PRACTICE EXAM 18: 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 1098 showing mortgage interest paid that seems inconsistent with the client's own known loan balance and interest rate. What is the preparer's generally recommended first step?

A. Accept the form exactly as presented without further verification, since a lender-issued Form 1098 is generally presumed accurate in every case
B. Reduce the reported interest amount by half automatically, assuming a clerical error occurred without any further investigation
C. Verify the figure with the client and, if warranted, review the loan's own amortization schedule before relying on the form as presented
D. Refuse to prepare the return until the lender issues a corrected form, even where the client could confirm the figures directly

2. A preparer's client asks about the general retention period a client itself should maintain for supporting documentation after filing a return. What is the general recommended retention practice for the client?

A. Generally recommends the client discard all supporting records immediately after the return is filed and accepted, since no client retention obligation exists
B. Generally recommends the client retain supporting records for at least the applicable statute of limitations period, generally three years, though longer in certain situations
C. Generally recommends the client retain records for exactly thirty days only, rather than for the longer statute of limitations period

D. Generally recommends the client retain records indefinitely with no defined period, since no best-practice guideline exists for this question

3. A preparer's client asks whether the preparer generally must ask about a client's cryptocurrency staking rewards received during the year. What is the general answer regarding this specific inquiry obligation?

A. Generally yes; staking rewards generally constitute taxable income upon receipt, so a preparer should proactively ask about this type of digital asset activity

B. Generally no; staking rewards are generally treated as entirely nontaxable under current law regardless of the amount actually received by the taxpayer

C. Generally yes, but only if the client volunteers the information first, with no independent inquiry obligation otherwise resting on the preparer

D. Generally no; staking reward inquiry obligations apply only to a CPA, with an Enrolled Agent being exempt from this due diligence step

4. A preparer's client asks about the general purpose of an engagement letter at the start of a new preparer-client relationship. What is the general purpose this specific document generally serves?

A. Generally serves exclusively as a marketing brochure describing the preparer's own credentials, with no actual contractual or scope-defining function at all

B. Generally serves no actual practical purpose, existing only as an optional cosmetic document with no genuine effect on the engagement

C. Generally authorizes the preparer to represent the client before the IRS, the same specific function Form 2848 already serves

D. Generally documents the scope of services, fee arrangement, and mutual responsibilities, helping avoid a later misunderstanding between the preparer and the client

5. A preparer's client asks whether the preparer generally must inquire about a client's foreign rental property income when preparing the client's individual return. What is the general answer to this question?

A. Generally no; foreign rental income is generally treated as entirely nontaxable to a United States citizen regardless of the property's own location

B. Generally yes, but only if the property actually generates a loss, with no similar inquiry obligation applying to a property generating income

C. Generally yes; a preparer generally should ask about foreign rental activity, since such income is generally taxable and may trigger additional reporting obligations

D. Generally no; foreign rental income inquiry obligations apply only to a CPA, with an Enrolled Agent being exempt from this due diligence step

6. A preparer's client asks about the general difference between an IRS Letter 525 and a Notice of Deficiency in the context of a proposed examination adjustment. What is the general distinction?

A. A Letter 525 and a Notice of Deficiency are generally functionally identical documents, with no meaningful distinction between the two

B. A Letter 525 generally proposes an adjustment and invites a response before assessment, while a Notice of Deficiency generally follows and starts the Tax Court petition period

C. A Notice of Deficiency generally precedes a Letter 525 in every case, the exact reverse of the actual general sequence of these notices

D. A Letter 525 generally applies only to a business return, while a Notice of Deficiency generally applies only to an individual return

7. A preparer's client asks whether a preparer generally may charge a contingent fee based on a percentage of the client's own refund amount. What is the general Circular 230 standard on this practice?

A. Generally prohibited in most circumstances, since a contingent fee tied to a return's outcome generally raises concerns about independence and aggressive positions

B. Generally fully permitted without restriction, since Circular 230 generally imposes no fee-structure standard on a paid preparer of any kind

C. Generally permitted only if the client actually consents in writing, with no other limitation applying to this specific type of fee arrangement

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

8. A preparer's client asks about the general purpose of an IRS Wage and Income Transcript when reconstructing a return for a prior year with missing records. What is the general purpose this specific transcript generally serves?

A. Generally serves exclusively as a record of the taxpayer's own prior payments made directly to the IRS, rather than of any third-party information return

B. Generally serves no actual practical purpose, existing only as an optional cosmetic document with no genuine informational content for reconstruction purposes

C. Generally compiles the information returns, such as Forms W-2 and 1099, that third parties reported to the IRS for that specific taxpayer and year

D. Generally serves exclusively as the taxpayer's own filed return itself, rather than as any compilation of third-party reported information

9. A preparer's client asks whether the preparer generally must verify a client's own claimed filing status before preparing the return, particularly where the client states an informal separation from a spouse. What is the general answer?

A. Generally no; a preparer generally may rely entirely on the client's own stated filing status without ever asking any clarifying question

B. Generally yes, but only if the client's return actually results in a refund, with no similar verification obligation applying otherwise

C. Generally no; filing status verification obligations generally apply only to a CPA, with an Enrolled Agent being exempt from this due diligence step

D. Generally yes; a preparer generally should ask clarifying questions about the client's actual marital and living situation before relying on a stated filing status

10. A preparer's client asks about the general purpose of an IRS Account Transcript compared to a Tax Return Transcript. What is the general distinction between these two specific types of transcripts?

A. An Account Transcript generally shows account activity, such as payments and penalties, while a Tax Return Transcript generally shows the line items as originally filed

B. An Account Transcript and a Tax Return Transcript are generally functionally identical documents, with no meaningful distinction between the two

C. A Tax Return Transcript generally shows account activity such as payments, while an Account Transcript generally shows the original filed line items

D. An Account Transcript generally applies only to a business taxpayer, while a Tax Return Transcript generally applies only to an individual taxpayer

11. A preparer's client asks whether the preparer generally must advise the client about the risk of identity theft when the client mentions receiving an unexpected IRS notice about a return the client never filed. What is the general answer?

A. Generally no; an unexpected notice about an unfiled return generally requires no specific advice at all, since it is generally a routine, harmless occurrence

B. Generally yes, but only if the client actually confirms the identity theft directly with a law enforcement agency first, before receiving any preparer advice

C. Generally no; discussing identity theft risk is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

D. Generally yes; the preparer generally should advise the client to respond promptly and consider filing an identity theft affidavit given this specific red flag

12. A preparer's client asks about the general purpose of a client organizer, a standardized intake questionnaire, used at the start of tax season. What is the general purpose this specific tool generally serves?

A. Generally serves exclusively as a marketing tool with no actual informational content relevant to preparing the client's own return

B. Generally helps the preparer systematically gather relevant information and identify potential issues before beginning actual preparation of the client's return

C. Generally serves no actual practical purpose, existing only as an optional cosmetic document with no genuine effect on preparation accuracy

D. Generally serves exclusively as the client's own signed authorization for e-filing, the same specific function a Form 8879 already serves

13. A preparer's client asks whether the preparer generally must independently confirm a client's own marital status through a public record before preparing a joint return. What is the general recommended practice?

A. Generally must obtain a certified copy of the marriage certificate before ever preparing any joint return under any circumstance

B. Generally must contact the state vital records office directly to confirm marital status before preparing any joint return

C. Generally may rely on the client's own credible representation of marital status unless a specific fact makes that representation implausible or suspect

D. Generally has no obligation at all to consider marital status, and should prepare the return using whatever status the client requests

14. A preparer's client asks about the general purpose of Form 4506-T, Request for Transcript of Tax Return. What is the general purpose this specific form generally serves for a preparer or client?

A. Generally allows a taxpayer, or an authorized third party, to request a transcript of a prior-year return or account directly from the IRS

B. Generally serves exclusively as the form used to actually amend a prior-year return, rather than to request any transcript from the IRS

C. Generally serves no actual practical purpose, existing only as an optional cosmetic form with no genuine transcript-requesting function

D. Generally serves exclusively as the client's own power of attorney authorization, the same specific function a Form 2848 already serves

15. A preparer's client asks whether the preparer generally has an obligation to advise the client about estimated tax payment requirements after the client starts receiving substantial rental income for the first time. What is the general answer?

A. Generally no; a preparer generally has no obligation at all to mention estimated payments, since that responsibility belongs entirely to the client

B. Generally yes; a preparer generally should advise the client that rental income generally is not subject to withholding and may require quarterly estimated payments

C. Generally yes, but only if the rental activity actually generates a loss, with no similar advisory obligation applying to a profitable rental

D. Generally no; estimated payment advice is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

16. A preparer's client asks about the general purpose of the IRS's Get Transcript Online tool available directly to an individual taxpayer. What is the general purpose this specific self-service tool generally serves?

A. Generally serves exclusively as the platform through which a taxpayer must actually electronically file an original return, rather than any transcript tool

B. Generally serves no actual practical purpose, existing only as an optional cosmetic webpage with no genuine transcript-retrieval function

C. Generally serves exclusively as a payment portal for a taxpayer to pay a balance due, rather than serving any transcript-related purpose

D. Generally allows an individual taxpayer to view and download a transcript directly, without needing to submit a paper request or wait for mail delivery

17. A taxpayer's total income includes a payment received from a former employer as a retention bonus paid to induce the taxpayer to remain employed through a company merger. How is this specific retention bonus generally treated?

A. Generally entirely tax-exempt, since a retention bonus is generally treated as a nontaxable gift from the employer rather than as compensation

B. Generally taxable only at a reduced flat 10% rate reserved for a retention bonus, rather than at the taxpayer's own ordinary wage rate

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

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

18. A taxpayer's total income includes interest earned on a certificate of deposit held at a bank, credited to the taxpayer's account but not yet withdrawn by year-end. How is this specific credited interest generally treated?

A. Generally not taxable until the taxpayer actually withdraws the interest from the account, regardless of when the interest was actually credited

B. Generally taxable only at a reduced flat 10% rate reserved for certificate of deposit interest, rather than at ordinary interest income rates

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

D. Generally fully taxable as ordinary interest income in the year credited, regardless of whether the taxpayer actually withdrew the interest from the account

19. A taxpayer's total income includes a payment received from a former employer as payment for accrued but unused paid time off, paid out upon the taxpayer's involuntary layoff rather than voluntary resignation. How is this payout generally treated?

A. Generally fully taxable as ordinary wage income, subject to regular withholding and employment tax, the same treatment as the taxpayer's other regular wages
B. Generally entirely tax-exempt, since a payout following an involuntary layoff is generally treated as a nontaxable severance-related benefit
C. Generally taxable only at a reduced flat 10% rate reserved for an accrued time off payout, rather than at the taxpayer's own ordinary wage rate
D. Generally treated as self-employment income, subjecting the payout to self-employment tax rather than to the regular payroll withholding

20. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to pay for adoption-related legal fees connected to finalizing the adoption of an eligible child during the year, within the applicable qualified adoption distribution limit. How is this treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a qualified adoption distribution is excluded from taxable income altogether
B. Generally excepted from the 10% early distribution penalty under the qualified birth or adoption exception, though the distribution remains includible in ordinary taxable income
C. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to a 401(k) plan, not an IRA
D. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the adoption

21. A taxpayer's total income includes a payment received from a state as a wildfire evacuation relief payment, issued broadly to residents forced to evacuate during a declared emergency, covering temporary lodging costs. How is this relief payment generally treated?

A. Generally not taxable income under the qualified disaster relief payment exclusion, since the payment reimburses reasonable and necessary personal expenses from a declared disaster

B. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a hazard pay bonus for work actually performed

C. Generally taxable only at a reduced flat 10% rate reserved for a disaster relief payment, rather than being entirely excluded

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

22. A taxpayer's total income includes a distribution received from a traditional 401(k) plan taken due to a qualified disaster distribution provision enacted for a specific federally declared disaster affecting the taxpayer's own principal residence. How is this treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a qualified disaster distribution is excluded from taxable income altogether

B. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to an IRA, not a 401(k) plan

C. Generally excepted from the 10% early distribution penalty under the applicable qualified disaster distribution provision, though the distribution remains includible in taxable income

D. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the disaster

23. A taxpayer's total income includes a payment received from an employer as a moving expense reimbursement for a nonmilitary relocation, paid outside of any accountable plan arrangement. How is this specific reimbursement generally treated under current law?

A. Generally entirely tax-exempt, since a moving expense reimbursement is generally excluded from taxable income regardless of the taxpayer's own military status

B. Generally taxable only at a reduced flat 10% rate reserved for a moving expense reimbursement, rather than at the taxpayer's own ordinary wage rate

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

D. Generally fully taxable as ordinary wage income, since the moving expense deduction and its related exclusion are generally suspended for a nonmilitary taxpayer under current law

24. A taxpayer's total income includes a payment received from a former spouse as spousal support under a post-2018 divorce agreement, structured as a fixed monthly payment terminating upon the recipient's remarriage. How is this specific payment generally treated for the recipient?

A. Generally fully taxable as ordinary income to the recipient, the same treatment that historically applied to alimony under a pre-2019 agreement

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

C. Generally taxable only at a reduced flat 10% rate reserved for post-2018 alimony, rather than being entirely excluded from taxable income

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

25. A taxpayer's total income includes a distribution received from a traditional IRA taken while the taxpayer is a qualified reservist called to active duty for more than 179 days. How is this qualified reservist distribution generally treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a qualified reservist distribution is excluded from taxable income altogether

B. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to a 401(k) plan, not an IRA

C. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the reservist's call to active duty

D. Generally excepted from the 10% early distribution penalty under the qualified reservist distribution exception, though the distribution remains includible in ordinary taxable income

26. A taxpayer's total income includes a payment received from a company as a finder's fee for referring a new client to that company, paid as a one-time flat amount unrelated to the taxpayer's own regular employment. How is this finder's fee generally treated?

A. Generally fully taxable as other income, or as self-employment income if the referral activity rises to the level of a trade or business

B. Generally entirely tax-exempt, since a finder's fee is generally treated as a nontaxable gift rather than as any form of compensation

C. Generally taxable only at a reduced flat 10% rate reserved for a finder's fee, rather than at ordinary income tax rates

D. Generally treated identically to a security deposit refund, and therefore generally excluded entirely from the taxpayer's own gross income

27. A taxpayer's total income includes a distribution received from a health savings account used to pay for over-the-counter medication purchased without a prescription, following current law that expanded the definition of qualifying medical expense to include such items. How is this distribution generally treated?

A. Generally fully taxable as ordinary income, since over-the-counter medication generally never qualifies as a medical expense regardless of any legislative change

B. Generally entirely tax-exempt, since current law generally treats over-the-counter medication as a qualifying medical expense for HSA distribution purposes, without requiring a prescription

C. Generally subject to the 20% additional tax penalty automatically, regardless of the underlying nature of the over-the-counter medication actually purchased

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

28. A taxpayer's total income includes a payment received from an employer under an employee assistance program covering a limited number of confidential counseling sessions provided at no cost to the employee. How is this specific employer-provided benefit generally treated?

A. Generally fully taxable as ordinary wage income, exactly the same treatment that generally applies to a cash bonus paid for performance

B. Generally taxable only at a reduced flat 10% rate reserved for this specific type of benefit, rather than being potentially excludable

C. Generally excludable from the employee's taxable wages, since a genuine employee assistance program benefit of this type is generally treated as a nontaxable working condition or de minimis fringe benefit

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

29. A taxpayer's total income includes a distribution received from a traditional IRA taken due to a terminal illness diagnosis meeting the applicable specific statutory definition for this early distribution exception. How is this terminal illness distribution generally treated regarding the 10% penalty?

A. Generally excepted from the 10% early distribution penalty under the terminal illness exception, though the distribution remains includible in ordinary taxable income

B. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a terminal illness distribution is excluded from taxable income altogether

C. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to a 401(k) plan, not an IRA

D. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the diagnosis

30. A taxpayer's total income includes a payment received as a settlement for emotional distress damages arising directly from a personal physical injury the taxpayer suffered in an automobile accident. How is this specific emotional distress settlement generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a settlement for purely emotional distress with no physical injury

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

C. Generally not taxable income, since emotional distress damages that originate from a personal physical injury generally share the same tax-exempt treatment as the underlying physical injury award

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

31. A taxpayer's total income includes a distribution received from a traditional IRA taken by a taxpayer diagnosed with a domestic abuse situation, meeting the applicable specific statutory requirements for this relatively new early distribution exception. How is this treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a domestic abuse victim distribution is excluded from taxable income altogether

B. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to a 401(k) plan, not an IRA

C. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the circumstances

D. Generally excepted from the 10% early distribution penalty under the domestic abuse victim exception, up to an applicable dollar limit, though the distribution remains includible in taxable income

32. A taxpayer's total income includes a payment received from a former employer as payment under a golden parachute arrangement triggered by a change in corporate control, exceeding a specific applicable statutory threshold. How is the excess portion of this payment generally treated?

A. Generally entirely tax-exempt, since a golden parachute payment is generally treated as a nontaxable severance benefit regardless of the payment's total size

B. Generally subject to an additional 20% excise tax on the excess parachute payment, in addition to the regular income tax otherwise applicable to that same payment

C. Generally taxable only at a reduced flat 10% rate reserved for a golden parachute payment, rather than being subject to any additional excise tax

D. Generally treated as self-employment income, subjecting the payment to self-employment tax rather than to any additional excise tax

33. A taxpayer's total income includes a distribution received from a traditional IRA taken to cover the cost of a federally declared major disaster recovery expense, exceeding the applicable qualified disaster distribution dollar limit for the specific disaster involved. How is the excess portion generally treated?

A. Generally, the entire distribution remains fully excepted from the 10% penalty regardless of the amount, since disaster-related distributions are never subject to any dollar limit

B. Generally, the excess portion is generally entirely tax-exempt, since exceeding the dollar limit generally converts the entire distribution into a nontaxable event

C. Generally, the excess portion beyond the applicable qualified disaster distribution dollar limit is generally treated as an ordinary early distribution, subject to the regular 10% penalty absent another applicable exception

D. Generally, the excess portion is generally treated as self-employment income, rather than continuing to be treated as any form of retirement distribution

34. A taxpayer's total income includes a payment received from a former employer as a payment for a covenant not to solicit former coworkers, agreed to as a condition of the taxpayer's own voluntary separation agreement. How is this specific non-solicitation payment generally treated?

A. Generally entirely tax-exempt, since a non-solicitation payment is generally treated as a nontaxable return of the taxpayer's own prior compensation
B. Generally fully taxable as ordinary income, since a payment for agreeing to a covenant not to solicit generally represents compensation for the taxpayer's agreement to refrain from a future activity
C. Generally treated entirely as long-term capital gain, exactly the same treatment that generally applies to a gain on a capital asset sale
D. Generally treated as a nontaxable gift from the former employer, rather than as any form of currently taxable compensation

35. A taxpayer's total income includes a distribution received from a traditional IRA taken to pay for the taxpayer's own health insurance premiums while the taxpayer is receiving unemployment compensation for at least twelve consecutive weeks. How is this specific distribution generally treated?

A. Generally excepted from the 10% early distribution penalty under the unemployed health insurance premium exception, though the distribution remains includible in ordinary taxable income
B. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since this specific distribution is excluded from taxable income altogether
C. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to a 401(k) plan, not an IRA
D. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the unemployment

36. A taxpayer's total income includes a payment received from a former employer as a payment for accrued, unused paid parental leave, paid out in a lump sum upon the taxpayer's resignation shortly after returning from leave. How is this specific payout generally treated?

A. Generally entirely tax-exempt, since a lump-sum accrued parental leave payout is generally treated as a nontaxable return of the employee's own earned time off
B. Generally taxable only at a reduced flat 10% rate reserved for an accrued parental leave payout, rather than at the taxpayer's own ordinary wage rate
C. Generally treated as self-employment income, subjecting the payout to self-employment tax rather than to the regular payroll withholding
D. Generally fully taxable as ordinary wage income, subject to regular withholding and employment tax, the same treatment as the taxpayer's other regular wages

37. A taxpayer itemizes deductions and paid for a genetic testing service recommended by a physician to help diagnose a specific medical condition the taxpayer was experiencing symptoms of. How is this specific genetic testing cost generally treated?

A. Generally includible as a qualifying medical expense, combined with the taxpayer's other unreimbursed medical costs, deductible only above the 7.5%-of-adjusted-gross-income floor

B. Generally entirely nondeductible, since genetic testing is generally treated as a nondeductible personal expense regardless of any underlying medical necessity

C. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense

D. Generally deductible in an unlimited amount with no applicable percentage-of-income floor, unlike other qualifying medical expenses

38. A taxpayer claims the Lifetime Learning Credit for tuition paid toward the taxpayer's own continuing education, and the taxpayer's modified adjusted gross income falls within the applicable phase-out range. What is the general effect of this income level on the credit?

A. Generally, income level has no effect at all on the available credit amount, since this credit applies with no income-based limitation

B. Generally, the available credit amount is generally reduced proportionally as income rises through the applicable phase-out range, until it is fully eliminated

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

D. Generally, exceeding the phase-out threshold converts the credit into a larger refundable amount, rather than reducing it

39. A taxpayer claims an itemized deduction for interest paid on a loan used to purchase a timeshare interest that qualifies as the taxpayer's second home under the applicable use requirements. How is this specific timeshare loan interest generally treated?

A. Generally entirely nondeductible, since interest on a timeshare loan is generally always treated as a nondeductible personal interest expense

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

C. Generally deductible as qualified residence interest, provided the timeshare meets the applicable second-home requirements and the combined acquisition debt stays within the applicable overall limit

D. Generally deductible only if the timeshare is actually the taxpayer's sole and exclusive residence, rather than qualifying as a second home

40. A taxpayer donated appreciated cryptocurrency held for more than one year directly to a qualified public charity, rather than first selling the cryptocurrency and donating the cash proceeds. What is the general tax advantage of donating the cryptocurrency directly?

A. Generally provides no advantage at all compared to selling first, since cryptocurrency donations are always taxed identically to a cash donation

B. Generally triggers immediate taxable gain recognition to the taxpayer at the time of the donation, regardless of the charity's own tax-exempt status

C. Generally is prohibited under current law, since a taxpayer may not donate cryptocurrency directly to any qualified charity

D. Generally allows the taxpayer to deduct the cryptocurrency's fair market value while avoiding recognition of the built-in capital gain that a sale would otherwise trigger

41. A taxpayer claims the Child Tax Credit, and the taxpayer's modified adjusted gross income exceeds the applicable phase-out threshold for the taxpayer's filing status. What is the general effect of exceeding this specific threshold on the available credit?

A. Generally, exceeding the threshold has no effect at all on the available credit amount, since the credit applies with no income-based limitation

B. Generally, the credit is either fully allowed or entirely disallowed based on income, with no gradual phase-out ever applying

C. Generally, exceeding the threshold converts the credit into a larger refundable amount, rather than reducing the available credit

D. Generally, the credit is generally reduced by a specific dollar amount for each increment the taxpayer's income exceeds the threshold, until it is fully phased out

42. A taxpayer paid for orthodontic treatment for a dependent child during the year, under a payment plan spanning the current and following tax years. How is the portion of the cost actually paid during the current year generally treated?

A. Generally entirely nondeductible, since orthodontic treatment is generally treated as a nondeductible cosmetic expense regardless of any underlying medical necessity
B. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized medical expense
C. Generally includible as a qualifying medical expense in the year actually paid, combined with the taxpayer's other unreimbursed medical costs, subject to the 7.5% floor
D. Generally deductible only in the year the entire multi-year payment plan is fully completed, rather than as each payment is actually made

43. A taxpayer claims a deduction for interest paid on a loan the taxpayer used to purchase a partnership interest, where the taxpayer materially participates in the partnership's own active trade or business. How is this specific loan interest generally treated?

A. Generally deductible as a business interest expense allocable to the taxpayer's active trade or business activity, rather than being limited to the investment interest expense rules
B. Generally entirely nondeductible, since interest on a loan used to acquire a partnership interest is generally always treated as a nondeductible personal expense
C. Generally deductible only as an itemized deduction subject to the net investment income limitation that applies to investment interest expense
D. Generally deductible only at a reduced flat 50% rate of the interest actually paid, rather than being potentially fully deductible

44. A taxpayer claims a Premium Tax Credit for Marketplace health insurance coverage, and the taxpayer's actual household income for the year ends up lower than originally estimated when applying for coverage. What is the general effect of this specific income discrepancy?

A. Generally, the taxpayer generally must repay the entire advance credit received in every case, regardless of how the actual income compares to the original estimate
B. Generally, the taxpayer generally may be entitled to an additional credit amount when reconciling the credit on the return, since the actual lower income supports a larger credit

C. Generally, income discrepancies of this kind generally have no effect at all on the credit, since the credit is fixed once initially estimated
D. Generally, the taxpayer generally loses eligibility for the credit entirely once any discrepancy between estimated and actual income is discovered

45. A taxpayer claims a deduction for unreimbursed expenses incurred while performing volunteer work for a qualified charity, specifically out-of-pocket costs for supplies purchased and used directly in the volunteer service. How are these specific volunteer expenses generally treated?

A. Generally entirely nondeductible, since a volunteer's own unreimbursed expense is generally always treated as a nondeductible personal expense regardless of the charitable connection
B. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized charitable contribution deduction
C. Generally deductible only if the volunteer actually receives a formal written acknowledgment from the charity documenting the specific service performed
D. Generally deductible as a charitable contribution, since an unreimbursed out-of-pocket expense directly connected to volunteer service for a qualified charity generally qualifies for this treatment

46. A taxpayer claims a deduction for mileage driven using a personal vehicle while performing volunteer work for a qualified charity. What is the general standard mileage rate applicable to this specific type of charitable driving, compared to the business standard mileage rate?

A. Generally, the charitable mileage rate is generally identical to the business standard mileage rate, with both rates adjusted annually by the IRS
B. Generally, the charitable mileage rate is generally higher than the business standard mileage rate, the exact reverse of the actual general relationship
C. Generally, the charitable mileage rate is generally set by statute at a fixed rate and generally is lower than the business standard mileage rate the IRS adjusts annually
D. Generally, no specific mileage rate at all applies to charitable driving, requiring the taxpayer to instead deduct actual out-of-pocket vehicle expenses only

47. A taxpayer claims an Adoption Credit for qualifying expenses paid toward the adoption of an eligible foreign child, where the adoption has not yet become final by the end of the tax year. What is the general timing rule for claiming this credit?

A. Generally, the credit generally is claimed in the year expenses are actually paid regardless of whether the adoption is domestic or foreign

B. Generally, for a foreign adoption, the credit generally is not claimed until the year the adoption actually becomes final, unlike the different timing rule for a domestic adoption

C. Generally, no credit at all is ever available for a foreign adoption, unlike the credit generally available for a domestic adoption

D. Generally, the credit generally must be claimed in the year the adoption proceeding first begins, rather than in the year finalized

48. A taxpayer claims a deduction for interest paid on a loan used to purchase municipal bonds that generate tax-exempt interest income. How is this specific loan interest generally treated?

A. Generally entirely nondeductible, since interest on a loan used to purchase or carry tax-exempt securities is generally disallowed under a specific statutory rule

B. Generally deductible in full as investment interest expense, exactly the same treatment that generally applies to a loan used to purchase taxable securities

C. Generally deductible only above a 2%-of-adjusted-gross-income floor, the same floor that historically applied to certain miscellaneous itemized deductions

D. Generally deductible as an above-the-line adjustment to income, rather than as any form of itemized investment interest expense

49. A taxpayer claims a deduction for a cash contribution made to a qualified charity through a text-message-based donation platform, where the contribution appeared as a charge on the taxpayer's own phone bill. What is the general substantiation standard for this specific type of contribution?

A. Generally, no substantiation at all is generally required for a text-message-based donation, regardless of the specific total amount actually donated during the year

B. Generally, a telephone bill showing the donated amount, the date, and the recipient organization generally satisfies the applicable substantiation requirement for this type of contribution

C. Generally, only a formal written receipt issued directly by the recipient charity itself generally satisfies the substantiation requirement for this type of contribution

D. Generally, a text-message-based contribution is generally entirely nondeductible under current law, since only a direct cash contribution qualifies

50. A taxpayer claims a deduction for a home office used exclusively and regularly for the taxpayer's own self-employed consulting business, computed using the actual expense method rather than the simplified method. What expense category generally requires an additional depreciation recapture consideration upon an eventual home sale?

A. Generally, home office depreciation claimed under the actual expense method generally must be recaptured as unrecaptured Section 1250 gain upon the eventual sale of the home

B. Generally, no depreciation recapture consideration at all applies to a home office, regardless of which specific method the taxpayer actually used to compute the deduction

C. Generally, the simplified method generally also requires the same specific depreciation recapture consideration that the actual expense method requires upon an eventual sale

D. Generally, depreciation recapture generally applies only to a home office in a rental property, not to a home office in the taxpayer's own personal residence

51. A taxpayer claims a Retirement Savings Contributions Credit for a contribution made to a Roth IRA, and the taxpayer is a full-time student for at least five months of the year. What is the general effect of this specific student status on eligibility for this credit?

A. Generally, full-time student status has no effect at all on eligibility for this credit, since student status is never a relevant eligibility factor

B. Generally, a full-time student generally becomes eligible for an enhanced, larger version of this credit specifically because of the student status

C. Generally, a full-time student generally is ineligible for this credit, since the applicable eligibility requirements specifically exclude a taxpayer who was a full-time student for the required period

D. Generally, a full-time student generally remains eligible for this credit only if the contribution is made to a traditional IRA rather than a Roth IRA

52. A taxpayer claims an itemized deduction for real property tax paid on land the taxpayer holds purely as a vacant, unimproved investment, generating no current rental or business income. How is this specific vacant land property tax generally treated?

A. Generally entirely nondeductible, since property tax on vacant, unimproved land is generally always treated as a nondeductible personal expense

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

C. Generally deductible without limitation, exempt from the overall $10,000 aggregate cap that applies to most other state and local tax payments

D. Generally includible as part of the taxpayer's overall state and local tax itemized deduction, subject to the same overall $10,000 aggregate cap that applies to this deduction category

53. A taxpayer claims a deduction for a cash contribution made to a qualified charity, and the taxpayer received a tote bag of minimal value in exchange for the donation. How is the taxpayer's deductible contribution generally treated given this specific token benefit?

A. Generally, the full contribution generally remains deductible without any reduction, since a token or de minimis benefit generally does not reduce the deductible amount

B. Generally, the deductible contribution generally must be reduced by the tote bag's own fair market value, regardless of how minimal that value actually is

C. Generally, the entire contribution generally becomes entirely nondeductible once the taxpayer receives any benefit at all in exchange for the donation

D. Generally, only 50% of the contribution generally remains deductible whenever the taxpayer receives any benefit at all in return for the donation

54. A taxpayer claims a deduction for interest paid on a loan used to fund the taxpayer's own contribution to a traditional IRA. How is this specific loan interest generally treated for itemized or above-the-line deduction purposes?

A. Generally deductible in full as investment interest expense, exactly the same treatment that generally applies to a loan used to purchase taxable securities

B. Generally deductible as an above-the-line adjustment to income, in addition to the separate deduction for the underlying IRA contribution itself

C. Generally entirely nondeductible, since interest on a loan used to fund an IRA contribution is generally treated as nondeductible personal interest under current law

D. Generally deductible only above a 2%-of-adjusted-gross-income floor, the same floor that historically applied to certain miscellaneous itemized deductions

55. A taxpayer claims a deduction for a cash contribution made to a qualified charity, where the taxpayer's total charitable contributions for the year exceed 60% of the taxpayer's adjusted gross income. What is the general treatment of the excess contribution beyond that percentage limitation?

A. Generally, the excess contribution beyond the applicable percentage limitation is generally permanently forfeited and lost, with no carryforward of any kind available

B. Generally, the excess contribution beyond the applicable percentage limitation generally becomes deductible immediately as an above-the-line adjustment instead

C. Generally, the excess contribution beyond the applicable percentage limitation generally converts automatically into a nonrefundable tax credit rather than a deduction

D. Generally, the excess contribution beyond the applicable percentage limitation generally may be carried forward and deducted in one of the five succeeding tax years

56. A taxpayer claims a deduction for interest paid on a loan used to purchase a vacation home the taxpayer also occasionally rents out, where the taxpayer's personal use does not exceed the applicable personal-use threshold for the year. How is this specific mortgage interest generally treated?

A. Generally entirely nondeductible, since interest on a vacation home that is also occasionally rented out is generally treated as a nondeductible personal expense

B. Generally allocated between deductible qualified residence interest for the personal-use portion and deductible rental expense for the rental-use portion, based on the days of use

C. Generally deductible in full as qualified residence interest, with no allocation required at all between the personal and rental use of the home

D. Generally deductible in full as a rental expense on Schedule E, with no allocation required at all between the personal and rental use

57. A taxpayer's total tax liability includes tax computed after recognizing a gain on the sale of a partnership interest, where a portion of the gain is attributable to the partnership's own unrealized receivables and inventory items. How is this specific portion of the gain generally characterized?

A. Generally characterized as ordinary income under the hot assets rules, rather than as capital gain, to the extent attributable to unrealized receivables and inventory

B. Generally characterized entirely as capital gain, exactly the same treatment that generally applies to the remaining portion of the gain attributable to the partnership's other assets

C. Generally characterized entirely as ordinary income for the full amount of the gain, regardless of what portion is actually attributable to any specific asset category

D. Generally characterized as an entirely tax-exempt recovery of the taxpayer's own prior partnership capital contribution, rather than as taxable gain of any kind

58. A taxpayer's total tax liability includes tax computed on a distribution the taxpayer received from a traditional IRA in the year the taxpayer turns age 73, the applicable required beginning date for required minimum distributions. What is the general consequence of failing to take this specific distribution timely?

A. Generally, a failure to take the required minimum distribution timely generally has no consequence at all beyond a simple written warning letter from the IRS

B. Generally, a failure to take the full required minimum distribution timely generally triggers an excise tax on the shortfall, in addition to the regular income tax on any amount actually distributed

C. Generally, a failure to take the required minimum distribution timely generally results in the entire IRA account being forcibly liquidated by the IRS

D. Generally, a failure to take the required minimum distribution timely generally converts the entire account into a Roth IRA automatically as a penalty

59. A taxpayer's total tax liability includes tax computed after recognizing a gain from an involuntary conversion of business property, where insurance proceeds from a fire loss exceeded the property's own adjusted basis. What is the general deferral mechanism available for this specific type of gain?

A. Generally, no deferral mechanism at all is available for this type of gain, requiring the taxpayer to recognize the entire gain immediately

B. Generally, the taxpayer may generally permanently exclude the entire gain from taxation, rather than merely deferring recognition of that gain to a later year

C. Generally, the gain generally converts automatically from capital gain to ordinary income, rather than continuing to be eligible for any deferral election

D. Generally, the taxpayer may generally elect to defer the gain by reinvesting the proceeds in qualifying replacement property within the applicable statutory replacement period

60. A taxpayer's total tax liability includes tax computed after applying the at-risk rules to a loss from an activity the taxpayer invested in using both cash and a nonrecourse loan for which the taxpayer bears no personal liability. What is the general effect of the at-risk rules on this specific loss?

A. Generally, the at-risk rules have no effect at all on the deductible loss, and the entire loss remains fully deductible regardless of financing source

B. Generally, the at-risk rules generally apply only to a corporation, with an individual taxpayer's own activity generally being entirely exempt from this limitation

C. Generally, the deductible loss is generally limited to the taxpayer's own amount actually at risk in the activity, generally excluding the nonrecourse loan amount from that at-risk basis

D. Generally, the nonrecourse loan amount generally increases the taxpayer's deductible loss beyond the cash invested, the exact reverse of the actual general effect

61. A taxpayer's total tax liability includes tax computed after recognizing income under the accrual method of accounting used by the taxpayer's own sole proprietorship, rather than the cash method most individual taxpayers use. What is the general timing difference between these two accounting methods for recognizing income?

A. Generally, the accrual method and the cash method generally produce an identical timing result in every case, with no meaningful difference between the two methods

B. Generally, the accrual method generally recognizes income only when actually received in cash, exactly the same timing rule that the cash method generally uses

C. Generally, the accrual method generally recognizes income when earned, regardless of when payment is actually received, while the cash method generally recognizes income when actually received

D. Generally, the cash method generally recognizes income when earned regardless of receipt, the exact reverse of the actual general cash method timing rule

62. A taxpayer's total tax liability includes tax computed after recognizing a like-kind exchange gain that was only partially deferred because the taxpayer also received cash boot in addition to the qualifying replacement property. How is this specific boot generally treated?

A. Generally, the taxpayer generally must recognize gain to the extent of the boot received, up to the total realized gain, even though the remaining gain continues to be deferred

B. Generally, receiving any boot at all generally disqualifies the entire exchange from receiving any deferral treatment, requiring full gain recognition on the whole transaction

C. Generally, boot received in a like-kind exchange generally remains entirely tax-deferred, exactly the same treatment that applies to the qualifying replacement property itself

D. Generally, boot received in a like-kind exchange generally is taxed as ordinary income rather than as capital gain, regardless of the underlying property's own character

63. A taxpayer's total tax liability includes tax computed after recognizing income from a below-market loan the taxpayer made to a family member, where the imputed interest rules generally apply because the loan exceeded the applicable exempt threshold amount. What is the general effect of these imputed interest rules?

A. Generally, the imputed interest rules generally have no effect at all on a loan made between family members, regardless of the loan's own actual size

B. Generally, the lender generally must recognize imputed interest income based on the applicable federal rate, even though no actual interest was ever charged on the loan

C. Generally, only the borrower, and never the lender, generally must recognize any imputed interest income under these specific below-market loan rules

D. Generally, the imputed interest rules generally apply only to a loan made by a corporation, with an individual lender being entirely exempt

64. A taxpayer's total tax liability includes tax computed after applying the wash sale rule to a loss realized on the sale of a mutual fund, where the taxpayer's spouse purchased substantially identical shares in the same fund within the applicable 30-day window. How does a spouse's purchase generally affect the wash sale determination?

A. Generally, a spouse's own separate purchase generally has no effect at all on the wash sale determination, since only the taxpayer's own direct purchase is ever considered

B. Generally, a spouse's own purchase generally triggers the wash sale rule only if the couple actually files a joint return for that specific tax year

C. Generally, a spouse's own purchase generally converts the disallowed loss into a permanently forfeited loss, rather than merely adding it to the replacement shares' basis

D. Generally, a purchase by the taxpayer's own spouse within the applicable window generally triggers the wash sale rule, disallowing the loss to the same general extent as if the taxpayer made the purchase directly

65. A taxpayer's total tax liability includes tax computed after recognizing a gain from the sale of depreciable real property, specifically the portion of gain attributable to straight-line depreciation previously claimed. How is this specific unrecaptured Section 1250 gain generally taxed?

A. Generally taxed at the identical maximum 20% rate that generally applies to an ordinary long-term capital gain, with no distinction between the two categories
B. Generally taxed entirely at the taxpayer's own ordinary marginal income tax rate, rather than at any form of preferential long-term capital gain rate
C. Generally entirely tax-exempt, since unrecaptured Section 1250 gain is generally excluded from taxation under a specific statutory provision unrelated to depreciation
D. Generally taxed at a maximum rate of 25%, a higher maximum specific rate than the 20% maximum rate that generally applies to an ordinary long-term capital gain

66. A taxpayer's total tax liability includes tax computed after recognizing a loss from a Section 1244 small business stock sale, where the taxpayer originally acquired the stock directly from a qualifying small corporation. What is the general benefit of Section 1244 treatment for this specific loss?

A. Generally allows the taxpayer to treat a portion of the loss as an ordinary loss, rather than as a capital loss, up to an applicable annual dollar limit
B. Generally provides no special benefit at all, since Section 1244 stock is generally taxed identically to any other capital asset regardless of the loss
C. Generally requires the taxpayer to treat the entire loss as a capital gain rather than as any form of deductible loss under current law
D. Generally allows the taxpayer to permanently defer the loss indefinitely, rather than actually deducting any portion of the loss in the current year

67. A taxpayer's total tax liability includes tax computed after recognizing a gain from the sale of qualified opportunity fund investment held for the full statutory ten-year period required to receive the maximum available benefit. What is the general tax benefit for this specific fully-held investment?

A. Generally provides no additional benefit at all beyond the original gain deferral, regardless of how long the taxpayer actually holds the qualified opportunity fund investment
B. Generally allows the taxpayer to permanently exclude the new investment's own post-acquisition appreciation from taxation, in addition to the original deferral of the reinvested gain
C. Generally requires the taxpayer to recognize the entire original deferred gain immediately upon reaching the ten-year holding period, rather than at an earlier triggering date
D. Generally converts the entire investment into an entirely tax-exempt asset, eliminating even the originally deferred gain from ever becoming taxable at all

68. A taxpayer's total tax liability includes tax computed after recognizing a gain from the sale of a rental property subject to the passive activity loss rules, where the taxpayer had suspended passive losses from other unrelated passive activities. What is the general effect of this specific sale on those other suspended losses?

A. Generally, selling any passive activity generally releases all suspended losses from every other unrelated passive activity the taxpayer owns, regardless of any connection

B. Generally, selling one passive activity generally converts all suspended losses from other activities into fully deductible nonpassive losses immediately upon that sale

C. Generally, selling one passive activity generally has no direct effect at all on suspended losses from a wholly separate, unrelated passive activity, which generally remain suspended

D. Generally, selling one passive activity generally eliminates and permanently forfeits all suspended losses from every other unrelated passive activity the taxpayer owns

69. A taxpayer's total tax liability includes tax computed after applying the related-party loss disallowance rule to a loss on the sale of stock sold to the taxpayer's own adult sibling. How is this specific related-party loss generally treated?

A. Generally, the loss is generally disallowed entirely to the seller, though the related-party purchaser generally may later use the disallowed loss to offset gain on a future resale

B. Generally, the loss remains fully deductible to the seller without any limitation at all, since a sibling generally is not treated as a related party

C. Generally, the loss is generally disallowed permanently to both the seller and the related-party purchaser, with no future use of the loss ever available

D. Generally, the loss generally converts automatically into an ordinary loss rather than a capital loss, rather than being disallowed under this specific rule

70. A taxpayer's total tax liability includes tax computed after recognizing income from a constructive dividend the IRS determined arose from the taxpayer's own excessive compensation drawn from a closely held C corporation the taxpayer controls. How is this specific constructive dividend generally treated?

A. Generally entirely tax-exempt to the taxpayer, since a constructive dividend is generally treated as a nontaxable return of the taxpayer's own capital

B. Generally taxable as dividend income to the taxpayer, rather than continuing to be treated as deductible wage compensation to the corporation, upon the IRS's own recharacterization

C. Generally taxable only at a reduced flat 10% rate reserved for a constructive dividend, rather than at ordinary dividend income tax rates

D. Generally treated as self-employment income to the taxpayer, subjecting the constructive dividend to self-employment tax rather than to dividend tax treatment

71. A taxpayer's total tax liability includes tax computed after recognizing a gain from the sale of a principal residence acquired through a 1031 like-kind exchange years earlier, before later converting the replacement property to the taxpayer's own personal residence. What is the general effect of the prior like-kind exchange on the taxpayer's Section 121 exclusion eligibility?

A. Generally, the prior like-kind exchange generally has no effect at all on Section 121 exclusion eligibility, and the standard two-year ownership rule applies

B. Generally, converting like-kind exchange property to a personal residence generally disqualifies the property permanently and entirely from any future Section 121 exclusion

C. Generally, a specific extended five-year ownership requirement generally applies before the Section 121 exclusion becomes available for property acquired through a prior like-kind exchange

D. Generally, the prior like-kind exchange generally accelerates Section 121 eligibility, requiring only a one-year ownership period rather than the standard two-year period

72. A taxpayer's total tax liability includes tax computed after applying the transportation fringe benefit exclusion to employer-provided parking, where the value of the parking exceeds the applicable monthly statutory limit. How is the excess amount above that limit generally treated?

A. Generally, the entire value of the employer-provided parking generally remains fully excludable regardless of how much the value actually exceeds the applicable monthly limit

B. Generally, the entire value of the employer-provided parking generally becomes fully taxable once any portion exceeds the applicable monthly statutory limit

C. Generally, the excess value above the applicable monthly limit generally is treated as self-employment income rather than as taxable wage income

D. Generally, the excess value above the applicable monthly statutory limit generally is includible in the employee's taxable wages, while the amount up to that limit remains excludable

73. A taxpayer's total tax liability includes tax computed after recognizing a gain from the sale of stock the taxpayer received as a gift, where the stock's fair market value at the time of the gift was lower than the original donor's own adjusted basis. What general basis rule applies if the taxpayer later sells the stock at a loss?

A. Generally, for determining a loss, the taxpayer's basis generally is always the donor's own original higher basis, the exact reverse of the actual applicable dual-basis rule

B. Generally, the taxpayer generally may not recognize any loss at all on gifted stock under any circumstance, regardless of the applicable basis used

C. Generally, the taxpayer's basis for determining a loss generally is a simple average of the donor's own basis and the gift-date fair market value

D. Generally, for determining a loss, the taxpayer's basis generally is the lower fair market value at the time of the gift, rather than the donor's own original higher basis

74. A taxpayer's total tax liability includes tax computed after recognizing a gain on the sale of stock the taxpayer acquired through a nonqualified employee stock purchase plan without any discount feature, effectively purchased at full fair market value. How is the entire gain on an eventual sale of this specific stock generally treated?

A. Generally treated entirely as ordinary income regardless of the taxpayer's own holding period, since any employee stock purchase plan always generates ordinary income

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

C. Generally treated entirely as capital gain, long-term or short-term depending on the taxpayer's holding period, since no compensation element existed at the time of purchase

D. Generally entirely tax-exempt, since stock purchased at full fair market value through any employer-sponsored plan is generally excluded from taxation

75. A taxpayer asks a preparer for general guidance on the tax consequences of gifting appreciated stock directly to a qualified charity rather than selling the stock and donating the cash proceeds. What general advantage would a preparer typically explain about this specific approach?

A. Generally explains that donating the stock directly avoids recognizing the built-in capital gain while still allowing a deduction for the stock's full fair market value

B. Generally explains that this approach provides no advantage at all compared to selling first, since donations are always taxed identically to cash

C. Generally explains that donating stock directly triggers immediate taxable gain to the taxpayer, unlike selling first and donating the cash proceeds

D. Generally explains that this approach is prohibited under current law whenever the donated stock has appreciated in value since purchase

76. A taxpayer asks a preparer for general guidance on the tax consequences of splitting a large traditional IRA distribution across two calendar years rather than taking it all in a single year. What general benefit would a preparer typically explain about this specific timing strategy?

A. Generally explains that splitting the distribution provides no benefit at all, since the combined tax owed is always identical regardless of timing

B. Generally explains that spreading the distribution across two years can generally keep more of the income within a lower marginal tax bracket in each year

C. Generally explains that splitting the distribution generally triggers an additional early distribution penalty not otherwise applicable to a single lump-sum distribution

D. Generally explains that splitting the distribution is prohibited under current law once a taxpayer reaches the required minimum distribution age

77. A taxpayer asks a preparer for general guidance on the tax consequences of establishing an irrevocable life insurance trust to hold a life insurance policy, rather than owning the policy individually. What general estate tax benefit would a preparer typically explain about this specific arrangement?

A. Generally explains that properly structuring the trust can generally keep the policy's death benefit outside the taxpayer's own taxable estate, unlike individual ownership

B. Generally explains that this arrangement provides no estate tax benefit at all, since life insurance proceeds are always included in the taxable estate

C. Generally explains that establishing this type of trust generally triggers immediate income tax on the policy's own full death benefit amount

D. Generally explains that this arrangement is available only to a taxpayer who already has a terminal illness diagnosis at the time of establishment

78. A taxpayer asks a preparer for general guidance on the tax implications of converting a traditional 401(k) balance to a Roth 401(k) balance within the same employer plan, sometimes called an in-plan Roth conversion. What general consideration would a preparer typically raise about this specific option?

A. Generally raises no consideration at all, since an in-plan Roth conversion generally has no tax consequence of any kind to the taxpayer
B. Generally raises the consideration that the converted amount generally becomes taxable in the year of conversion, similar to an IRA-to-Roth-IRA conversion
C. Generally raises the consideration that an in-plan Roth conversion is generally available only to a taxpayer who has already separated from the employer
D. Generally raises the consideration that an in-plan Roth conversion generally triggers the 10% early distribution penalty regardless of the taxpayer's own age

79. A taxpayer asks a preparer for general guidance on the tax consequences of paying for a grandchild's private K-12 tuition directly, rather than gifting the equivalent cash amount to the grandchild's parent first. What general advantage would a preparer typically explain about this specific direct-payment approach?

A. Generally explains that paying tuition directly provides no advantage at all compared to gifting the equivalent cash amount to the parent first
B. Generally explains that a direct tuition payment generally triggers immediate taxable income to the grandchild, unlike gifting the equivalent cash amount
C. Generally explains that a tuition payment made directly to the institution generally is excluded from gift tax considerations, regardless of the annual gift tax exclusion amount
D. Generally explains that a direct tuition payment is prohibited under current law whenever the payer is not the child's own parent

80. A taxpayer asks a preparer for general guidance on the tax consequences of using a qualified opportunity fund investment to defer a large capital gain recognized from selling a business. What general timing consideration would a preparer typically raise about this specific deferral strategy?

A. Generally raises no timing consideration at all, since a qualified opportunity fund investment may generally be made at any time without any specific deadline

B. Generally raises the consideration that the reinvestment generally must occur within a five-year window, rather than within a much shorter statutory period

C. Generally raises the consideration that the deferral election generally becomes permanent and irrevocable the moment the underlying gain-triggering sale actually occurs

D. Generally raises the consideration that the reinvestment generally must occur within the applicable 180-day statutory window following the original gain-triggering sale

81. A taxpayer asks a preparer for general guidance on the tax consequences of taking distributions from a taxable brokerage account before tapping a traditional IRA in early retirement, a strategy sometimes called asset location sequencing. What general benefit would a preparer typically explain about this specific ordering?

A. Generally explains that this ordering provides no benefit at all, since the total tax owed over a lifetime is always identical regardless of sequencing

B. Generally explains that drawing from taxable accounts first can generally allow the tax-deferred IRA balance to continue growing before required distributions begin

C. Generally explains that drawing from taxable accounts first generally triggers an additional early distribution penalty not otherwise applicable to the IRA

D. Generally explains that this ordering is prohibited under current law once a taxpayer reaches the required minimum distribution age

82. A taxpayer asks a preparer for general guidance on the tax consequences of naming a charity as a partial beneficiary of a traditional IRA, alongside individual family members as the other beneficiaries. What general advantage would a preparer typically explain about this specific beneficiary structuring?

A. Generally explains that naming a charity as an IRA beneficiary provides no advantage at all compared to naming a charity through the taxpayer's own will

B. Generally explains that naming a charity as an IRA beneficiary generally disqualifies the individual family member beneficiaries from any distribution at all

C. Generally explains that allocating the charity's share from the IRA, rather than from other estate assets, can generally reduce the overall income tax burden on the family

D. Generally explains that naming a charity as an IRA beneficiary generally triggers immediate income tax to the taxpayer during the taxpayer's own lifetime

83. A taxpayer asks a preparer for general guidance on the tax consequences of timing a large equipment purchase for a sole proprietorship to occur in December rather than waiting until January of the following year. What general factor would a preparer typically identify as most relevant to this specific timing decision?

A. Generally identifies the comparison between the taxpayer's current-year and next-year expected marginal tax bracket as the most relevant factor in this timing decision
B. Generally identifies that timing the purchase makes no difference at all, since the total lifetime depreciation deduction always remains identical regardless of timing
C. Generally identifies that purchasing in December generally disqualifies the equipment from bonus depreciation, unlike purchasing in January of the following year
D. Generally identifies that this comparison involves no relevant tax consideration at all, since equipment purchase timing is treated as a purely operational decision

84. A taxpayer asks a preparer for general guidance on the tax consequences of a 529 plan rollover to a Roth IRA for the plan's own designated beneficiary, available under a relatively new provision once specific applicable requirements are met. What general limitation would a preparer typically explain about this specific rollover option?

A. Generally explains that no limitation at all applies to this rollover, and the taxpayer may generally roll over the entire 529 account balance at any time
B. Generally explains that this rollover is generally available only to a beneficiary who never actually attended any postsecondary educational institution
C. Generally explains that this rollover generally requires the beneficiary to be under age 18 at the specific time the rollover is actually made
D. Generally explains that the rollover generally is subject to an applicable lifetime dollar cap and generally must come from a 529 account maintained for a specific minimum number of years

85. A taxpayer asks a preparer for general guidance on the tax consequences of gifting a portion of a highly appreciated vacation home to adult children now, rather than having them inherit the property at the taxpayer's own death. What general trade-off would a preparer typically explain about this specific timing decision?

A. Generally explains that gifting now generally transfers the taxpayer's own lower carryover basis, while inheriting at death generally provides the children a stepped-up basis instead

B. Generally explains that gifting now and inheriting at death generally produce an identical basis result for the children in every case

C. Generally explains that gifting now generally provides the children a stepped-up basis, the exact reverse of the actual general basis treatment

D. Generally explains that this comparison involves no relevant tax consideration at all, since basis treatment is unrelated to the timing of a property transfer

86. A taxpayer asks a preparer for general guidance on the tax consequences of establishing a backdoor Roth IRA strategy in a year the taxpayer also plans to roll over an old employer 401(k) balance into a traditional IRA. What general complication would a preparer typically explain about combining these two actions?

A. Generally explains that combining these two actions generally has no complications at all, and the entire backdoor conversion always remains completely tax-free

B. Generally explains that this combination is generally entirely prohibited under current law, regardless of the specific order in which the taxpayer completes each step

C. Generally explains that rolling the 401(k) into a traditional IRA first generally increases the taxpayer's aggregate IRA balance used in the pro-rata rule, potentially making a larger portion of the backdoor conversion taxable

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

87. A taxpayer asks a preparer for general guidance on the tax consequences of choosing a Roth 401(k) elective deferral over a traditional 401(k) elective deferral during a relatively low-income early-career year. What general rationale would a preparer typically explain for favoring the Roth option in this specific situation?

A. Generally explains that the Roth option provides no advantage at all during a low-income year, since both options always produce an identical after-tax result

B. Generally explains that a traditional 401(k) deferral is generally always preferable regardless of the taxpayer's own current versus expected future tax bracket

C. Generally explains that choosing a Roth 401(k) deferral generally disqualifies the taxpayer from receiving any employer matching contribution for that specific year

D. Generally explains that paying tax on the contribution now, while in a lower current bracket, can generally be more advantageous than deferring tax to a potentially higher future bracket

88. A taxpayer's individual income tax return reports a distributive share of income from a partnership subject to the centralized partnership audit regime, where the IRS assessed an imputed underpayment directly against the partnership itself. How does this specific audit regime generally differ from the prior partner-level assessment approach?

A. Generally, the audit regime generally functions identically to the prior partner-level approach, with no meaningful difference in how any assessment is collected
B. Generally, the tax is generally assessed and collected directly at the partnership level by default, rather than being passed through to each individual partner
C. Generally, the tax is generally always assessed against only the partnership's managing general partner individually, rather than against the partnership entity itself
D. Generally, the audit regime generally applies only to a partnership with fewer than ten partners, exempting any larger partnership from its own scope

89. A taxpayer's individual income tax return reports income earned by a special needs trust established for the sole benefit of the taxpayer's own disabled child, structured as a third-party special needs trust funded by the taxpayer rather than with the child's own assets. How is income earned within this specific trust generally taxed?

A. Generally, all income earned within any special needs trust is generally entirely tax-exempt under current law, regardless of the trust's own specific structure
B. Generally, the trust generally is taxed as a complex trust under the normal trust income tax rules, unless it separately qualifies for the specific qualified disability trust exemption amount
C. Generally, income earned within a special needs trust generally must always be reported directly on the disabled child's own personal income tax return
D. Generally, a third-party special needs trust is generally taxed identically to a grantor trust, requiring the income to be reported by the taxpayer who funded it

90. A taxpayer's individual income tax return reports income from a real estate professional's own rental activities, where the taxpayer meets the applicable material participation and hours-based requirements to qualify as a real estate professional. What is the general effect of this specific qualification on the passive activity loss limitation?

A. Generally, qualifying as a real estate professional has no effect at all on the passive activity loss limitation, and the usual restriction fully continues to apply

B. Generally, qualifying as a real estate professional generally disqualifies the taxpayer entirely from ever deducting any rental loss, regardless of income level

C. Generally, a qualifying real estate professional's rental real estate losses generally are treated as nonpassive, allowing them to offset the taxpayer's other ordinary income without the usual passive limitation

D. Generally, qualifying as a real estate professional generally converts all rental income into self-employment income subject to self-employment tax

91. A taxpayer's individual income tax return reports income earned as a professional gambler who conducts the activity regularly, continuously, and with the primary purpose of earning a livelihood. How does reporting gambling activity as a professional gambler generally differ from reporting it as a casual, recreational gambler?

A. Generally, a professional gambler generally reports net gambling activity on Schedule C, potentially deducting ordinary and necessary business expenses beyond just gambling losses themselves

B. Generally, a professional gambler and a casual gambler are generally taxed identically in every respect, with no meaningful reporting distinction between the two

C. Generally, a professional gambler generally may exclude all gambling winnings from taxable income entirely, unlike a casual gambler, who must report all winnings

D. Generally, a professional gambler generally must report gambling losses only up to a fixed statutory dollar cap, unlike a casual gambler, who has no such cap

92. A taxpayer's individual income tax return reports a distributive share of income from a family limited partnership established primarily to facilitate the transfer of a family business to the next generation while retaining some control for the senior generation. How is the limited partner's own distributive share generally taxed?

A. Generally, a family limited partnership's own distributive share is generally always entirely tax-exempt, regardless of the underlying character of the partnership's income

B. Generally, a family limited partnership's own distributive share generally must always be reported directly on the senior generation's own personal income tax return instead

C. Generally, a family limited partnership is generally taxed identically to a C corporation, requiring the entity itself to pay tax on all its own income

D. Generally, the limited partner's distributive share generally is taxed the same as any other limited partnership interest, reported on Schedule K-1 and generally excluded from self-employment tax absent active participation

93. A taxpayer's individual income tax return reports income from an installment sale to a related party, where the related-party purchaser resold the property within two years of the original installment sale. What is the general effect of this specific related-party resale on the original seller's deferred installment gain?

A. Generally, the related-party resale generally has no effect at all on the original seller's deferred gain, which continues under the normal installment schedule

B. Generally, the related-party resale generally eliminates the original seller's remaining deferred gain entirely, converting it into a permanently nontaxable amount

C. Generally, the related-party resale generally accelerates recognition of the remaining deferred gain to the original seller, subject to certain applicable exceptions

D. Generally, the related-party resale generally converts the original seller's remaining deferred gain into ordinary income rather than continuing as capital gain

94. A taxpayer's individual income tax return reports a distributive share of income from a real estate investment trust operating partnership, sometimes structured as an UPREIT, where the taxpayer holds operating partnership units rather than REIT shares directly. How does holding these specific units generally differ from holding REIT shares directly?

A. Generally, an operating partnership unit and a REIT share are generally functionally identical for tax reporting purposes, with no meaningful reporting distinction

B. Generally, an operating partnership unit holder generally receives no tax reporting document at all, unlike a direct REIT shareholder, who always receives Form 1099-DIV

C. Generally, an operating partnership unit is generally taxed as a fully tax-exempt asset, unlike a REIT share, which generally generates fully taxable dividend income

D. Generally, the operating partnership unit holder generally receives a Schedule K-1 reporting a distributive share of partnership income, rather than the Form 1099-DIV a direct REIT shareholder generally receives

95. A taxpayer's individual income tax return reports income from a nonresident alien spouse who elects, jointly with the taxpayer, to be treated as a resident alien for the entire tax year in order to file a joint return. What is the general effect of this specific joint election on the nonresident spouse's own income?

A. Generally, once the election is made, both spouses generally are taxed on their combined worldwide income, rather than limiting the nonresident spouse to only United States-source income

B. Generally, the joint election has no effect at all on the nonresident spouse's income, which continues to be taxed only on United States-source income

C. Generally, the joint election generally applies only to the resident spouse's own income, with the nonresident spouse's income remaining entirely unaffected

D. Generally, the joint election generally exempts both spouses entirely from any United States income tax on either spouse's worldwide income

96. A taxpayer's individual income tax return reports income earned as a nonemployee, gig-economy rideshare driver operating through a mobile app-based platform. What tax forms does this type of worker generally use to report both the underlying business income and the resulting self-employment tax?

A. Generally reports all business income directly as wages on Form 1040 alone, with no separate schedule required for either income or self-employment tax purposes

B. Generally reports business income and expenses on Schedule C, and generally computes the resulting self-employment tax on Schedule SE, both attached to the individual Form 1040

C. Generally reports business income on Schedule E, the same schedule generally used for rental and royalty income, rather than on Schedule C

D. Generally has no reporting obligation at all beyond simply retaining the platform's own year-end earnings summary for the driver's own personal records

97. A taxpayer's individual income tax return reports a distributive share of income from a limited liability partnership formed by a group of licensed professionals, such as attorneys, who each remain personally liable for their own individual malpractice. How is a partner's distributive share of income from this specific entity generally taxed?

A. Generally, a limited liability partnership is generally always taxed as a C corporation by default, requiring the entity itself to pay tax on all income

B. Generally, a limited liability partnership's own distributive share is generally always entirely tax-exempt, regardless of the underlying character of the entity's income

C. Generally, the entity generally is taxed as a partnership by default, with each partner reporting a distributive share of income on the partner's own Schedule K-1

D. Generally, each partner's distributive share generally must always be reported directly on a wholly separate individual partnership return, apart from the partner's own personal return

98. A taxpayer's individual income tax return reports income earned as a household employer under Schedule H, and the taxpayer also separately underwithheld federal income tax from the taxpayer's own regular wages during the year. How are these two distinct tax obligations generally reconciled on the taxpayer's individual return?

A. Generally, the Schedule H household employment tax generally must be paid through a wholly separate filing, entirely apart from the taxpayer's own individual Form 1040

B. Generally, both the Schedule H household employment tax and any underwithheld regular income tax are generally combined and reported together as part of the taxpayer's total tax liability on Form 1040

C. Generally, only one of these two obligations may generally be reported in any given tax year, requiring the taxpayer to defer the other to a future year

D. Generally, the household employment tax generally offsets and eliminates any separate underwithholding liability, rather than the two being combined as separate amounts

99. A taxpayer's individual income tax return reports income earned through a series LLC structure, where a single parent LLC establishes multiple protected series, each holding separate real estate rental properties. How is each series generally treated for federal income tax purposes absent specific published guidance treating each series as a separate entity?

A. Generally, each individual series generally is automatically treated as its own wholly separate taxpaying entity, requiring a separate federal return for every series

B. Generally, a series LLC structure generally is entirely disregarded for federal income tax purposes, with no reporting obligation of any kind for any series

C. Generally, each individual series generally is taxed as a C corporation by default, requiring corporate-level tax on that series's own separate income

D. Generally, absent clear separate-entity treatment, the entire series LLC generally is treated as a single taxpayer for federal income tax purposes, reporting combined activity

100. A taxpayer's individual income tax return reports income from a charitable remainder trust the taxpayer established, receiving an annual annuity payment from the trust while the remainder interest passes to a designated charity upon the trust's termination. How are the taxpayer's own annual annuity payments generally taxed under the applicable tier system?

A. Generally, distributions generally are taxed under a specific four-tier ordering system, taxing ordinary income first, then capital gain, then other income, and finally tax-free corpus
B. Generally, distributions generally are always entirely tax-exempt to the taxpayer, since the ultimate remainder beneficiary is a qualified charity
C. Generally, distributions generally are always taxed entirely as capital gain, regardless of the underlying character of the trust's own income for the year
D. Generally, distributions generally are taxed entirely as ordinary income in every case, with no tiered ordering system applying to a charitable remainder trust

Answer Key and Explanations — Practice Exam 18

1. C — When a source document shows a figure inconsistent with other known facts, a preparer generally should verify the amount with the client and, if warranted, review supporting documentation such as an amortization schedule, rather than blindly accepting or unilaterally altering the reported figure without any further inquiry into the discrepancy.

2. B — A preparer generally should advise the client to retain supporting documentation for at least the applicable statute of limitations period, generally three years from filing, though longer in certain situations such as a substantial income understatement, worthless securities, or a claimed bad debt, where a longer applicable look-back period generally applies instead.

3. A — A preparer generally should proactively ask a client about cryptocurrency staking rewards received during the year, since such rewards generally constitute taxable income at their fair market value upon receipt, and the individual return generally requires the taxpayer to answer a specific digital asset question under penalty of perjury each year.

4. D — An engagement letter generally documents the scope of services to be provided, the applicable fee arrangement, and the mutual responsibilities of both the preparer and the client, generally helping to avoid a later misunderstanding about what the engagement did or did not cover, distinct from the separate representation authority a Form 2848 provides.

5. C — A preparer generally should proactively ask a client about foreign rental property income, since such income is generally taxable to a United States citizen or resident regardless of where the property is located, and may also trigger additional reporting obligations, such as an FBAR filing if the taxpayer holds a related foreign financial account.

6. B — A Letter 525, the examination report, generally proposes an adjustment and invites the taxpayer to respond or request an appeal before any formal assessment, while a Notice of Deficiency generally follows if the matter remains unresolved, starting the specific 90-day period during which the taxpayer may petition the Tax Court.

7. A — Circular 230 generally prohibits a preparer from charging a contingent fee for preparing an original return, since a fee tied to the outcome generally creates an incentive toward aggressive or unsupportable positions, though limited exceptions exist, such as representing a client in connection with an IRS examination or a refund claim on an amended return.

8. C — An IRS Wage and Income Transcript generally compiles the information returns, such as Forms W-2, 1099, and Schedule K-1, that third parties reported to the IRS for a specific taxpayer and tax year, generally providing a useful tool for a preparer reconstructing a prior-year return when the client's own original records are missing or incomplete.

9. D — A preparer generally should ask clarifying questions about a client's actual marital and living situation, particularly where an informal separation is mentioned, before relying on a stated filing status, since the correct filing status generally depends on specific facts, such as whether the couple lived apart for the last six months of the year.

10. A — An Account Transcript generally shows a taxpayer's account activity, including payments, penalties, and adjustments, while a Tax Return Transcript generally shows most line items from the return as originally filed, without reflecting any subsequent amendment, making each transcript useful for a different specific purpose depending on what information the preparer actually needs.

11. D — A preparer generally should advise a client who receives an unexpected notice about a return the client never filed to respond promptly and consider filing Form 14039, an identity theft affidavit, since this specific scenario generally represents a red flag for identity theft requiring timely action to protect the client's own account and future filings.

12. B — A client organizer generally helps a preparer systematically gather relevant information about income, deductions, life changes, and other items before beginning actual preparation, generally supporting a more complete and accurate return by prompting the client to consider categories of information the client might otherwise overlook or simply forget to mention.

13. C — A preparer generally may rely on a client's own credible representation of marital status unless a specific fact makes the representation implausible or suspect, consistent with the general due diligence standard of reasonable inquiry rather than independently verifying every client-provided fact through a formal public record search each and every time.

14. A — Form 4506-T generally allows a taxpayer, or an authorized third party with proper authorization, to request a transcript of a prior-year return or account activity directly from the IRS, generally useful when reconstructing missing records, verifying prior filings, or supporting a loan application requiring income verification from the IRS itself.

15. B — A preparer generally should advise a client newly receiving substantial rental income that such income generally is not subject to withholding, unlike wage income, and may require the client to begin making quarterly estimated tax payments to avoid an underpayment penalty, since the client may not otherwise realize this specific additional filing obligation exists.

16. D — The IRS Get Transcript Online tool generally allows an individual taxpayer to view and download an available transcript directly through an authenticated online account, without needing to submit a paper Form 4506-T request or wait for mail delivery, generally providing faster access to the same underlying transcript information for the taxpayer's own recordkeeping or reconstruction purposes.

17. C — A retention bonus paid by an employer to induce a taxpayer to remain employed through a merger is generally fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, since the payment generally represents additional compensation tied to continued employment.

18. D — Interest credited to a taxpayer's certificate of deposit account is generally fully taxable as ordinary interest income in the year it is actually credited, under the general constructive receipt doctrine, regardless of whether the taxpayer actually withdraws the interest before year-end or leaves it in the account to compound further.

19. A — A lump-sum payment for unused accrued paid time off, paid upon an involuntary layoff, is generally fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, since the reason for separation generally does not change the payout's underlying character as deferred compensation.

20. B — A traditional IRA distribution used for adoption-related expenses connected to finalizing an eligible child's adoption, within the applicable qualified birth or adoption distribution limit, is generally excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty is excepted here.

21. A — A qualified disaster relief payment, such as a wildfire evacuation relief payment covering temporary lodging costs during a declared emergency, is generally excludable from gross income, since the payment reimburses reasonable and necessary personal expenses incurred as a result of the declared disaster, rather than representing compensation for services rendered.

22. C — A qualified disaster distribution taken from a traditional 401(k) plan due to a federally declared disaster affecting the taxpayer's principal residence is generally excepted from the 10% early distribution penalty under the applicable disaster relief provision, though the distribution itself remains includible in ordinary taxable income, often with an option to spread that income over three years.

23. D — A moving expense reimbursement paid to a nonmilitary employee is generally fully taxable as ordinary wage income under current law, since both the moving expense deduction and its related exclusion from income are generally suspended for a nonmilitary taxpayer, unlike the more favorable treatment that continues to apply to a qualifying active-duty military relocation.

24. B — Spousal support paid under a post-2018 divorce or separation agreement is generally not taxable income to the recipient, since current law generally provides that such payments are neither deductible by the paying spouse nor includible in the recipient's gross income, regardless of the payment's specific structure or its termination upon remarriage.

25. D — A traditional IRA distribution taken by a qualified reservist called to active duty for more than 179 days is generally excepted from the 10% early distribution penalty under this specific exception, though the distribution itself generally remains includible in ordinary taxable income, with an option for the reservist to later repay the distribution back into the IRA.

26. A — A finder's fee received for referring a new client is generally taxable as other income, or potentially as self-employment income subject to self-employment tax if the referral activity is regular and continuous enough to rise to the level of a trade or business, rather than being a single isolated transaction.

27. B — An HSA distribution used to purchase over-the-counter medication is generally entirely tax-exempt under current law, since the qualifying medical expense definition was expanded to include such items without requiring a prescription, a more favorable treatment than the older rule that once required a prescription for this specific category of expense.

28. C — Confidential counseling sessions provided at no cost through an employer's employee assistance program are generally excludable from the employee's taxable wages, since this type of limited, employer-provided benefit is generally treated as a nontaxable fringe benefit, distinct from a cash payment or reimbursement, which would generally require separate analysis under the applicable fringe benefit rules.

29. A — A traditional IRA distribution taken due to a terminal illness diagnosis meeting the applicable specific statutory certification requirement is generally excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty, not the underlying tax, is excepted under this provision.

30. C — Damages received for emotional distress that originates from a personal physical injury, such as the automobile accident here, are generally not taxable income, since the emotional distress component generally is treated as part of the underlying physical injury award, distinct from a settlement for standalone emotional distress unconnected to any actual physical injury, which is generally taxable.

31. D — A traditional IRA distribution taken by a taxpayer who self-certifies as a victim of domestic abuse, meeting the applicable statutory requirements, is generally excepted from the 10% early distribution penalty up to an applicable dollar limit, though the distribution itself generally remains includible in ordinary taxable income, with an option to later repay the distribution.

32. B — An excess parachute payment, the portion of a golden parachute payment exceeding a specific applicable statutory threshold triggered by a change in corporate control, is generally subject to an additional 20% excise tax on the recipient, on top of the regular income tax otherwise applicable, a specific punitive provision intended to discourage an excessively large severance-type payment.

33. C — The portion of a qualified disaster distribution exceeding the applicable specific dollar limit for that particular disaster is generally treated as an ordinary early distribution, remaining subject to the regular 10% early distribution penalty absent another applicable exception, meaning the favorable qualified disaster distribution treatment generally applies only up to that specific capped amount.

34. B — A payment received for agreeing to a covenant not to solicit former coworkers, made as part of a voluntary separation agreement, is generally fully taxable as ordinary income, since the payment generally represents compensation for the taxpayer's agreement to refrain from a specific future activity, similar in general character to a covenant not to compete payment.

35. A — A traditional IRA distribution used to pay health insurance premiums while the taxpayer receives unemployment compensation for at least twelve consecutive weeks is generally excepted from the 10% early distribution penalty under this specific statutory exception, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty is excepted.

36. D — A lump-sum payment for unused accrued paid parental leave, paid upon a taxpayer's resignation, is generally fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, since the payout generally represents deferred compensation for time the employee actually earned but did not use.

37. A — A genetic testing service recommended by a physician to help diagnose a specific medical condition is generally includible as a qualifying medical expense for itemized deduction purposes, combined with the taxpayer's other unreimbursed medical costs, and deductible only to the extent the combined total exceeds 7.5% of the taxpayer's adjusted gross income for the year.

38. B — As a taxpayer's modified adjusted gross income rises through the applicable phase-out range for the Lifetime Learning Credit, the available credit amount is generally reduced proportionally, ultimately fully eliminated once income exceeds the top of that range for the taxpayer's filing status, similar to the phase-out mechanics that apply to several other education-related credits.

39. C — Interest on a loan used to purchase a timeshare interest is generally deductible as qualified residence interest, provided the timeshare meets the applicable requirements to qualify as a second home and the combined acquisition debt on the taxpayer's primary and second home stays within the applicable overall current-law principal limit.

40. D — Donating appreciated cryptocurrency held for more than one year directly to a qualified public charity generally allows the taxpayer to deduct the cryptocurrency's fair market value while avoiding recognition of the built-in capital gain that an outright sale would otherwise trigger, similar to the general tax advantage of donating other appreciated long-term capital gain property such as stock.

41. D — Once a taxpayer's modified adjusted gross income exceeds the applicable phase-out threshold for the Child Tax Credit, the credit is generally reduced by a specific dollar amount for each applicable increment the income exceeds that threshold, continuing until the credit is fully phased out, a gradual reduction rather than an abrupt full disallowance.

42. C — The portion of orthodontic treatment cost a taxpayer actually pays during the current tax year is generally includible as a qualifying medical expense in that same year, combined with the taxpayer's other unreimbursed medical costs and deductible only to the extent the combined total exceeds 7.5% of adjusted gross income, consistent with the general cash-method timing rule for medical expenses.

43. A — Interest on a loan used to purchase a partnership interest in which the taxpayer materially participates is generally deductible as business interest expense allocable to the taxpayer's active trade or business activity, rather than being subject to the more restrictive investment interest expense limitation, which generally applies only when the taxpayer does not materially participate in the underlying activity.

44. B — When a taxpayer's actual household income for the year ends up lower than the estimate used to determine advance Premium Tax Credit payments, the taxpayer generally may be entitled to an additional credit amount when reconciling the credit on the tax return, since the lower actual income generally supports a larger total credit than the amount advanced during the year.

45. D — An unreimbursed out-of-pocket expense directly connected to performing volunteer service for a qualified charity, such as supplies purchased and used in that service, is generally deductible as a charitable contribution, subject to the applicable substantiation requirements, though the value of the volunteer's own time or services itself is never deductible under any circumstance.

46. C — The standard mileage rate for charitable driving is generally set by statute at a fixed rate, 14 cents per mile, and generally remains lower than the business standard mileage rate, which the IRS generally adjusts annually to reflect changing vehicle operating costs, a longstanding distinction between these two specific mileage deduction categories.

47. B — For a foreign adoption, qualifying adoption expenses generally are not eligible for the credit until the year the adoption actually becomes final, unlike the timing rule for a domestic adoption, where qualifying expenses paid in a year before finalization generally may be claimed in the year following payment, reflecting a specific difference in the applicable adoption credit timing rules.

48. A — Interest on a loan used to purchase or carry tax-exempt municipal bonds is generally entirely nondeductible, under a specific statutory rule intended to prevent a taxpayer from generating a deductible expense connected to producing tax-exempt income, a notable exception to the general investment interest expense deduction that otherwise applies to a loan used to purchase taxable securities.

49. B — For a charitable contribution made through a text-message-based donation platform, a telephone bill showing the donated amount, the date of the contribution, and the name of the recipient organization generally satisfies the applicable substantiation requirement, similar in general concept to the substantiation standard that applies to a payroll-deducted charitable contribution.

50. A — A taxpayer who claims home office depreciation using the actual expense method generally must recapture that depreciation as unrecaptured Section 1250 gain upon the eventual sale of the home, a consideration that generally does not arise under the simplified home office method, since the simplified method does not involve any separate depreciation deduction to later recapture.

51. C — A taxpayer who was a full-time student for at least five calendar months during the year generally is ineligible for the Saver's Credit, since the applicable eligibility requirements specifically exclude a full-time student from claiming this credit, regardless of whether the underlying qualifying contribution was actually made to a traditional or a Roth IRA.

52. D — Real property tax paid on vacant, unimproved investment land is generally includible as part of the taxpayer's overall state and local tax itemized deduction, subject to the same overall $10,000 aggregate cap that applies to this deduction category, though the taxpayer alternatively may elect to capitalize certain carrying charges, including this tax, rather than currently deducting it.

53. A — When a taxpayer receives only a token or de minimis benefit, such as a low-cost tote bag, in exchange for a charitable contribution, the full contribution generally remains deductible without any reduction, since the applicable quid pro quo rules generally exempt a benefit below a specific low-value threshold from reducing the taxpayer's otherwise allowable charitable deduction.

54. C — Interest paid on a loan used to fund a taxpayer's own traditional IRA contribution is generally entirely nondeductible, since such interest is generally treated as nondeductible personal interest under current law, similar to interest on a loan used for most other personal, rather than business or investment, purposes generally under the tax code.

55. D — A charitable contribution amount exceeding the applicable adjusted-gross-income percentage limitation for the type of contribution, such as the 60% limit for a cash gift to a public charity, generally may be carried forward and deducted in one of the five tax years following the original contribution, subject to the same percentage limitation each year.

56. B — Mortgage interest on a vacation home used both personally and as a rental, where personal use does not exceed the applicable threshold, is generally allocated between deductible qualified residence interest for the personal-use portion and deductible rental expense on Schedule E for the rental-use portion, based on the relative days of personal versus rental use during the year.

57. A — Upon the sale of a partnership interest, the portion of gain attributable to the partnership's own unrealized receivables and substantially appreciated inventory, collectively referred to as hot assets, is generally characterized as ordinary income under the hot assets rules, rather than receiving the more favorable capital gain treatment applying to the remaining portion of the sale gain.

58. B — A taxpayer who fails to take the full required minimum distribution by the applicable deadline generally faces an excise tax on the shortfall amount, currently generally set at 25%, though this penalty may be reduced to 10% if timely corrected, in addition to the regular income tax owed on whatever amount was actually distributed during the year.

59. D — Under the involuntary conversion rules, a taxpayer who recognizes a gain because insurance proceeds from a fire loss exceeded the destroyed property's adjusted basis generally may elect to defer that gain by reinvesting the proceeds in qualifying replacement property within the applicable statutory replacement period, generally two years from the close of the tax year the gain was realized.

60. C — The at-risk rules generally limit a taxpayer's deductible loss from an activity to the amount the taxpayer actually has at risk, generally including cash invested and amounts borrowed on a recourse basis, but generally excluding a nonrecourse loan for which the taxpayer bears no personal liability, unless that nonrecourse financing meets a specific qualified real property exception.

61. C — Under the accrual method of accounting, a taxpayer generally recognizes income when it is actually earned, regardless of when payment is actually received, while under the cash method, the more common method most individual taxpayers use, income generally is recognized only when actually or constructively received, a fundamental timing distinction between these two general accounting methods.

62. A — In a like-kind exchange, a taxpayer who receives cash or other non-like-kind property, referred to as boot, in addition to qualifying replacement property generally must recognize gain to the extent of the boot received, up to the total realized gain on the exchange, while the remaining gain continues to be deferred under the general like-kind exchange nonrecognition rule.

63. B — Under the imputed interest rules applicable to a below-market loan exceeding the applicable exempt threshold, the lender generally must recognize imputed interest income based on the applicable federal rate, even though no actual interest was charged, while the borrower generally may separately be treated as having paid that imputed interest, which may or may not itself be deductible.

64. D — A purchase of substantially identical securities by a taxpayer's spouse within the applicable 30-day window before or after a loss sale generally triggers the wash sale rule, disallowing the loss to the same extent as if the taxpayer had made the replacement purchase directly, since the IRS treats a spouse's related purchase as sufficiently connected to the original sale.

65. D — Unrecaptured Section 1250 gain, the portion of gain on depreciable real property attributable to straight-line depreciation previously claimed, is generally subject to a maximum 25% tax rate, a higher rate than the 20% maximum rate that generally applies to an ordinary long-term capital gain on other capital assets, reflecting this specific recapture category under current law.

66. A — Section 1244 small business stock treatment generally allows a taxpayer who originally acquired the stock directly from a qualifying small corporation to treat a loss on that stock as an ordinary loss, rather than the less favorable capital loss treatment otherwise applying, up to an applicable annual dollar limit, with any loss beyond that limit remaining a capital loss.

67. B — A taxpayer who holds a qualified opportunity fund investment for the full statutory ten-year period generally may permanently exclude the new investment's own post-acquisition appreciation from taxation entirely, a benefit in addition to the original deferral, and potential partial step-up, applicable to the originally reinvested capital gain that funded the qualified opportunity fund investment in the first place.

68. C — Selling one passive activity in a fully taxable transaction generally releases the suspended losses attributable to that specific activity, but generally has no direct effect on suspended losses attributable to a wholly separate, unrelated passive activity, which generally remain suspended and carried forward until that other activity is itself disposed of or generates sufficient passive income to absorb them.

69. A — Under the related-party loss disallowance rule, a loss on the sale of property, such as stock, to a sibling, who generally is treated as a related party under the applicable statutory definition, is generally disallowed entirely to the seller, though the related-party purchaser may later use the disallowed loss to offset gain recognized on a future resale of that property.

70. B — When the IRS recharacterizes a portion of a shareholder-employee's compensation from a closely held C corporation as unreasonably excessive, that recharacterized amount generally becomes taxable as a constructive dividend to the taxpayer, rather than continuing to be treated as deductible wage compensation, a recharacterization that generally also causes the corporation to lose its own deduction for that same excessive amount.

71. C — When a taxpayer converts property originally acquired through a Section 1031 like-kind exchange into the taxpayer's own personal residence, a specific extended five-year ownership requirement generally applies before the Section 121 home sale exclusion becomes available, a longer holding period than the standard two-year ownership and use test that otherwise generally applies to a principal residence.

72. D — Employer-provided parking is generally excludable from an employee's taxable wages up to an applicable monthly statutory dollar limit, and any value exceeding that specific limit generally is includible in the employee's taxable wages, subject to regular income tax and employment tax withholding, similar to the general treatment that applies to several other qualified transportation fringe benefits under current law.

73. D — Under the dual-basis rule for gifted property that has declined in value, when a taxpayer later sells the gifted stock at a loss, the taxpayer's basis for computing that loss generally is the lower fair market value at the time of the gift, rather than the donor's own original higher adjusted basis, which applies only for determining a subsequent gain.

74. C — Stock acquired through a nonqualified employee stock purchase plan without any discount feature, purchased at full fair market value, generates no compensation element at purchase, so the entire gain on an eventual sale generally is treated as capital gain, long-term or short-term depending on the holding period, unlike a discounted purchase, which generates some ordinary income.

75. A — A preparer would generally explain that donating appreciated stock held long-term directly to a qualified charity generally allows the taxpayer to avoid recognizing the built-in capital gain that a sale would otherwise trigger, while still generally claiming a charitable deduction for the stock's full fair market value, a combined benefit that selling first and donating cash does not provide.

76. B — A preparer would generally explain that spreading a large traditional IRA distribution across two calendar years, rather than taking it all in one year, can generally keep more of the resulting taxable income within a lower marginal tax bracket each year, potentially reducing the taxpayer's combined tax liability compared to recognizing the entire distribution in a single higher-income year.

77. A — A preparer would generally explain that properly establishing and funding an irrevocable life insurance trust to own a life insurance policy can generally keep the policy's death benefit outside the taxpayer's own taxable estate, unlike individually owned life insurance, generally included in the insured's gross estate, though the preparer would recommend involving an estate planning attorney for drafting.

78. B — A preparer would generally raise the consideration that converting a traditional 401(k) balance to a Roth 401(k) balance within the same employer plan generally causes the converted amount to become taxable as ordinary income in the year of conversion, similar to an IRA-to-Roth-IRA conversion, and would generally recommend modeling the resulting tax impact before making this election.

79. C — A preparer would generally explain that a taxpayer who pays a grandchild's tuition directly to the educational institution generally benefits from a specific gift tax exclusion for 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 grandchild's parent.

80. D — A preparer would generally raise the consideration that eligible capital gain proceeds generally must be reinvested into a qualified opportunity fund within the applicable 180-day statutory window following the original gain-triggering sale, and would generally advise the taxpayer to plan ahead given this relatively short specific timeframe for completing the qualifying reinvestment.

81. B — A preparer would generally explain that drawing from a taxable brokerage account before tapping a traditional IRA in early retirement can generally allow the tax-deferred IRA balance to continue growing before required minimum distributions begin, potentially generally reducing the taxpayer's overall lifetime tax burden compared to depleting the taxable account and the IRA simultaneously.

82. C — A preparer would generally explain that allocating a charity's share of an estate from a traditional IRA, rather than other estate assets, can generally reduce the overall income tax burden on the family, since a charity does not pay income tax on its share of the distribution, while a family member beneficiary would owe tax on an inherited IRA distribution.

83. A — A preparer would generally identify the comparison between the taxpayer's current-year and expected next-year marginal tax bracket as the most relevant factor in deciding whether to accelerate a large equipment purchase into December, since claiming the resulting depreciation deduction in the higher-bracket year generally produces a greater current tax benefit than waiting until the following year.

84. D — A preparer would generally explain that a 529 plan to Roth IRA rollover for the plan's designated beneficiary is generally subject to an applicable lifetime dollar cap and generally must come from a 529 account maintained for a specific minimum number of years, among other requirements, meaning the rollover option is not simply an unlimited way to redirect 529 funds.

85. A — A preparer would generally explain that gifting a highly appreciated vacation home to adult children now generally transfers the taxpayer's own lower carryover basis to the children, potentially generating a larger taxable gain when they eventually sell, while having the children instead inherit the property at death generally provides them a stepped-up basis equal to date-of-death fair market value.

86. C — A preparer would generally explain that rolling an old employer 401(k) balance into a traditional IRA in the same year as a backdoor Roth strategy generally increases the taxpayer's aggregate traditional IRA balance used in the pro-rata rule, potentially making a larger portion of the intended tax-free backdoor conversion unexpectedly taxable, and would suggest sequencing these two actions carefully.

87. D — A preparer would generally explain that during a relatively low-income early-career year, electing a Roth 401(k) contribution, taxed now while the taxpayer's current bracket is comparatively low, can generally be more advantageous than a traditional pretax deferral, which defers tax to a potentially higher future bracket once career income grows, letting the account then be withdrawn tax-free later.

88. B — Under the centralized partnership audit regime, an imputed underpayment resulting from an IRS adjustment generally is assessed and collected directly at the partnership level by default, rather than being passed through and separately assessed against each individual partner as under the prior approach, though the partnership may generally elect an alternative push-out procedure instead.

89. B — A third-party special needs trust, funded by a parent rather than with the disabled beneficiary's own assets, generally is taxed as a complex trust under the normal trust income tax rules, though it may separately qualify for the larger qualified disability trust personal exemption amount if the applicable specific requirements for that exemption are also met.

90. C — A taxpayer who qualifies as a real estate professional by meeting the applicable material participation and hours-based requirements generally may treat rental real estate losses as nonpassive, allowing those losses to offset the taxpayer's other ordinary income without the usual passive activity loss limitation, a significant exception to the general rule that treats rental activity as inherently passive.

91. A — Unlike a casual, recreational gambler, who reports gambling winnings as other income and gambling losses only as an itemized deduction limited to winnings, a professional gambler who conducts the activity regularly with the intent of earning a livelihood generally reports net gambling activity on Schedule C, potentially also deducting ordinary and necessary business expenses beyond the gambling losses themselves.

92. D — A limited partner's distributive share of income from a family limited partnership generally is taxed the same as any other limited partnership interest, reported on the partner's own Schedule K-1 and generally excluded from self-employment tax absent active participation in management, regardless of the partnership's own specific estate and gift planning purpose in facilitating the family business transfer.

93. C — When a related-party purchaser resells installment sale property within two years of the original sale, the related-party resale rule generally accelerates recognition of the original seller's remaining deferred installment gain, subject to certain exceptions such as an involuntary conversion or a resale after the death of either party, intended to prevent using related parties to artificially extend gain deferral.

94. D — A taxpayer who holds operating partnership units in an UPREIT structure, rather than REIT shares directly, generally receives a Schedule K-1 reporting a distributive share of the operating partnership's own income, deduction, and credit items, rather than the simpler Form 1099-DIV a direct REIT shareholder generally receives, adding meaningfully more reporting complexity for the unit holder.

95. A — When a taxpayer and a nonresident alien spouse jointly elect to treat the nonresident spouse as a resident alien for the entire tax year in order to file a joint return, both spouses generally become subject to United States tax on their combined worldwide income, rather than the nonresident spouse being limited to United States-source income taxation as otherwise applies.

96. B — A gig-economy rideshare driver operating as a nonemployee independent contractor generally reports business income and related expenses on Schedule C, and generally computes the resulting self-employment tax, covering both the Social Security and Medicare portions, on Schedule SE, with both schedules attached to and flowing into the driver's own individual Form 1040.

97. C — A limited liability partnership formed by licensed professionals, where each partner retains personal liability for the partner's own individual malpractice while limiting liability for a co-partner's malpractice, generally is taxed as a partnership by default for federal purposes, with each partner reporting a distributive share of the entity's income, deduction, and credit items on the partner's own Schedule K-1.

98. B — A taxpayer's Schedule H household employment tax liability and any separate underwithheld regular income tax liability are generally both combined and reported together as part of the taxpayer's total tax liability on the individual Form 1040, meaning the household employer generally does not file a wholly separate return just to satisfy the Schedule H obligation.

99. D — Absent clear guidance treating each protected series as a wholly separate entity, a series LLC generally is treated as a single taxpayer for federal income tax purposes, reporting the combined activity of all its series together, an area where the applicable tax treatment has historically remained somewhat unsettled compared to the clearer state-law liability protections a series structure provides.

100. A — Annual annuity payments a taxpayer receives from a charitable remainder trust the taxpayer established are generally taxed under a specific four-tier ordering system, generally taxing accumulated ordinary income first, then capital gain, then other income such as tax-exempt interest, and finally tax-free return of trust corpus, once the higher tiers of accumulated income have been fully exhausted by prior distributions.