current federal tax law, rather than being entirely excluded

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

36. A taxpayer's total income includes a payment received from a state as a one-time general welfare relief payment issued broadly to qualifying lower-income residents based on financial need, unrelated to any specific disaster declaration. How is this specific general welfare payment generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a hazard pay bonus paid for actual work performed by an essential worker
B. Generally not taxable income under the general welfare exclusion, provided the payment is based on individual or family need and is not compensation for services rendered
C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a general welfare payment under current federal tax law, rather than being entirely excluded
D. Generally treated as self-employment income, subjecting the general welfare payment to self-employment tax in addition to any regular income tax that might otherwise apply

37. A taxpayer itemizes deductions and paid points to obtain a mortgage used to purchase the taxpayer's own primary residence, with the points representing prepaid interest under the applicable general rules. How are these specific mortgage points generally treated?

A. Generally deductible in full in the year paid, provided the loan is used to buy or build the taxpayer's own primary residence and the points meet applicable requirements
B. Generally deductible only over the full life of the loan, with no portion ever deductible immediately in the specific year the points were actually paid
C. Generally entirely nondeductible under current law, since mortgage points are generally treated as a nondeductible personal closing cost regardless of the loan's purpose
D. Generally deductible only at a specific reduced flat 50% rate of the points actually paid, rather than being potentially fully deductible in the year paid

38. A taxpayer itemizes deductions and paid tax preparation fees, safe deposit box fees, and investment advisory fees during the year. What is the general current-law treatment of these specific miscellaneous itemized deductions?

A. Generally fully deductible without any limitation at all, since current law generally eliminated the 2%-of-adjusted-gross-income floor that previously applied to these specific expenses
B. Generally deductible only above a 10%-of-adjusted-gross-income floor, a higher floor than the specific 2% floor that generally applied under the prior general rule
C. Generally deductible as an above-the-line adjustment to income, rather than continuing to be treated as any form of itemized deduction under current law
D. Generally entirely suspended and nondeductible under current law, since the miscellaneous itemized deduction subject to the 2%-of-adjusted-gross-income floor is generally not allowed for these years

39. A taxpayer contributed appreciated stock held for more than one year directly to a qualified public charity, rather than contributing cash. What is the general adjusted gross income percentage limitation applicable to this specific type of appreciated property contribution?

A. Generally limited to the same higher 60% of adjusted gross income that generally applies to a cash contribution made directly to a qualified public charity
B. Generally subject to no percentage limitation at all, meaning the entire appreciated stock contribution amount is always fully deductible regardless of the taxpayer's own income
C. Generally limited to 30% 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

40. A taxpayer pays qualified long-term care insurance premiums for the taxpayer's own coverage, and itemizes deductions for the year. What is the general treatment of these specific premiums under the medical expense deduction?

A. Generally entirely nondeductible under current law, since a long-term care insurance premium is generally treated as a nondeductible personal insurance expense regardless of the taxpayer's age
B. Generally deductible as a qualifying medical expense, subject to an age-based dollar limit on the includible premium amount, combined with the taxpayer's other medical expenses above the 7.5% floor
C. Generally deductible in an unlimited amount with no applicable age-based dollar limit capping the specific premium amount a taxpayer may generally include as a medical expense
D. Generally deductible only as an above-the-line adjustment to income, rather than as any form of itemized medical expense subject to the 7.5% floor

41. A taxpayer claims a dependent who does not qualify as a qualifying child but does meet the requirements to be a qualifying relative, such as an elderly parent the taxpayer financially supports. What credit generally becomes available for this specific type of dependent?

A. Generally the Credit for Other Dependents, a nonrefundable credit available for a qualifying dependent who does not meet the requirements for the Child Tax Credit itself
B. Generally the same fully refundable Child Tax Credit that applies to a qualifying child, since both types of dependent generally qualify for identical credit treatment
C. Generally no credit at all is available for this type of dependent, since only a qualifying child under the specific applicable age limit ever generates any credit
D. Generally the Earned Income Tax Credit, rather than any form of dependent-based credit, becomes the specific credit available for this type of qualifying relative dependent

42. A taxpayer paid interest on a loan used to purchase taxable investment property, generating investment interest expense for the year, and the taxpayer itemizes deductions. What is the general limitation on deducting this specific investment interest expense?

A. Generally subject to no limitation at all, meaning the entire investment interest expense amount is always fully deductible regardless of the taxpayer's own net investment income
B. Generally limited to the taxpayer's net investment income for the year, with any excess investment interest expense generally eligible to be carried forward to a future tax year
C. Generally limited to a flat dollar cap of $10,000 per year, rather than to any limitation tied to the taxpayer's own actual net investment income
D. Generally entirely nondeductible under current law, since investment interest expense was generally eliminated in full as an itemized deduction category for every taxpayer

43. A taxpayer pays premiums for qualifying health insurance coverage purchased through a state or federal Health Insurance Marketplace, and the taxpayer's household income falls within the applicable eligibility range. What is the general nature of the Premium Tax Credit available for this specific coverage?

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 a refundable credit, generally available in advance to reduce the taxpayer's monthly premium payment, and reconciled against the taxpayer's actual household income when the return is filed

D. Generally available only to a taxpayer who is self-employed, with any employed taxpayer generally being entirely ineligible for this specific health coverage credit

44. A taxpayer pays for care of an incapacitated spouse who is physically or mentally incapable of self-care, enabling the taxpayer to work, structured similarly to a qualifying childcare arrangement. What is the general treatment of this specific spousal care expense?

A. Generally never qualifies for any credit at all, since the Child and Dependent Care Credit generally applies exclusively to the care of a qualifying child under a specific age

B. Generally qualifies only for an itemized medical expense deduction, rather than for any form of tax credit, regardless of whether the arrangement enabled the taxpayer to work

C. Generally qualifies automatically for the Earned Income Tax Credit, rather than for the Child and Dependent Care Credit, based specifically on the spousal caregiving arrangement

D. Generally may qualify for the Child and Dependent Care Credit, since a spouse incapable of self-care generally can be treated as a qualifying individual for this specific credit

45. A taxpayer donated used clothing and household goods in good condition to a qualified charitable thrift store during the year, claiming a noncash itemized charitable deduction for the items' fair market value. What is the general substantiation requirement once the total noncash contribution exceeds $500 for the year?

A. Generally requires no additional substantiation at all beyond a simple receipt, regardless of how large the total noncash contribution amount actually becomes during the year

B. Generally requires the taxpayer to obtain a qualified independent appraisal for every single noncash item donated, regardless of each specific item's own individual value

C. Generally requires the taxpayer to complete and attach Form 8283, providing additional detail about the donated property beyond the receipt generally required for a smaller contribution

D. Generally requires the taxpayer to report the noncash contribution as taxable income first, before then separately claiming an offsetting itemized charitable deduction for the same amount

46. A taxpayer's dependent child attends a qualifying private K-12 school, and the taxpayer asks whether any federal income tax credit or deduction generally applies to the tuition paid for that specific type of education. What is the general answer to this specific question?

A. Generally, the American Opportunity Tax Credit generally applies fully to K-12 private school tuition, exactly the same treatment that generally applies to qualifying postsecondary tuition
B. Generally, the Lifetime Learning Credit generally applies fully to K-12 private school tuition, exactly the same treatment that generally applies to qualifying postsecondary tuition
C. Generally, K-12 private school tuition generally qualifies for the same Child and Dependent Care Credit that generally applies to a qualifying daycare expense
D. Generally, no federal income tax credit or deduction is generally available for K-12 private school tuition itself, though a 529 plan distribution may generally be used for this specific purpose

47. A taxpayer paid interest on a loan used to purchase a boat that qualifies as the taxpayer's second home under the applicable sleeping, cooking, and toilet facility requirements. How is this specific boat-loan interest generally treated for itemized deduction purposes?

A. Generally deductible as qualified residence interest, provided the boat meets the applicable second-home requirements and the combined acquisition debt stays within the applicable overall principal limit
B. Generally entirely nondeductible under current law, since interest on a loan used to purchase a boat is generally always treated as a nondeductible personal interest expense
C. Generally deductible only at a specific reduced flat 50% rate of the interest actually paid, rather than being potentially fully deductible as qualified residence interest
D. Generally deductible only if the boat is actually the taxpayer's sole and exclusive residence, rather than qualifying more broadly as a second home under the applicable rules

48. A taxpayer's employer offers a dependent care flexible spending account, and the taxpayer elects to contribute pretax wages to the account to pay for qualifying childcare expenses. What is the general interaction between this specific pretax contribution and the Child and Dependent Care Credit?

A. Generally, a taxpayer may generally claim the full Child and Dependent Care Credit on the same expenses already excluded through the pretax flexible spending account contribution
B. Generally, the same qualifying expenses cannot generally be used both to justify the pretax exclusion and to calculate the Child and Dependent Care Credit, avoiding a double tax benefit

C. Generally, electing the dependent care flexible spending account generally disqualifies the taxpayer entirely from ever claiming the Child and Dependent Care Credit in any future year

D. Generally, the pretax flexible spending account contribution generally has no interaction at all with the separate Child and Dependent Care Credit calculation for the same expenses

49. A taxpayer pays interest on a home equity loan used entirely to build a substantial addition onto the taxpayer's own primary residence, increasing the home's overall square footage and value. How is this specific home equity loan interest generally treated under current law?

A. Generally entirely nondeductible under current law, since interest on any home equity loan is generally always treated as a nondeductible personal interest expense regardless of use

B. Generally deductible only at a specific reduced flat 50% rate of the interest actually paid, rather than being potentially fully deductible as qualified residence interest

C. Generally deductible as qualified residence interest, since the loan proceeds were actually used to substantially improve the home securing the loan, meeting the applicable current-law requirement

D. Generally deductible only if the taxpayer claims the standard deduction, rather than requiring the taxpayer to separately itemize deductions to actually claim this specific interest

50. A taxpayer claims the Lifetime Learning Credit for tuition paid toward a single continuing education course taken to improve job skills, not part of any degree program. What is the general eligibility standard for this specific credit compared to the American Opportunity Tax Credit?

A. Generally, the Lifetime Learning Credit generally applies more broadly to almost any postsecondary course, including a single course taken to acquire or improve job skills, unlike the more restrictive American Opportunity Tax Credit

B. Generally, the Lifetime Learning Credit generally applies only to a course that is actually part of a formal degree program, exactly the same restriction that generally applies to the American Opportunity Tax Credit

C. Generally, the Lifetime Learning Credit is generally available only during the student's first four years of postsecondary education, exactly the same limitation as the American Opportunity Tax Credit

D. Generally, the Lifetime Learning Credit generally requires the student to actually be enrolled at least half-time, exactly the same requirement that generally applies to the American Opportunity Tax Credit

51. A taxpayer paid state and local estimated tax payments during the year, along with a balance due on the prior year's state return paid during the current year. How are these specific state estimated and balance-due payments generally treated for the current year's itemized state and local tax deduction?

A. Generally excluded entirely from the state and local tax deduction, since only tax actually withheld from wages generally counts toward this specific itemized deduction category

B. Generally subject to a wholly separate and additional $10,000 cap, entirely apart from the cap that generally applies to withheld state and local income tax

C. Generally deductible as an above-the-line adjustment to income, rather than continuing to be treated as any form of itemized state and local tax deduction

D. Generally included with the taxpayer's other state and local income tax payments actually made during the year, all combined subject to the same overall $10,000 aggregate cap

52. A taxpayer paid for eyeglasses, prescription contact lenses, and a hearing aid during the year, all recommended by a licensed medical professional, and the taxpayer itemizes deductions. How are these specific out-of-pocket costs generally treated?

A. Generally entirely nondeductible under current law, since corrective eyewear and a hearing aid are generally treated as nondeductible personal expenses regardless of medical necessity

B. Generally includible as qualifying medical expenses, combined with the taxpayer's other unreimbursed medical costs, deductible only to the extent the combined total exceeds 7.5% of adjusted gross income

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

D. Generally deductible in an unlimited amount with no applicable percentage-of-income floor, unlike every other category of unreimbursed qualifying medical expense a taxpayer might incur

53. A taxpayer claims the American Opportunity Tax Credit for the taxpayer's dependent's first year of college, and the taxpayer's modified adjusted gross income falls within the applicable phase-out range for this specific credit. What is the general effect of this income level on the available credit amount?

A. Generally, the available credit amount is generally reduced proportionally as the taxpayer's modified adjusted gross income rises through the applicable phase-out range, until it is fully eliminated

B. Generally, the taxpayer's income level generally has no effect at all on the available credit amount, since the American Opportunity Tax Credit generally applies with no income-based limitation

C. Generally, the credit is generally either fully allowed or entirely disallowed based on income, with no partial or proportional phase-out ever applying within any applicable range

D. Generally, exceeding the applicable phase-out threshold generally converts the credit into a larger refundable amount, rather than reducing or eliminating the credit at all

54. A taxpayer paid for a legal adoption of a child with special needs, as specifically determined by the relevant state agency, and the taxpayer claims the adoption credit for the year the adoption became final. What is the general effect of the special needs determination on the available credit?

A. Generally, the special needs determination generally has no effect at all on the credit, and the taxpayer generally must still substantiate every dollar of actual qualifying adoption expense

B. Generally, the special needs determination generally disqualifies the taxpayer entirely from claiming any adoption credit at all, contrary to the credit's ordinary general purpose

C. Generally, the special needs determination generally converts the credit into a fully refundable credit, rather than continuing to be treated as a nonrefundable credit

D. Generally, the taxpayer generally may claim the full maximum adoption credit amount regardless of the taxpayer's own actual qualifying adoption expenses, once the state special needs determination is made

55. A taxpayer pays alimony under a divorce agreement executed and finalized before 2019, and the agreement has not since been modified to adopt current-law tax treatment. How is this specific pre-2019 alimony payment generally treated for the paying spouse?

A. Generally treated identically to a post-2018 alimony payment, meaning the payment is generally neither deductible by the payer nor includible in the recipient's own gross income

B. Generally deductible only as an itemized deduction subject to the 7.5%-of-adjusted-gross-income floor, rather than as any form of above-the-line adjustment to income

C. Generally deductible by the payer as an above-the-line adjustment to income, and generally includible in the recipient's own gross income, under the grandfathered pre-2019 general rule

D. Generally entirely nondeductible to the payer in every case, regardless of the specific date the underlying divorce or separation agreement was actually originally executed

56. A taxpayer's dependent child has both earned income from a part-time job and unearned income from investments, and can be claimed as a dependent on the taxpayer's own return. What is the general limitation on this specific dependent's own standard deduction?

A. Generally, a dependent's own standard deduction is generally always identical to the full regular standard deduction available to a taxpayer who cannot be claimed as a dependent

B. Generally limited to the greater of a specific flat minimum dollar amount or the dependent's own earned income plus a specific additional fixed amount, capped at the regular standard deduction

C. Generally, a dependent generally receives no standard deduction at all, regardless of the specific amount of the dependent's own earned or unearned income for the year

D. Generally, a dependent's own standard deduction is generally based solely on the dependent's own unearned income, with the dependent's earned income having no bearing at all

57. A taxpayer changed principal residences mid-year, moving from one state to another for reasons unrelated to employment. How does this specific mid-year residency change generally affect the taxpayer's federal filing status determination?

A. Generally, the taxpayer generally must file two separate part-year federal returns, one for each state of residence, rather than a single consolidated federal return

B. Generally, a mid-year residency change generally converts the taxpayer's filing status automatically to head of household, regardless of the taxpayer's own actual marital status

C. Generally, a mid-year residency change generally disqualifies the taxpayer from claiming any dependent for that specific year, regardless of the dependent's own actual residency

D. Generally, a mid-year change in state residency generally has no effect at all on the taxpayer's federal filing status, which is generally determined by marital status as of December 31

58. A taxpayer's capital asset was inherited from a decedent, and the taxpayer sold the inherited asset shortly after the decedent's death. What is the general holding period treatment applied to this specific inherited asset upon its sale?

A. Generally treated as short-term if the taxpayer actually held the asset for less than one year before selling, the same general rule that applies to a purchased asset

B. Generally treated as long-term only if the decedent personally held the asset for more than one year before death, with the taxpayer's own holding period being irrelevant

C. Generally treated as long-term, regardless of how briefly the taxpayer actually held the asset before selling, since inherited property generally receives automatic long-term holding period treatment
D. Generally treated as short-term in every case, regardless of how long either the decedent or the taxpayer actually held the asset in total before the sale

59. A taxpayer's capital loss carryover from a prior tax year remains available to offset the taxpayer's current-year capital gain. What generally happens to any unused capital loss carryover remaining at the time of the taxpayer's own death?

A. Generally, any unused capital loss carryover generally passes automatically and in full to the decedent's surviving spouse, regardless of whether the couple actually filed jointly
B. Generally, any unused capital loss carryover generally expires and is lost at the taxpayer's death, rather than passing to the decedent's estate or heirs for their own use
C. Generally, any unused capital loss carryover generally passes automatically to the decedent's estate, which may then generally use the carryover on the estate's own separate return
D. Generally, any unused capital loss carryover generally continues indefinitely and may generally be claimed by any heir who inherits any portion of the decedent's own estate

60. A taxpayer's total tax liability includes tax computed on qualified dividends and net capital gain using the preferential rate structure, while the taxpayer is also subject to the Net Investment Income Tax on that same investment income. What is the general relationship between these two specific taxes?

A. Generally, the Net Investment Income Tax generally applies in addition to, rather than in place of, the regular income tax computed at the preferential capital gain rate on the same income
B. Generally, the Net Investment Income Tax generally replaces the regular preferential capital gain rate entirely, meaning only the flat 3.8% rate generally applies to that income
C. Generally, a taxpayer generally may elect to pay only the higher of the two specific taxes, rather than generally being subject to the combined total of both taxes
D. Generally, the Net Investment Income Tax generally applies only to a taxpayer who does not otherwise qualify for the preferential capital gain rate on any investment income

61. A taxpayer's total tax liability reflects a general business credit carryforward from a prior year, generated through the taxpayer's own sole proprietorship activity. What is the general current-law treatment of any unused general business credit?

A. Generally expires immediately and is entirely lost at the end of the specific tax year in which the credit was actually originally generated by the taxpayer

B. Generally may generally be carried forward indefinitely with no specific expiration limit at all, unlike the finite carryforward period that generally applies to a net operating loss

C. Generally may generally only be carried forward, never carried back, regardless of the taxpayer's own tax liability in the immediately preceding tax year

D. Generally may generally be carried back one year and then carried forward for a specific applicable number of years, generally 20 years, until the credit is fully used or expires

62. A taxpayer's total tax liability includes self-employment tax computed on the taxpayer's own net earnings from self-employment. What is the general treatment of one-half of this specific self-employment tax liability?

A. Generally deductible as an above-the-line adjustment to income, reducing the taxpayer's adjusted gross income, mirroring the employer-equivalent portion a traditional employer would otherwise have paid

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

C. Generally entirely nondeductible under current law, since self-employment tax itself was generally never intended to generate any offsetting income tax deduction of any kind

D. Generally deductible in full, rather than only one-half, mirroring the full combined employer and employee share that a traditional employment arrangement would otherwise generate

63. A taxpayer's total tax liability reflects income earned in a community property state, where the taxpayer and spouse file separate returns rather than a joint return. How is community income generally allocated between the two spouses in this specific situation?

A. Generally, community income is generally allocated entirely to the spouse who actually earned the income, exactly the same allocation rule that would apply in a non-community property state

B. Generally, community income is generally allocated equally, one-half to each spouse, regardless of which spouse actually earned the income under the applicable state community property law

C. Generally, community income is generally allocated entirely to whichever spouse has the higher individual income for the year, rather than being split equally between the two spouses

D. Generally, community income generally cannot be allocated at all between separately filing spouses, requiring the couple to instead file only a single joint return in every case

64. A taxpayer's total tax liability includes tax on a distribution from a qualified retirement plan that the taxpayer rolled over into another qualified plan within the applicable 60-day rollover window. How is this specific timely rollover generally treated?

A. Generally fully taxable as ordinary income in the year of the original distribution, exactly the same treatment that generally applies to a distribution the taxpayer does not roll over
B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a timely rollover under current federal tax law, rather than being entirely excluded
C. Generally not currently taxable, since a timely rollover completed within the applicable 60-day window generally is not treated as a taxable distribution to the taxpayer at all
D. Generally subject to the 10% early distribution penalty automatically, regardless of whether the rollover was actually completed within the applicable 60-day window

65. A taxpayer's total tax liability includes tax computed under the alternative minimum tax system after claiming a large state and local tax deduction for regular tax purposes. What is the general AMT treatment of this specific state and local tax deduction?

A. Generally, the state and local tax deduction remains fully allowed in an identical amount when computing alternative minimum taxable income, with no adjustment required at all
B. Generally, the state and local tax deduction is generally allowed at double the regular tax amount when computing alternative minimum taxable income, rather than being disallowed
C. Generally, the state and local tax deduction is generally not allowed at all when computing alternative minimum taxable income, requiring the taxpayer to add the deducted amount back
D. Generally, the state and local tax deduction generally has no relevance at all to the alternative minimum tax computation, since AMT generally applies only to business income

66. A taxpayer's total tax liability includes tax on unemployment compensation the taxpayer received during a period of job loss. How is this specific unemployment compensation generally treated for federal income tax purposes?

A. Generally entirely tax-exempt under current law, since unemployment compensation is generally treated as a nontaxable form of government assistance regardless of the amount received

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

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

D. Generally fully taxable as ordinary income, includible in the taxpayer's gross income and generally reported on Form 1099-G by the paying state unemployment agency

67. A taxpayer's total tax liability reflects income from a hobby activity that generates occasional revenue but is not conducted with the requisite profit motive to qualify as a genuine trade or business. How are hobby expenses generally treated under current law?

A. Generally, hobby expenses remain fully deductible as an itemized deduction, subject only to the same 7.5%-of-adjusted-gross-income floor that applies to qualifying medical expenses

B. Generally, hobby income generally must be reported, but hobby expenses are generally not deductible at all under current law, unlike the expenses of a genuine profit-motivated trade or business

C. Generally, hobby expenses are generally deductible as an above-the-line adjustment to income, exactly the same treatment that generally applies to a genuine trade or business expense

D. Generally, hobby income itself is generally entirely tax-exempt under current law, meaning no reporting obligation exists at all regardless of the specific amount actually received

68. A taxpayer's total tax liability includes tax on a distribution the taxpayer received from a health savings account used for a nonqualifying expense, unrelated to any qualifying medical cost. How is this specific nonqualified HSA distribution generally treated?

A. Generally includible in the taxpayer's ordinary taxable income and generally subject to an additional 20% penalty tax, unless the taxpayer has reached age 65 or become disabled

B. Generally entirely tax-exempt, exactly the same treatment that generally applies to an HSA distribution used for a genuine qualifying medical expense under current law

C. Generally subject to the standard 10% early distribution penalty, the same specific penalty percentage that generally applies to an early nonqualified traditional IRA distribution

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

69. A taxpayer's total tax liability includes tax computed after applying the qualified business income deduction, and the taxpayer's taxable income exceeds the applicable upper threshold while operating a specified service trade or business, such as a law practice. What is the general effect of exceeding this specific threshold?

A. Generally, exceeding the applicable upper threshold generally has no effect at all on the availability of the deduction for a specified service trade or business

B. Generally, the qualified business income deduction generally increases once taxable income exceeds the applicable upper threshold, the exact reverse of the actual general phase-out effect

C. Generally, exceeding the applicable upper threshold generally converts the deduction into a fully refundable credit, rather than continuing to be treated as any form of deduction

D. Generally, the qualified business income deduction is generally fully phased out and unavailable for a specified service trade or business once taxable income exceeds the applicable upper threshold

70. A taxpayer's total tax liability includes tax on a distribution received from an inherited traditional IRA, inherited from a non-spouse decedent who died after the applicable current-law effective date governing inherited retirement accounts. What is the general distribution requirement generally applicable to this specific type of non-spouse beneficiary?

A. Generally, the entire inherited account balance generally must be fully distributed by the end of the tenth year following the year of the original account owner's death

B. Generally, the non-spouse beneficiary generally may stretch distributions over the beneficiary's own full life expectancy, exactly the same treatment as under the prior general rule

C. Generally, the non-spouse beneficiary generally must withdraw the entire inherited account balance immediately in the same year the original account owner actually died

D. Generally, the non-spouse beneficiary generally faces no distribution requirement at all, and may generally leave the inherited account balance untouched and growing indefinitely

71. A taxpayer's total tax liability includes tax computed on a taxable scholarship amount reported to the taxpayer on Form W-2, with no employment relationship actually existing between the taxpayer and the issuing educational institution. How does the taxpayer generally report this specific taxable scholarship amount?

A. Generally reported as self-employment income subject to self-employment tax, exactly the same treatment that generally applies to genuine independent contractor compensation

B. Generally reported as taxable wages on the appropriate line of the return, even though the amount is not actually subject to Social Security or Medicare withholding, since no genuine employment relationship exists

C. Generally excluded entirely from the return, since any amount reported on Form W-2 is generally presumed to represent nontaxable scholarship proceeds regardless of the underlying facts

D. Generally reported as capital gain income, rather than as any form of ordinary wage-type income, regardless of the underlying character of the taxable scholarship amount

72. A taxpayer's total tax liability includes tax on income earned by a qualified joint venture operated by the taxpayer and the taxpayer's spouse, both of whom materially participate in the unincorporated business. What is the general election available to this specific married-couple business arrangement?

A. Generally must generally file a formal partnership return in every case, with no simplified election available to a married couple operating an unincorporated joint business

B. Generally must generally report the entire business's income and expense on only one spouse's own separate Schedule C, with the other spouse reporting nothing at all

C. Generally may generally elect qualified joint venture treatment, allowing each spouse to separately report a proportionate share of income and expense on a separate Schedule C, rather than filing a partnership return

D. Generally must generally incorporate the business formally before either spouse may report any of the business's own income or expense on either spouse's individual return

73. A taxpayer's total tax liability includes tax on a lump-sum Social Security benefit payment received in the current year that covered several prior years of retroactive benefits. What is the general special election available regarding how to report this specific lump-sum payment?

A. Generally must generally report the entire lump-sum payment as taxable income in the current year only, with no election available to allocate any portion back to a prior year

B. Generally must generally amend each prior year's own separate return to report the applicable retroactive portion, rather than making any specific current-year lump-sum election

C. Generally, the lump-sum payment is generally entirely tax-exempt regardless of the taxpayer's own combined income, since retroactive benefits generally receive different treatment than a regular monthly benefit

D. Generally may generally elect to allocate the retroactive portion back to the specific prior years to which it relates, potentially reducing the overall taxable amount compared to reporting it all currently

74. A taxpayer's total tax liability includes tax computed after recognizing gain on the sale of qualified small business stock the taxpayer held for more than five years, meeting the applicable statutory requirements. What is the general tax benefit potentially available for this specific type of long-held qualified stock?

A. Generally provides no special tax benefit at all, since qualified small business stock is generally taxed identically to any other capital asset regardless of the holding period
B. Generally requires the taxpayer to pay tax at a specific flat 28% rate on the entire gain, rather than potentially excluding any portion of that gain
C. Generally may qualify to exclude a specific applicable percentage, potentially up to 100%, of the gain from federal income tax, subject to an applicable per-issuer dollar or percentage limitation
D. Generally allows the taxpayer to defer the gain indefinitely without ever actually excluding any specific percentage of the gain from taxation under current law

75. A taxpayer asks a preparer for general guidance on the tax effect of timing a large charitable donation before versus after year-end, given the taxpayer's expected significantly higher income next year due to an upcoming bonus. What general advice would a preparer typically provide?

A. Generally advises the taxpayer that the timing of a charitable donation generally makes no difference at all to the resulting tax benefit, regardless of the taxpayer's own income level in either year
B. Generally advises the taxpayer to consider deferring the donation to the higher-income year, since a charitable deduction generally provides a greater tax benefit when it offsets income taxed at a higher marginal rate
C. Generally advises the taxpayer that a charitable deduction is generally available only in the specific year the taxpayer's income is actually lower, rather than in a higher-income year
D. Generally advises the taxpayer that timing a charitable donation is generally prohibited under current law, since a donation must always be made in the same year it is pledged

76. A taxpayer asks a preparer for general guidance on the tax implications of exercising employer stock options in a year the taxpayer also expects substantial other income, potentially triggering alternative minimum tax exposure. What general planning consideration would a preparer typically raise?

A. Generally raises the concern that exercising incentive stock options generally can trigger an AMT adjustment, and suggests modeling the AMT impact before exercising a large number of options in a single year
B. Generally raises no concern at all, since exercising an employer stock option is generally entirely unrelated to and unaffected by any alternative minimum tax computation
C. Generally raises the concern that exercising any employer stock option automatically disqualifies the taxpayer from ever claiming any tax credit in that specific tax year
D. Generally raises the concern that the stock option exercise generally must be reported directly to the state government first, rather than to the IRS on the federal return

77. A taxpayer asks a preparer for general guidance on the tax advantage of establishing a donor-advised fund rather than making direct annual gifts to multiple individual charities. What general benefit would a preparer typically explain about this specific giving vehicle?

A. Generally explains that a donor-advised fund generally provides no tax advantage at all compared to simply making the equivalent direct gifts to each individual charity separately
B. Generally explains that funding a donor-advised fund generally defers the charitable deduction until each underlying grant is actually made to a specific recipient charity
C. Generally explains that a donor-advised fund is generally prohibited under current law from ever accepting a contribution of appreciated securities, unlike a gift made directly to a charity
D. Generally explains that the taxpayer can generally claim an immediate charitable deduction upon funding the donor-advised fund, while retaining advisory input over the timing and recipients of actual grants made later

78. A taxpayer asks a preparer for general guidance on the tax consequences of converting a personal residence into a rental property before eventually selling it. What general planning consideration would a preparer typically raise regarding the Section 121 home sale exclusion?

A. Generally raises no consideration at all, since converting a personal residence to a rental property generally has no effect at all on the taxpayer's eventual home sale exclusion eligibility
B. Generally raises the consideration that the taxpayer must generally have owned and used the home as a principal residence for at least two of the five years before the sale to fully qualify for the exclusion
C. Generally raises the consideration that converting to a rental property generally disqualifies the taxpayer permanently and entirely from ever claiming any home sale exclusion in the future

D. Generally raises the consideration that the taxpayer must generally rent the property for at least five consecutive years before the exclusion becomes available upon an eventual sale

79. A taxpayer asks a preparer for general guidance on the general advantage of establishing a solo 401(k) plan as a self-employed individual with no employees, compared to a SEP IRA. What general factor would a preparer typically identify as relevant to this specific comparison?

A. Generally identifies that a solo 401(k) generally allows both an employee deferral contribution and an employer profit-sharing contribution, potentially permitting a higher total contribution than a SEP IRA at the same income level

B. Generally identifies that a SEP IRA generally always allows a higher total contribution than a solo 401(k), the exact reverse of the actual general relationship between the two plans

C. Generally identifies that a solo 401(k) is generally available only to a self-employed individual who also maintains at least one common-law employee, unlike a SEP IRA

D. Generally identifies that the two plan types generally provide functionally identical maximum contribution limits in every case, with no meaningful difference between the two options

80. A taxpayer asks a preparer for general guidance on the tax consequences of paying a child's college tuition directly to the educational institution rather than gifting the equivalent cash amount to the child first. What general advantage would a preparer typically explain about this specific direct-payment approach?

A. Generally explains that paying tuition directly to the institution generally provides no advantage at all compared to simply gifting the equivalent cash amount to the child first

B. Generally explains that a direct tuition payment generally triggers immediate taxable income to the child, unlike gifting the equivalent cash amount, which generally remains entirely tax-free

C. Generally explains that a tuition payment made directly to the institution generally is excluded from gift tax considerations entirely, regardless of the applicable annual gift tax exclusion amount

D. Generally explains that a direct tuition payment is generally prohibited under current law whenever the payer is not the child's own parent or legal guardian

81. A taxpayer asks a preparer for general guidance on the tax implications of selling a rental property that has substantial accumulated depreciation, and whether a like-kind exchange could help defer the resulting tax. What general planning consideration would a preparer typically raise?

A. Generally raises no consideration at all, since a like-kind exchange generally has no effect at all on either the capital gain or the depreciation recapture on a sold rental property

B. Generally raises the consideration that a qualifying like-kind exchange of real property held for investment can generally defer both the capital gain and the depreciation recapture that would otherwise be triggered by an outright sale

C. Generally raises the consideration that a like-kind exchange generally defers the capital gain but never defers any portion of the depreciation recapture on the exchanged property

D. Generally raises the consideration that a like-kind exchange is generally available only for personal-use property, with investment real property generally being entirely ineligible for this treatment

82. A taxpayer asks a preparer for general guidance on the tax advantage of making a direct qualified charitable distribution from an IRA rather than taking a taxable distribution and separately donating the cash to charity. What general benefit would a preparer typically explain?

A. Generally explains that the two approaches generally produce an identical tax result in every case, regardless of whether the taxpayer actually itemizes deductions for the year

B. Generally explains that a qualified charitable distribution generally triggers a higher effective tax rate than simply taking the distribution and separately claiming an itemized deduction instead

C. Generally explains that a qualified charitable distribution is generally available only to a taxpayer under age 59½, the exact reverse of the actual applicable age requirement

D. Generally explains that a qualified charitable distribution is generally excluded from gross income entirely, which can generally lower the taxpayer's adjusted gross income compared to reporting a taxable distribution offset by an itemized deduction

83. A taxpayer asks a preparer for general guidance on the tax consequences of a same-year Roth conversion combined with a large deductible traditional IRA contribution, sometimes called a backdoor Roth strategy for a higher-income taxpayer. What general complication would a preparer typically explain?

A. Generally explains that this specific strategy generally has no complications at all, and always results in the entire conversion being completely tax-free regardless of other IRA balances

B. Generally explains that this specific strategy is generally entirely prohibited under current law, regardless of the taxpayer's own income level or existing IRA account balances

C. Generally explains that the pro-rata rule generally requires considering all of the taxpayer's traditional IRA balances together, which can generally make a portion of the conversion taxable if the taxpayer holds other pretax IRA funds

D. Generally explains that the pro-rata rule generally applies only to a Roth 401(k) account, and generally has no bearing at all on a traditional IRA to Roth IRA conversion

84. A taxpayer asks a preparer for general guidance on the tax treatment of contributing appreciated employer stock from a 401(k) plan to a taxable brokerage account upon retirement, rather than rolling the stock into an IRA. What general strategy would a preparer typically explain?

A. Generally explains the net unrealized appreciation strategy, under which the stock's original cost basis is generally taxed as ordinary income upon distribution, while the built-in appreciation is generally taxed later at capital gain rates upon an eventual sale

B. Generally explains that no special strategy exists at all for employer stock, and the entire distribution is always taxed identically to a cash distribution rolled directly into an IRA

C. Generally explains that the entire value of the employer stock distribution is generally taxed at ordinary income rates immediately, with no portion ever eligible for capital gain treatment

D. Generally explains that the entire value of the employer stock distribution is generally entirely tax-exempt, since employer stock generally receives different treatment than any other 401(k) asset

85. A taxpayer asks a preparer for general guidance on the tax consequences of gifting a portion of a family business interest to adult children over several years rather than transferring the entire interest at once. What general advantage would a preparer typically explain about this specific gradual gifting approach?

A. Generally explains that gradual gifting generally provides no advantage at all compared to transferring the entire business interest in a single year, regardless of the interest's total value

B. Generally explains that gradual gifting generally triggers an automatic capital gain recognition event to the taxpayer each year a portion of the interest is actually gifted

C. Generally explains that spreading the gifts across multiple years generally allows the taxpayer to use the annual gift tax exclusion repeatedly, potentially transferring substantial value without using any of the taxpayer's lifetime gift and estate tax exemption

D. Generally explains that gradual gifting is generally prohibited under current law whenever the gifted asset is an interest in a family-owned and family-operated business

86. A taxpayer asks a preparer for general guidance on why maintaining separate business and personal bank accounts matters for the taxpayer's own newly formed sole proprietorship. What general reason would a preparer typically give beyond simple bookkeeping convenience?

A. Generally explains that maintaining separate accounts generally has no tax relevance at all, and exists purely as an arbitrary banking preference with no bearing on any deduction
B. Generally explains that commingling funds generally makes it harder to substantiate business expense deductions if the return is later examined, and can generally undermine the taxpayer's own recordkeeping in an audit
C. Generally explains that maintaining separate accounts generally is legally required under federal tax law for every sole proprietorship, regardless of the business's own actual size
D. Generally explains that maintaining separate accounts generally converts the sole proprietorship automatically into a separate legal entity distinct from the taxpayer's own individual return

87. A taxpayer asks a preparer for general guidance on the tax implications of taking a lump-sum pension distribution versus electing a lifetime monthly annuity payout from the same employer-sponsored pension plan. What general factor would a preparer typically identify as most relevant to this comparison?

A. Generally identifies the comparison between the immediate full taxation and rollover flexibility of a lump sum against the spread-out, generally more manageable annual taxation of a lifetime monthly annuity payout
B. Generally identifies that a lump-sum distribution is generally always entirely tax-exempt, while a lifetime monthly annuity payout is generally always fully taxable, making the lump sum clearly preferable
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 any tax factor
D. Generally identifies that a lifetime monthly annuity payout generally must always be rolled over into an IRA, exactly the same requirement that generally applies to a lump-sum distribution

88. An estate's fiduciary must file Form 1041 to report income the decedent's estate earned after the date of death but before the estate's assets were fully distributed to the beneficiaries. What is the general purpose of this specific fiduciary income tax return?

A. Generally reports the exact same income already reported on the decedent's own final individual income tax return, duplicating that return rather than covering a distinct separate period

B. Generally is required only if the estate actually owes federal estate tax, with no filing obligation at all for an estate that owes no separate estate tax

C. Generally is optional and may be filed at the fiduciary's own sole discretion, rather than representing any mandatory filing obligation tied to the estate's own income

D. Generally reports income earned by the estate itself as a separate taxable entity during the period of administration, distinct from the decedent's own final individual income tax return

89. A taxpayer's individual income tax return must address income from a foreign bank account exceeding the applicable aggregate reporting threshold at any point during the year. What specific additional reporting form generally becomes required regarding this foreign financial account?

A. Generally requires no additional reporting at all beyond the standard Form 1040, since a foreign bank account is generally treated identically to a domestic bank account

B. Generally requires filing FinCEN Form 114, the Report of Foreign Bank and Financial Accounts, commonly called the FBAR, separate from and in addition to the taxpayer's own income tax return itself

C. Generally requires filing Form 1040-NR instead of the standard Form 1040, converting the taxpayer's own filing status entirely due to the foreign account

D. Generally requires filing a formal amended return for every prior year the foreign account existed, rather than any specific current-year additional reporting form

90. A taxpayer's individual income tax return reports income from a real estate investment trust, generally referred to as a REIT, held in a taxable brokerage account. How are REIT ordinary dividends generally treated for the individual investor?

A. Generally taxable as ordinary income at the taxpayer's own regular marginal tax rate, since a REIT dividend generally does not qualify for the preferential qualified dividend rate in most cases

B. Generally taxable at the preferential qualified dividend rate, exactly the same treatment that generally applies to a qualifying dividend paid by a domestic operating corporation

C. Generally entirely tax-exempt, since a REIT dividend is generally treated identically to interest earned on a qualifying municipal bond under current federal tax law

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

91. A taxpayer's individual income tax return reports a distributive share of income from a limited partnership in which the taxpayer is a limited partner with no active management role. How is this specific limited partner's distributive share generally treated for self-employment tax purposes?

A. Generally fully subject to self-employment tax, exactly the same treatment that generally applies to a general partner's own distributive share of the same partnership's income
B. Generally subject to self-employment tax only on the portion of income actually distributed in cash, with any undistributed portion generally being entirely excluded
C. Generally treated as entirely tax-exempt income to the limited partner, rather than as any form of taxable distributive share subject to either income or self-employment tax
D. Generally excluded from self-employment tax, since a limited partner's distributive share generally is not treated as net earnings from self-employment, absent active participation in the partnership's management

92. A taxpayer's individual income tax return reports income earned as a statutory employee, a specific worker classification identified on the taxpayer's own Form W-2. How does a statutory employee generally report business expenses related to this specific type of employment?

A. Generally reports income and related business expenses on Schedule A as a miscellaneous itemized deduction, exactly the same treatment that historically applied to a common-law employee
B. Generally reports income and related business expenses on Schedule E, the same specific schedule generally used to report a taxpayer's own passive rental or royalty income
C. Generally reports income and related business expenses on Schedule C, unlike a common-law employee, though a statutory employee generally remains exempt from self-employment tax on that same income
D. Generally may not deduct any business expense at all, regardless of the specific type or amount of expense actually incurred in connection with the statutory employment

93. A taxpayer's individual income tax return reports rental income from a vacation home the taxpayer both personally uses and rents out to unrelated tenants during the year. What is the general effect of the vacation home's personal-use test on the taxpayer's ability to deduct a rental loss?

A. Generally, any personal use at all, even a single day, generally disqualifies the taxpayer entirely from ever reporting any rental income or expense on Schedule E

B. Generally, the personal-use test generally has no effect at all on the taxpayer's ability to deduct a rental loss, regardless of how many days the taxpayer personally used the property

C. Generally, the personal-use test generally applies only to a property the taxpayer rents to a family member, with a property rented to an unrelated tenant being entirely exempt

D. Generally, if personal use exceeds the greater of 14 days or 10% of the total rental days, the property is generally treated as a personal residence, generally limiting deductible rental expenses to rental income

94. A taxpayer's individual income tax return reports income from a Coverdell Education Savings Account distribution used for a beneficiary's qualifying elementary school tuition. How is this specific distribution generally treated, assuming the full distribution amount does not exceed the beneficiary's qualifying education expenses for the year?

A. Generally fully taxable as ordinary income, since the tax-free Coverdell exclusion is generally limited exclusively to qualifying postsecondary higher education expenses under current law

B. Generally entirely tax-exempt, since a Coverdell distribution used for qualifying elementary, secondary, or postsecondary education expenses is generally excluded from the beneficiary's gross income

C. Generally taxable only as to 50% of the distribution amount, with the remaining 50% generally treated as an entirely tax-exempt qualifying education expense distribution

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

95. A taxpayer's individual income tax return reports a distributive share of income from a multi-member LLC that elected to be taxed as a partnership for federal income tax purposes. What form does the LLC itself generally file to report this pass-through activity to the IRS and its own members?

A. Generally files Form 1120, the standard corporate income tax return, since a multi-member LLC electing partnership treatment is nonetheless still generally taxed as a C corporation

B. Generally files no separate entity-level return at all, since a multi-member LLC electing partnership treatment generally has no independent federal tax filing obligation of its own

C. Generally files Form 1065, the partnership return, and generally issues each member a Schedule K-1 reporting that specific member's own distributive share of income, deduction, and credit items

D. Generally files Form 1040, the same specific individual income tax return generally used by each individual member, rather than filing any separate entity-level return

96. A taxpayer's individual income tax return reports income earned by a bankruptcy estate created when the taxpayer, an individual, filed for Chapter 7 bankruptcy protection during the year. How does the bankruptcy estate's separate taxable status generally affect the taxpayer's own individual filing obligation?

A. Generally, the bankruptcy estate generally becomes a separate taxable entity for certain income, while the individual debtor generally continues filing the debtor's own separate individual income tax return for personal income
B. Generally, filing for bankruptcy generally eliminates the individual taxpayer's own filing obligation entirely, transferring all reporting responsibility exclusively to the newly created bankruptcy estate
C. Generally, the bankruptcy estate and the individual debtor are generally treated as a single combined taxpayer, requiring only one consolidated return covering both parties
D. Generally, filing for bankruptcy generally has no effect at all on either the individual debtor's or any separate bankruptcy estate's own federal income tax filing obligations

97. A taxpayer's individual income tax return reports a capital gain distribution received from a mutual fund held in a taxable brokerage account, reported to the taxpayer on Form 1099-DIV. How is this specific capital gain distribution generally treated, regardless of how long the taxpayer actually held the mutual fund shares themselves?

A. Generally treated as short-term capital gain in every case, taxed at the taxpayer's own ordinary income tax rate, regardless of the fund's own underlying holding period for the distributed securities
B. Generally treated as ordinary dividend income rather than as any form of capital gain, regardless of the fund's own underlying holding period for the distributed securities
C. Generally treated as long-term capital gain, taxed at the applicable preferential rate, regardless of the taxpayer's own actual holding period for the underlying mutual fund shares
D. Generally entirely tax-exempt to the individual shareholder, since a mutual fund itself is generally the entity directly responsible for paying tax on any capital gain distribution

98. A taxpayer's individual income tax return reports income from a qualified opportunity fund investment, made using capital gain proceeds the taxpayer reinvested within the applicable statutory window following the original gain-triggering sale. What is the general tax benefit potentially available for this specific type of investment?

A. Generally allows the taxpayer to defer recognition of the original reinvested capital gain until a specific later triggering date, with potential additional benefits for a sufficiently long holding period in the fund

B. Generally provides no special tax benefit at all, since a qualified opportunity fund investment is generally taxed identically to any other capital asset regardless of the reinvestment timing

C. Generally requires the taxpayer to recognize the original gain immediately upon reinvestment, rather than deferring recognition of any portion of that gain to a later date

D. Generally allows the taxpayer to permanently and immediately exclude the entire original gain from taxation, rather than merely deferring recognition of that gain to a later date

99. A taxpayer's individual income tax return reports income from a Health Reimbursement Arrangement, an employer-funded account used to reimburse the taxpayer for qualifying medical expenses. How are qualifying reimbursements from this specific employer-funded arrangement generally treated?

A. Generally fully taxable as ordinary wage income to the employee, exactly the same treatment that generally applies to a taxable fringe benefit provided outside any tax-advantaged arrangement

B. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a Health Reimbursement Arrangement distribution under current federal tax law, rather than being entirely excluded

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

D. Generally entirely tax-exempt to the employee, since a properly structured Health Reimbursement Arrangement generally reimburses only substantiated qualifying medical expenses on a tax-free basis

100. A taxpayer's individual income tax return reports a final distribution the taxpayer received as a beneficiary when a simple trust terminated during the year, including both accumulated trust income and trust corpus, the underlying principal. How is the corpus portion of this specific final distribution generally treated for the beneficiary?

A. Generally fully taxable as ordinary income to the beneficiary, exactly the same treatment that generally applies to the trust's own accumulated current-year income distributed to that beneficiary

B. Generally not taxable income to the beneficiary, since a distribution of trust corpus, the underlying principal, is generally treated as a nontaxable return of the trust's own original principal

C. Generally taxable only at the specific reduced flat 10% rate reserved specifically for a trust corpus distribution under current federal tax law, rather than being entirely excluded

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

Answer Key and Explanations — Practice Exam 16

1. A — When a source document such as a Form W-2 shows an unusual or seemingly inconsistent figure, a preparer generally should verify the amount with the client and, if warranted, review supporting documentation such as pay stubs, rather than either blindly accepting or unilaterally altering the reported figures without any further inquiry.

2. D — A preparer generally should retain copies of filed returns and key supporting workpapers for at least the applicable statute of limitations period, generally three years from filing, and often longer as a best practice, since records may become relevant to a later examination, an amended return, or a professional liability matter.

3. C — Reviewing a new client's prior-year returns generally allows a preparer to identify relevant carryovers, such as a capital loss or charitable contribution carryover, spot consistency issues, and catch any missed items that could affect the current-year return, supporting a more accurate and complete preparation of that specific current-year return overall.

4. B — A preparer generally should verify a dependent's Social Security number against a reliable source document, such as a Social Security card, since an incorrect number can generally cause the return to be rejected electronically or later flagged for examination, and verification supports the preparer's general due diligence obligations regarding dependency claims.

5. D — Form 2848 generally authorizes a designated representative, such as an Enrolled Agent, CPA, or attorney, to represent the client before the IRS, including receiving and discussing otherwise confidential tax information and advocating on the client's own behalf, within the specific scope of authority the client actually grants on that form.

6. B — Upon discovering a substantial error on a prior-year return, a preparer generally must advise the client of the error and the consequences of not correcting it, such as continued understatement of tax, though the preparer generally is not required to notify the IRS directly absent the client's own consent to do so.

7. A — An IRS notice generally addresses a specific identified discrepancy, such as a math error or a missing form, and is often resolved through correspondence, while a full audit generally involves a broader, more comprehensive examination of the return's overall accuracy, potentially covering multiple issues and requiring more extensive supporting documentation from the taxpayer.

8. C — A preparer generally signs a return only when the preparer actually prepared it for compensation, and generally should not sign as the paid preparer for a return the client ultimately files independently, since the paid preparer signature block generally certifies the preparer's own actual involvement in preparing that specific return.

9. D — Form 8821 generally authorizes a designated person or organization to receive and inspect confidential tax information only, without granting the broader authority to represent the taxpayer before the IRS or advocate on the taxpayer's own behalf, a narrower scope of authorization than the representation authority generally granted under Form 2848.

10. B — A preparer generally must implement reasonable administrative, technical, and physical safeguards to protect client information, including Social Security numbers and financial data, consistent with applicable data security and privacy standards, since a breach could expose clients to identity theft and could also expose the preparer to significant professional liability and reputational harm.

11. A — A preparer generally must obtain the client's written consent under applicable tax return information disclosure rules before sharing the client's tax return information with a third party, such as a financial planner, even where the client requested the referral, since unauthorized disclosure can generally expose the preparer to penalties and professional liability.

12. D — The Taxpayer Advocate Service generally provides an independent organization within the IRS that helps a taxpayer resolve a problem that has not been resolved through normal IRS channels, particularly where the taxpayer is experiencing significant financial difficulty or hardship, offering an additional avenue for assistance beyond standard IRS correspondence and processing.

13. C — While not always a specific legal requirement, maintaining professional liability insurance, commonly called errors and omissions coverage, is generally recommended as a best practice, since it generally helps protect a preparer against the financial consequences of a claim alleging a preparation error, omission, or other professional negligence in serving a client.

14. B — A preparer generally should proactively ask the client about any virtual currency activity during the year, since a sale, exchange, or other disposition of virtual currency generally can trigger a taxable event, and the individual income tax return generally requires the taxpayer to answer a specific digital asset question under penalty of perjury.

15. A — A preparer generally must advise a client that an unsupportable position, such as a knowingly inflated deduction, cannot properly be claimed, and generally should decline to sign or file the return if the client insists on including the misstatement, consistent with the preparer's general due diligence and integrity obligations under applicable professional standards.

16. C — The IRS's automated underreporter program generally matches income and other items reported by third parties, such as a brokerage or an employer, against the amounts actually reported on the filed return, and generally issues a notice, such as a CP2000, when a discrepancy is detected, prompting the taxpayer to respond or correct the return.

17. A — A sales performance bonus paid to an employee through the normal payroll system is generally fully taxable as ordinary wage income, subject to the same regular income tax withholding and employment tax treatment as the taxpayer's other regular wages, regardless of the specific metric the employer used to calculate the bonus amount.

18. D — Interest earned on a qualifying municipal bond is generally excluded from federal taxable income, since such interest is generally exempt from federal income tax under current law, though the interest still generally must be reported for informational purposes and may factor into the taxability of the taxpayer's Social Security benefits.

19. C — Severance pay received following an involuntary layoff is generally fully taxable as ordinary wage income, subject to the same regular income tax withholding and employment tax treatment that generally applies to the taxpayer's other regular wages, since the payment generally represents additional compensation related to the taxpayer's prior employment relationship.

20. B — A traditional pension distribution received at normal retirement age, funded entirely with pretax employer and employee contributions, is generally fully taxable as ordinary income in the year actually received, since none of the contributions or accumulated earnings were previously taxed, distinguishing this fully taxable distribution from one involving any after-tax employee contribution basis.

21. C — A bona fide cash gift received from a parent is generally not includible in the recipient's gross income, since a gift is generally excluded from the recipient's taxable income regardless of the specific amount, though the donor, rather than the recipient, may separately have a gift tax reporting obligation if the gift exceeds the annual exclusion.

22. B — A payment a landlord makes to a tenant in exchange for the tenant's early termination of a residential lease is generally fully taxable as other income to the tenant, since the payment generally compensates the tenant for relinquishing a contractual leasehold right, a taxable event distinct from a simple nontaxable return of the tenant's own original security deposit.

23. A — A class action settlement payment compensating a taxpayer for a defective consumer product, without any accompanying personal physical injury or physical sickness, is generally fully taxable as ordinary income, since the specific statutory exclusion for damages generally applies only to a settlement received on account of personal physical injury or physical sickness.

24. D — A distribution from a governmental 457 deferred compensation plan taken after the taxpayer separates from service is generally not subject to the 10% early distribution penalty that otherwise applies to many other retirement plan distributions, though the distribution itself generally remains fully includible in the taxpayer's ordinary taxable income in the year actually received.

25. C — A jury duty fee is generally included in the taxpayer's gross income when received, but where the taxpayer remits the fee to an employer that continued paying regular salary during the jury service, the taxpayer generally may claim an offsetting above-the-line adjustment to income for the specific amount actually remitted, avoiding double taxation of that same amount.

26. D — A lump-sum payment for unused accrued vacation time, paid upon a taxpayer's voluntary resignation, is generally fully taxable as ordinary wage income, subject to the same regular income tax withholding and employment tax treatment that generally applies to the taxpayer's other regular wages, since the payout generally represents deferred compensation for time actually earned.

27. A — A traditional IRA distribution used to pay the taxpayer's own qualified higher education expenses at an eligible institution is generally excepted from the 10% early distribution penalty under the specific applicable statutory exception, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, since only the penalty, not the underlying tax, is excepted here.

28. B — When a taxpayer rents a property to a family member at substantially below fair rental value, the property is generally treated as a personal residence rather than a genuine rental property, meaning the taxpayer must still report the rental income received, but deductible expenses are generally limited to that reported rental income, similar to the not-for-profit activity rules.

29. B — A signing bonus paid by a new employer to induce a taxpayer to accept a job offer is generally fully taxable as ordinary wage income in the year actually received, subject to the same regular income tax withholding and employment tax treatment as the taxpayer's other regular wages, regardless of whether the taxpayer has actually begun working yet.

30. C — A distribution from a SIMPLE IRA taken within the first two years of the taxpayer's own participation in the plan, without qualifying for a specific penalty exception, is generally subject to a heightened 25% early distribution penalty, rather than the standard 10% penalty that generally applies to an early distribution taken after that specific initial two-year period has elapsed.

31. A — Crowdfunding contributions received without any expectation of a return benefit to the contributors, made out of genuine detached generosity to help cover the taxpayer's own unexpected medical expenses, are generally treated as nontaxable gifts and are generally not includible in the recipient's gross income, though the specific facts and circumstances of each campaign generally matter to this determination.

32. D — A distribution from a nonqualified deferred compensation plan, paid according to a fixed schedule the taxpayer irrevocably elected years earlier, is generally fully taxable as ordinary income in the year actually received, since the underlying compensation was never previously subject to federal income tax while it remained deferred, and the specific irrevocable election generally governs the exact timing of taxation.

33. C — A return-of-premium payment received under a term life insurance policy's specific rider, upon the policy's expiration without any death benefit claim, is generally not taxable income to the taxpayer, since the payment generally represents a nontaxable return of the taxpayer's own previously paid, nondeductible premium dollars, rather than any form of taxable investment gain or income.

34. D — A distribution from a 529 qualified tuition program used entirely to pay for the beneficiary's own qualifying elementary and secondary school tuition, within the applicable annual dollar limit for that specific purpose under current law, is generally entirely tax-exempt, since such tuition generally qualifies as a permitted qualified education expense for 529 plan distribution purposes.

35. A — A property settlement payment made incident to a divorce, such as an equalizing cash payment tied to dividing marital property rather than to spousal support, is generally treated as a nontaxable transfer between spouses, meaning the recipient generally does not include the payment in gross income, though the recipient generally takes the transferor's own adjusted basis in any property received.

36. B — A one-time state welfare relief payment issued broadly to qualifying lower-income residents based on individual or family financial need is generally excludable from gross income under the general welfare exclusion, provided the payment is not compensation for services rendered and is based on need rather than status, distinguishing it from taxable compensation-type payments.

37. A — Points paid to obtain a mortgage used to buy or build the taxpayer's own primary residence are generally deductible in full in the year paid, provided the points meet applicable requirements, such as being customary in the area and separately stated, rather than needing to be amortized over the life of the loan.

38. D — Under current law, miscellaneous itemized deductions previously subject to the 2%-of-adjusted-gross-income floor, such as tax preparation fees, safe deposit box fees, and investment advisory fees, are generally entirely suspended and nondeductible, meaning a taxpayer generally receives no federal tax benefit at all from these specific expenses during the years this suspension applies.

39. C — A contribution of long-term appreciated capital gain property, such as stock held more than one year, made directly to a qualified public charity is generally deductible up to 30% of the taxpayer's adjusted gross income, a lower percentage limitation than the 60% generally applicable to a cash contribution, with any excess generally carried forward up to five years.

40. B — Qualified long-term care insurance premiums are generally includible as a medical expense for itemized deduction purposes, subject to an age-based dollar limit on the specific includible premium amount, and combined with the taxpayer's other unreimbursed qualifying medical expenses, deductible only to the extent the combined total exceeds 7.5% of the taxpayer's adjusted gross income for the year.

41. A — A taxpayer who claims a dependent qualifying as a qualifying relative, such as a financially supported elderly parent, rather than as a qualifying child, generally becomes eligible for the Credit for Other Dependents, a smaller nonrefundable credit available for a dependent who does not meet the specific age and other requirements for the standard Child Tax Credit.

42. B — Investment interest expense is generally deductible as an itemized deduction only up to the taxpayer's net investment income for the year, and any investment interest expense exceeding that specific limitation generally may be carried forward and deducted in a future tax year, once the taxpayer generates sufficient net investment income to absorb the carryforward amount.

43. C — The Premium Tax Credit is generally a refundable credit available to help an eligible taxpayer afford Marketplace health insurance coverage, generally payable in advance directly to the insurer to reduce the taxpayer's monthly premium, and then reconciled on the taxpayer's return against the taxpayer's actual household income for the year, potentially resulting in additional credit or repayment.

44. D — The Child and Dependent Care Credit generally is not limited solely to childcare, and can generally also apply to care expenses paid for a spouse who is physically or mentally incapable of self-care, provided the care enabled the taxpayer to work or actively look for work, treating the incapacitated spouse as a qualifying individual for this specific credit.

45. C — Once a taxpayer's total noncash charitable contributions for the year exceed $500, the taxpayer generally must complete and attach Form 8283 to the return, providing additional detail about the donated property, with a qualified appraisal generally required only once the noncash contribution of a single item or group of similar items exceeds a higher specific separate threshold.

46. D — Generally, no federal income tax credit or deduction, such as the American Opportunity Tax Credit or the Lifetime Learning Credit, is available specifically for K-12 private school tuition, since both of those credits generally require the tuition to relate to postsecondary education, though a taxpayer may generally use a 529 plan distribution toward this type of tuition instead.

47. A — Interest on a loan used to purchase a boat is generally deductible as qualified residence interest, provided the boat meets the applicable requirements to qualify as a second home, generally including adequate sleeping, cooking, and toilet facilities, and provided the combined acquisition debt on the taxpayer's primary and second home stays within the applicable overall current-law principal limit.

48. B — A taxpayer who contributes pretax wages to a dependent care flexible spending account generally cannot use those same already tax-advantaged qualifying expenses to also calculate the Child and Dependent Care Credit, since using the same expense for both benefits would generally result in an impermissible double tax benefit for the identical qualifying childcare expense.

49. C — Interest on a home equity loan is generally deductible as qualified residence interest under current law when the loan proceeds are actually used to buy, build, or substantially improve the home securing the loan, such as building a substantial addition, distinguishing this deductible use from a home equity loan used instead to pay off unrelated personal debt.

50. A — The Lifetime Learning Credit generally applies more broadly than the American Opportunity Tax Credit, covering almost any postsecondary course at an eligible institution, including a single course taken to acquire or improve job skills and one not part of any formal degree program, unlike the American Opportunity Tax Credit's more restrictive degree-program and half-time enrollment requirements.

51. D — State and local estimated tax payments actually made during the year, along with any balance-due payment made on a prior-year state return, are generally included together with withheld state and local income tax when computing the taxpayer's total state and local tax deduction, with the combined total of all these payments subject to the same overall $10,000 aggregate cap.

52. B — Eyeglasses, prescription contact lenses, and a hearing aid recommended by a licensed medical professional are generally includible as qualifying medical expenses for itemized deduction purposes, combined with the taxpayer's other unreimbursed qualifying medical costs, and deductible only to the extent the combined total for the year exceeds 7.5% of the taxpayer's adjusted gross income.

53. A — As a taxpayer's modified adjusted gross income rises through the applicable phase-out range for the American Opportunity Tax Credit, the available credit amount is generally reduced proportionally, ultimately being fully eliminated once the taxpayer's income exceeds the top of that specific applicable range for the taxpayer's filing status, similar to the phase-out mechanics of several other credits.

54. D — When a state agency specifically determines that an adopted child has special needs, the taxpayer generally may claim the full maximum adoption credit amount for the year the adoption becomes final, regardless of the taxpayer's own actual substantiated qualifying adoption expenses, a more favorable treatment than the expense-substantiation requirement that generally applies to a non-special-needs adoption.

55. C — Alimony paid under a divorce or separation agreement executed and finalized before 2019, and not since modified to adopt current-law treatment, remains generally deductible by the paying spouse as an above-the-line adjustment to income, and generally remains includible in the recipient's gross income, under the grandfathered pre-2019 rule that continues to apply to this specific type of older agreement.

56. B — A dependent who can be claimed on another taxpayer's return generally has a limited standard deduction, equal to the greater of a specific flat minimum dollar amount or the dependent's own earned income plus a specific additional fixed amount, though the dependent's own standard deduction can never exceed the regular standard deduction otherwise available for the dependent's filing status.

57. D — A taxpayer's federal filing status is generally determined by the taxpayer's marital status as of December 31 of the tax year, and a mid-year change in state residency generally has no direct effect on this specific federal filing status determination, though the taxpayer may separately need to file part-year resident returns with each state involved.

58. C — Gain or loss on the sale of inherited property is generally treated as long-term, regardless of how briefly the taxpayer, as the person who inherited the property, actually held the asset before selling it, since inherited property generally receives automatic long-term holding period treatment under the applicable general rule governing property acquired from a decedent.

59. B — A taxpayer's unused capital loss carryover generally expires at death and is lost, rather than passing to the decedent's estate or to any heir, meaning only the loss actually usable on the decedent's own final individual income tax return, up to the standard annual $3,000 limitation, generally provides any remaining tax benefit from that specific carryover.

60. A — The Net Investment Income Tax generally applies as an additional 3.8% tax layered on top of, rather than in place of, the regular income tax computed using the preferential capital gain rate structure, meaning a high-income taxpayer's qualified dividend and net capital gain income can generally be subject to both the preferential rate and this additional tax simultaneously.

61. D — An unused general business credit is generally eligible to be carried back one year and then carried forward for a specific applicable number of years, generally 20 years, allowing the taxpayer to apply the credit against tax liability in another year if it cannot be fully used in the specific year the credit was originally generated.

62. A — One-half of a taxpayer's self-employment tax liability is generally deductible as an above-the-line adjustment to income, reducing the taxpayer's adjusted gross income, since this specific deductible portion generally mirrors the employer-equivalent share of Social Security and Medicare tax that a traditional employer would otherwise have paid and separately deducted as its own business expense.

63. B — In a community property state, income generally classified as community income is generally allocated equally, one-half to each spouse, regardless of which spouse actually earned the income, when the couple elects to file separate returns rather than a joint return, reflecting each spouse's equal ownership interest in community property under applicable state law.

64. C — A distribution from a qualified retirement plan that the taxpayer rolls over into another qualified plan within the applicable 60-day window is generally not currently taxable, since a timely completed rollover generally is not treated as a taxable distribution to the taxpayer, preserving the funds' tax-deferred status within the recipient retirement plan or account.

65. C — When computing alternative minimum taxable income, the state and local tax deduction claimed for regular tax purposes is generally not allowed and must generally be added back, since this deduction is treated as a preference-type adjustment item under the alternative minimum tax system, one of the more common triggers of AMT exposure for an itemizing taxpayer.

66. D — Unemployment compensation received during a period of job loss is generally fully taxable as ordinary income under current law, includible in the taxpayer's gross income and generally reported to both the taxpayer and the IRS on Form 1099-G by the paying state unemployment agency, distinguishing this generally taxable benefit from certain other nontaxable government assistance payments.

67. B — Income from a hobby activity, one lacking the requisite profit motive to qualify as a genuine trade or business, generally must still be reported as taxable income, but under current law hobby expenses are generally not deductible at all, unlike the ordinary and necessary expenses of a genuine profit-motivated trade or business, which remain deductible.

68. A — A health savings account distribution used for a nonqualifying expense, unrelated to any qualifying medical cost, is generally includible in the taxpayer's ordinary taxable income and generally subject to an additional 20% penalty tax, though this specific additional penalty generally does not apply once the taxpayer has reached age 65, become disabled, or died.

69. D — For a specified service trade or business, such as a law, accounting, or consulting practice, the qualified business income deduction is generally fully phased out and entirely unavailable once the taxpayer's taxable income exceeds the applicable upper threshold for the taxpayer's filing status, a stricter limitation than the one generally applicable to a non-specified-service trade or business.

70. A — Under current law, a non-spouse beneficiary who inherits a traditional IRA from a decedent who died after the applicable effective date generally must fully distribute the entire inherited account balance by the end of the tenth calendar year following the year of death, generally replacing the longer life-expectancy stretch rule that previously applied to many beneficiaries.

71. B — A taxable scholarship amount reported on Form W-2, despite no genuine employment relationship existing between the taxpayer and the issuing institution, is generally still reported as taxable wage-type income on the appropriate line of the individual return, even though the amount is not actually subject to Social Security or Medicare withholding, reflecting its true scholarship character.

72. C — A married couple who jointly own and materially participate in an unincorporated business may generally elect qualified joint venture treatment, allowing each spouse to separately report a proportionate share of the business's income and expense on that spouse's own separate Schedule C, rather than filing a more complex partnership return, while self-employment tax still generally applies.

73. D — A taxpayer receiving a lump-sum Social Security benefit payment covering several prior years of retroactive benefits generally may elect to allocate the retroactive portion back to the specific prior years to which it relates for computing taxability, a computation that can potentially reduce the overall taxable amount compared to including the full lump sum currently.

74. C — Gain from the sale of qualified small business stock held for more than five years may generally qualify for an exclusion of a specific applicable percentage, potentially up to 100% depending on acquisition date, of the gain from federal income tax, subject to an applicable per-issuer limitation based on either a specific dollar amount or a percentage of basis.

75. B — A preparer would generally advise the taxpayer to consider the relative tax benefit of a charitable deduction in each year, generally recommending the higher-income year when the taxpayer expects a significantly higher marginal tax bracket next year, since the same charitable deduction generally produces a larger tax savings when it offsets income taxed at that higher rate.

76. A — A preparer would generally raise the concern that exercising incentive stock options can generally trigger an alternative minimum tax adjustment based on the bargain element at exercise, and would generally suggest modeling the potential AMT impact, and possibly spreading the exercise across multiple years, before exercising a large number of options in a single high-income tax year.

77. D — A preparer would generally explain that a taxpayer contributing to a donor-advised fund generally receives an immediate charitable deduction in the year of contribution, while retaining advisory privileges over which charities actually receive grants and when, offering flexibility to separate the timing of the tax deduction from the timing of the ultimate charitable distribution, useful for a bunching strategy.

78. B — A preparer would generally raise the consideration that to qualify for the Section 121 home sale exclusion, the taxpayer generally must have owned and used the home as a principal residence for at least two of the five years preceding the sale, meaning converting the home to a rental property for too long can jeopardize or reduce the exclusion.

79. A — A preparer would generally identify that a solo 401(k) generally allows a self-employed individual with no employees to make both an employee elective deferral contribution and a separate employer profit-sharing contribution, which can generally permit a higher total contribution at a given income level compared to a SEP IRA, which generally allows only the employer-type contribution.

80. C — A preparer would generally explain that a taxpayer who pays a child's or grandchild's tuition directly to the educational institution generally benefits from a specific gift tax exclusion applicable to a direct tuition payment, meaning the payment generally does not count against the payer's annual gift tax exclusion at all, unlike first gifting the equivalent cash amount to the child.

81. B — A preparer would generally raise the consideration that a qualifying like-kind exchange of real property held for investment or business use can generally defer both the capital gain and the depreciation recapture that an outright sale of the rental property would otherwise trigger, though the exchange generally requires strict adherence to specific identification and closing timelines to qualify.

82. D — A preparer would generally explain that a qualified charitable distribution is generally excluded from the taxpayer's gross income entirely, which can generally lower adjusted gross income and thereby help avoid certain income-based phase-outs, an advantage a taxable IRA distribution followed by a separate itemized charitable deduction generally does not provide, particularly for a taxpayer who does not itemize.

83. C — A preparer would generally explain that the pro-rata rule generally requires aggregating all of a taxpayer's traditional, SEP, and SIMPLE IRA balances when determining the taxable portion of a Roth conversion, meaning a taxpayer who holds other pretax IRA funds beyond the nondeductible contribution can generally end up with a portion of the intended backdoor conversion being unexpectedly taxable.

84. A — A preparer would generally explain the net unrealized appreciation strategy, under which a taxpayer taking a lump-sum distribution of employer stock from a 401(k) into a taxable account generally pays ordinary income tax only on the stock's original cost basis at distribution, while built-in appreciation is generally taxed later, often more favorably, at capital gain rates upon sale.

85. C — A preparer would generally explain that gifting a family business interest gradually over several years generally allows the taxpayer to make full use of the annual gift tax exclusion each year, potentially transferring substantial cumulative value to the children over time without using any of the taxpayer's lifetime gift and estate tax exemption at all.

86. B — A preparer would generally explain that beyond simple bookkeeping convenience, maintaining separate business and personal bank accounts generally makes it easier to substantiate claimed business expense deductions if the return is later examined, since commingled funds generally make it harder to demonstrate that a specific expense was actually a genuine, ordinary, and necessary business expense rather than a personal expense.

87. A — A preparer would generally identify the comparison between a lump-sum distribution, generally fully taxable at once unless rolled over into an IRA, offering flexibility but a potentially large current-year tax hit, against a lifetime monthly annuity payout, which generally spreads taxable income out over many years, as the most relevant factor in this comparison.

88. D — Form 1041 generally reports income the estate itself earns as a separate taxable entity during the period of administration, after the decedent's date of death and before final distribution to beneficiaries, a distinct filing obligation from the decedent's own final individual Form 1040, which instead covers the period from January 1 through the actual date of death.

89. B — A taxpayer with a financial interest in or signature authority over a foreign bank or financial account whose aggregate value exceeds the applicable reporting threshold at any point during the year generally must file FinCEN Form 114, the Report of Foreign Bank and Financial Accounts, commonly called the FBAR, separate from the taxpayer's own federal income tax return.

90. A — An ordinary dividend paid by a real estate investment trust is generally taxable as ordinary income at the taxpayer's own regular marginal tax rate, since a REIT generally is not itself subject to corporate-level income tax on distributed earnings, meaning most REIT dividends generally do not qualify for the preferential qualified dividend rate available to many other corporate dividends.

91. D — A limited partner's distributive share of partnership income is generally excluded from self-employment tax, since a limited partner generally does not actively participate in the partnership's management or operations, unlike a general partner, whose distributive share generally is subject to self-employment tax as net earnings from self-employment under the general partnership self-employment tax rules.

92. C — A statutory employee, a specific worker classification such as certain full-time life insurance salespersons or traveling salespersons, generally reports income and related business expenses on Schedule C, similar to a self-employed individual, though the statutory employee generally remains exempt from self-employment tax since the employer already withheld and paid Social Security and Medicare tax on those wages.

93. D — If a taxpayer's personal use of a vacation home exceeds the greater of 14 days or 10% of the total days actually rented at fair rental value, the home is generally treated as a personal residence rather than a genuine rental property, generally limiting deductible rental expenses to the rental income actually reported, similar to the family-rental below-market rules.

94. B — A distribution from a Coverdell Education Savings Account used for a beneficiary's qualifying education expenses, including elementary, secondary, or postsecondary tuition, is generally entirely tax-exempt to the extent the distribution does not exceed the beneficiary's qualifying expenses for the year, similar in general concept to the tax-exempt treatment generally available for a qualifying 529 plan distribution.

95. C — A multi-member LLC that elects, or defaults, to be taxed as a partnership generally files Form 1065, the partnership return, reporting the entity's own overall income and expense, and generally issues each member a Schedule K-1 reporting that specific member's own distributive share, which the member then generally reports on the member's own individual Form 1040.

96. A — When an individual files for Chapter 7 bankruptcy, a separate bankruptcy estate is generally created as a distinct taxable entity for certain purposes, while the individual debtor generally continues filing the debtor's own separate individual income tax return reporting personal income, meaning the two remain generally distinct taxpayers for federal reporting purposes during the bankruptcy proceeding.

97. C — A capital gain distribution received from a mutual fund is generally treated as long-term capital gain, taxed at the applicable preferential rate, regardless of how long the individual taxpayer actually held the mutual fund shares personally, since the character of the distribution generally is determined by the fund's own underlying holding period for the distributed securities.

98. A — A taxpayer who reinvests eligible capital gain proceeds into a qualified opportunity fund within the applicable statutory window generally may defer recognition of the original reinvested gain until a specific later triggering date, and may also potentially receive further tax benefits, including a reduction of tax on the new investment's own appreciation, depending on the holding period.

99. D — Qualifying reimbursements an employee receives from an employer-funded Health Reimbursement Arrangement, entirely funded by the employer rather than through any employee salary reduction, are generally entirely tax-exempt to the employee, provided the reimbursements are actually used for substantiated qualifying medical expenses, similar in general concept to the tax-free treatment generally available under a qualifying health savings account.

100. B — A distribution of trust corpus, the underlying principal of a trust, is generally not taxable income to the beneficiary receiving it, since corpus is generally treated as a nontaxable return of the trust's own original principal, distinguishing this nontaxable portion from the trust's accumulated current-year income, which is generally taxable to the beneficiary under the general conduit principle.