PRACTICE EXAM 20: 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 Form W-2 showing an employer identification number that does not match the number on file from the prior year's return for the same employer. What is the preparer's recommended first step?

A. File the return immediately using the new EIN without any further inquiry, since the IRS will automatically reconcile any discrepancy
B. Disregard the EIN entirely and use the prior year's number instead, since the current form is presumed to contain a typo
C. Verify the discrepancy with the client or employer before filing, since an EIN mismatch could indicate an error or a genuinely different reporting entity
D. Refuse to prepare the return until the client obtains a notarized statement from the employer explaining the specific EIN change

2. A preparer's client mentions receiving cryptocurrency as payment for freelance consulting work but did not bring any documentation. What is the preparer's general obligation regarding this specific unreported transaction?

A. The preparer has no obligation to ask further questions, since cryptocurrency payments are generally exempt from federal income tax reporting
B. The preparer should inquire further and help the client determine the fair market value of the cryptocurrency on the date received
C. The preparer should advise the client that cryptocurrency compensation is never taxable until the cryptocurrency is later converted to cash
D. The preparer should decline to prepare the return entirely, since cryptocurrency income can never be reliably substantiated by a taxpayer

3. A preparer's client asks about the general purpose of the specific checkbox on Form 8867 confirming the preparer's due diligence for a claimed credit. What is the general purpose this checkbox serves?

A. Serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own liability exposure

B. Grants the preparer automatic immunity from any due diligence penalty regardless of whether the underlying steps were actually completed

C. Applies only when the client is self-employed, with a wage-earning client being entirely exempt from this specific due diligence requirement

D. Confirms the preparer actually completed the required knowledge and documentation steps before claiming certain credits, such as the earned income tax credit

4. A preparer's client asks whether the preparer generally must retain copies of the client's supporting documents used to prepare the return, or only the return itself. What is the general recommended retention practice?

A. Generally recommends retaining both the return and the key supporting documents relied upon, for the applicable retention period

B. Generally recommends retaining only the finished return itself, discarding every supporting document immediately after the return is filed

C. Generally recommends retaining supporting documents for exactly thirty days only, rather than for the full applicable retention period

D. Generally recommends never retaining any document at all, relying instead entirely on the client's own personal recordkeeping

5. A preparer's client asks about the general difference between an IRS Letter 525 and a formal Notice of Deficiency following an examination. What is the general distinction between these two specific IRS communications?

A. A Letter 525 generally proposes changes and offers an opportunity to respond or appeal, while a Notice of Deficiency generally starts the formal 90-day period

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

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

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

6. A preparer's client asks whether a preparer generally may charge a fee based on a percentage of the client's expected refund amount. What is the general Circular 230 standard regarding this specific fee arrangement?

A. Generally fully permitted without restriction, since Circular 230 generally imposes no standard on any specific fee arrangement of this kind

B. Generally permitted only if the client actually agrees in writing, with no other limitation applying to this specific fee structure

C. Generally prohibited only for a CPA, with an Enrolled Agent being exempt from this specific contingent fee restriction under current rules

D. Generally prohibited in most circumstances, since a contingent fee tied to a refund amount generally creates an incentive to take aggressive positions

7. A preparer's client asks about the general purpose of an IRS CP2000 notice received after the return was filed. What is the general purpose this specific notice generally serves?

A. Generally serves exclusively as a final bill demanding immediate payment, with no opportunity at all for the taxpayer to respond

B. Generally serves no actual practical purpose, existing only as an optional informational notice with no genuine legal significance

C. Generally proposes an adjustment based on a mismatch between the return as filed and third-party information the IRS received, such as a Form 1099

D. Generally serves exclusively to notify the taxpayer of a completed criminal referral, rather than of any underreporting discrepancy

8. A preparer's client asks whether the preparer generally must inquire about a client's own foreign bank account when preparing a return that does not otherwise mention foreign income. What is the general answer?

A. Generally no; a preparer generally may rely entirely on whatever the client volunteers, with no proactive inquiry obligation resting on the preparer

B. Generally yes; a preparer generally should ask about a foreign financial account, since additional reporting obligations may apply once a threshold is exceeded

C. Generally yes, but only if the client is self-employed, with a wage-earning client being generally exempt from this inquiry obligation

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

9. A preparer's client asks about the general purpose of a signed engagement letter before beginning return preparation. What is the general benefit of using this specific written engagement letter?

A. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own liability exposure

B. Generally applies only to a business return engagement, with an individual return engagement being entirely exempt from this specific practice

C. Generally clarifies the scope of services, the fee arrangement, and each party's own responsibilities, reducing the risk of a later misunderstanding

D. Generally serves exclusively as a marketing tool describing the preparer's own expertise, rather than as any form of scope-defining document

10. A preparer's client asks whether the preparer generally must advise the client about the risk of identity theft after the client mentions receiving a suspicious email requesting personal tax information. What is the general answer?

A. Generally no; a preparer generally has no obligation at all to comment on any email the client received outside the engagement

B. Generally yes, but only if the client actually responded to the email already, with no proactive caution obligation existing beforehand

C. Generally no; commenting on a suspicious email is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

D. Generally yes; the preparer generally should caution the client not to respond and explain that the IRS generally does not initiate contact by unsolicited email

11. A preparer's client asks about the general purpose of an IRS Form 4506-T request for a transcript. What is the general purpose this specific transcript request generally serves for a preparer assisting the client?

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

B. Generally allows a preparer or taxpayer to obtain a summary of previously filed return information directly from the IRS for verification purposes

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

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

12. A preparer's client asks whether the preparer generally must independently verify a client's own claimed filing status as head of household through documentation before preparing the return. What is the general recommended practice?

A. Generally may rely on the client's own credible representation regarding the household maintenance and qualifying person requirements, supported by reasonable inquiry

B. Generally must independently obtain a notarized statement from every household member before ever preparing any return claiming this filing status

C. Generally must personally inspect the client's own home to confirm the qualifying person's residency before preparing any return

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

13. A preparer's client asks about the general purpose of a specific conflict check performed before representing both a taxpayer and that taxpayer's closely held business entity in the same examination. What is the general purpose this check serves?

A. Generally helps the preparer identify whether representing both the individual and the entity could create a conflict requiring disclosure, consent, or declining one engagement

B. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own ethical obligations

C. Generally applies only when the entity is a corporation, with a partnership or sole proprietorship 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

14. A preparer's client asks whether the preparer generally must advise the client about the consequences of failing to respond to an IRS backup withholding notice affecting the client's own investment account. What is the general answer?

A. Generally no; a preparer generally has no obligation at all to mention any backup withholding notice, since that responsibility belongs entirely to the client

B. Generally yes, but only if the client actually owes additional tax, with no similar obligation applying to a client who does not owe tax

C. Generally yes; a preparer generally should explain that failing to respond can generally trigger mandatory backup withholding on future payments from that payer

D. Generally no; discussing a backup withholding notice 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 maintaining a written data security plan for the preparer's own office handling sensitive client tax information. What is the general purpose this specific plan generally serves?

A. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own legal obligations

B. Generally applies only to a preparer operating as a corporation, with a sole proprietor preparer being entirely exempt from this expectation

C. Generally serves exclusively as a marketing tool describing the preparer's own expertise, rather than as any form of genuine data safeguard

D. Generally helps the preparer safeguard client data and generally satisfies an applicable regulatory expectation for a preparer handling sensitive taxpayer information

16. A preparer's client asks whether the preparer generally must ask about a client's own participation in a peer-to-peer lending platform generating interest income. What is the general answer to this question?

A. Generally no; peer-to-peer lending interest is generally treated as entirely nontaxable under current law regardless of the amount actually earned

B. Generally yes; peer-to-peer lending interest generally is taxable income, so a preparer should proactively ask about this potentially overlooked income source

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; peer-to-peer lending 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 reimbursement for job-related professional certification exam fees, paid under a plan requiring substantiation and return of any excess advance. How is this reimbursement generally treated?

A. Generally fully taxable as ordinary wage income, exactly the same treatment that generally applies to a nonaccountable plan reimbursement

B. Generally taxable only at a reduced flat 10% rate reserved for a certification exam fee reimbursement, rather than being entirely excludable

C. Generally excludable from the employee's taxable wages, since the reimbursement was made under an accountable plan requiring substantiation and return of any excess

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

18. A taxpayer's total income includes a payment received as a whistleblower award from the IRS for information leading to the collection of unpaid tax from a third party. How is this specific whistleblower award generally treated?

A. Generally entirely tax-exempt, since a whistleblower award is generally treated as a nontaxable reward for civic cooperation with the government

B. Generally taxable only at a reduced flat 10% rate reserved for a whistleblower award, 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 a stock sale

D. Generally fully taxable as ordinary income, includible in the taxpayer's gross income in the year the award is actually received

19. A taxpayer's total income includes a distribution received from a nonqualified annuity purchased with after-tax dollars, where the distribution exceeds the taxpayer's own original investment in the contract. How is the excess portion generally treated?

A. Generally entirely tax-exempt, since a nonqualified annuity purchased with after-tax dollars is generally excluded from taxable income altogether
B. Generally taxable as ordinary income to the extent it exceeds the taxpayer's own investment in the contract, generally under the exclusion ratio rules
C. Generally taxable only at a reduced flat 10% rate reserved for a nonqualified annuity distribution, rather than at ordinary income tax rates
D. Generally treated as self-employment income, subjecting the excess distribution to self-employment tax in addition to any regular income tax

20. A taxpayer's total income includes a payment received from a former employer as severance pay following an involuntary layoff, paid as a lump sum rather than continued salary. How is this specific severance payment generally treated?

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

21. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to pay for a first-time home purchase, within the applicable lifetime dollar limit for this specific exception. How is this treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a first-time homebuyer distribution is excluded from taxable income altogether
B. Generally excepted from the 10% early distribution penalty up to the applicable lifetime dollar limit, though the distribution remains includible in ordinary taxable income

C. Generally still subject to the full 10% penalty in every case, since this exception generally applies only to a Roth IRA, not a traditional IRA

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

22. A taxpayer's total income includes a payment received from an employer-sponsored group term life insurance policy exceeding $50,000 of coverage, provided at no direct cost to the employee. How is the cost of this excess coverage generally treated?

A. Generally includible in the employee's taxable wages, based on an applicable IRS uniform premium table, for coverage amounts exceeding $50,000

B. Generally entirely tax-exempt regardless of the coverage amount, since employer-provided group term life insurance is generally excluded from taxable wages in full

C. Generally taxable only at a reduced flat 10% rate reserved for excess group term life insurance coverage, rather than being includible in wages

D. Generally treated as self-employment income, subjecting the excess coverage cost to self-employment tax rather than to regular wage treatment

23. A taxpayer's total income includes a payment received from a state as an unemployment compensation benefit during a period of job loss. How is this specific unemployment compensation generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since unemployment compensation is generally treated as a nontaxable government assistance benefit under current law

B. Generally taxable only at a reduced flat 10% rate reserved for unemployment compensation, rather than at ordinary income tax rates

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

D. Generally fully taxable as ordinary income, includible in the taxpayer's gross income and reported on the applicable information return

24. A taxpayer's total income includes a distribution received from a 529 college savings plan used to pay for the beneficiary's qualified higher education expenses. How is the earnings portion of this specific qualified distribution generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a distribution used for a nonqualified expense

B. Generally taxable only at a reduced flat 10% rate reserved for a 529 plan distribution, rather than being entirely excluded

C. Generally entirely tax-exempt, since a distribution used for qualified higher education expenses generally is excluded from taxable income altogether

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

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

A. Generally entirely tax-exempt, since a jury duty fee remitted to an employer is generally excluded from taxable income altogether under current law

B. Generally includible in the taxpayer's gross income as other income, with a corresponding above-the-line deduction generally available for the amount remitted to the employer

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

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

26. A taxpayer's total income includes a distribution received from a traditional 401(k) plan taken due to the taxpayer's own total and permanent disability, meeting the applicable statutory definition. How is this distribution treated regarding the 10% penalty?

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

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

C. Generally excepted from the 10% early distribution penalty, since the taxpayer's disability meets the applicable statutory definition, though the distribution remains includible in ordinary income

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

27. A taxpayer's total income includes a payment received as a rebate from a credit card rewards program based on actual spending, redeemed for cash rather than for merchandise or travel. How is this specific rewards 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 a credit card rewards 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 spending-based rewards rebate generally is treated as a reduction in the purchase price rather than as income

28. A taxpayer's total income includes a distribution received from an inherited traditional IRA where the taxpayer is a non-spouse beneficiary subject to the applicable ten-year distribution rule. How is a distribution from this inherited account generally treated?

A. Generally fully taxable as ordinary income to the beneficiary in the year of distribution, generally required to be fully distributed within the applicable ten-year period
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 an inherited 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

29. A taxpayer's total income includes a payment received from an employer as a signing bonus for accepting a new position, structured as a lump sum paid before the taxpayer's first day of work. How is this specific signing bonus generally treated?

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

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

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

30. A taxpayer's total income includes a distribution received from a Coverdell Education Savings Account used for the beneficiary's qualified elementary and secondary school expenses rather than for college expenses. How is this distribution generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a distribution used for a nonqualified expense

B. Generally entirely tax-exempt, since a Coverdell account distribution used for qualified elementary and secondary education expenses generally is excluded from taxable income

C. Generally taxable only at a reduced flat 10% rate reserved for a Coverdell account distribution, rather than being entirely excluded

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

31. A taxpayer's total income includes a payment received from a landlord as a security deposit refund, with a portion withheld by the landlord to cover actual damage repair costs at move-out. How is the withheld portion generally treated for the tenant?

A. Generally fully taxable as ordinary income to the tenant, exactly the same treatment that generally applies to a refunded security deposit

B. Generally taxable only at a reduced flat 10% rate reserved for a withheld security deposit, rather than being entirely nontaxable to the tenant

C. Generally treated as self-employment income to the tenant, subjecting the withheld amount to self-employment tax in addition to any regular income tax

D. Generally not taxable income to the tenant, since a withheld security deposit amount generally represents payment for the landlord's own repair costs, not income

32. A taxpayer's total income includes a distribution received from a traditional IRA taken by a taxpayer who is a qualified reservist called to active duty for a period exceeding the applicable statutory minimum. How is this treated regarding the 10% penalty?

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

33. A taxpayer's total income includes a payment received from a former employer as a payment under a nonqualified stock option exercise, where the option's exercise price was below the stock's fair market value on the exercise date. How is the bargain element generally treated?

A. Generally entirely tax-exempt at exercise, with the entire gain deferred and generally taxed only as a long-term capital gain upon a later sale
B. Generally fully taxable as ordinary wage income at the time of exercise, based on the difference between the fair market value and the exercise price
C. Generally taxable only at a reduced flat 10% rate reserved for a nonqualified stock option exercise, rather than at ordinary wage rates
D. Generally treated as self-employment income, subjecting the bargain element to self-employment tax rather than to the regular payroll withholding

34. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to pay for qualified higher education expenses for the taxpayer's own dependent child. How is this distribution treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a higher education 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 Roth IRA, not a traditional IRA

C. Generally excepted from the 10% early distribution penalty for the amount used toward qualified higher education expenses, though the distribution remains includible in ordinary taxable income
D. Generally excepted from ordinary income tax entirely, but the 10% penalty generally still fully applies regardless of the qualifying education expense

35. A taxpayer's total income includes a payment received from a class action settlement compensating the taxpayer for lost wages resulting from an employer's wage-and-hour violation. How is this specific lost-wages settlement generally treated?

A. Generally entirely tax-exempt, since a wage-and-hour settlement is generally treated as a nontaxable personal injury settlement under current law
B. Generally taxable only at a reduced flat 10% rate reserved for a lost-wages settlement, rather than at the taxpayer's own ordinary wage rate
C. Generally treated as a nontaxable return of the taxpayer's own capital, rather than as any form of currently taxable compensation
D. Generally fully taxable as ordinary wage income, subject to regular withholding and employment tax, since the payment compensates for wages the taxpayer would have earned

36. A taxpayer's total income includes a payment received from a state as a property tax refund resulting from a successful assessment appeal, where the original property tax payment had been claimed as an itemized deduction in a prior year. How is this refund generally treated?

A. Generally includible in taxable income in the year received, to the extent the prior deduction actually produced a tax benefit under the tax benefit rule
B. Generally entirely tax-exempt regardless of whether the prior deduction actually produced any tax benefit, since a property tax refund is generally excluded from income
C. Generally taxable only at a reduced flat 10% rate reserved for a property tax refund, rather than being subject to the tax benefit rule
D. Generally treated as self-employment income, subjecting the refund to self-employment tax in addition to any regular income tax that might otherwise apply

37. A taxpayer itemizes deductions and paid gambling losses during the year that did not exceed the taxpayer's own reported gambling winnings. How is the deduction for these gambling losses generally limited?

A. Gambling losses are generally fully deductible regardless of the amount of gambling winnings actually reported for the same tax year

B. Gambling losses generally are never deductible under current law, regardless of whether the taxpayer itemizes deductions or reports any winnings

C. Gambling losses are generally deductible only up to the amount of gambling winnings reported for the year, and only if the taxpayer itemizes

D. Gambling losses are generally deductible above the line, available even to a taxpayer who claims the standard deduction instead of itemizing

38. A taxpayer paid work-related expenses as a W-2 employee, such as unreimbursed uniforms and supplies, during the current tax year. How are these specific unreimbursed employee business expenses generally treated under current law?

A. Generally fully deductible as an itemized deduction subject to the 2% adjusted gross income floor, the same treatment that historically applied

B. Generally not deductible as a miscellaneous itemized deduction, since this specific category generally is suspended under current federal tax law for most employees

C. Generally deductible above the line, available even to a taxpayer who claims the standard deduction instead of itemizing deductions

D. Generally deductible only if the taxpayer's employer specifically certifies in writing that reimbursement was actually unavailable for the expense

39. A taxpayer contributed to a traditional IRA during the year and is also an active participant in an employer-sponsored retirement plan. How does this active participant status generally affect the deductibility of the IRA contribution?

A. Active participant status generally has no effect at all on IRA deductibility, since a traditional IRA contribution is always fully deductible

B. The deduction generally is entirely eliminated the moment the taxpayer becomes an active participant, regardless of the taxpayer's own income level

C. The deduction generally increases once the taxpayer becomes an active participant, the exact reverse of the actual general phase-out rule

D. The deduction generally phases out based on modified adjusted gross income once the taxpayer is an active participant in an employer plan

40. A taxpayer paid qualified moving expenses to relocate for a new job, and the taxpayer is not an active-duty member of the Armed Forces. How are these specific moving expenses generally treated under current federal tax law?

A. Generally not deductible, since the moving expense deduction generally is suspended under current law except for a qualifying active-duty military move

B. Generally fully deductible above the line, the same broad deduction that generally was available to any taxpayer under prior law

C. Generally deductible only if the taxpayer itemizes deductions, rather than being an above-the-line adjustment available to every taxpayer

D. Generally deductible only up to a fixed statutory dollar cap, rather than being entirely suspended for a non-military taxpayer

41. A taxpayer paid for a home improvement project installing a wheelchair ramp for a family member with a documented medical need. How is the cost of this specific capital improvement generally treated as a medical expense?

A. Generally fully deductible as a medical expense regardless of any resulting increase in the home's own fair market value

B. Generally deductible as a medical expense to the extent the cost exceeds any resulting increase in the home's own fair market value

C. Generally not deductible at all as a medical expense, since a capital home improvement generally is treated as a personal expense

D. Generally deductible only as a casualty loss, rather than as any form of medical expense deduction under current law

42. A taxpayer paid for long-term care insurance premiums during the year, and the policy qualifies as a tax-qualified long-term care contract. How are these specific premiums generally treated as a medical expense deduction?

A. Generally fully deductible as a medical expense with no dollar limit at all, regardless of the taxpayer's own age

B. Generally not deductible at all as a medical expense, since long-term care insurance generally is treated as a personal insurance expense

C. Generally deductible as a medical expense up to an applicable age-based dollar limit, subject to the overall 7.5% adjusted gross income floor

D. Generally deductible above the line in full, available even to a taxpayer who claims the standard deduction instead of itemizing

43. A taxpayer claims the retirement savings contributions credit, also known as the saver's credit, after contributing to a traditional IRA. What general income limitation applies to eligibility for this specific nonrefundable credit?

A. The credit generally has no income limitation at all, and generally is available to any taxpayer who makes a qualifying retirement contribution

B. The credit generally is available only to a taxpayer with no earned income at all, the exact reverse of a typical income-based credit

C. The credit generally applies only to a taxpayer who is also claiming the earned income tax credit in the same tax year

D. The credit generally phases out and becomes entirely unavailable once the taxpayer's adjusted gross income exceeds an applicable statutory threshold for the filing status

44. A taxpayer paid qualified expenses for a child's before-school and after-school care program while the taxpayer worked, in addition to the child's own regular school tuition. How is the before-school and after-school care portion generally treated?

A. Generally may qualify for the child and dependent care credit, since it represents care enabling the taxpayer to work, unlike the regular school tuition portion

B. Generally the entire payment, including regular school tuition, generally qualifies for the child and dependent care credit without any distinction

C. Generally neither portion of the payment qualifies for the child and dependent care credit, since school-related payments generally are entirely excluded

D. Generally only the regular school tuition portion qualifies for the credit, while the before-school and after-school care portion is generally excluded

45. A taxpayer's modified adjusted gross income qualifies for the premium tax credit, and the taxpayer purchased health insurance through the Health Insurance Marketplace. How is an excess advance premium tax credit generally reconciled on the return?

A. Generally reconciled on Form 8962, comparing the advance credit actually received against the credit the taxpayer was actually entitled to claim for the year
B. Generally never reconciled at all, since an advance premium tax credit generally is treated as a permanent, non-adjustable payment once received
C. Generally reconciled only if the taxpayer itemizes deductions, rather than being a required reconciliation for every Marketplace enrollee
D. Generally reconciled exclusively by the Marketplace itself, with no involvement required at all from the taxpayer's own individual return

46. A taxpayer paid points to obtain a mortgage used to purchase the taxpayer's own main home, and the points met the applicable requirements for current-year deductibility. How are these specific mortgage points generally treated?

A. Generally must always be amortized over the life of the loan, with no exception ever permitting current-year deductibility in full
B. Generally not deductible at all, since points paid to obtain a mortgage generally are treated as a nondeductible loan origination fee
C. Generally deductible in full in the year paid as additional prepaid interest, provided the points meet the applicable statutory requirements for current deductibility
D. Generally deductible only if the taxpayer refinances an existing mortgage, rather than when purchasing a home with a new mortgage

47. A taxpayer paid tuition and fees for graduate-level coursework taken to maintain and improve skills required in the taxpayer's current job, with no degree requirement. Which general education tax benefit is most likely available for this specific coursework?

A. The American Opportunity Tax Credit generally remains the only available credit, since graduate coursework generally always qualifies for that specific credit
B. No education credit is generally available for graduate-level coursework under current law, regardless of whether it improves job skills

C. Only a business expense deduction is generally available for this specific coursework, with no education credit ever applying to it
D. The Lifetime Learning Credit generally remains available, since it applies broadly to job-related coursework without requiring pursuit of a degree

48. A taxpayer donated household goods in good used condition to a qualifying charity and claimed a deduction for the items' fair market value. What general documentation is generally required to substantiate a noncash donation of this type under $250?

A. Generally a formal written qualified appraisal is generally required for a noncash donation of any amount, regardless of how small the value
B. Generally a receipt from the charity, or a reliable written record if a receipt is impracticable to obtain, generally is sufficient documentation
C. Generally no documentation of any kind is generally required for a noncash donation under $250, regardless of the item's own actual value
D. Generally the charity generally must file a separate information return with the IRS before the taxpayer may claim any deduction at all

49. A taxpayer paid for tax preparation fees related to preparing the taxpayer's own personal individual income tax return. How are these specific personal tax preparation fees generally treated under current federal tax law?

A. Generally fully deductible as an itemized deduction subject to the 2% adjusted gross income floor, the same treatment that historically applied
B. Generally deductible above the line, available even to a taxpayer who claims the standard deduction instead of itemizing deductions
C. Generally not deductible, since tax preparation fees for a personal return generally fall within the suspended miscellaneous itemized deduction category
D. Generally deductible only if the taxpayer's return includes self-employment income, with a wage-only taxpayer being entirely ineligible for the deduction

50. A taxpayer claims the child tax credit for two qualifying children but has a tax liability lower than the total nonrefundable credit amount. What general mechanism allows the taxpayer to potentially receive the unused portion as a refund?

A. Generally there is no mechanism at all, and any unused portion of the child tax credit generally is permanently forfeited by the taxpayer

B. Generally the unused portion is generally automatically converted into next year's credit amount, rather than being paid as a current refund

C. Generally the unused portion generally may be carried back to an earlier tax year, rather than converted into any refundable amount

D. Generally the additional child tax credit, a refundable component generally calculated based on the taxpayer's own earned income, up to an applicable statutory limit

51. A taxpayer paid interest on a loan used to purchase taxable investment property, and the taxpayer has net investment income for the year. How is this specific investment interest expense generally limited as an itemized deduction?

A. Generally limited to the taxpayer's own net investment income for the year, with any disallowed excess generally eligible to be carried forward

B. Generally fully deductible with no limitation at all tied to the taxpayer's own net investment income for the year

C. Generally not deductible at all, since investment interest expense generally is treated as a nondeductible personal interest expense under current law

D. Generally limited to a fixed statutory dollar cap, rather than being tied to the taxpayer's own actual net investment income

52. A taxpayer paid qualified expenses to install energy-efficient windows and insulation in the taxpayer's own main home during the year. Which general nonrefundable credit is most likely available for these specific qualifying home improvements?

A. The residential clean energy credit generally is the only available credit, since windows and insulation generally qualify exclusively under that provision

B. The energy efficient home improvement credit generally is available, subject to an applicable annual dollar limit for this specific category of improvement

C. No credit at all is generally available for windows and insulation, since these generally are considered ordinary nondeductible personal home expenses

D. The child tax credit generally becomes available whenever a home improvement of this kind is made, regardless of the household's own composition

53. A taxpayer's qualifying business generated a net operating loss for the year after accounting for all income and deductions. How is this specific net operating loss generally treated under current federal tax law?

A. Generally may be carried forward to offset taxable income in a future year, subject to an applicable percentage limitation on the offset amount
B. Generally may be carried back to an earlier tax year in every case, with no forward carryforward option available under current law
C. Generally is permanently forfeited in the year it arises, with no carryforward or carryback option available under current federal tax law
D. Generally is immediately refundable in cash to the taxpayer, the same treatment generally reserved for a refundable tax credit

54. A taxpayer paid for prescription eyeglasses and contact lenses during the year, along with an over-the-counter pain reliever not prescribed by a physician. How are these two specific purchases generally treated as medical expenses?

A. Generally both purchases are generally deductible medical expenses in full, since both items generally relate to the taxpayer's own general health
B. Generally the eyeglasses and contact lenses are generally deductible medical expenses, while the over-the-counter pain reliever generally is not deductible absent a prescription
C. Generally neither purchase is generally deductible as a medical expense, since over-the-counter and vision-related items generally are excluded entirely
D. Generally only the over-the-counter pain reliever is generally deductible, while the prescription eyeglasses and contact lenses are generally excluded

55. A taxpayer paid qualified expenses for a dependent's tuition at a private elementary school for religious instruction purposes. How is this specific elementary school tuition generally treated for federal income tax purposes?

A. Generally fully deductible as an itemized deduction, the same treatment that generally applies to a qualifying charitable contribution

B. Generally qualifies for the American Opportunity Tax Credit, the same credit generally available for postsecondary tuition expenses

C. Generally qualifies for the Lifetime Learning Credit, the same credit generally available for job-related postsecondary coursework expenses

D. Generally not deductible and generally does not qualify for a federal education credit, since federal education benefits generally are reserved for postsecondary expenses

56. A taxpayer's employer offers a dependent care flexible spending account, and the taxpayer elected to contribute the maximum allowable pretax amount for the year. How does using this specific pretax account generally affect the dependent care credit?

A. Generally the pretax account contribution has no effect at all on the dependent care credit, and the same expenses generally may be counted twice

B. Generally electing the pretax account generally disqualifies the taxpayer from ever claiming the dependent care credit in any future tax year

C. Generally the same expenses reimbursed through the pretax account generally cannot also be counted toward the dependent care credit, avoiding a double tax benefit

D. Generally the pretax account contribution generally increases the dependent care credit dollar-for-dollar, rather than reducing the credit's own available base

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

A. The gain generally is treated as short-term capital gain, since the asset was held for one year or less before the sale

B. The gain generally is treated as long-term capital gain, since nine months generally satisfies the long-term holding requirement under current law

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

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

58. A taxpayer's wash sale rule applies after the taxpayer sold stock at a loss and repurchased substantially identical stock within the applicable statutory window surrounding the sale date. How is the disallowed loss generally treated?

A. The disallowed loss generally is permanently forfeited and lost entirely, with no adjustment at all made to the replacement stock's own basis

B. The disallowed loss generally is added to the basis of the newly acquired replacement stock, generally deferring rather than permanently eliminating the loss

C. The disallowed loss generally is immediately deductible against ordinary income despite the wash sale, since the rule generally applies only to gains

D. The disallowed loss generally is converted into long-term capital loss automatically, regardless of the replacement stock's own actual holding period

59. A taxpayer received a nonqualified dividend from a foreign corporation that does not meet the applicable requirements for qualified dividend treatment. How is this specific nonqualified dividend generally taxed?

A. A nonqualified dividend generally is taxed at the same favorable rates that generally apply to long-term capital gain, identical to a qualified dividend

B. A nonqualified dividend generally is entirely tax-exempt, since failing to meet the qualified dividend requirements generally excludes the dividend from taxable income

C. A nonqualified dividend generally is taxed at the taxpayer's own ordinary income tax rates, rather than at the more favorable long-term capital gain rates

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

60. A taxpayer's rental real estate activity generated a loss for the year, and the taxpayer actively participates in managing the property but is not a real estate professional. How is this specific rental loss generally limited?

A. The loss generally is fully deductible against any type of income with no limitation at all, regardless of the taxpayer's own participation level

B. The loss generally is never deductible in any amount, regardless of the taxpayer's own active participation in managing the property

C. The loss generally is limited only if the taxpayer also has wage income, with a taxpayer having no wage income facing no limitation

D. The loss generally is limited under the passive activity loss rules, though an active participant generally may deduct up to an applicable annual dollar amount against nonpassive income

61. A taxpayer's total tax liability includes both regular income tax and the additional 0.9% Medicare tax on wages exceeding an applicable statutory threshold. What general factor determines when this specific additional Medicare tax applies?

A. Generally applies to every taxpayer's wages regardless of the total amount earned, with no statutory threshold of any kind applying

B. Generally applies only to a self-employed taxpayer, with a wage-earning employee being entirely exempt from this specific additional tax

C. Generally applies once the taxpayer's combined wages, or self-employment income, exceed an applicable statutory threshold based on filing status

D. Generally applies only once the taxpayer reaches the applicable required minimum distribution age, unrelated to the taxpayer's own wage level

62. A taxpayer's capital gain from selling collectible artwork held for more than one year is subject to a general maximum federal tax rate different from the rate that generally applies to most other long-term capital gain. What is generally true about this rate?

A. Generally collectible gain is subject to the identical maximum federal rate that generally applies to any other long-term capital gain

B. Generally collectible gain is subject to a maximum federal rate higher than the maximum rate that generally applies to most other long-term capital gain

C. Generally collectible gain is entirely tax-exempt, since a collectible generally is treated as a personal-use asset excluded from capital gain tax

D. Generally collectible gain is taxed exclusively as ordinary income, rather than under any long-term capital gain rate structure at all

63. A taxpayer's income includes a distribution from a nonqualified deferred compensation plan properly structured and compliant with the applicable deferred compensation rules. How is a properly structured distribution generally taxed upon actual receipt?

A. Generally taxed as ordinary income in the year actually received, consistent with the plan's own properly structured deferral and distribution schedule

B. Generally entirely tax-exempt upon receipt, since a properly structured nonqualified plan distribution generally is excluded from taxable income altogether

C. Generally taxed as long-term capital gain upon receipt, exactly the same treatment that generally applies to a qualified plan rollover

D. Generally subject to an automatic 10% early distribution penalty upon receipt, regardless of the taxpayer's own age at the time of distribution

64. A taxpayer's estimated tax payments for the year were made in unequal quarterly installments due to fluctuating self-employment income. What general method may this taxpayer generally use to reduce or eliminate an underpayment penalty for an uneven income pattern?

A. Generally there is no method at all available to address an uneven income pattern, and every taxpayer generally must pay in four equal installments

B. Generally the taxpayer generally must amend the prior year's return instead, since an uneven income pattern cannot be addressed in the current year

C. Generally the taxpayer generally must switch entirely to wage withholding, since estimated payments generally are unavailable for a fluctuating income pattern

D. Generally the annualized income installment method, which generally calculates the required payment for each period based on income actually earned during that period

65. A taxpayer's income includes a gain from the sale of qualified small business stock held for more than five years, meeting the applicable statutory requirements. How is a portion of this specific gain generally treated under the applicable exclusion?

A. Generally the entire gain is always fully taxable at ordinary income tax rates, with no exclusion of any kind available under current law

B. Generally a portion of the gain may be excluded from taxable income entirely, up to an applicable statutory percentage or dollar limit, whichever is greater

C. Generally the entire gain is always entirely tax-exempt with no dollar or percentage limit at all applying to the exclusion

D. Generally the exclusion applies only if the stock was held for exactly one year, rather than for the longer five-year requirement

66. A taxpayer's total income includes a gain from selling the taxpayer's own main home, which the taxpayer owned and used as a principal residence for at least two of the five years preceding the sale. How is a portion of this gain generally treated?

A. Generally the entire gain is always fully taxable, with no exclusion of any kind available for the sale of a taxpayer's own main home

B. Generally the entire gain is always entirely tax-exempt with no dollar limit at all applying to the exclusion for a main home sale

C. Generally the exclusion applies only if the taxpayer is over age 65, rather than being generally available regardless of the taxpayer's own age

D. Generally a portion of the gain, up to an applicable statutory exclusion amount based on filing status, generally may be excluded from taxable income

67. A taxpayer's income includes interest from a municipal bond issued by the taxpayer's own state of residence. How is this specific municipal bond interest generally treated for both federal and the taxpayer's own state income tax purposes?

A. Generally fully taxable for both federal and the taxpayer's own state income tax purposes, with no exemption of any kind applying

B. Generally exempt from federal income tax but generally fully taxable for the taxpayer's own state income tax purposes regardless of the issuer

C. Generally exempt from federal income tax, and generally also exempt from the taxpayer's own state income tax since the bond was issued by that same state

D. Generally taxable only at the federal level at a reduced flat rate, rather than being exempt from federal income tax entirely

68. A taxpayer's total income includes a gain from the sale of business equipment previously depreciated under section 1245 rules. How is the portion of this gain attributable to prior depreciation generally treated upon sale?

A. Generally recaptured as ordinary income up to the amount of depreciation previously claimed, with any remaining gain generally treated as capital gain

B. Generally the entire gain is always treated as long-term capital gain, with no ordinary income recapture of any kind applying under current law

C. Generally the entire gain is always treated as ordinary income, with no portion of the gain ever eligible for capital gain treatment

D. Generally the entire gain is always entirely tax-exempt, since previously claimed depreciation generally is never recaptured upon a later sale

69. A taxpayer's income includes a distribution from a health savings account used for a nonqualified expense, and the taxpayer is not yet age 65. How is this specific nonqualified distribution generally taxed?

A. Generally includible in ordinary taxable income and generally subject to an additional 20% penalty tax on the nonqualified amount

B. Generally entirely tax-exempt regardless of how the distribution was actually used, since a health savings account distribution generally is never taxed

C. Generally taxable only at a reduced flat 10% rate reserved for a nonqualified health savings account distribution, rather than the higher applicable rate

D. Generally subject to ordinary income tax only, with no additional penalty of any kind applying regardless of the taxpayer's own age

70. A taxpayer's total income includes a distribution from a traditional IRA that the taxpayer failed to take by the applicable required beginning date for required minimum distributions. What is the general consequence of this specific missed distribution?

A. Generally no consequence at all applies, since a missed required minimum distribution generally carries no penalty under current federal tax law

B. Generally the entire account balance generally becomes immediately taxable in full, regardless of the amount of the specific missed distribution

C. Generally the taxpayer generally loses the ability to ever take any future distribution from the account, regardless of the missed amount

D. Generally an excise tax penalty applies to the shortfall between the required amount and the amount actually distributed, calculated as an applicable percentage of the shortfall

71. A taxpayer's income includes a gain from selling cryptocurrency held as a capital asset for more than one year before the sale. How is this specific long-term cryptocurrency gain generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since cryptocurrency generally is treated as currency rather than as property subject to capital gain tax
B. Generally taxed exclusively at ordinary income tax rates, regardless of the length of time the cryptocurrency was actually held
C. Generally taxed at the same favorable long-term capital gain rates that generally apply to another capital asset, such as stock, held for the same period
D. Generally taxed at a flat statutory rate identical for every taxpayer, regardless of the taxpayer's own applicable tax bracket

72. A taxpayer's income includes a distribution from a qualified tuition program, a 529 plan, used to pay for the beneficiary's student loan repayment, up to the applicable lifetime dollar limit for this specific use. How is this treated?

A. Generally never treated as a qualified education expense under any circumstance, meaning the earnings portion generally always remains fully taxable
B. Generally treated as a qualified education expense up to the applicable lifetime dollar limit, generally making the earnings portion of that distribution tax-exempt
C. Generally treated as a qualified education expense with no dollar limit at all applying to this specific student loan repayment use
D. Generally treated as a qualified education expense only if the loan repayment also covers the beneficiary's own sibling's student loan

73. A taxpayer's total income includes a gain from an installment sale of investment real estate, where the taxpayer will receive payments over several future years. How is the gain from this specific installment sale generally recognized?

A. Generally recognized proportionately as each installment payment is actually received, rather than being recognized entirely in the year of the original sale
B. Generally recognized entirely in the year of the original sale, regardless of when the actual installment payments are received in later years

C. Generally never recognized at all until the very final installment payment is actually received in the last year of the payment schedule

D. Generally recognized entirely as ordinary income in the year of sale, rather than under any capital gain installment reporting method

74. A taxpayer's total tax liability calculation requires determining the applicable tax using either the tax tables or the tax computation worksheet, depending on the taxpayer's own taxable income level. What general factor determines which method the taxpayer generally must use?

A. Generally every taxpayer must use the tax computation worksheet exclusively, regardless of the taxpayer's own taxable income level for the year

B. Generally taxpayers with taxable income below an applicable statutory threshold generally use the tax tables, while those above it generally use the tax computation worksheet

C. Generally every taxpayer must use the tax tables exclusively, regardless of the taxpayer's own taxable income level for the year

D. Generally the choice between the two methods generally is left entirely to the taxpayer's own preference, regardless of taxable income level

75. A taxpayer asks a preparer for general advice about whether to claim a home office deduction given a new remote work arrangement as a W-2 employee rather than as a self-employed individual. What should the preparer generally explain?

A. Generally explain that a W-2 employee generally may claim the home office deduction identically to a self-employed individual, with no distinction between the two

B. Generally explain that the home office deduction generally is available to a W-2 employee only if the employer actually reimburses none of the expense

C. Generally explain that the home office deduction generally is not available to a W-2 employee under current law, regardless of how much the home is actually used for work

D. Generally explain that the home office deduction generally requires the employee to actually own, rather than rent, the home being used for work

76. A taxpayer asks a preparer for general advice about the tax consequences of exercising incentive stock options in a year when doing so might trigger the alternative minimum tax. What general approach should the preparer generally take?

A. Generally guarantee the taxpayer that exercising the options will never trigger any alternative minimum tax liability under any circumstance

B. Generally advise the taxpayer to never exercise any incentive stock option, since the alternative minimum tax generally makes the option worthless

C. Generally decline to discuss the topic entirely, since incentive stock options generally have no connection to alternative minimum tax planning

D. Generally explain the general alternative minimum tax adjustment the exercise may trigger, while noting that timing the exercise across tax years generally is a planning decision beyond simple preparation

77. A taxpayer asks a preparer for general advice about whether a large one-time inheritance received during the year generally needs to be reported as taxable income on the current year's return. What is generally the correct response?

A. Generally explain that the entire inheritance generally must be reported as taxable income in the year actually received, regardless of the asset type

B. Generally explain that an inheritance generally is taxable only if it exceeds a specific dollar threshold, with amounts below that threshold being exempt

C. Generally explain that an inheritance itself generally is not taxable income to the recipient, though income later earned on the inherited assets generally is taxable

D. Generally explain that an inheritance generally is taxable only if received from a family member, with a nonfamily inheritance being entirely exempt

78. A taxpayer asks a preparer for general advice about the tax implications of taking a lump-sum pension distribution versus an ongoing annuity payment option offered by the taxpayer's former employer. What general factor should the preparer generally raise?

A. Generally raise that both options generally receive identical tax treatment, with the timing of taxation being generally irrelevant to either choice

B. Generally raise that a lump-sum distribution generally is fully taxable in the year received unless rolled over, while an annuity option generally spreads taxation over time

C. Generally raise that the lump-sum option generally is entirely tax-exempt, while the annuity option generally is fully taxable in the year of election

D. Generally raise that the taxpayer generally must choose the annuity option exclusively, since a lump-sum distribution generally is not permitted by law

79. A taxpayer asks a preparer for general advice about whether contributing to a traditional IRA or a Roth IRA generally makes more sense given an expectation of a higher tax bracket in retirement. What general point should the preparer generally raise?

A. Generally raise that a traditional IRA contribution generally always is more advantageous regardless of the taxpayer's own expected future tax bracket

B. Generally raise that the choice between the two account types generally has no tax consequence at all, regardless of future bracket expectations

C. Generally raise that only a Roth IRA generally permits any tax-deferred growth, with a traditional IRA generally growing on a fully taxable basis

D. Generally raise that a Roth IRA contribution generally may be more advantageous when the taxpayer expects a higher future tax bracket, since qualified withdrawals generally are tax-free

80. A taxpayer asks a preparer for general advice about the tax consequences of converting a personal residence into a rental property partway through the tax year. What general point should the preparer generally raise about the property's basis?

A. Generally raise that the property's basis for depreciation generally is the lesser of its adjusted basis or its fair market value on the date of conversion

B. Generally raise that the property's basis for depreciation generally always equals the original purchase price, regardless of any decline in fair market value

C. Generally raise that the property's basis for depreciation generally always equals the fair market value on the conversion date, regardless of the original purchase price

D. Generally raise that the property generally has no depreciable basis at all once converted from personal use to rental use

81. A taxpayer asks a preparer for general advice about whether to accelerate income into the current tax year in anticipation of a known future tax rate increase. What general factor should the preparer generally discuss with the taxpayer?

A. Generally advise the taxpayer that income timing generally never affects the amount of tax ultimately owed across the two years involved

B. Generally advise the taxpayer to always defer all income possible, regardless of any known or anticipated future tax rate increase

C. Generally advise the taxpayer that only a self-employed taxpayer, not a wage employee, generally has any ability to time income recognition

D. Generally discuss the taxpayer's current-year marginal bracket compared to the anticipated future bracket, along with any other relevant year-specific circumstances

82. A taxpayer asks a preparer for general advice about the tax consequences of a planned gift of cash to an adult child intended to help with a down payment on a home. What general point should the preparer generally raise about gift tax?

A. Generally raise that the gift generally is not deductible by the donor and generally is not taxable income to the recipient, though it may need to be reported if it exceeds the annual exclusion

B. Generally raise that the gift generally is fully deductible by the donor as an itemized deduction, the same treatment generally reserved for a charitable contribution

C. Generally raise that the gift generally is fully taxable income to the adult child recipient in the year the funds are actually received

D. Generally raise that the gift generally triggers immediate gift tax liability for the donor regardless of the amount actually gifted

83. A taxpayer asks a preparer for general advice about whether the taxpayer generally should elect to itemize on a state return even though claiming the standard deduction on the federal return. What general point should the preparer generally explain?

A. Generally explain that the state and federal itemizing elections generally always must match exactly, with no independent state-level election ever permitted

B. Generally explain that itemizing on a state return generally is never permitted once the standard deduction is claimed federally, in any state

C. Generally explain that some states generally require or allow a different itemizing election than the federal return, so the two elections should be independently evaluated

D. Generally explain that the state itemizing election generally has no effect at all on the taxpayer's total combined state and federal tax liability

84. A taxpayer asks a preparer for general advice about the tax implications of taking a 401(k) loan rather than a hardship distribution to cover an unexpected expense. What general point should the preparer generally raise about a 401(k) loan?

A. Generally raise that a 401(k) loan generally is always taxable income in the year taken, the same treatment generally applicable to a hardship distribution
B. Generally raise that a properly structured loan generally is not taxable income when taken, unlike a distribution, but generally becomes taxable if not repaid according to the plan's own terms
C. Generally raise that a 401(k) loan generally never needs to be repaid, since it is generally treated as a permanent withdrawal from the account
D. Generally raise that a 401(k) loan generally is only available to a taxpayer over age 59½, unlike a hardship distribution's own age requirements

85. A taxpayer asks a preparer for general advice about whether the taxpayer generally should convert a portion of a traditional IRA to a Roth IRA over multiple years rather than all at once. What general point should the preparer generally raise?

A. Generally raise that spreading the conversion over multiple years generally can help manage the taxpayer's own marginal tax bracket in each year, avoiding a single large spike in taxable income
B. Generally raise that spreading the conversion has no effect at all on the taxpayer's own tax liability, since the total converted amount generally remains identical
C. Generally raise that a Roth conversion generally must always occur entirely within a single tax year, with no multi-year spreading option ever available
D. Generally raise that spreading the conversion generally eliminates the resulting tax liability entirely, rather than merely managing the taxpayer's own bracket exposure

86. A taxpayer asks a preparer for general advice about the tax consequences of starting a small side business as a sole proprietorship while continuing full-time W-2 employment. What general point should the preparer generally raise about record-keeping?

A. Generally raise that the taxpayer generally need not maintain any separate records at all, since business income generally may be estimated on the return
B. Generally raise that the taxpayer generally must incorporate the side business formally before any business expense may ever be deducted

C. Generally raise that the taxpayer generally may combine business and personal expenses on the same records, since a sole proprietorship has no separate entity
D. Generally raise that the taxpayer generally should maintain separate business records and receipts to substantiate income and expenses, since the business generally is reported on a separate schedule

87. A taxpayer asks a preparer for general advice about whether the taxpayer generally should pay quarterly estimated tax electronically or by mailed check. What general point should the preparer generally raise regarding this specific payment method choice?

A. Generally raise that a mailed check generally is the only payment method the IRS currently accepts for a quarterly estimated tax payment
B. Generally raise that the payment method chosen generally has no bearing at all on whether a payment is considered timely for penalty purposes
C. Generally raise that an electronic payment generally provides immediate confirmation and a clearer record of the payment date, useful if a timeliness dispute later arises
D. Generally raise that an electronic payment generally is never available for an estimated tax payment, unlike for the taxpayer's own original return

88. A taxpayer is a United States citizen who renounced citizenship during the year and meets the applicable statutory net worth or tax liability threshold defining a covered expatriate. Which specific form generally reports this exit tax situation?

A. The taxpayer generally files Form 1040-NR exclusively, with no separate expatriation-specific form required under current law
B. The taxpayer generally files Form 8854, the Initial and Annual Expatriation Statement, to report the expatriation and any applicable exit tax
C. The taxpayer generally files Form 706, the same form generally reserved for reporting a decedent's federal estate tax liability
D. The taxpayer generally has no separate filing obligation at all upon expatriation, regardless of net worth or tax liability level

89. A trust is structured to allow the trustee discretion over whether to distribute income currently to the beneficiary or accumulate it within the trust. What is this type of trust generally known as, in contrast to a simple trust?

A. This type of trust generally is known as a simple trust, the same label generally reserved for a trust required to distribute all 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 discretion

C. This type of trust generally is known as a charitable lead trust, a category generally defined by its interim charitable beneficiary

D. This type of trust generally is known as a complex trust, generally permitted to accumulate income or make a discretionary distribution

90. A married couple files a joint return, and one spouse later discovers the other spouse understated tax liability through an omission the innocent spouse had no reason to know about. Which general relief provision may the innocent spouse generally pursue?

A. The innocent spouse generally has no relief available at all once a joint return has actually been filed and signed by both spouses

B. The innocent spouse generally may pursue innocent spouse relief, potentially relieving that spouse of liability for the tax attributable to the other spouse's omission

C. The innocent spouse generally must first obtain a legal divorce before any relief provision of this kind becomes available to pursue

D. The innocent spouse generally may pursue relief only if the couple actually filed separately, rather than having filed a joint return

91. A taxpayer is a resident of a United States territory other than Puerto Rico, such as Guam or the U.S. Virgin Islands, for the entire tax year. How does the taxpayer's federal filing obligation generally differ based on this specific territory of residence?

A. Generally each territory has its own specific filing rules, and a bona fide resident generally may file exclusively with the territory's own tax authority rather than the IRS in some cases

B. Generally every territory resident must file an identical standard Form 1040 with the IRS, with no territory-specific filing variation of any kind

C. Generally a territory resident generally has no federal or territorial filing obligation at all, regardless of the specific territory of residence

D. Generally only a resident of Puerto Rico receives any territory-specific filing treatment, with every other territory resident filing identically to a mainland taxpayer

92. A taxpayer's household includes a foster child placed by an authorized agency who lived with the taxpayer for the entire year. How is this foster child generally treated for purposes of determining a qualifying child relationship?

A. Generally a foster child placed by an authorized agency generally never satisfies the relationship test, regardless of the length of time in the home
B. Generally a foster child generally satisfies the relationship test only if the placement becomes a legal adoption within the same tax year
C. Generally an eligible foster child generally satisfies the relationship test for a qualifying child, the same as a taxpayer's own biological or adopted child
D. Generally a foster child generally satisfies the relationship test only if the child is also claimed as a dependent by the placing agency itself

93. A taxpayer's return includes income from a grantor trust the taxpayer established and retained certain control over, such as the power to revoke the trust. How is the trust's income generally reported for federal income tax purposes?

A. Generally reported directly on the grantor's own individual income tax return, rather than being taxed separately at the trust level
B. Generally reported exclusively on the trust's own separate Form 1041, with no income ever flowing through to the grantor's individual return
C. Generally split evenly between the grantor's own return and the trust's separate return, regardless of the specific powers actually retained
D. Generally excluded from taxable income entirely, since a grantor trust generally is treated as a fully tax-exempt entity under current law

94. A taxpayer's spouse died during the current tax year, and the taxpayer has not remarried by year-end. What filing status may the taxpayer generally use for the specific tax year in which the death actually occurred?

A. The taxpayer generally must file as single beginning immediately in the year of the spouse's actual death, with no joint return option available

B. The taxpayer generally must file as head of household for the year of death, rather than as a joint return with the deceased spouse

C. The taxpayer generally may file a joint return with the deceased spouse for the year of death, provided the surviving spouse did not remarry that same year

D. The taxpayer generally may not file any return at all for the year of death, since a deceased spouse cannot be included on a joint return

95. A taxpayer's dependent child has only unearned income for the year, entirely from a custodial investment account, with no earned income at all. How does the presence of only unearned income generally affect the child's own filing threshold?

A. Generally the child's filing threshold generally is identical regardless of whether the income is earned or unearned in nature

B. Generally the child's filing threshold for unearned income alone generally is considerably lower than the threshold that generally applies when earned income is also present

C. Generally a child with only unearned income generally never has any filing obligation at all, regardless of the actual dollar amount involved

D. Generally the child's filing threshold for unearned income alone generally is considerably higher than the threshold that generally applies to earned income

96. A taxpayer's estate is below the applicable federal estate tax exclusion amount, but the executor wants to elect portability of the deceased spouse's unused exclusion amount for the surviving spouse's future benefit. Which form generally is used to make this election?

A. Generally Form 1041 generally is used to elect portability, the same fiduciary income tax return generally used to report the estate's own income

B. Generally no form at all is generally required to elect portability, since the election generally occurs automatically upon the spouse's death

C. Generally Form 1040 generally is used to elect portability, filed as the deceased spouse's own final individual income tax return

D. Generally Form 706 generally is used to elect portability, even though the estate itself is not otherwise required to file due to being below the exclusion threshold

97. A taxpayer's dependent is a qualifying relative rather than a qualifying child, and the dependent's own gross income for the year must fall below an applicable statutory amount. What general test does this specific gross income limitation represent?

A. Generally represents the support test, the same general test that generally instead measures how much of the dependent's own support the taxpayer provided
B. Generally represents the residency test, the same general test that generally instead measures where the dependent actually lived during the year
C. Generally represents the gross income test, one of several general requirements that generally must be satisfied to claim a qualifying relative as a dependent
D. Generally represents the relationship test, the same general test that generally instead measures the family or household connection to the taxpayer

98. A taxpayer's return includes income earned by a minor child from the child's own part-time job, reported on the child's own Form W-2. Whose return generally reports this specific earned income from the child's job?

A. Generally the child's own earned income generally must be reported on the child's own separate return, rather than being reported on the parent's return
B. Generally the child's earned income generally always may be reported on the parent's own return instead, the same option available for certain unearned income
C. Generally the child's earned income generally is entirely exempt from federal income tax reporting, regardless of the amount actually earned
D. Generally the child's earned income generally must be reported on whichever parent's return reflects the higher combined household income for the year

99. A taxpayer's household employer status requires filing a specific schedule along with the taxpayer's own individual income tax return to report household employment taxes for a paid caregiver. Which schedule generally is used for this specific purpose?

A. Generally Schedule C generally is used to report household employment taxes, the same schedule generally used to report self-employment business income
B. Generally Schedule E generally is used to report household employment taxes, the same schedule generally used to report rental or royalty income

C. Generally Schedule SE generally is used to report household employment taxes, the same schedule generally used to calculate self-employment tax
D. Generally Schedule H generally is used to report household employment taxes, attached to the taxpayer's own Form 1040 for the applicable tax year

100. A taxpayer's dependent qualifies as a qualifying child for purposes of the dependency exemption test, but the child's parents are divorced, and a specific written declaration releases the exemption to the noncustodial parent. Which form generally documents this release?

A. Generally Form 8867 generally is used to document this release, the same form generally used for the preparer's own due diligence checklist
B. Generally Form 8332 generally is used by the custodial parent to release the claim to the child's dependency to the noncustodial parent
C. Generally Form 2848 generally is used to document this release, the same form generally used to grant power of attorney representation
D. Generally no written form at all generally is required, since a verbal agreement between the divorced parents generally suffices for this release

Answer Key and Explanations — Practice Exam 20

1. C — When a source document contains a discrepancy from a prior year, such as a mismatched employer identification number, a preparer should verify the change with the client or employer before filing, since the mismatch could reflect a clerical error, an employer restructuring, or a genuinely different reporting entity from before.

2. B — A preparer who learns a client received cryptocurrency as payment for services should inquire further and help the client determine the fair market value in U.S. dollars on the date of receipt, since cryptocurrency compensation generally is taxable income at that value, regardless of whether it is later converted to cash.

3. D — The Form 8867 due diligence checklist confirms that the preparer actually completed the required knowledge, inquiry, and documentation steps before claiming certain credits, such as the earned income tax credit or child tax credit, and failing to actually perform these steps despite checking the box can expose the preparer to a penalty.

4. A — A preparer generally should retain both a copy of the filed return and the key supporting documents relied upon in preparing it, such as a Form 1099 or receipt substantiating a deduction, for the applicable retention period, supporting the preparer's own defense if a specific position is later questioned by the IRS.

5. A — An IRS Letter 525, the general 30-day letter, generally proposes examination changes and offers the taxpayer an opportunity to agree, respond, or request an Appeals conference, while a subsequent Notice of Deficiency generally starts the formal 90-day period within which the taxpayer must petition Tax Court to dispute the adjustment.

6. D — Circular 230 generally prohibits a preparer from charging a contingent fee for preparing an original return, with limited exceptions such as an amended return filed in connection with an actual examination, since a fee tied to the refund amount generally creates an incentive toward aggressive or unsupported return positions being taken.

7. C — A CP2000 notice generally proposes an adjustment to a filed return based on a mismatch between the amounts reported and third-party information the IRS received, such as a Form 1099 or W-2, and generally gives the taxpayer an opportunity to agree, partially agree, or dispute the proposed adjustment before it is assessed.

8. B — A preparer generally should proactively ask a client about a foreign financial account, since exceeding an applicable balance threshold generally triggers additional reporting obligations, such as FinCEN Form 114, and a client may not realize a foreign account, even one with modest balances, can carry a distinct reporting requirement altogether.

9. C — A signed engagement letter generally clarifies the scope of services to be performed, the fee arrangement, and each party's own responsibilities, generally reducing the risk of a later misunderstanding about what was and was not included in the engagement, and generally supporting the preparer's own position if a dispute later arises.

10. D — A preparer generally should caution a client who mentions a suspicious email requesting personal tax information not to respond, and should explain that the IRS generally does not initiate taxpayer contact by unsolicited email requesting sensitive personal or financial information, a common phishing tactic used to facilitate identity theft cases.

11. B — Form 4506-T generally allows a taxpayer, or an authorized representative, to request a transcript summarizing previously filed return information directly from the IRS, generally useful for verifying prior-year figures, confirming what the IRS actually has on file, or preparing a return when the client's own records are genuinely quite incomplete.

12. A — A preparer generally may rely on a client's own credible representation regarding the requirements for head of household filing status, such as maintaining the home and having a qualifying person, supported by reasonable inquiry, consistent with the general due diligence standard rather than requiring independent third-party verification for every claim.

13. A — A conflict check performed before representing both an individual taxpayer and that taxpayer's own closely held business entity generally helps the preparer identify whether the two parties' interests could diverge during the examination, potentially requiring informed consent from both parties or, in some circumstances, declining one of the two engagements.

14. C — A preparer generally should explain to a client who received a backup withholding notice that failing to respond and correct the underlying issue, such as a mismatched taxpayer identification number, can generally trigger mandatory backup withholding at a statutory flat rate on future payments from that specific payer, reducing the client's own cash flow.

15. D — A written data security plan generally helps a preparer safeguard sensitive client tax information from unauthorized access or a data breach, and generally satisfies an applicable regulatory expectation that a paid preparer maintain reasonable safeguards, given the sensitive financial and personal information a preparer's office generally handles for every client.

16. B — A preparer generally should proactively ask a client about participation in a peer-to-peer lending platform, since the resulting interest income generally is fully taxable, a category of income a client may overlook reporting since it often is not accompanied by the same withholding or reporting familiarity as traditional bank interest.

17. C — A reimbursement for job-related professional certification exam fees paid under an accountable plan, requiring substantiation of the expense and return of any excess advance, is generally excludable from the employee's own taxable wages, unlike a reimbursement paid under a nonaccountable plan, which generally is fully taxable as ordinary wage income.

18. D — An IRS whistleblower award paid for information leading to the collection of unpaid tax from a third party is generally fully taxable as ordinary income, includible in the recipient's gross income in the year actually received, similar in general character to any other award or prize received for providing valuable information.

19. B — A distribution from a nonqualified annuity purchased with after-tax dollars is generally taxable as ordinary income to the extent it represents earnings exceeding the taxpayer's own original investment in the contract, generally determined under the exclusion ratio rules that separate the nontaxable return of investment from the taxable earnings portion.

20. A — A lump-sum severance payment following an involuntary layoff is generally fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, since the payment generally is considered compensation connected to the employment relationship rather than a separately excludable benefit at all.

21. B — A traditional IRA distribution used toward a first-time home purchase, up to the applicable lifetime dollar limit for this specific exception, generally is excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty, not the underlying tax, is excepted here.

22. A — The cost of employer-provided group term life insurance coverage exceeding $50,000, provided at no direct cost to the employee, generally is includible in the employee's taxable wages, calculated using an applicable IRS uniform premium table, since only the first $50,000 of this specific type of coverage generally is excludable from wages.

23. D — Unemployment compensation received from a state during a period of job loss generally is fully taxable as ordinary income, includible in the recipient's gross income for federal purposes and reported on Form 1099-G, a treatment many taxpayers overlook since the benefit is not automatically subject to withholding unless separately elected.

24. C — The earnings portion of a distribution from a 529 college savings plan generally is entirely tax-exempt when the distribution is used to pay the beneficiary's qualified higher education expenses, unlike a distribution used for a nonqualified expense, where the earnings portion generally becomes taxable and potentially subject to an additional penalty.

25. B — A jury duty fee generally must be included in the taxpayer's gross income as other income, but a taxpayer who remits the fee to an employer because the employer continued paying regular salary during the jury service generally may claim a corresponding above-the-line deduction for the amount actually remitted, avoiding double taxation.

26. C — A traditional 401(k) distribution taken due to a taxpayer's total and permanent disability, meeting the applicable statutory definition, generally is excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty, not the underlying tax, is excepted under this exception.

27. D — A credit card rewards rebate earned based on actual spending and redeemed for cash generally is not taxable income, since the rebate generally is treated as a reduction in the purchase price of the goods or services bought, consistent with the general treatment of a rebate, distinct from a reward earned without any purchase requirement.

28. A — A distribution from an inherited traditional IRA taken by a non-spouse beneficiary subject to the applicable ten-year distribution rule generally is fully taxable as ordinary income to the beneficiary in the year of distribution, and the entire account generally must be fully distributed within the applicable ten-year period following the original owner's death.

29. C — A signing bonus paid by an employer as an inducement to accept a new position 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 before or after the taxpayer's actual first day of work.

30. B — A distribution from a Coverdell Education Savings Account generally is entirely tax-exempt when used for the beneficiary's qualified education expenses, a category that generally includes elementary and secondary school expenses in addition to college expenses, distinguishing a Coverdell account from a 529 plan, which historically was more narrowly focused on higher education.

31. D — The portion of a security deposit withheld by a landlord to cover actual damage repair costs generally is not taxable income to the tenant, since the withheld amount generally represents the tenant's own payment for damage rather than income received by the tenant, a distinction separate from the landlord's own treatment of the same funds.

32. A — A traditional IRA distribution taken by a qualified reservist called to active duty for a period exceeding the applicable statutory minimum generally is excepted from the 10% early distribution penalty under the qualified reservist distribution exception, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income for the year.

33. B — The bargain element of a nonqualified stock option, the difference between the stock's fair market value and the exercise price on the date of exercise, generally is fully taxable as ordinary wage income at the time of exercise, subject to withholding and employment tax, unlike the different treatment generally applicable to an incentive stock option.

34. C — A traditional IRA distribution used to pay a dependent child's qualified higher education expenses generally is excepted from the 10% early distribution penalty for the amount actually used toward those expenses, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, since only the penalty is excepted under this provision.

35. D — A settlement payment compensating a taxpayer for lost wages resulting from an employer's wage-and-hour violation generally is fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the wages it replaces, since the payment generally stands in the place of compensation the taxpayer would have otherwise earned.

36. A — A state property tax refund resulting from a successful assessment appeal generally is includible in the taxpayer's taxable income in the year received, but only to the extent the original deduction actually produced a tax benefit in the earlier year under the tax benefit rule, an amount that may be less than the full refund received.

37. C — A taxpayer's gambling losses generally are deductible as an itemized deduction only up to the amount of gambling winnings actually reported for the same tax year, meaning a taxpayer cannot generally use gambling losses to create a net loss, and the deduction generally is unavailable to a taxpayer claiming the standard deduction.

38. B — Unreimbursed employee business expenses, such as uniforms or supplies purchased by a W-2 employee, generally are not deductible as a miscellaneous itemized deduction under current federal tax law, since this deduction category generally is suspended for most employees, unlike the treatment that historically applied before the relevant statutory law change.

39. D — A taxpayer who is an active participant in an employer-sponsored retirement plan generally faces a phase-out of the traditional IRA deduction based on modified adjusted gross income, meaning the deduction generally is reduced and can be eliminated entirely once income exceeds the applicable statutory range for that particular filing status.

40. A — Moving expenses generally are not deductible under current federal tax law for a taxpayer who is not an active-duty member of the Armed Forces moving pursuant to a military order, since the general moving expense deduction generally is suspended, a significant change from the broader deduction that previously was available to most relocating taxpayers.

41. B — A capital improvement made for a documented medical purpose, such as installing a wheelchair ramp, generally is deductible as a medical expense only to the extent the cost exceeds any resulting increase in the home's own fair market value, since the portion that also increases the home's value generally is not considered a medical cost.

42. C — Premiums paid for a tax-qualified long-term care insurance contract generally are deductible as a medical expense up to an applicable age-based dollar limit that generally increases as the taxpayer ages, and the deduction generally remains subject to the overall 7.5% adjusted gross income floor that applies to medical expenses as a category.

43. D — The retirement savings contributions credit, or saver's credit, generally phases out and becomes entirely unavailable once the taxpayer's adjusted gross income exceeds an applicable statutory threshold that varies by filing status, and the credit percentage itself generally decreases in tiers as income rises toward that upper applicable threshold amount itself.

44. A — The portion of a payment attributable to before-school and after-school care generally may qualify for the child and dependent care credit, since it represents care enabling the taxpayer to work, while the portion attributable to the child's regular school tuition generally does not qualify, since tuition is not considered a care expense.

45. A — A taxpayer who received advance payments of the premium tax credit toward Marketplace health insurance generally must reconcile the advance amount actually received against the credit actually entitled to for the year using Form 8962, and an excess advance amount generally must be repaid, subject to an applicable repayment limitation based on income.

46. C — Points paid to obtain a mortgage used to purchase a taxpayer's main home generally are deductible in full in the year paid as additional prepaid interest, provided the points meet the applicable statutory requirements, such as being customary in the area and computed as a percentage of the loan's own principal amount.

47. D — The Lifetime Learning Credit generally is available for graduate-level coursework taken to maintain or improve job skills, since it generally does not require pursuit of a degree, unlike the American Opportunity Tax Credit, which generally is limited to the first four years of postsecondary education toward a degree or credential.

48. B — A noncash donation of household goods valued under $250 generally requires a receipt from the qualifying charity, or a reliable written record if a receipt is impracticable to obtain, as sufficient documentation, a lower bar than the more extensive written appraisal generally required once a noncash donation's claimed value exceeds $5,000.

49. C — Tax preparation fees paid for a personal individual income tax return generally are not deductible under current federal tax law, since this expense generally falls within the miscellaneous itemized deduction category that generally is suspended, unlike the treatment that historically permitted a deduction for this fee subject to the 2% floor.

50. D — A taxpayer whose tax liability is lower than the total nonrefundable child tax credit generally may claim the additional child tax credit, a refundable component generally calculated based on the taxpayer's own earned income exceeding an applicable threshold, up to an applicable statutory limit per qualifying child for the year.

51. A — Investment interest expense generally is deductible as an itemized deduction only up to the taxpayer's own net investment income for the year, and any interest expense disallowed because it exceeds that limit generally may be carried forward and deducted in a future year when the taxpayer has sufficient net investment income.

52. B — A taxpayer who installs qualifying energy-efficient windows and insulation in a main home generally may claim the energy efficient home improvement credit, a nonrefundable credit generally subject to an applicable annual dollar limit for this specific category, distinct from the residential clean energy credit generally reserved for renewable energy property like solar panels.

53. A — A net operating loss generally may be carried forward to offset taxable income in a future tax year, subject to an applicable percentage limitation on the amount of taxable income that may be offset in the carryforward year, though the specific carryback availability and percentage limitation generally have shifted under various law changes.

54. B — Prescription eyeglasses and contact lenses generally qualify as deductible medical expenses, while an over-the-counter medication such as a pain reliever generally is not deductible as a medical expense unless it is actually prescribed by a physician, a general distinction between a prescribed medical item and general everyday over-the-counter store merchandise.

55. D — Private elementary and secondary school tuition generally is not deductible and generally does not qualify for a federal education tax credit, since the American Opportunity Tax Credit and Lifetime Learning Credit generally are reserved for postsecondary education expenses, though a state-specific benefit or a 529 plan distribution may address this differently.

56. C — A taxpayer who contributes to a dependent care flexible spending account generally cannot also count those same reimbursed expenses toward the dependent care credit, since the tax law generally prevents a double tax benefit for the identical expense, meaning the taxpayer generally must reduce the credit's qualifying expense base by the pretax amount used.

57. A — A capital asset held for one year or less before its sale generally produces short-term capital gain upon sale, and since nine months does not exceed the one-year threshold, the resulting gain generally is taxed at the taxpayer's own ordinary income tax rates rather than at the more favorable long-term rates.

58. B — A loss disallowed under the wash sale rule, triggered by repurchasing substantially identical stock within the applicable statutory window around the sale date, generally is added to the basis of the newly acquired replacement stock, generally deferring rather than permanently eliminating the loss, since the loss effectively is recovered upon a later sale of the replacement shares.

59. C — A dividend that does not meet the applicable requirements for qualified dividend treatment, such as one from certain foreign corporations or failing the holding period requirement, generally is taxed at the taxpayer's own ordinary income tax rates, rather than at the more favorable rates that generally apply to a qualified dividend or long-term capital gain.

60. D — A rental real estate loss generally is subject to the passive activity loss rules, but a taxpayer who actively participates in managing the property, and is not a real estate professional, generally may deduct up to an applicable annual dollar amount of the loss against nonpassive income, subject to a phase-out based on income.

61. C — The additional 0.9% Medicare tax generally applies once a taxpayer's combined wages, or net self-employment income, exceed an applicable statutory threshold that varies by filing status, and an employer generally must begin withholding the additional amount once wages from that single employer exceed a separate withholding threshold, regardless of the employee's total household income.

62. B — Long-term capital gain from selling a collectible, such as artwork, generally is subject to a maximum federal tax rate higher than the maximum rate that generally applies to most other long-term capital gain, reflecting a distinct statutory rate category that generally applies specifically to the sale of a qualifying collectible asset.

63. A — A distribution from a nonqualified deferred compensation plan that is properly structured and compliant with the applicable deferred compensation rules generally is taxed as ordinary income in the year actually received, consistent with the plan's own properly structured deferral and distribution schedule, without the acceleration penalty that generally applies to a noncompliant plan.

64. D — A taxpayer with unevenly distributed income throughout the year, such as fluctuating self-employment income, generally may use the annualized income installment method, which generally calculates the required estimated payment for each period based on the income actually earned during that specific period, potentially reducing or eliminating a penalty for an uneven payment pattern.

65. B — Gain from the sale of qualified small business stock held for more than five years, meeting the applicable statutory requirements, generally may be excluded from taxable income up to an applicable statutory percentage of the gain or a specified dollar limit, whichever is greater, a significant potential tax benefit for a qualifying small business investor.

66. D — A taxpayer who owned and used a home as a principal residence for at least two of the five years preceding the sale generally may exclude a portion of the resulting gain, up to an applicable statutory exclusion amount that varies by filing status, from taxable income, a benefit generally available regardless of the taxpayer's own age.

67. C — Interest from a municipal bond generally is exempt from federal income tax, and interest from a bond issued by the taxpayer's own state of residence generally also is exempt from that state's own income tax, a double exemption that generally does not extend to interest from a bond issued by a different state.

68. A — Gain from the sale of section 1245 property, such as business equipment, generally is recaptured as ordinary income up to the amount of depreciation previously claimed on the property, with any gain remaining after that recapture amount generally treated as capital gain, distinguishing section 1245 recapture from the different rules that generally apply to real property.

69. A — A health savings account distribution used for a nonqualified expense by a taxpayer who is not yet age 65 generally is includible in ordinary taxable income and generally is subject to an additional 20% penalty tax on the nonqualified amount, a penalty that generally no longer applies once the account holder reaches age 65.

70. D — A taxpayer who fails to take a required minimum distribution by the applicable required beginning date generally faces an excise tax penalty on the shortfall between the amount required to be distributed and the amount actually distributed, calculated as an applicable percentage of that shortfall, though the penalty generally may be reduced if the shortfall is corrected timely.

71. C — Cryptocurrency held as a capital asset and sold after more than one year generally produces long-term capital gain, generally taxed at the same favorable rates that generally apply to another long-term capital asset such as stock, since the IRS generally treats cryptocurrency as property rather than as currency for federal tax purposes.

72. B — A distribution from a 529 plan used to repay the beneficiary's own qualified student loan generally is treated as a qualified education expense up to an applicable lifetime dollar limit for this specific use, generally making the earnings portion of that distribution tax-exempt, though amounts beyond that lifetime limit generally lose this favorable treatment.

73. A — Gain from an installment sale generally is recognized proportionately as each installment payment is actually received over the payment schedule, rather than being recognized entirely in the year of the original sale, allowing the taxpayer to generally spread the resulting tax liability across the years in which the sale proceeds are actually collected.

74. B — A taxpayer generally uses the tax tables to determine tax liability when taxable income falls below an applicable statutory threshold, and generally must use the tax computation worksheet or an applicable schedule once taxable income exceeds that threshold, since the tax tables generally are not published for higher income levels.

75. C — A preparer generally should explain that the home office deduction generally is not available to a W-2 employee under current federal tax law, regardless of how exclusively and regularly the home is actually used for work, since this deduction generally is limited to a self-employed individual under current suspension of the miscellaneous itemized deduction category.

76. D — A preparer generally may explain the general alternative minimum tax adjustment that exercising an incentive stock option may trigger, generally the bargain element between exercise price and fair market value, while noting that timing the exercise across multiple tax years to manage this exposure generally is a planning decision that may benefit from additional advisory involvement.

77. C — A preparer generally should explain that an inheritance itself generally is not taxable income to the recipient under federal income tax law, though any income subsequently earned on the inherited assets, such as interest, dividends, or a capital gain upon a later sale, generally is taxable income to the taxpayer going forward.

78. B — A preparer generally may raise that a lump-sum pension distribution generally is fully taxable in the year received unless properly rolled over to another qualified account, while an ongoing annuity payment option generally spreads the resulting taxation over the payment period, a general timing distinction relevant to the taxpayer's own overall tax planning.

79. D — A preparer generally may raise that a Roth IRA contribution generally may be more advantageous for a taxpayer expecting a higher tax bracket in retirement, since qualified Roth withdrawals generally are entirely tax-free, while a traditional IRA contribution generally provides a current deduction but results in fully taxable withdrawals at the taxpayer's own future rate.

80. A — A preparer generally may raise that when a personal residence is converted to rental use, the property's basis for depreciation purposes generally is the lesser of the taxpayer's adjusted basis in the property or its fair market value on the date of conversion, a distinction that matters most when the property has declined in value.

81. D — A preparer generally should discuss the taxpayer's current-year marginal tax bracket compared to the anticipated future bracket, along with other relevant circumstances such as other income sources, since accelerating income into a lower-bracket current year ahead of a known future rate increase generally can reduce the taxpayer's overall tax burden across both years.

82. A — A preparer generally may raise that a cash gift to an adult child generally is not deductible by the donor and is not taxable income to the recipient, though a gift exceeding the applicable annual exclusion generally requires the donor to file a gift tax return, though tax itself is not owed until the lifetime exclusion is used up.

83. C — A preparer generally may explain that some states generally allow or require an itemizing election independent of the taxpayer's federal election, meaning a taxpayer who claims the standard deduction federally still may benefit from itemizing on the state return, so the two elections generally should be evaluated separately rather than assumed to move together.

84. B — A preparer generally may raise that a properly structured 401(k) loan generally is not taxable income when taken, unlike a hardship distribution, but that the outstanding balance generally becomes a taxable deemed distribution, and potentially subject to the 10% penalty, if the loan is not repaid according to the plan's own terms, particularly following a job separation.

85. A — A preparer generally may raise that spreading a Roth conversion over multiple tax years generally can help manage the taxpayer's own marginal tax bracket in each year, generally avoiding a single large spike in taxable income that could otherwise push a larger portion of the converted amount into a higher marginal bracket than necessary.

86. D — A preparer generally may raise that a taxpayer starting a sole proprietorship side business generally should maintain separate business records and receipts to substantiate reported income and expenses, since the business activity generally is reported on a separate schedule and remains subject to potential scrutiny distinct from the taxpayer's own W-2 wage income.

87. C — A preparer generally may raise that an electronic estimated tax payment generally provides immediate confirmation and a clear, easily retrievable record of the exact payment date, which generally can be useful if a dispute later arises over whether a specific quarterly payment was made timely, compared to relying on a mailed check's own postmark.

88. B — A United States citizen who renounces citizenship and meets the applicable statutory net worth or average tax liability threshold defining a covered expatriate generally must file Form 8854, the Initial and Annual Expatriation Statement, which generally reports the expatriation and calculates any applicable exit tax on the deemed sale of worldwide assets.

89. D — A trust granting the trustee discretion over whether to distribute income currently or accumulate it within the trust generally is classified as a complex trust, distinguishing it from a simple trust, which generally must distribute all its income currently and generally may not accumulate income or distribute the trust's own principal.

90. B — A spouse who files a joint return and later discovers the other spouse understated tax liability through an item the innocent spouse had no reason to know about generally may pursue innocent spouse relief, a provision generally allowing the requesting spouse to be relieved of liability for the tax attributable to the other spouse's own erroneous item.

91. A — A bona fide resident of a United States territory such as Guam or the U.S. Virgin Islands generally is subject to specific rules that can differ meaningfully by territory, and in some cases the resident generally may file exclusively with the territory's own tax authority rather than separately with the IRS, reflecting each territory's own distinct tax administration arrangement.

92. C — An eligible foster child, one placed with the taxpayer by an authorized placement agency or by judgment, decree, or other court order, generally satisfies the relationship test for a qualifying child, the same general treatment that applies to a taxpayer's own biological child, adopted child, or stepchild, provided the other qualifying child tests are also met.

93. A — Income from a grantor trust, one where the grantor retained certain powers such as the power to revoke the trust or control its beneficial enjoyment, generally is reported directly on the grantor's own individual income tax return, rather than being taxed separately at the trust level, reflecting the grantor's continued treatment as the owner of the trust assets.

94. C — A taxpayer whose spouse died during the current tax year generally may file a joint return with the deceased spouse for that specific year of death, provided the surviving spouse did not remarry before the end of that same year, generally allowing the couple's combined income and deductions to be reported on a single joint return.

95. B — A dependent child whose income consists entirely of unearned income, such as interest or dividends from a custodial account, generally faces a considerably lower filing threshold than would apply if the child also had earned income, meaning even a relatively modest amount of unearned income alone can generally trigger a filing requirement.

96. D — An executor of an estate below the applicable federal estate tax exclusion amount who wants to elect portability of the deceased spouse's unused exclusion for the surviving spouse's future benefit generally must still file Form 706 to make this election, even though the estate itself otherwise would not be required to file based on its value alone.

97. C — The requirement that a qualifying relative's own gross income fall below an applicable statutory amount generally represents the gross income test, one of several distinct general requirements, including the support test and the relationship or household member test, that generally must all be satisfied before a taxpayer may claim someone as a qualifying relative dependent.

98. A — A minor child's own earned income from a part-time job generally must be reported on the child's own separate income tax return, unlike certain unearned income that in limited circumstances may be reported on a parent's return instead, since the election to report a child's income on the parent's return generally is available only for qualifying unearned income.

99. D — A household employer generally reports household employment taxes, such as those owed for a paid caregiver, on Schedule H, attached to the employer's own individual Form 1040 for the applicable tax year, a schedule distinct from Schedule C, Schedule E, or Schedule SE, which generally address different categories of income or self-employment tax.

100. B — Form 8332 generally is used by a custodial parent to release the claim to a qualifying child's dependency-related tax benefits to the noncustodial parent, and the noncustodial parent generally must attach this signed release, or a similar written declaration meeting the same requirements, to the noncustodial parent's own return claiming the child.