PRACTICE EXAM 19: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

This simulation exam contains 100 multiple-choice questions modeled on the IRS Special Enrollment Examination (SEE) Part 1 — Individuals. Select the single best answer for each question. Suggested time: 3.5 hours. An answer key with explanations follows the exam.

1. A preparer's client provides a Schedule K-1 showing a distributive share amount that does not match the client's own recollection of the partnership's performance for the year. What is the preparer's generally recommended first step?

A. Accept the form exactly as presented without further verification, since a partnership-issued Schedule K-1 is generally presumed accurate in every case

B. Verify the figure with the client and, if warranted, contact the partnership or review the partnership agreement before relying on the form as presented

C. Reduce the reported amount by half automatically, assuming a clerical error occurred without any further investigation into the actual figures

D. Refuse to prepare the return until the partnership issues a corrected form, even where the client could confirm the figures directly

2. A preparer's client asks whether the preparer generally must inquire about a client's own gig-economy delivery driving income when the client did not mention it but the preparer notices a related deduction on last year's return. What is the general answer?

A. Generally yes; a preparer generally should follow up on a prior-year pattern suggesting continued gig activity before assuming the income no longer exists

B. Generally no; a preparer generally may rely entirely on whatever the client states this year, ignoring any pattern from a prior-year return

C. Generally yes, but only if the prior-year income actually exceeded a specific dollar threshold, with no similar inquiry obligation below that threshold

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

3. A preparer's client asks about the general purpose of an IRS Form 2848 line limiting the specific tax matters and years covered. What is the general purpose of this specific scope limitation?

A. Generally serves no actual practical purpose, existing only as an optional field with no genuine effect on the representative's own authority
B. Generally grants the representative authority over every past and future tax year automatically, regardless of what the client actually specified
C. Generally applies only when the representative is an attorney, with an Enrolled Agent being exempt from any scope limitation on the form
D. Generally ensures the representative's authority is limited to the specific matters and years the client actually authorized, rather than granting unlimited blanket authority

4. A preparer's client asks whether the preparer generally must advise the client about the risk of the paid preparer penalty when the client insists on an aggressive but arguable deduction position. What is the general answer to this question?

A. Generally no; a preparer generally has no obligation at all to discuss any penalty risk, since penalty avoidance is solely the client's responsibility
B. Generally yes, but only if the position actually results in additional tax owed, with no similar obligation applying to a refund-generating position
C. Generally yes; the preparer generally should explain the applicable standard for avoiding a preparer penalty, such as substantial authority, before proceeding
D. Generally no; discussing penalty risk is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

5. A preparer's client asks about the general difference between an IRS Appeals conference and a formal Tax Court petition following an unresolved examination adjustment. What is the general distinction between these two options?

A. An Appeals conference generally offers an administrative, often less formal review, while a Tax Court petition generally initiates formal judicial litigation
B. An Appeals conference and a Tax Court petition are generally functionally identical proceedings, with no meaningful distinction between the two

C. A Tax Court petition generally precedes an Appeals conference in every case, the exact reverse of the actual general sequence
D. An Appeals conference generally applies only to a business return, while a Tax Court petition generally applies only to an individual return

6. A preparer's client asks whether a preparer generally may advertise a specific credential, such as Enrolled Agent, alongside a claim of guaranteed IRS audit protection for every client. What is the general Circular 230 standard regarding this specific advertising claim?

A. Generally fully permitted without restriction, since Circular 230 generally imposes no standard on any specific advertising claim of this kind
B. Generally permitted only if the preparer actually has a perfect audit-avoidance track record, with no other limitation applying to this claim
C. Generally prohibited only for a CPA, with an Enrolled Agent being exempt from this specific advertising restriction under current rules
D. Generally prohibited, since a blanket guarantee of audit protection generally is considered a false or misleading statement about the preparer's own services

7. A preparer's client asks about the general purpose of an IRS Notice of Federal Tax Lien filed against the client's own property. What is the general purpose this specific notice generally serves?

A. Generally serves exclusively as a final bill demanding immediate payment, with no effect at all on the government's own priority claim
B. Generally publicly establishes the government's priority claim against the taxpayer's property as security for an unpaid tax liability
C. Generally serves no actual practical purpose, existing only as an optional informational notice with no genuine legal significance
D. Generally serves exclusively to notify the taxpayer of a completed criminal referral, rather than of any civil collection action

8. A preparer's client asks whether the preparer generally must retain a copy of a client's signed disclosure consent when sharing return information with an outside financial planner. What is the general recommended practice?

A. Generally recommends discarding the consent immediately after the disclosure is actually made, since no retention obligation exists for this document

B. Generally recommends retaining the consent for exactly thirty days only, rather than for the longer applicable retention period

C. Generally recommends retaining a copy of the signed consent for the applicable retention period, supporting the preparer's own compliance documentation

D. Generally recommends never obtaining a written consent at all, relying instead entirely on the client's own verbal authorization

9. A preparer's client asks about the general purpose of the IRS's Practitioner Priority Service phone line available to a tax professional. What is the general purpose this specific dedicated line generally serves?

A. Generally serves exclusively as the platform a taxpayer personally uses to file an original return, rather than any phone-based support line

B. Generally serves no actual practical purpose, existing only as an optional informational line with no genuine account-related support function

C. Generally provides a tax professional a dedicated phone line for account-related inquiries, generally faster than the general public taxpayer line

D. Generally serves exclusively as a payment processing line for a preparer's own personal tax liability, rather than for any client-related inquiry

10. A preparer's client asks whether the preparer generally must advise the client about the consequences of missing a Tax Court petition deadline following a Notice of Deficiency. What is the general answer to this question?

A. Generally no; a preparer generally has no obligation at all to mention any Tax Court deadline, since that responsibility belongs entirely to the client

B. Generally yes, but only if the client actually intends to dispute the adjustment, with no similar obligation applying to a client who agrees with it

C. Generally no; discussing a Tax Court deadline is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

D. Generally yes; a preparer generally should clearly explain the 90-day deadline and the consequence of missing it, since the deficiency generally becomes assessable

11. A preparer's client asks about the general purpose of a conflict-of-interest check performed before accepting a new engagement involving family members with potentially adverse tax interests. What is the general purpose this specific check generally serves?

A. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own ethical obligations
B. Generally helps the preparer identify whether representing both family members could create a conflict requiring disclosure, consent, or declining one engagement
C. Generally applies only when both family members are actually related by blood, with a marital relationship being entirely exempt from this check
D. Generally serves exclusively to determine the preparer's own fee for each engagement, rather than to address any ethical or representational concern

12. A preparer's client asks whether the preparer generally must independently confirm a client's own claimed number of dependents through a third-party database before preparing the return. What is the general recommended practice?

A. Generally may rely on the client's own credible representation, supported by reasonable documentation such as a birth certificate or school record where available
B. Generally must independently query a third-party commercial database to confirm every claimed dependent before ever preparing any return
C. Generally must contact each dependent's own school directly to confirm enrollment before preparing any return claiming that dependent
D. Generally has no obligation at all to consider dependents, and should prepare the return using whatever number the client requests

13. A preparer's client asks about the general purpose of Form 911, Request for Taxpayer Advocate Service Assistance. What is the general purpose this specific form generally serves for a taxpayer facing a significant hardship?

A. Generally allows a taxpayer to formally request assistance from the Taxpayer Advocate Service when normal IRS channels have not resolved a problem
B. Generally serves exclusively as the form used to actually amend a prior-year return, rather than to request any advocate assistance

C. Generally serves no actual practical purpose, existing only as an optional cosmetic form with no genuine hardship-relief function
D. Generally serves exclusively as the client's own power of attorney authorization, the same specific function a Form 2848 already serves

14. A preparer's client asks whether the preparer generally has an obligation to advise the client about the risk of relying on unlicensed tax software recommendations found on an internet forum. What is the general answer?

A. Generally no; a preparer generally has no obligation at all to comment on any advice the client encountered outside the preparer's own engagement
B. Generally yes, but only if the client actually follows the forum advice and it results in an error, with no proactive obligation beforehand
C. Generally yes; a preparer generally should caution the client that forum-based advice may be inaccurate or outdated and should not replace professional review
D. Generally no; commenting on internet forum advice is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

15. A preparer's client asks about the general purpose of documenting the specific reasons for a professional judgment call made during return preparation, such as characterizing an ambiguous payment. What is the general benefit of this specific documentation practice?

A. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own defense in an examination
B. Generally applies only when the judgment call actually reduces the client's tax liability, with no similar benefit for a liability-increasing judgment call
C. Generally serves exclusively as a marketing tool describing the preparer's own expertise, rather than as any form of contemporaneous documentation
D. Generally creates a contemporaneous record supporting the preparer's own reasonable basis for the position, useful if the position is later questioned

16. A preparer's client asks whether the preparer generally must ask about a client's own participation in a nontraditional bartering arrangement, exchanging services directly for other services rather than for cash. What is the general answer to this question?

A. Generally no; bartering income is generally treated as entirely nontaxable under current law regardless of the value of the goods or services exchanged

B. Generally yes; bartering income generally is taxable at the fair market value of the goods or services received, so a preparer should proactively ask

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; bartering inquiry obligations apply only to a CPA, with an Enrolled Agent being exempt from this due diligence step

17. A taxpayer's total income includes a payment received from an employer as a spot bonus for exceptional performance on a specific short-term project, paid outside the normal payroll cycle. How is this specific spot bonus generally treated?

A. Generally entirely tax-exempt, since a spot 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 spot bonus, rather than at the taxpayer's own ordinary wage rate

C. Generally treated as self-employment income, subjecting the bonus 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

18. A taxpayer's total income includes interest earned on United States Treasury bonds held in a taxable brokerage account. How is this specific Treasury bond interest generally treated for state income tax purposes compared to federal purposes?

A. Generally exempt from both federal and state income tax, exactly the same treatment that generally applies to a qualifying municipal bond

B. Generally fully taxable for both federal and state income tax purposes, with no exemption of any kind applying at the state level

C. Generally fully taxable for federal purposes but generally exempt from state income tax, unlike interest on most other taxable bonds

D. Generally exempt from federal income tax but fully taxable at the state level, the exact reverse of the actual general treatment

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 voluntary retirement rather than an involuntary separation. How is this specific payout generally treated?

A. Generally entirely tax-exempt, since a payout upon voluntary retirement is generally treated as a nontaxable retirement-related benefit

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

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 taken by the taxpayer's beneficiary after the taxpayer's death, where the beneficiary is the taxpayer's own surviving spouse who elected to treat the IRA as the spouse's own. How is a distribution from this rolled-over account generally treated?

A. Generally taxed under the normal distribution rules applicable to the surviving spouse's own IRA, rather than under the more restrictive inherited IRA distribution rules

B. Generally entirely tax-exempt, since a distribution from an inherited retirement account is generally excluded from taxable income altogether under current law

C. Generally taxable only at a reduced flat 10% rate reserved for a surviving spouse's own IRA distribution, rather than at ordinary income tax rates

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

21. A taxpayer's total income includes a payment received from a state as a homeowner energy efficiency rebate for installing a qualifying energy-efficient appliance, structured as a direct rebate against the purchase price. How is this specific rebate generally treated?

A. Generally fully taxable as ordinary income in the year actually received, exactly the same treatment that generally applies to a cash prize won in a contest

B. Generally taxable only at a reduced flat 10% rate reserved for an energy efficiency rebate, rather than being entirely excluded from taxable income

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

D. Generally not taxable income, since a rebate tied to a specific purchase generally is treated as a reduction in the purchase price rather than as income

22. A taxpayer's total income includes a distribution received from a traditional 401(k) plan the taxpayer took as a hardship distribution, meeting the plan's own specific hardship criteria for an immediate and heavy financial need. How is this specific hardship distribution generally treated regarding the 10% penalty?

A. Generally entirely excepted from the 10% penalty automatically, since a hardship distribution by its own nature is excepted from this specific penalty

B. Generally entirely tax-exempt, since a hardship distribution is generally excluded from taxable income altogether once the plan approves the hardship claim

C. Generally remains subject to the 10% early distribution penalty absent a separate applicable statutory exception, since meeting the plan's own hardship criteria alone does not except the distribution from the penalty

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

23. A taxpayer's total income includes a payment received from a former spouse's employer as a survivor annuity benefit under a divorce decree assigning the taxpayer rights to a portion of the former spouse's pension. How is this specific survivor annuity benefit generally treated?

A. Generally fully taxable as ordinary income to the taxpayer, in the same general manner the pension income would have been taxed to the former spouse

B. Generally entirely tax-exempt, since a survivor annuity benefit assigned under a divorce decree is generally treated as a nontaxable property settlement

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

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

24. A taxpayer's total income includes a distribution received from a traditional IRA taken due to a qualifying federally declared disaster affecting the taxpayer's own tax home, where the taxpayer elects to include the entire distribution as income in a single year rather than spreading it over three years. How is this election generally treated?

A. Generally not permitted; the taxpayer generally must always spread a qualified disaster distribution over three years with no election to include it all at once

B. Generally permitted; the taxpayer may generally elect to include the full distribution as income in the year of distribution instead of spreading it over three years

C. Generally permitted only if the taxpayer is also over age 59½, with a younger taxpayer generally being required to spread the distribution

D. Generally not permitted; a qualified disaster distribution generally must always be repaid in full within one year rather than being includible as income at all

25. A taxpayer's total income includes a payment received from an employer under a qualified employee discount program, purchasing merchandise from the employer at a price below the employer's own cost. How is this specific employee discount generally treated?

A. Generally excludable from the employee's taxable wages up to the applicable statutory limit, generally tied to the employer's own gross profit percentage on the merchandise

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

C. Generally taxable only at a reduced flat 10% rate reserved for an employee discount, rather than being potentially excludable from taxable wages

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

26. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after correctly determining the account had been established for at least the minimum required period, and the taxpayer is exactly age 59½ at the time of distribution. How is this specific distribution generally treated regarding the 10% penalty?

A. Generally still subject to the full 10% penalty, since the taxpayer must actually exceed, rather than merely reach, age 59½ to qualify for this exception

B. Generally excepted from the 10% early distribution penalty, since the taxpayer has reached age 59½, though the distribution remains includible in ordinary taxable income

C. Generally entirely tax-exempt, since reaching age 59½ generally excludes the entire distribution from taxable income altogether under current law

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

27. A taxpayer's total income includes a payment received from a life insurance company as accelerated death benefits paid to the taxpayer, the insured, following a diagnosis of a terminal illness meeting the applicable statutory definition. How is this specific accelerated death benefit generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a policy surrender for cash value during the insured's lifetime

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

C. Generally entirely tax-exempt, since accelerated death benefits paid to a terminally ill insured generally receive the same tax-free treatment as a regular death benefit

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

28. A taxpayer's total income includes a distribution received from a Roth 401(k) plan that meets all requirements for a qualified distribution, including satisfying the applicable five-year holding period and the taxpayer being over age 59½. How is this specific qualified distribution generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a nonqualified Roth 401(k) distribution

B. Generally taxable only at a reduced flat 10% rate reserved for a qualified Roth 401(k) distribution, rather than being entirely excluded

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

D. Generally entirely tax-exempt, since a distribution meeting all the qualified distribution requirements is generally excluded from taxable income altogether

29. A taxpayer's total income includes a payment received as a class action settlement for a data breach that exposed the taxpayer's own personal information, structured as compensation for the time and inconvenience of responding to the breach rather than for any actual demonstrated financial loss. How is this specific settlement generally treated?

A. Generally entirely tax-exempt, since a data breach settlement is generally treated identically to a settlement for personal physical injury under current law
B. Generally taxable only at a reduced flat 10% rate reserved for a data breach settlement, rather than at ordinary income tax rates
C. Generally fully taxable as other income, since compensation for time and inconvenience generally does not qualify for any specific statutory income tax exclusion
D. Generally treated as a nontaxable gift from the settling company, rather than as any form of currently taxable compensation to the taxpayer

30. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to correct an excess contribution made in the same tax year, withdrawn along with the attributable earnings before the applicable tax filing deadline including extensions. How is the earnings portion of this specific timely corrective distribution generally treated?

A. Generally entirely tax-exempt, exactly the same treatment that generally applies to the timely corrected excess contribution principal amount being withdrawn
B. Generally taxable as ordinary income in the year the excess contribution was originally made, and generally subject to the 10% penalty if the taxpayer is under 59½
C. Generally taxable only at a reduced flat 10% rate reserved for a corrective distribution, rather than at the taxpayer's own ordinary income tax rate
D. Generally treated as a nontaxable return of the taxpayer's own original invested capital, rather than as any form of currently taxable earnings

31. A taxpayer's total income includes a payment received from a former employer as compensation for the taxpayer's agreement to relocate to a new city as a condition of continued employment, structured as a lump-sum relocation incentive rather than as a reimbursement of substantiated moving costs. How is this specific lump-sum incentive generally treated?

A. Generally entirely tax-exempt, since a relocation incentive is generally treated as a nontaxable reimbursement regardless of whether it is actually substantiated

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

C. Generally treated as self-employment income, subjecting the incentive 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, since the payment is not a substantiated reimbursement under an accountable plan

32. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to pay for the taxpayer's own health insurance premiums during a period of self-employment, where the taxpayer has never received unemployment compensation. How is this specific distribution generally treated regarding the 10% penalty?

A. Generally remains subject to the 10% early distribution penalty, since the unemployed health insurance premium exception generally requires actually receiving unemployment compensation for the applicable period

B. Generally excepted from the 10% penalty automatically, since paying health insurance premiums during self-employment always qualifies for this specific exception

C. Generally entirely tax-exempt, since a distribution used for health insurance premiums is generally excluded from taxable income altogether under current law

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

33. A taxpayer's total income includes a payment received from a former employer as a payment for a covenant releasing the employer from potential future age discrimination claims, structured as part of a broader voluntary early retirement incentive package. How is this specific release payment generally treated?

A. Generally entirely tax-exempt, since a release payment connected to a discrimination claim is generally treated identically to a personal physical injury settlement

B. Generally fully taxable as ordinary income, since a payment for releasing a potential legal claim generally represents taxable compensation rather than a nontaxable settlement

C. Generally treated entirely as long-term capital gain, exactly the same treatment that generally applies to a gain on the sale of a capital asset

D. Generally treated as a nontaxable gift from the former employer, rather than as any form of currently taxable compensation to the taxpayer

34. A taxpayer's total income includes a distribution received from a traditional IRA taken by a taxpayer diagnosed with a specific qualifying long-term care need, meeting the applicable statutory certification 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 qualifying long-term care 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 the 10% early distribution penalty under the long-term care distribution exception, up to an applicable annual dollar limit, 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 certified need

35. A taxpayer's total income includes a payment received from a former employer as a payment under a supplemental executive retirement plan, a nonqualified arrangement providing additional retirement benefits beyond the employer's qualified plan. How is a distribution from this specific nonqualified arrangement generally treated?

A. Generally entirely tax-exempt, since a supplemental executive retirement plan distribution is generally treated as a nontaxable return of the executive's own contributions

B. Generally taxable only at a reduced flat 10% rate reserved for this specific type of nonqualified plan distribution, rather than at ordinary income tax rates

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

D. Generally fully taxable as ordinary income in the year actually received, since the compensation was never previously subject to federal income tax while deferred

36. A taxpayer's total income includes a payment received from a state as a one-time economic impact payment issued broadly to residents during a declared state of emergency, structured similarly to a federal recovery rebate. How is this specific state economic impact payment generally treated for federal income tax purposes absent specific legislative guidance excluding it?

A. Generally fully taxable as other income for federal purposes absent a specific applicable statutory exclusion, though the IRS has at times issued administrative guidance excluding certain similar state payments

B. Generally always entirely tax-exempt for federal purposes, since any state-issued economic impact payment is generally excluded from taxable income regardless of guidance

C. Generally taxable only at a reduced flat 10% rate reserved for a state economic impact payment, rather than at ordinary federal income tax rates

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

37. A taxpayer itemizes deductions and paid unreimbursed medical expenses during the year. At what threshold, expressed as a percentage of adjusted gross income, do unreimbursed medical expenses generally become deductible?

A. Expenses exceeding 2% of adjusted gross income are generally deductible, the same threshold that once applied to certain miscellaneous deductions

B. All unreimbursed medical expenses are generally deductible in full, with no adjusted gross income threshold applying at all

C. Expenses exceeding 7.5% of adjusted gross income are generally deductible as an itemized deduction

D. Expenses exceeding 10% of taxable income, rather than adjusted gross income, are generally the applicable deductible threshold

38. A taxpayer itemizes deductions and paid state income tax, state property tax, and local sales tax during the year. How is the combined deduction for these state and local taxes generally limited?

A. State and local taxes are generally fully deductible with no dollar cap applying to the combined total under current law

B. Only state income tax is deductible, while state property tax and local sales tax are generally entirely nondeductible in every case

C. The cap generally applies only to property tax, while state income tax and sales tax remain generally fully deductible without limit

D. The combined state and local tax deduction is generally capped at $10,000 total, regardless of how much was actually paid

39. A taxpayer itemizes deductions and paid mortgage interest on acquisition debt used to buy the taxpayer's main home. What general limitation applies to the deductibility of this interest based on the debt's principal amount?

A. Mortgage interest is generally fully deductible regardless of the loan's principal amount, with no statutory limit applying at all

B. Interest is generally deductible only on acquisition debt up to the applicable statutory principal limit for the home

C. Interest is generally deductible only if the home was purchased with cash, with financed acquisitions being entirely ineligible

D. The deduction generally applies only to interest paid on a taxpayer's second home, excluding interest on the taxpayer's main home

40. A taxpayer itemizes deductions and made a cash contribution to a qualifying public charity. What is the general limitation on deducting this cash contribution, expressed as a percentage of adjusted gross income?

A. Cash contributions to a qualifying public charity are generally deductible up to 60% of adjusted gross income for the year

B. Cash contributions are generally deductible only up to 20% of adjusted gross income, regardless of the charity's public status

C. Cash contributions to a public charity are generally fully deductible with no percentage limitation applying at all

D. Cash contributions are generally deductible only up to 30% of adjusted gross income, the same limit reserved for property gifts

41. A taxpayer donated noncash property worth more than $5,000 to a qualifying charity and wants to claim a charitable deduction for its fair market value. What is generally required to substantiate this specific donation?

A. No substantiation is generally required for a noncash donation of any value, so long as a receipt from the charity exists

B. A qualified written appraisal is generally required to substantiate a noncash donation exceeding the $5,000 threshold

C. A verbal estimate of value from the charity's own staff is generally sufficient substantiation, regardless of the donation's actual value
D. Substantiation is generally required only if the donated property is later resold by the charity within the same tax year

42. A taxpayer operates a specified service trade or business and wants to claim the qualified business income deduction. How does taxable income above the applicable threshold generally affect this specific business owner's deduction?

A. The deduction generally phases out for a specified service trade or business once taxable income exceeds the applicable threshold amount
B. Taxable income level generally has no effect at all on the deduction for any specified service trade or business owner
C. The deduction generally increases as taxable income rises above the threshold, the exact reverse of the actual general phase-out rule
D. The deduction generally applies in full regardless of income, but only for a specified service business organized as a corporation

43. A taxpayer is age 66 and files as single, claiming the standard deduction rather than itemizing. How does reaching age 65 generally affect this taxpayer's standard deduction amount compared to a younger single filer?

A. Reaching age 65 generally has no effect at all on the standard deduction amount available to any single filer
B. The taxpayer generally must switch to itemizing deductions upon reaching age 65, losing eligibility for the standard deduction entirely
C. The taxpayer generally receives an additional standard deduction amount on top of the regular standard deduction, due to reaching age 65
D. The additional amount for reaching age 65 generally applies only to a taxpayer filing jointly, not to a single filer

44. A taxpayer claims the child tax credit for a qualifying child. What is the general upper age limit a child generally must not exceed at year-end to qualify the taxpayer for this specific credit?

A. The qualifying child generally must not have reached age 24 by year-end, the same age limit used for certain education credits

B. The qualifying child generally must not have reached age 13 by year-end, the same age limit used for the dependent care credit

C. There is generally no upper age limit at all for a qualifying child under the child tax credit rules

D. The qualifying child generally must not have reached age 17 by the end of the tax year to qualify for the credit

45. A taxpayer paid a licensed daycare provider to care for a qualifying child while the taxpayer worked. What is generally required of both spouses on a joint return to claim the child and dependent care credit?

A. Both spouses generally must have earned income during the year, or one spouse must qualify as a full-time student or be disabled

B. Only one spouse generally needs earned income, with no requirement at all placed on the other spouse under current law

C. Neither spouse generally needs earned income, since the credit generally is based solely on the amount actually paid to the provider

D. Both spouses generally must be self-employed, with the credit being generally unavailable to a couple where either spouse is a wage employee

46. A taxpayer's dependent is in the first year of a degree program and the taxpayer paid qualified tuition. What generally distinguishes the American Opportunity Tax Credit from the Lifetime Learning Credit regarding refundability?

A. The Lifetime Learning Credit is generally up to 40% refundable, while the American Opportunity Tax Credit is generally entirely nonrefundable

B. The American Opportunity Tax Credit is generally up to 40% refundable, while the Lifetime Learning Credit is generally entirely nonrefundable

C. Both credits are generally fully refundable in equal measure, with no meaningful distinction between the two regarding refundability

D. Neither credit is generally refundable in any amount, with both being entirely nonrefundable nonrefundable credits under current law

47. A taxpayer's dependent is enrolled part-time in a single course to improve job skills, with no degree requirement. Which education credit is generally available for this specific enrollment pattern that the American Opportunity Tax Credit would not permit?

A. The American Opportunity Tax Credit generally remains the only available credit, since it generally has no enrollment status requirement at all
B. Neither credit is generally available for part-time, non-degree enrollment, since both generally require full-time degree-seeking status
C. The Lifetime Learning Credit generally remains available, since it does not generally require enrollment at least half-time in a degree program
D. Only a business expense deduction is generally available for this specific course, with no education credit ever applying to it

48. A taxpayer claims the earned income tax credit and also received a modest amount of interest and dividend income during the year. What general limitation applies to a taxpayer's investment income under this specific credit?

A. Investment income generally has no limit at all under the earned income tax credit rules, regardless of the amount received
B. Investment income generally must exceed a minimum dollar threshold before the taxpayer becomes eligible for the earned income tax credit
C. The investment income limitation generally applies only to a taxpayer filing as head of household, not to other filing statuses
D. Investment income generally must not exceed an applicable statutory dollar limit for the year, or the taxpayer generally becomes ineligible

49. A taxpayer finalized the adoption of an eligible child and paid qualified adoption expenses exceeding the available credit for the current year. How is the unused portion of the adoption credit generally treated?

A. The unused adoption credit generally is entirely forfeited if not fully used in the year the adoption expenses were paid
B. The unused adoption credit generally may be carried forward and applied against tax liability in a limited number of future years

C. The unused adoption credit generally is refunded in full to the taxpayer, since the credit is generally treated as fully refundable

D. The unused adoption credit generally must be carried back to an earlier tax year, rather than forward to a future year

50. A taxpayer paid income tax to a foreign country on foreign-source income also subject to United States tax. What general choice does the taxpayer generally have regarding how to treat this specific foreign tax paid?

A. The taxpayer generally may elect to either claim the foreign tax as an itemized deduction or claim it as the foreign tax credit

B. The taxpayer generally must always claim the foreign tax exclusively as an itemized deduction, with no credit election ever available

C. The taxpayer generally must always claim the foreign tax exclusively as a credit, with no itemized deduction election ever available

D. The taxpayer generally receives no benefit at all for foreign tax paid, since foreign tax generally is not addressed under current law

51. A taxpayer's personal-use vehicle was destroyed in a storm that the taxpayer's home state governor declared a disaster area, and the loss was not covered by insurance. What generally must be true for this loss to be deductible?

A. The loss generally is deductible whenever any casualty occurs, regardless of whether a federal disaster declaration was ever actually issued

B. The loss generally is deductible only if the vehicle was used for business, with a personal-use vehicle being entirely ineligible

C. The loss generally must arise from a federally declared disaster to be deductible as a personal casualty loss under current law

D. The loss generally is deductible only if the taxpayer had liability insurance, regardless of any federal disaster declaration status

52. A taxpayer paid interest on a qualified student loan used to fund the taxpayer's own higher education. What is the general annual dollar cap on the above-the-line deduction for this specific student loan interest?

A. The student loan interest deduction is generally capped at $10,000 per year, with no phase-out based on income ever applying

B. The student loan interest deduction is generally unlimited, so long as the loan was used exclusively for tuition rather than for housing

C. The student loan interest deduction generally is available only if the taxpayer itemizes deductions rather than claims the standard deduction

D. The student loan interest deduction is generally capped at $2,500 per year, subject to a phase-out based on modified adjusted gross income

53. A taxpayer maintains a self-only high-deductible health plan and contributed to a health savings account during the year. How is a properly made contribution to this specific account generally treated for tax purposes?

A. The contribution is generally deductible only if the taxpayer itemizes deductions, rather than being an above-the-line adjustment to income

B. The contribution generally provides no tax benefit at all, since a health savings account is generally treated the same as a regular savings account

C. The contribution is generally deductible above the line up to the applicable annual self-only statutory limit, regardless of itemizing status

D. The contribution generally is deductible only up to the family coverage limit, regardless of the taxpayer's own self-only coverage status

54. A self-employed taxpayer established a SEP-IRA and wants to contribute the maximum amount for the year based on net self-employment earnings. What general base is used to calculate this specific contribution limit?

A. The contribution is generally based on net self-employment earnings after subtracting the deduction for one-half of self-employment tax

B. The contribution is generally based on gross self-employment revenue before subtracting any business expenses or self-employment tax deduction

C. The contribution is generally a fixed statutory dollar amount unrelated to the taxpayer's own actual net self-employment earnings for the year

D. The contribution is generally based on the taxpayer's total household adjusted gross income, including a spouse's own separate wage income

55. A taxpayer's divorce was finalized after 2018, and the divorce decree requires the taxpayer to make monthly payments to a former spouse. How are these specific post-2018 payments generally treated for the paying taxpayer?

A. The payments are generally fully deductible above the line by the paying taxpayer, the same treatment that applied before 2019

B. The payments are generally deductible only if the paying taxpayer itemizes deductions, rather than being an above-the-line adjustment to income

C. The payments are generally deductible by the paying taxpayer but only up to a fixed statutory annual dollar cap

D. The payments are generally not deductible by the paying taxpayer, reflecting the current treatment of alimony under a post-2018 divorce decree

56. A taxpayer installed a qualifying solar electric system on the taxpayer's main home and wants to claim the residential clean energy credit. What is generally true about this specific credit's treatment of the qualifying cost?

A. The credit generally is capped at a fixed flat dollar amount regardless of the actual qualifying cost of the solar system

B. The credit generally equals an applicable percentage of the qualifying cost with no overall dollar cap, though it is generally nonrefundable

C. The credit generally is fully refundable, generating a refund for a taxpayer even absent any other federal tax liability

D. The credit generally applies only to a rental property, with a taxpayer's own main home being entirely ineligible for the credit

57. A taxpayer sold a capital asset held for exactly fourteen months before the sale. How is the resulting gain generally characterized for federal income tax purposes based on this specific holding period?

A. The gain is generally treated as short-term capital gain, since fourteen months generally does not satisfy the long-term holding requirement

B. The gain is generally treated as ordinary income rather than as any form of capital gain, regardless of the holding period

C. The gain is generally treated as tax-exempt income, since a holding period exceeding one year generally exempts the gain entirely

D. The gain is generally treated as long-term capital gain, since the asset was held for more than one year before the sale

58. A taxpayer's capital losses for the year exceeded capital gains by $9,000. What is the general annual limit on deducting net capital loss against ordinary income, with any excess generally carried forward?

A. Net capital loss is generally deductible against ordinary income up to $3,000 per year, with the remaining excess generally carried forward

B. Net capital loss is generally fully deductible against ordinary income in the loss year, with no annual dollar limitation applying at all

C. Net capital loss generally is never deductible against ordinary income, and generally may only offset capital gain in a future year

D. Net capital loss is generally deductible against ordinary income up to $10,000 per year, rather than the lower actual applicable limit

59. A taxpayer received a Form 1099-DIV reporting a qualified dividend from a domestic corporation, and the taxpayer met the applicable holding period requirement for the underlying stock. How is this specific dividend generally taxed?

A. A qualified dividend is generally taxed at ordinary income tax rates, the exact same treatment that generally applies to a nonqualified dividend

B. A qualified dividend is generally entirely tax-exempt, since meeting the applicable holding period generally excludes the dividend from taxable income altogether

C. A qualified dividend is generally taxed at the same favorable rates that generally apply to long-term capital gain, rather than at ordinary rates

D. A qualified dividend is generally taxed at a flat statutory rate identical for every taxpayer, regardless of the taxpayer's own tax bracket

60. A taxpayer's child, age 15, has unearned income exceeding the applicable statutory threshold for the year. How is this specific excess unearned income generally taxed under the kiddie tax rules?

A. The excess unearned income generally is entirely tax-exempt, since a minor child's income generally is excluded from taxation altogether

B. The excess unearned income generally is taxed using rates generally based on the child's own applicable individual or trust tax rate structure

C. The excess unearned income generally is taxed exclusively at the parent's own marginal tax rate in every single case without exception

D. The kiddie tax rules generally apply only to a child's earned income, with unearned income being generally entirely exempt from these rules

61. A married couple has one spouse with significantly higher income than the other and is deciding between filing a joint return and filing separately. What is generally true about several tax benefits when filing separately?

A. Filing separately generally produces identical tax benefits and credit eligibility compared to filing jointly, with no meaningful difference between the two

B. Several tax benefits and credits generally are reduced, limited, or entirely unavailable when a married couple elects to file separately

C. Filing separately generally always produces a lower combined tax liability compared to filing jointly, regardless of the couple's own income disparity

D. Filing separately generally is not a permitted filing status for a married couple under current law, absent a formal legal separation

62. A taxpayer is subject to the alternative minimum tax for the year due to a significant amount of preference items and adjustments. What is the general purpose the alternative minimum tax generally serves?

A. Generally serves exclusively to reduce a taxpayer's regular tax liability whenever preference items or adjustments are actually present on the return

B. Generally applies only to a corporation, with an individual taxpayer being entirely exempt from any alternative minimum tax calculation

C. Generally serves no actual practical purpose, existing only as an optional calculation with no genuine effect on a taxpayer's actual liability

D. Generally ensures a taxpayer with substantial preference items and adjustments still pays a minimum baseline level of federal income tax

63. A taxpayer owes an underpayment penalty because withholding and estimated payments fell short of the required annual payment. What is one general safe harbor a taxpayer generally may rely on to avoid this specific penalty?

A. Generally paying any amount at all toward the current year's liability, regardless of how small, automatically satisfies every applicable safe harbor
B. Generally there is no recognized safe harbor of any kind, and every taxpayer generally must pay the penalty regardless of the shortfall's cause
C. Generally paying at least the applicable percentage of the prior year's tax liability, or the current year's tax, satisfies a recognized safe harbor
D. Generally the safe harbor applies only to a taxpayer with self-employment income, excluding a taxpayer whose income is exclusively wage income

64. A taxpayer sold a rental property and recognized a gain attributable in part to depreciation previously claimed on the property. How is the portion of this gain attributable to prior depreciation generally treated?

A. The depreciation-attributable portion is generally subject to unrecaptured section 1250 gain treatment, taxed at a rate generally higher than ordinary long-term capital gain
B. The depreciation-attributable portion is generally entirely tax-exempt, since previously claimed depreciation generally is never recaptured upon a later sale
C. The depreciation-attributable portion is generally taxed identically to the remaining gain, with no distinct recapture treatment applying at all
D. The depreciation-attributable portion is generally taxed exclusively as ordinary wage income, rather than under any capital gain framework

65. A taxpayer received a Form 1099-B reporting the sale of stock and needs to calculate the resulting gain or loss. What is generally used as the starting point for determining this specific gain or loss?

A. The original purchase price alone, without any adjustment, is generally always used, regardless of any basis adjustment that may have occurred
B. The taxpayer's adjusted basis in the stock is generally subtracted from the amount realized on the sale to determine gain or loss

C. The stock's fair market value on the date of sale is generally treated as the taxpayer's basis, ignoring the actual original cost

D. Gain or loss generally is determined exclusively by the broker's own reported figure, without regard to the taxpayer's own actual basis records

66. A taxpayer's income includes a distribution from a nonqualified deferred compensation plan that violates a specific requirement under the applicable deferred compensation rules. What is one general consequence of this specific violation?

A. The violation generally has no meaningful tax consequence at all, since the deferred compensation generally remains taxed under its original schedule

B. The violation generally results only in a minor filing penalty, with the underlying deferred compensation remaining entirely excluded from taxable income

C. The deferred amount generally becomes immediately includible in income, generally along with an additional applicable penalty tax on the includible amount

D. The violation generally causes the deferred amount to become entirely tax-exempt, rather than accelerating its inclusion in taxable income

67. A taxpayer's net investment income exceeds the applicable statutory threshold for the taxpayer's filing status. What is the general additional tax that generally applies to net investment income above this specific threshold?

A. A 3.8% net investment income tax generally applies to the lesser of net investment income or the excess of modified adjusted gross income over the threshold

B. A flat 15% additional tax generally applies to the entire amount of net investment income, regardless of the applicable statutory threshold

C. No additional tax at all generally applies to net investment income, regardless of how far above the threshold the income actually falls

D. The additional tax generally applies exclusively to earned income, with investment income being generally entirely exempt from any surtax

68. A taxpayer converted a traditional IRA to a Roth IRA during the year, transferring the full account balance. How is this specific Roth conversion generally treated for federal income tax purposes in the year of conversion?

A. The converted amount generally is entirely tax-exempt, since a Roth conversion generally is treated as a nontaxable trustee-to-trustee transfer

B. The converted amount generally is subject to both ordinary income tax and the 10% early distribution penalty, regardless of the taxpayer's own age

C. The converted amount generally is taxed at a flat reduced 10% rate reserved exclusively for a Roth conversion transaction

D. The converted amount generally is includible in the taxpayer's ordinary taxable income for the year, though generally not subject to the 10% early distribution penalty

69. A taxpayer's self-employment activity generated net earnings from self-employment for the year. What two federal taxes does self-employment tax generally combine into a single calculation for this specific taxpayer?

A. Self-employment tax generally combines federal income tax and state income tax into a single unified calculation for the taxpayer

B. Self-employment tax generally combines only the Medicare portion of payroll tax, with Social Security tax being entirely inapplicable

C. Self-employment tax generally combines the equivalent of both the employer and employee portions of Social Security and Medicare tax

D. Self-employment tax generally combines the additional Medicare tax and the net investment income tax into a single calculation

70. A taxpayer's household employer status requires the taxpayer to consider federal employment tax obligations for a nanny paid above an applicable annual threshold. What is this general obligation generally known as?

A. The obligation generally is known as the nanny tax, requiring the household employer to generally withhold and pay applicable payroll tax

B. The obligation generally is known as the kiddie tax, the same specific label used for a minor child's own unearned income

C. The obligation generally does not exist under current law, since a household employer generally is entirely exempt from payroll tax obligations

D. The obligation generally applies only if the nanny is also a blood relative of the household employer, with an unrelated nanny being exempt

71. A taxpayer exercised incentive stock options during the year and held the resulting shares without selling them by year-end. How does this specific exercise generally affect the taxpayer's alternative minimum tax calculation?

A. The exercise generally has no effect at all on the alternative minimum tax calculation, regardless of the option's own bargain element
B. The exercise generally triggers immediate regular income tax on the full bargain element, in addition to any alternative minimum tax adjustment
C. The exercise generally is entirely tax-exempt for both regular tax and alternative minimum tax purposes, so long as the shares are unsold
D. The bargain element generally is treated as a positive adjustment for alternative minimum tax purposes, even though no regular tax is generally due upon exercise

72. A taxpayer received original issue discount reported on a Form 1099-OID for a bond held during the year, even though the taxpayer received no actual cash payment corresponding to that specific amount. How is this generally treated?

A. The original issue discount generally is entirely excluded from taxable income until the bond actually matures or is actually sold
B. The original issue discount generally must be included in taxable income annually as it accrues, even absent an actual current cash payment
C. The original issue discount generally is taxed only in the final year of the bond's term, rather than accruing annually
D. The original issue discount generally is treated as a nontaxable return of the taxpayer's own original invested principal amount

73. A taxpayer's estimated tax payments and withholding for the year were insufficient, resulting in an underpayment. What general factor determines the specific rate applied when calculating the underpayment penalty for a given quarter?

A. The underpayment penalty rate generally is a fixed flat percentage set permanently in the tax code, never adjusted for any reason

B. The underpayment penalty rate generally is tied to the federal short-term interest rate, generally adjusted and published on a periodic basis

C. The underpayment penalty rate generally is set entirely at the discretion of the individual taxpayer's own preparer, without any statutory basis

D. The underpayment penalty rate generally is tied exclusively to the taxpayer's own marginal income tax bracket for the year

74. A taxpayer's Social Security benefits may become partially taxable depending on the taxpayer's combined income for the year. What is generally included in calculating this specific combined income figure used for that determination?

A. Combined income generally includes only the Social Security benefits actually received, excluding any other source of income entirely

B. Combined income generally includes only tax-exempt interest income, excluding adjusted gross income and Social Security benefits from the calculation entirely

C. Combined income generally includes adjusted gross income, generally plus tax-exempt interest, plus one-half of the Social Security benefits received

D. Combined income generally is calculated identically to taxable income, with no separate specific formula applying to Social Security benefits

75. A taxpayer asks a preparer whether the taxpayer generally should increase withholding or make quarterly estimated payments to avoid a future underpayment penalty, given a new side business generating self-employment income. What is generally the best advice?

A. Generally advise the taxpayer to make quarterly estimated payments sized to cover the projected additional self-employment tax and income tax liability

B. Generally advise the taxpayer to ignore the new income entirely, since self-employment income generally has no bearing on any payment obligation

C. Generally advise the taxpayer that withholding and estimated payments are functionally interchangeable in every respect, with no timing consideration whatsoever

D. Generally advise the taxpayer to wait until the following year's return is filed before making any payment toward the new income

76. A taxpayer approaching retirement asks a preparer for general guidance on the tax implications of taking retirement plan distributions before versus after reaching the applicable required minimum distribution age. What is generally the appropriate preparer response?

A. Generally provide a specific personalized investment recommendation for exactly how to allocate the taxpayer's retirement account holdings going forward
B. Generally decline to discuss the topic at all, since retirement distribution timing generally has no relevance to tax preparation
C. Generally guarantee the taxpayer a specific dollar amount of tax savings from delaying distributions until the required minimum distribution age
D. Generally explain the general tax and penalty considerations at each stage, while noting that comprehensive retirement income planning generally exceeds tax preparation scope

77. A taxpayer asks a preparer whether the taxpayer generally should itemize deductions or claim the standard deduction for the upcoming year, given a recent large one-time charitable contribution. What general approach should the preparer generally take?

A. Generally always recommend itemizing whenever any charitable contribution was made during the year, regardless of the total itemized deduction amount
B. Generally always recommend the standard deduction regardless of the itemized total, since itemizing generally is considered more prone to audit
C. Generally compare the taxpayer's total projected itemized deductions against the applicable standard deduction amount to advise which produces the lower tax liability
D. Generally decline to compare the two options, leaving the taxpayer to independently determine which deduction method to actually claim

78. A taxpayer asks a preparer whether bunching multiple years of charitable contributions into a single tax year generally provides any tax advantage. What is the general concept underlying this specific bunching strategy?

A. Generally bunching charitable contributions provides no advantage of any kind, since the total amount deducted generally remains identical either way
B. Generally concentrating several years of charitable giving into one year can generally push total itemized deductions above the standard deduction, enabling itemizing that year

C. Generally bunching charitable contributions generally disqualifies the taxpayer from claiming any charitable deduction at all in the bunched year

D. Generally bunching charitable contributions generally applies only to a taxpayer who is self-employed, with a wage-earning taxpayer being ineligible

79. A taxpayer asks a preparer for general advice about the tax treatment of converting a traditional IRA to a Roth IRA in a year when the taxpayer expects unusually low taxable income. What is generally the relevant consideration?

A. Generally a lower-income year can generally reduce the marginal tax cost of recognizing the conversion income, making conversion generally more attractive that year

B. Generally income level has no bearing at all on the tax cost of a Roth conversion, since the conversion generally is always tax-free

C. Generally a Roth conversion generally is only permitted in a year of unusually high income, making a low-income year generally ineligible

D. Generally the preparer should advise against ever considering a Roth conversion, since the strategy generally provides no genuine tax benefit

80. A taxpayer asks a preparer whether the taxpayer generally should pay down a mortgage early or invest extra funds instead, framed as a general tax-planning question. What is generally the appropriate scope of the preparer's response?

A. Generally the preparer generally must provide a definitive personal recommendation, since this question generally falls squarely within tax preparation services

B. Generally the preparer generally should refuse to discuss any aspect of the question, since taxes generally have no connection to this decision

C. Generally the preparer generally should guarantee a specific investment return figure to help the taxpayer make this particular decision

D. Generally the preparer may explain the general tax implications of each option, such as mortgage interest deductibility, while noting this is broader personal financial advice

81. A taxpayer asks a preparer for general advice about whether the taxpayer generally should adjust Form W-4 withholding after a recent marriage changed the household's combined income and filing status. What is generally the appropriate preparer response?

A. Generally recommend the taxpayer leave withholding entirely unchanged, since marriage generally has no effect at all on a household's combined withholding needs

B. Generally recommend the taxpayer claim the maximum number of allowances possible, regardless of the household's actual new combined income level

C. Generally recommend the taxpayer stop withholding entirely and rely exclusively on quarterly estimated payments going forward, regardless of the source of income

D. Generally recommend the taxpayer run a withholding estimate reflecting the new combined income and filing status to avoid a significant over- or under-withholding result

82. A taxpayer asks a preparer for general advice about timing the sale of appreciated stock held for just under one year, where waiting a short time would generally change the character of the resulting gain. What should the preparer generally explain?

A. Generally explain that the holding period generally has no bearing at all on the applicable tax rate for the resulting capital gain

B. Generally explain that selling immediately generally always produces a lower overall tax liability compared to waiting for the long-term threshold

C. Generally explain that waiting until the holding period exceeds one year would generally convert the gain from short-term to the more favorable long-term rate

D. Generally explain that the stock generally must be sold immediately to avoid an automatic forfeiture of the taxpayer's own original basis

83. A taxpayer asks a preparer whether the taxpayer generally should accelerate a year-end business expense purchase into the current tax year rather than waiting until January. What general factor should the preparer generally discuss with the taxpayer?

A. Generally discuss the taxpayer's projected marginal tax bracket in the current year compared to the following year to evaluate the timing benefit

B. Generally advise the taxpayer that expense timing generally never affects the year in which a deduction actually becomes available

C. Generally advise the taxpayer to always accelerate every expense possible, regardless of the taxpayer's own projected bracket in either year

D. Generally advise the taxpayer that only a corporation, not a sole proprietor, generally benefits from this specific expense timing consideration

84. A taxpayer asks a preparer for general advice about establishing a donor-advised fund to receive a large charitable contribution this year while the taxpayer decides which specific charities to eventually support. What is generally true about this specific strategy?

A. Generally the taxpayer generally must wait until the fund actually distributes to a specific charity before claiming any charitable deduction at all

B. Generally the taxpayer may generally claim the charitable deduction in the year of contribution to the fund, even though grants to specific charities occur later

C. Generally a donor-advised fund generally provides no deduction of any kind, since the taxpayer generally retains too much control over the funds

D. Generally a donor-advised fund contribution generally is deductible only if the taxpayer itemizes in the same year the fund is closed

85. A taxpayer asks a preparer for general advice about the tax consequences of gifting appreciated stock to an adult child in a lower tax bracket rather than selling the stock and gifting cash. What general point should the preparer generally raise?

A. Generally explain that gifting appreciated stock generally eliminates the built-in gain entirely, with no tax ever becoming due upon a later sale

B. Generally explain that the recipient generally takes the donor's own carryover basis and holding period, and may recognize the gain at the recipient's own lower rate upon a later sale

C. Generally explain that the recipient generally must immediately recognize the built-in gain as taxable income upon receiving the gifted stock itself

D. Generally explain that gifting stock to a family member generally is treated identically to gifting cash, with no basis carryover consideration at all

86. A taxpayer asks a preparer for general advice about maximizing retirement plan contributions before year-end to reduce current-year taxable income. What general distinction should the preparer generally explain between an employer plan and a traditional IRA contribution deadline?

A. Generally explain that both contribution types generally share the identical year-end deadline, with no meaningful distinction between the two

B. Generally explain that an employer plan contribution generally may be made until the filing deadline, while an IRA generally must occur by year-end

C. Generally explain that an employer plan contribution generally must occur by year-end, while a traditional IRA contribution generally may be made until the filing deadline

D. Generally explain that neither contribution type generally has any deadline at all, and either may generally be made at any time

87. A taxpayer asks a preparer whether the taxpayer generally should file an amended return after discovering an omitted Form 1099 for a prior year already filed. What general advice should the preparer generally provide?

A. Generally advise the taxpayer to ignore the omission entirely, since a single omitted form generally never results in any tax consequence

B. Generally advise the taxpayer that amending a prior-year return generally is never permitted once the original return has actually been filed

C. Generally advise the taxpayer to simply include the omitted income on the current year's return instead of amending the prior year

D. Generally advise the taxpayer to file an amended return reporting the omitted income, generally within the applicable statute of limitations for claiming a refund or reporting additional tax

88. A nonresident alien earned United States-source income during the year and must file a federal income tax return. Which specific form does this taxpayer generally use instead of the standard individual income tax return?

A. The nonresident alien generally files Form 1040-NR, the specific return designed for a nonresident alien with United States-source income

B. The nonresident alien generally files the identical standard Form 1040 used by a United States citizen, with no separate form required

C. The nonresident alien generally files only an information return, since a nonresident alien generally has no income tax filing obligation

D. The nonresident alien generally files Form 1040-X, the form generally reserved for amending a previously filed original return

89. A decedent's estate generated income after the date of death but before the assets were distributed to the beneficiaries. Which specific return generally reports this post-death income earned by the estate itself?

A. The estate generally reports this income on Form 1041, the fiduciary income tax return generally filed on behalf of the estate
B. The estate generally reports this income on the decedent's own final Form 1040, combined with the decedent's pre-death income
C. The estate generally has no filing obligation at all for income earned after the date of death, regardless of the amount
D. The estate generally reports this income exclusively on each beneficiary's own individual return, with no separate estate-level return ever required

90. A taxpayer needs to file a final individual income tax return covering the decedent's own income from the beginning of the year through the date of death. Which general form does this final individual return generally use?

A. The final return generally uses Form 1041, the same fiduciary form generally used for the estate's own separate post-death income
B. The final return generally uses Form 706, the form generally reserved for reporting the estate's own federal estate tax liability
C. No final individual return is generally required at all once a taxpayer has died, regardless of income earned before death
D. The final return generally uses the standard Form 1040, generally marked to indicate it is the decedent's own final return

91. A trust is structured so that all trust income generally must be distributed to the beneficiary each year, with no income generally accumulated within the trust itself. What is this type of trust generally known as?

A. This type of trust generally is known as a complex trust, the same label generally reserved for a trust that accumulates income
B. This type of trust generally is known as a grantor trust, a category generally defined by the grantor's own retained control rather than by distribution

C. This type of trust generally is known as a simple trust, generally required to distribute all its income to the beneficiary annually

D. This type of trust generally is known as a charitable remainder trust, a category generally defined by its ultimate charitable beneficiary

92. A taxpayer is a bona fide resident of Puerto Rico for the entire tax year and earned income from Puerto Rican sources only. How is this specific Puerto Rican-source income generally treated for federal income tax purposes?

A. Generally fully taxable for federal purposes, exactly the same treatment that generally applies to income earned within any of the fifty states

B. Generally excludable from federal gross income for a bona fide resident of Puerto Rico, subject to applicable statutory conditions on the exclusion

C. Generally taxable only at a reduced flat 10% federal rate reserved specifically for Puerto Rican-source income under current law

D. Generally treated as foreign-source income eligible for the foreign tax credit, rather than as an income exclusion of any kind

93. A taxpayer's household includes a qualifying person, and the taxpayer paid more than half the cost of maintaining the home for the year while unmarried. Which filing status generally offers this taxpayer a more favorable standard deduction than filing single?

A. The taxpayer generally may qualify for head of household filing status, generally offering a higher standard deduction than the single filing status

B. The taxpayer generally must file as single in every case, since head of household generally requires the taxpayer to actually be married

C. The taxpayer generally must file as qualifying surviving spouse, a status generally reserved only for a taxpayer whose spouse died recently

D. The taxpayer generally receives no filing status benefit at all beyond filing single, regardless of maintaining a home for a qualifying person

94. A recently widowed taxpayer's spouse died last year, and the taxpayer has a dependent child and has not remarried. What filing status may this taxpayer generally use for the two years following the year of the spouse's death?

A. The taxpayer generally must file as single beginning immediately in the year following the spouse's death, with no other status available

B. The taxpayer generally must file as married filing separately for the two years following the spouse's death, since the spouse is deceased

C. The taxpayer generally may use qualifying surviving spouse status, generally allowing the joint-return tax rates to continue for two years after death

D. The taxpayer generally may continue filing an actual joint return with the deceased spouse indefinitely, with no time limit ever applying

95. A taxpayer works and lives abroad for the entire tax year and meets the applicable physical presence test. What general exclusion may this specific taxpayer generally claim regarding foreign earned income?

A. The taxpayer generally may exclude all worldwide income of every kind, including investment income, with no limitation of any kind applying

B. The taxpayer generally receives no exclusion of any kind, and generally must include all foreign earned income in taxable income

C. The taxpayer generally may exclude foreign earned income only if the taxpayer also renounces United States citizenship for the year

D. The taxpayer generally may claim the foreign earned income exclusion, excluding a portion of foreign earned income up to an applicable annual limit

96. A taxpayer files an amended individual income tax return to correct a previously filed original return. Which specific form does this taxpayer generally use to make this correction?

A. The taxpayer generally uses the identical original Form 1040, simply refiling it with the corrected figures and no other distinguishing marking

B. The taxpayer generally uses Form 1040-X, the specific form designed for amending a previously filed individual income tax return

C. The taxpayer generally uses Form 1040-NR, the form generally reserved for a nonresident alien rather than for an amended return

D. The taxpayer generally uses Form 4868, the form generally used to request an automatic filing extension rather than to amend a return

97. A taxpayer's dependent child has earned income from a part-time job and unearned income from a custodial investment account, both below the applicable individual filing thresholds separately. What general consideration determines whether the child generally must still file a return?

A. Generally a dependent child generally never has any filing obligation at all, regardless of the amount of earned or unearned income
B. Generally the child's combined earned and unearned income generally is compared against applicable dependent-specific filing thresholds, which can require filing even below the standard individual threshold
C. Generally only the child's unearned income generally is considered, with the child's own earned income being entirely disregarded for this purpose
D. Generally the child generally must file only if the child's parent also has a filing obligation for that same specific year

98. A same-sex married couple, validly married under state law, wants to know their general federal filing status options. What is generally true about this specific couple's federal filing status options compared to any other married couple?

A. The couple generally has the identical federal filing status options as any other validly married couple, generally including joint or separate filing
B. The couple generally has no valid federal filing status option at all, and generally must each file as single regardless of the marriage
C. The couple generally is restricted to filing separately only, with a joint return generally being unavailable to this specific couple
D. The couple generally must obtain a specific federal recognition certificate beyond the state marriage license before any joint filing becomes available

99. A taxpayer is a United States citizen living and working in a foreign country and paid substantial foreign income tax on foreign-source wages, exceeding what the foreign earned income exclusion alone would shelter. What general additional relief might this taxpayer generally also claim?

A. The taxpayer generally may claim no additional relief of any kind beyond the foreign earned income exclusion itself, regardless of tax actually paid

B. The taxpayer generally must choose between the foreign tax credit and United States citizenship itself, since generally only one may be retained

C. The taxpayer generally may exclude the entire foreign tax paid as a separate itemized deduction in addition to claiming the full exclusion

D. The taxpayer generally may also claim the foreign tax credit for foreign tax paid on any foreign earned income not otherwise excluded

100. A taxpayer's estate exceeds the applicable federal estate tax exclusion amount at the time of the taxpayer's death. Which specific return does the estate's executor generally use to report and pay any resulting federal estate tax?

A. The executor generally files the decedent's own Form 1040 a final time, reporting the estate tax liability directly on that individual return

B. The executor generally files Form 1041, the fiduciary income tax return, to report and pay any resulting federal estate tax liability

C. The executor generally files Form 706, the United States Estate Tax Return, to report and pay any resulting federal estate tax liability

D. The executor generally files no separate return at all, since federal estate tax generally is assessed automatically without any filing requirement

Answer Key and Explanations — Practice Exam 19

1. B — When a source document conflicts with the client's own understanding, a preparer generally should verify the amount with the client and, if warranted, contact the partnership or review the partnership agreement, rather than blindly accepting or unilaterally altering the reported figure without any further inquiry into the actual underlying facts.

2. A — A preparer generally should follow up when a prior-year return suggests continued gig-economy activity that the client did not mention this year, since simply assuming the income has stopped without asking would generally fall short of the preparer's general due diligence obligation to gather complete and accurate client information before filing.

3. D — The specific tax matters and years line on Form 2848 generally ensures the representative's authority is limited to exactly what the client actually authorized, rather than granting broad, unlimited authority, consistent with the general principle that a power of attorney should be no broader than the client's own intended scope of representation.

4. C — A preparer generally should explain the applicable standard for avoiding a preparer penalty, such as substantial authority or a reasonable basis with adequate disclosure, before proceeding with an aggressive but arguable deduction position, so the client understands both the return position's risk and the preparer's own professional and ethical obligations.

5. A — An IRS Appeals conference generally offers the taxpayer an administrative, often less formal opportunity to resolve a disputed adjustment without litigation, while a Tax Court petition generally initiates formal judicial proceedings, and a taxpayer generally may pursue Appeals first and, if unresolved, still petition Tax Court within the applicable statutory window.

6. D — Circular 230 generally prohibits false, fraudulent, or misleading advertising, and a blanket guarantee of audit protection for every client generally is considered misleading, since no preparer can genuinely guarantee that outcome, similar to the general prohibition on guaranteeing a specific refund amount before actually reviewing a client's own facts and records.

7. B — A Notice of Federal Tax Lien generally serves to publicly establish the government's legal claim against a taxpayer's property as security for an unpaid tax liability, generally giving the government priority over certain other creditors and generally remaining in effect until the underlying liability is satisfied, released, or the collection statute expires.

8. C — A preparer generally should retain a copy of a client's signed disclosure consent for the applicable retention period, supporting the preparer's own compliance documentation in the event a question later arises about whether a specific disclosure to a third party, such as a financial planner, was actually properly authorized by the client.

9. C — The Practitioner Priority Service generally provides a registered tax professional with proper authorization a dedicated phone line for account-related inquiries on behalf of a client, generally offering faster access than the general public taxpayer line, useful for resolving a notice, checking processing status, or addressing another account-specific matter more efficiently.

10. D — A preparer generally should clearly explain the 90-day Tax Court petition deadline following a Notice of Deficiency and the consequence of missing it, since the proposed deficiency generally becomes assessable once that window closes, making timely awareness of this specific deadline critical to preserving the client's own judicial appeal rights.

11. B — A conflict-of-interest check generally helps a preparer identify whether representing multiple family members with potentially adverse tax interests, such as a divorcing couple, could create a conflict requiring informed consent from both parties or, in some cases, declining one or both engagements, consistent with the general professional standard of avoiding an undisclosed conflicting representation.

12. A — A preparer generally may rely on a client's own credible representation regarding claimed dependents, supported by reasonable documentation such as a birth certificate or school record where reasonably available, consistent with the general due diligence standard of reasonable inquiry rather than independently querying a third-party database for every claimed dependent.

13. A — Form 911 generally allows a taxpayer, or an authorized representative on the taxpayer's behalf, to formally request assistance from the Taxpayer Advocate Service when normal IRS channels have not resolved a problem, particularly where the taxpayer is experiencing a significant financial hardship or an IRS system is not functioning as it should.

14. C — A preparer generally should caution a client who mentions relying on internet forum advice that such information may be inaccurate, outdated, or not applicable to the client's own specific facts, and should not replace the preparer's own professional review, since forum content generally is not vetted for accuracy or currency.

15. D — Documenting the specific reasons for a professional judgment call, such as characterizing an ambiguous payment as one type of income versus another, generally creates a contemporaneous record supporting the preparer's own reasonable basis for that position, generally useful if the position is later questioned during an examination or otherwise scrutinized.

16. B — A preparer generally should proactively ask a client about any bartering activity, exchanging services or goods directly for other services or goods, since bartering income generally is taxable at the fair market value of the goods or services actually received, a category of income a client may not realize needs to be reported.

17. D — A spot bonus paid by an employer for exceptional performance on a specific project is generally fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, regardless of whether the payment is made through the normal payroll cycle or as a separate off-cycle payment.

18. C — Interest earned on United States Treasury bonds is generally fully taxable for federal income tax purposes but generally exempt from state and local income tax, a distinctive treatment that differs from interest on a typical corporate bond, which generally is taxable at both the federal and the applicable state level.

19. B — A lump-sum payment for unused accrued paid time off, paid upon a taxpayer's voluntary retirement, 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. A — When a surviving spouse elects to treat an inherited traditional IRA as the spouse's own account, a subsequent distribution generally is taxed under the normal distribution rules applicable to the spouse's own IRA, including the applicable required minimum distribution age and early distribution penalty exposure, rather than the more restrictive non-spouse rules.

21. D — A state energy efficiency rebate structured as a direct reduction in the purchase price of a qualifying appliance is generally not taxable income to the purchaser, since the rebate generally is treated as reducing the purchase price of the item rather than as separately taxable income, consistent with the general treatment of a manufacturer or retailer rebate.

22. C — A hardship distribution from a traditional 401(k) plan, permitted under the plan's own internal criteria for an immediate and heavy financial need, generally remains subject to the 10% early distribution penalty absent a separate applicable statutory exception, since satisfying a plan's own hardship standard does not, by itself, except the distribution from the penalty under the tax code.

23. A — A survivor annuity benefit paid to a taxpayer under a qualified domestic relations order assigning rights to a portion of a former spouse's pension is generally fully taxable as ordinary income to the recipient taxpayer, in the same general manner the underlying pension income would have been taxed to the former spouse had the divorce not occurred.

24. B — A taxpayer who takes a qualified disaster distribution generally has the option to elect to include the entire distribution as taxable income in the single year of distribution, rather than using the default three-year income spread, which may be advantageous if the taxpayer expects a significantly higher tax bracket in a future year of the default spread period.

25. A — A qualified employee discount on merchandise purchased from an employer is generally excludable from the employee's taxable wages up to an applicable statutory limit, generally tied to the employer's own gross profit percentage on the specific merchandise, with any discount exceeding that limit generally becoming includible in the employee's taxable wages instead.

26. B — A traditional IRA distribution taken once the taxpayer has reached age 59½ is generally excepted from the 10% early distribution penalty, since reaching this specific applicable age threshold generally satisfies the age-based exception, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty, not the underlying tax, is excepted at this age.

27. C — Accelerated death benefits paid to a terminally ill insured, meeting the applicable statutory definition of terminal illness, are generally entirely tax-exempt, receiving the same general tax-free treatment as a regular life insurance death benefit paid upon actual death, distinguishing this treatment from a taxable policy surrender for cash value during the insured's own lifetime.

28. D — A distribution from a Roth 401(k) plan that satisfies all the requirements for a qualified distribution, including the applicable five-year holding period and the taxpayer reaching age 59½, is generally entirely tax-exempt, both the principal and the earnings, unlike a nonqualified distribution, where the earnings portion generally remains taxable and potentially subject to penalty.

29. C — A data breach class action settlement structured as compensation for the time and inconvenience of responding to the breach, rather than for a demonstrated actual financial loss, is generally fully taxable as other income to the recipient, since this type of compensation generally does not qualify for the exclusion for physical injury damages.

30. B — The earnings attributable to a timely corrected excess IRA contribution, withdrawn along with the excess before the applicable filing deadline including extensions, are generally taxable as ordinary income in the year the excess contribution was originally made, and generally subject to the 10% penalty if the taxpayer was under 59½, unlike the excess principal itself.

31. D — A lump-sum relocation incentive paid as a condition of continued employment, rather than structured as a substantiated reimbursement of actual moving costs under an accountable plan, 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 is not excludable as an accountable plan reimbursement.

32. A — A traditional IRA distribution used to pay health insurance premiums during self-employment, where the taxpayer never actually received unemployment compensation for the applicable period, generally remains subject to the 10% early distribution penalty, since the unemployed health insurance premium exception generally requires actually receiving unemployment compensation, a requirement self-employment status alone does not satisfy.

33. B — A payment received for releasing a potential age discrimination claim, structured as part of a voluntary early retirement incentive package, is generally fully taxable as ordinary income, since a settlement or release payment connected to an age discrimination claim generally does not qualify for the exclusion for personal physical injury damages.

34. C — A traditional IRA distribution taken by a taxpayer who meets the applicable statutory certification requirements for a qualifying long-term care need is generally excepted from the 10% early distribution penalty, up to an applicable annual dollar limit, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty is excepted under this specific relatively new provision.

35. D — A distribution from a supplemental executive retirement plan, a nonqualified arrangement providing additional retirement benefits beyond an employer's qualified plan, is generally fully taxable as ordinary income in the year actually received, since the underlying deferred compensation was never previously subject to federal income tax, similar in general character to a distribution from any other nonqualified deferred compensation arrangement.

36. A — A state-issued economic impact payment is generally fully taxable as other income for federal purposes absent a specific applicable statutory exclusion, though the IRS has at times issued specific administrative guidance excluding certain similar state payments from federal taxable income, making it important for a preparer to check for current guidance addressing the specific payment program involved.

37. C — Unreimbursed medical expenses are deductible as an itemized deduction only to the extent they exceed 7.5% of the taxpayer's adjusted gross income for the year, meaning only the portion above that specific floor actually reduces taxable income, and expenses below the floor generally provide no deductible tax benefit at all.

38. D — The itemized deduction for the combined total of state and local income, sales, and property taxes is generally capped at $10,000, a limitation that applies regardless of how much the taxpayer actually paid across these categories during the year, making the cap a significant constraint for a taxpayer in a high-tax state.

39. B — Home mortgage interest deduction on acquisition debt used to buy, build, or substantially improve a qualified residence is generally limited based on the applicable statutory principal cap, and interest on debt exceeding that cap is generally not deductible for the excess portion, regardless of how the loan proceeds were otherwise used.

40. A — A cash contribution to a qualifying public charity is generally deductible up to 60% of the taxpayer's adjusted gross income for the year, with any excess amount generally eligible to be carried forward and deducted in a later tax year, subject to the applicable carryforward period allowed under current law.

41. B — A qualified written appraisal from a qualified appraiser is generally required to substantiate a noncash charitable contribution exceeding $5,000 in claimed value, and the taxpayer generally must also attach the required appraisal summary to the return claiming the deduction, since inadequate substantiation can generally result in the deduction being disallowed.

42. A — For an owner of a specified service trade or business, such as a law or accounting practice, the qualified business income deduction generally phases out and can be eliminated entirely once the taxpayer's taxable income exceeds the applicable statutory threshold range for that filing status, unlike a non-service business owner.

43. C — A taxpayer who reaches age 65 is generally entitled to an additional standard deduction amount added to the regular standard deduction for that filing status, and a taxpayer who is both age 65 and blind generally qualifies for two separate additional amounts, further increasing the taxpayer's total standard deduction available.

44. D — A qualifying child generally must be under age 17, meaning not yet having reached age 17, at the end of the tax year for the taxpayer to claim the full child tax credit for that child, distinct from the lower age limits used for other dependent-related benefits such as the dependent care credit.

45. A — On a joint return, the child and dependent care credit generally requires both spouses to have earned income for the year, unless one spouse is a full-time student or incapable of self-care, since the underlying care expense generally must enable the couple to actually work or actively look for work.

46. B — The American Opportunity Tax Credit is generally up to 40% refundable, meaning a portion may generate a refund even absent other tax liability, while the Lifetime Learning Credit is generally entirely nonrefundable, only reducing tax liability and never generating a refund on its own regardless of the taxpayer's own liability.

47. C — The Lifetime Learning Credit is generally available for coursework taken to acquire or improve job skills, even on a part-time basis and without pursuing a degree, unlike the American Opportunity Tax Credit, which generally requires at least half-time enrollment in a program leading toward a recognized degree or credential itself.

48. D — A taxpayer claiming the earned income tax credit generally must have investment income, such as interest, dividends, and certain capital gain, that does not exceed an applicable statutory dollar limit for the year, since exceeding that limit generally disqualifies the taxpayer from the credit entirely regardless of earned income level.

49. B — The adoption credit is generally nonrefundable, so any portion exceeding the taxpayer's tax liability for the year generally may be carried forward and applied against tax liability in a limited number of subsequent tax years, until the credit is either fully used or the applicable carryforward period actually expires entirely.

50. A — A taxpayer who paid foreign income tax on foreign-source income generally has an election between claiming the amount as an itemized deduction or claiming it as the foreign tax credit, and the credit generally is more advantageous for most taxpayers since it reduces tax liability dollar for dollar rather than merely reducing income.

51. C — A personal casualty loss is generally deductible only if it arises from a federally declared disaster, meaning a state governor's own disaster declaration alone generally is not sufficient absent the accompanying federal declaration, a significant narrowing of the personal casualty loss deduction compared to the rules that generally applied under prior law.

52. D — The above-the-line deduction for qualified student loan interest is generally capped at $2,500 per year, and the deduction generally phases out and can be eliminated entirely once the taxpayer's modified adjusted gross income exceeds the applicable statutory range for that particular filing status, regardless of the taxpayer's own itemizing choice.

53. C — A properly made contribution to a health savings account by an eligible individual with self-only high-deductible coverage is generally deductible above the line, up to the applicable annual self-only statutory limit, meaning the deduction generally remains available whether or not the taxpayer itemizes any other deductions on the return itself.

54. A — A self-employed taxpayer's SEP-IRA contribution is generally calculated based on net self-employment earnings after subtracting the deduction for one-half of self-employment tax, and the resulting contribution generally is limited to a percentage of that adjusted net earnings figure up to the applicable annual dollar cap for that specific tax year.

55. D — Alimony payments required under a divorce or separation instrument executed after 2018 are generally not deductible by the paying taxpayer and generally are not includible in the recipient's own income, a reversal of the treatment that generally applied to alimony under a decree executed before 2019, when payments were deductible.

56. B — The residential clean energy credit generally equals an applicable percentage of the qualifying cost of eligible property, such as a solar electric system, with no overall dollar cap on the underlying cost, though the credit itself generally is nonrefundable and any excess generally may be carried forward to a future year.

57. D — A capital asset held for more than one year before its sale generally produces long-term capital gain upon sale, and since fourteen months exceeds the one-year threshold, the resulting gain generally qualifies for the more favorable long-term capital gain tax rates rather than the taxpayer's own higher ordinary income tax rates.

58. A — A taxpayer's net capital loss is generally deductible against ordinary income only up to $3,000 per year for most filing statuses, and any remaining excess loss beyond that annual limit generally may be carried forward indefinitely to offset capital gain or ordinary income in a later, subsequent future tax year.

59. C — A qualified dividend from a domestic corporation, where the taxpayer has met the applicable holding period requirement, is generally taxed at the same favorable rates that generally apply to long-term capital gain, rather than at the taxpayer's higher ordinary income tax rates that would generally apply to a nonqualified dividend.

60. B — Under the kiddie tax rules, a child's unearned income exceeding the applicable statutory threshold generally is taxed using rates generally tied to the child's own applicable rate structure, a framework that has shifted over time between using the parent's marginal rate and using compressed rates similar to a trust's own rates.

61. B — A married couple electing to file separately generally faces reduced, limited, or entirely unavailable eligibility for several tax benefits and credits, such as certain education credits and the earned income tax credit, compared to filing a joint return, making the election generally less advantageous absent a specific offsetting nontax reason.

62. D — The alternative minimum tax generally exists to ensure that a taxpayer benefiting from a substantial amount of specific preference items and adjustments still pays a minimum baseline level of federal income tax, generally calculated under a separate parallel system and paid whenever it exceeds the taxpayer's own regular tax liability.

63. C — A taxpayer generally may avoid the underpayment penalty by satisfying a recognized safe harbor, such as generally paying at least the applicable percentage of the prior year's tax liability, or generally paying at least a specified percentage of the current year's actual tax liability, through withholding and timely estimated payments.

64. A — The portion of gain on the sale of depreciable real property attributable to previously claimed depreciation is generally subject to unrecaptured section 1250 gain treatment, generally taxed at a rate higher than the rate that generally applies to the remaining long-term capital gain portion of the same overall property sale.

65. B — Gain or loss on the sale of stock is generally determined by subtracting the taxpayer's adjusted basis, generally the original cost adjusted for items such as a stock split or reinvested dividend, from the amount realized on the sale, with a positive difference representing gain and a negative difference representing loss.

66. C — A violation of the specific requirements governing a nonqualified deferred compensation arrangement generally causes the affected deferred amount to become immediately includible in the taxpayer's own income, generally along with an additional applicable penalty tax imposed on that specific includible amount, a significant consequence for the affected plan participant involved.

67. A — A taxpayer with modified adjusted gross income exceeding the applicable statutory threshold generally is subject to a 3.8% net investment income tax, generally applied to the lesser of the taxpayer's net investment income for the year or the amount by which modified adjusted gross income exceeds the applicable threshold amount.

68. D — A traditional IRA converted to a Roth IRA generally causes the converted amount, generally the previously untaxed account balance, to become includible in the taxpayer's own ordinary taxable income for the year of conversion, though the conversion itself generally is not subject to the separate 10% early distribution penalty amount.

69. C — Self-employment tax generally combines the equivalent of both the employer and employee shares of Social Security and Medicare tax, since a self-employed taxpayer generally must pay both portions personally, unlike a wage employee whose own employer generally pays half while the remaining employee portion is withheld from the employee's regular wages.

70. A — A household employer who pays a domestic worker, such as a nanny, wages above an applicable annual threshold generally faces the so-called nanny tax obligation, generally requiring the household employer to withhold and remit applicable Social Security and Medicare tax and to report these wages using the applicable IRS schedule.

71. D — Exercising an incentive stock option and holding the resulting shares generally does not trigger regular income tax at exercise, but the bargain element, the difference between the exercise price and fair market value, generally is treated as a positive adjustment for alternative minimum tax purposes in the year of exercise.

72. B — Original issue discount on a bond generally must be included in the holder's taxable income as it accrues each year, even though the holder generally receives no actual corresponding current cash payment for that specific accrued amount, since the tax law generally treats accrued original issue discount as taxable income annually.

73. B — The rate applied in calculating the underpayment of estimated tax penalty generally is tied to the federal short-term interest rate plus an applicable statutory add-on, and this rate generally is adjusted and published on a periodic quarterly basis, meaning the applicable rate can generally change from one quarter to the next.

74. C — The combined income figure used to determine how much of a taxpayer's Social Security benefits generally becomes taxable is generally calculated as adjusted gross income, generally plus any tax-exempt interest received, plus one-half of the Social Security benefits themselves, compared against applicable statutory thresholds for the taxpayer's own filing status.

75. A — A preparer generally should advise a taxpayer with new self-employment income to make quarterly estimated payments sized to cover the projected additional self-employment tax and income tax, since self-employment income generally is not subject to withholding, and quarterly payments generally help the taxpayer avoid an underpayment penalty at filing time.

76. D — A preparer generally should explain the general tax and early distribution penalty considerations that generally apply at different distribution timing stages, while generally noting that comprehensive retirement income planning and specific investment allocation decisions generally fall outside the scope of tax return preparation and belong with a qualified financial advisor.

77. C — A preparer generally should compare the taxpayer's total projected itemized deductions, including the large one-time charitable contribution, against the applicable standard deduction amount for the taxpayer's own filing status, generally recommending whichever option produces the lower overall tax liability for the year in question and the year that follows it.

78. B — The bunching strategy generally involves concentrating several years' worth of charitable contributions into a single tax year, generally pushing that year's total itemized deductions above the standard deduction amount, allowing the taxpayer to itemize and benefit from the contributions in that year while generally claiming the standard deduction in other years.

79. A — A preparer generally may explain that converting a traditional IRA to a Roth IRA during a year of unusually low taxable income can generally reduce the marginal tax cost of recognizing the conversion income, since the converted amount generally is taxed at the taxpayer's current marginal rate for that lower-income year.

80. D — A preparer generally may explain the general tax implications relevant to each option, such as the deductibility of mortgage interest under current itemizing rules, while generally noting that the broader decision of paying down debt versus investing generally involves personal financial planning considerations beyond the scope of tax return preparation.

81. D — A preparer generally should recommend that a recently married taxpayer run an updated withholding estimate reflecting the household's new combined income and filing status, since marriage generally can meaningfully change the household's overall withholding needs, and updating the Form W-4 generally helps avoid a significant over- or under-withholding result at filing.

82. C — A preparer generally may explain that waiting until the stock's holding period exceeds one year would generally convert the character of the resulting gain from short-term, taxed at ordinary rates, to long-term, generally taxed at more favorable capital gain rates, while noting the final decision generally also depends on market and personal factors.

83. A — A preparer generally should discuss the taxpayer's projected marginal tax bracket for the current year compared to the following year, since accelerating a deductible business expense into the current year generally is most advantageous when the taxpayer expects to be in a higher bracket now than in the following year.

84. B — A preparer generally may explain that a taxpayer contributing to a donor-advised fund generally may claim the charitable deduction in the year the contribution is actually made to the fund, even though the taxpayer generally retains advisory privileges to recommend grants to specific qualifying charities at a later, unspecified time.

85. B — A preparer generally may explain that a gift of appreciated stock generally carries over the donor's own original basis and holding period to the recipient, meaning the built-in gain generally is not eliminated but may ultimately be recognized at the recipient's own lower marginal tax rate upon a later sale of the stock.

86. C — A preparer generally should explain that an employer-sponsored retirement plan contribution, such as a 401(k) elective deferral, generally must be made by December 31, while a traditional IRA contribution generally may be made up until the original filing deadline of the following year, still counting toward the earlier tax year.

87. D — A preparer generally should advise a taxpayer who discovers an omitted Form 1099 for a prior year to file an amended return reporting the additional income, generally within the applicable statute of limitations, since correcting the omission proactively generally is preferable to waiting for the IRS to identify the discrepancy independently.

88. A — A nonresident alien with United States-source income generally must file Form 1040-NR rather than the standard Form 1040 used by a citizen or resident alien, since Form 1040-NR generally reflects the different rules that generally apply to a nonresident alien's own income, deductions, and applicable filing requirements under current law.

89. A — Income earned by a decedent's estate after the date of death, before final distribution to the beneficiaries, generally is reported on Form 1041, the fiduciary income tax return, which is separate and distinct from the decedent's own final individual Form 1040 covering the period up through the date of death.

90. D — A decedent's final individual income tax return, covering income from the beginning of the year through the date of death, generally is filed on the standard Form 1040, generally indicating it is a final return, distinct from the separate Form 1041 used to report the estate's own income earned after death.

91. C — A trust generally required to distribute all its income currently to the beneficiary, with no income generally accumulated within the trust itself, generally is classified as a simple trust, distinguishing it from a complex trust, which generally may accumulate income, make a discretionary distribution, or distribute the trust's own principal.

92. B — Income from Puerto Rican sources generally is excludable from federal gross income for a taxpayer who is a bona fide resident of Puerto Rico for the entire tax year, subject to applicable statutory conditions, reflecting Puerto Rico's own distinct territorial relationship with the federal income tax system and its rules.

93. A — An unmarried taxpayer who pays more than half the cost of maintaining a home for a qualifying person generally may claim head of household filing status, which generally offers a more favorable standard deduction and generally more favorable tax brackets than the single filing status available to that same taxpayer.

94. C — A widowed taxpayer with a dependent child who has not remarried generally may use the qualifying surviving spouse filing status for up to two tax years following the year of the spouse's death, generally allowing the taxpayer to continue benefiting from the same favorable tax rates that generally apply to a joint return.

95. D — A taxpayer who lives and works abroad for the entire tax year and meets the applicable physical presence test generally may claim the foreign earned income exclusion, excluding a portion of foreign earned income up to an applicable annual statutory limit, though investment and other unearned income generally remains fully taxable.

96. B — A taxpayer correcting a previously filed original individual income tax return generally uses Form 1040-X, which generally requires the taxpayer to show the originally reported amount, the newly corrected amount, and the specific reason for each change actually being made to the previously filed original return for that tax year.

97. B — A dependent child's filing requirement generally is determined by comparing the child's combined earned and unearned income against applicable dependent-specific filing thresholds, which generally differ from and can often be lower than the thresholds that generally apply to a taxpayer who is not actually claimed as another person's own dependent.

98. A — A same-sex couple validly married under state law generally has the identical federal filing status options as any other validly married couple, generally including the choice between filing a joint return or filing separately, since federal tax law generally recognizes a valid state-law marriage regardless of the spouses' own sex.

99. D — A United States citizen working abroad who paid substantial foreign income tax generally may, in addition to the foreign earned income exclusion, also claim the foreign tax credit for foreign tax paid on foreign earned income not sheltered by the exclusion, though the same income generally cannot be both excluded and credited.

100. C — An estate whose value exceeds the applicable federal estate tax exclusion amount generally requires its executor to file Form 706, the United States Estate Tax Return, to report the estate's value and calculate and pay any resulting federal estate tax liability, a return separate from the fiduciary income tax return.