PRACTICE EXAM 22: 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 1099-R showing a distribution code the preparer believes does not match the client's own description of how the distribution actually was used. What is the preparer's recommended first step?

A. File the return using the code exactly as printed without any further inquiry, since a payer-issued distribution code is always presumed correct

B. Automatically recharacterize the entire distribution as a rollover, regardless of what the client actually said about how the funds were used

C. Refuse to prepare the return until the plan administrator issues a formally notarized letter explaining the specific distribution code used

D. Discuss the discrepancy with the client and, if warranted, contact the plan administrator before relying on the code as the sole basis for the return position

2. A preparer's client mentions winning a substantial prize from an online sweepstakes but did not receive any tax form documenting the prize. What is the preparer's general obligation regarding this specific undocumented prize income?

A. The preparer has no obligation to ask further questions, since a sweepstakes prize generally is exempt from federal income tax reporting

B. The preparer should inquire further and help the client determine the fair market value of the prize as of the date actually received

C. The preparer should advise the client that prize income is never taxable until an actual tax form documenting the prize is received

D. The preparer should decline to prepare the return entirely, since prize income can never be reliably substantiated by a taxpayer alone

3. A preparer's client asks about the general purpose of the specific written record a preparer generally maintains documenting the source of each figure used in preparing a complex return. What is the general purpose this specific record generally serves?

A. Generally supports the preparer's own ability to explain and defend each reported figure if a position is later questioned during an examination
B. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own liability exposure
C. Generally applies only to a business return, with an individual return preparer being entirely exempt from maintaining any similar source record
D. Generally serves exclusively as a marketing tool describing the preparer's own expertise, rather than as any form of genuine documentation practice

4. A preparer's client asks whether the preparer generally must retain a signed copy of the client's own Form 8879 e-file authorization, or only the electronically transmitted acceptance confirmation. What is the general recommended retention practice?

A. Generally recommends retaining only the electronic transmission acceptance confirmation, discarding the signed Form 8879 immediately after e-filing is complete
B. Generally recommends retaining the signed Form 8879 for exactly thirty days only, rather than for the full applicable retention period
C. Generally recommends retaining the signed Form 8879 itself for the applicable retention period, not merely the electronic transmission acceptance confirmation alone
D. Generally recommends never retaining either document, relying instead entirely on the client's own personal recordkeeping going forward

5. A preparer's client asks about the general difference between an IRS Notice CP504 and an earlier CP501 balance-due notice received for the same tax liability. What is the general distinction between these two specific collection notices?

A. A CP504 generally represents a more urgent notice, generally warning of an intent to levy, while a CP501 generally is an earlier, less urgent balance-due reminder

B. A CP504 and a CP501 are generally functionally identical notices, with no meaningful distinction between the two specific collection communications
C. A CP501 generally always follows a CP504 in every case, the exact reverse of the actual general sequence these notices generally follow
D. A CP504 generally applies only to a business return, while a CP501 generally applies only to an individual return under current law

6. A preparer's client asks whether a preparer generally may prepare a return for a fee contingent on successfully obtaining IRS abatement of a penalty already assessed on a prior filed return. What is the general Circular 230 standard regarding this specific fee arrangement?

A. Generally prohibited without exception, since Circular 230 generally treats every contingent fee arrangement identically regardless of the specific service involved
B. Generally permitted, since a contingent fee for seeking a penalty or interest abatement generally falls within a recognized exception to the general contingent fee prohibition
C. Generally permitted only if the client actually agrees in writing, with no other limitation applying to this specific fee structure at all
D. Generally prohibited only for a CPA, with an Enrolled Agent being exempt from this specific contingent fee restriction under current rules

7. A preparer's client asks about the general purpose of an IRS Notice CP2501 received before a formal CP2000 underreporter notice is issued. What is the general purpose this specific earlier notice generally serves?

A. Generally serves exclusively as a final bill demanding immediate payment, with no opportunity at all for the taxpayer to respond or explain
B. Generally serves no actual practical purpose, existing only as an optional informational notice with no genuine effect on the underreporter process
C. Generally serves exclusively to notify the taxpayer of a completed criminal referral, rather than of any potential underreporting discrepancy
D. Generally alerts the taxpayer to a potential discrepancy between the filed return and third-party information, inviting a response before a formal proposed adjustment is issued

8. A preparer's client asks whether the preparer generally must inquire about a client's own participation in a short-term vacation rental platform when the client did not mention it but the preparer notices recurring deposits described as rental income on a bank statement. What is the general answer?

A. Generally no; a preparer generally may rely entirely on whatever the client states, ignoring any evidence appearing in the client's own bank records
B. Generally yes, but only if the deposits actually exceeded a specific dollar threshold, with no similar inquiry obligation below that threshold
C. Generally yes; a preparer generally should follow up on evidence suggesting rental activity that the client did not proactively mention during the intake interview
D. Generally no; rental platform 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 an IRS Form 56, Notice Concerning Fiduciary Relationship, filed by a person acting on behalf of a deceased or incapacitated taxpayer. What is the general purpose this specific form generally serves?

A. Generally serves exclusively as the form used to actually amend a prior-year return, rather than to establish any fiduciary authority
B. Generally serves no actual practical purpose, existing only as an optional cosmetic form with no genuine authority-establishing function
C. Generally serves exclusively as the client's own power of attorney authorization, the same specific function a Form 2848 already serves
D. Generally notifies the IRS that a fiduciary has assumed the powers, rights, and duties of the taxpayer, and generally establishes the fiduciary's own authority to act

10. A preparer's client asks whether the preparer generally must advise the client about the risk of a frivolous return penalty when the client insists on including a specific legal argument the preparer recognizes as a previously rejected tax protester position. What is the general answer?

A. Generally yes; the preparer generally should explain the frivolous position penalty risk and generally should decline to include the specific rejected argument on the return
B. Generally no; a preparer generally has no obligation at all to discuss any penalty risk, since penalty avoidance is solely the client's own responsibility

C. Generally yes, but only if the position actually results in additional tax owed, with no similar obligation applying to a refund-generating position
D. Generally no; discussing penalty risk is generally considered a form of unauthorized legal advice, regardless of the preparer's own credential

11. A preparer's client asks about the general purpose of a specific engagement letter provision addressing what happens if the client fails to provide requested documentation by an agreed deadline. What is the general benefit of clearly documenting this specific provision?

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 for the client the consequence of a missed documentation deadline, such as a potential extension filing or fee adjustment, reducing 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

12. A preparer's client asks whether the preparer generally must independently confirm a client's own claimed charitable contribution amount through the charity's own records before preparing the return claiming the deduction. What is the general recommended practice?

A. Generally must independently contact every charity named on the return to verify each specific contribution amount before ever preparing the return
B. Generally may rely on the client's own credible representation, supported by a receipt or acknowledgment letter from the charity where reasonably available
C. Generally must personally inspect the charity's own internal donor records to confirm the contribution before preparing any return claiming it
D. Generally has no obligation at all to consider the contribution claim, and should prepare the return using whatever figure the client requests

13. A preparer's client asks about the general purpose of Form 2210, Underpayment of Estimated Tax by Individuals, attached to a return showing an underpayment for the year. What is the general purpose this specific form generally serves?

A. Generally serves exclusively as the form used to actually amend a prior-year return, rather than to address any current-year underpayment issue

B. Generally serves no actual practical purpose, existing only as an optional cosmetic form with no genuine penalty-calculation function

C. Generally calculates whether an underpayment penalty applies and, if so, the specific amount, or documents that an applicable exception or safe harbor was met

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

14. A preparer's client asks whether the preparer generally has an obligation to advise the client about the risk of relying on an unverified online tax calculator's own estimate rather than the preparer's own more thorough analysis. What is the general answer?

A. Generally no; a preparer generally has no obligation at all to comment on any tool the client used outside the preparer's own engagement

B. Generally yes, but only if the client actually relied on the calculator and it resulted in an error, with no proactive obligation beforehand

C. Generally no; commenting on an online calculator's own estimate is generally considered a form of unauthorized legal advice, regardless of credential

D. Generally yes; a preparer generally should caution the client that a generic online calculator may not reflect the client's own specific facts and circumstances accurately

15. A preparer's client asks about the general purpose of documenting the specific rationale for classifying a worker as an independent contractor rather than as an employee, before the client issues a Form 1099-NEC rather than a Form W-2. What is the general benefit of this documentation practice?

A. Generally creates a contemporaneous record supporting the classification decision, useful if the classification is later questioned by the IRS or the worker

B. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the client's own defense in a dispute

C. Generally applies only when the classification actually reduces the client's tax liability, with no similar benefit for a liability-neutral determination

D. Generally serves exclusively as a marketing tool describing the preparer's own expertise, rather than as any form of contemporaneous documentation

16. A preparer's client asks whether the preparer generally must ask about a client's own participation in a stock lending arrangement generating substitute payment income in lieu of dividends. What is the general answer to this question?

A. Generally no; substitute payment income is generally treated as entirely nontaxable under current law regardless of the amount actually received by the taxpayer

B. Generally yes; substitute payments in lieu of dividends generally are taxable and may receive different treatment than a qualified dividend, so a preparer should proactively ask

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

D. Generally no; stock 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 a relocation bonus structured as reimbursement for actual, substantiated moving expenses under an accountable plan, for a move that does not qualify under the current military-only moving expense exception. How is this reimbursement generally treated?

A. Generally fully taxable as ordinary wage income, since the moving expense reimbursement exclusion generally is suspended under current law except for a qualifying military move

B. Generally entirely tax-exempt, since any accountable plan reimbursement generally is automatically excludable from taxable wages regardless of the expense category

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

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 interest earned on a series I United States savings bond redeemed during the year, where the proceeds were used to pay for the taxpayer's own qualified higher education expenses, and the taxpayer meets the applicable income limits. How is this interest generally treated?

A. Generally fully taxable as ordinary income regardless of how the redemption proceeds were actually used or the taxpayer's own applicable income level

B. Generally excludable from taxable income to the extent the proceeds were used for qualified higher education expenses and the applicable income limits were met

C. Generally taxable only at a reduced flat 10% rate reserved for savings bond interest, rather than being potentially excludable from taxable income

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

19. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after correctly determining the distribution qualifies as a return of nondeductible basis previously reported on Form 8606. How is the nondeductible basis portion generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to a distribution attributable to a deductible contribution

B. Generally taxable only at a reduced flat 10% rate reserved for a nondeductible IRA distribution, rather than being entirely nontaxable

C. Generally treated as self-employment income, subjecting the nondeductible basis portion to self-employment tax in addition to any regular income tax

D. Generally not taxable, since a distribution attributable to previously nondeductible contributions generally represents a nontaxable return of the taxpayer's own after-tax basis

20. A taxpayer's total income includes a payment received from a former employer as a payment settling a claim for unpaid overtime wages under a wage-and-hour lawsuit, structured entirely as back pay rather than as liquidated damages or interest. How is this specific back pay 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 back pay settlement, 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 a nontaxable return of the taxpayer's own capital, rather than as any form of currently taxable compensation

21. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took while unemployed, used to pay for the taxpayer's own health insurance premiums, and the taxpayer actually received unemployment compensation for at least the applicable required consecutive-week period. How is this treated regarding the 10% penalty?

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

22. A taxpayer's total income includes a payment received from an employer under a qualified transportation fringe benefit program, covering the cost of a monthly transit pass up to the applicable statutory monthly limit. How is this specific transit benefit generally treated?

A. Generally excludable from the employee's taxable wages up to the applicable statutory monthly limit, with any amount provided above that limit generally becoming taxable wages
B. Generally fully taxable as ordinary wage income in every case, exactly the same treatment that generally applies to a cash bonus paid for performance
C. Generally taxable only at a reduced flat 10% rate reserved for a qualified transportation fringe benefit, rather than being potentially excludable from wages
D. Generally treated as self-employment income, subjecting the transit benefit to self-employment tax in addition to any regular income tax that might otherwise apply

23. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after being certified by a physician as terminally ill, meeting the applicable statutory definition for this relatively new early distribution exception. How is this treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since a terminal illness distribution is excluded from taxable income altogether
B. Generally excepted from the 10% early distribution penalty under the terminal illness distribution exception, though the distribution remains includible in ordinary taxable income

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

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

24. A taxpayer's total income includes a payment received from a state as a paid family leave benefit during a period of bonding with a newborn child, funded through a state-administered program. How is this specific paid family leave benefit generally treated for federal income tax purposes?

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

B. Generally taxable only at a reduced flat 10% rate reserved for a paid family leave benefit, rather than at ordinary income tax rates

C. Generally treated as self-employment income, subjecting the paid family leave benefit to self-employment tax in addition to any regular income tax

D. Generally fully taxable as other income, includible in the taxpayer's gross income and generally reported on the applicable state-issued information return

25. A taxpayer's total income includes a distribution received from a traditional 401(k) plan taken due to a qualifying birth or adoption within the applicable one-year window following the event, up to the applicable statutory 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 birth or adoption distribution is excluded from taxable income altogether

B. Generally excepted from the 10% early distribution penalty up to the applicable statutory 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 an IRA, not a 401(k) plan

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

26. A taxpayer's total income includes a payment received as a rebate from an airline for a canceled flight, structured as a cash refund of the original fare paid rather than as a travel voucher or loyalty program credit. How is this specific fare refund generally treated?

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

B. Generally taxable only at a reduced flat 10% rate reserved for an airline fare refund, rather than being entirely excluded from taxable income

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

D. Generally not taxable income, since a refund of the taxpayer's own previously paid fare generally represents a return of the taxpayer's own capital, not income

27. A taxpayer's total income includes a distribution received from an inherited Roth IRA where the taxpayer is a non-spouse beneficiary and the original account had been open and funded for more than five years before the original owner's death. How is a distribution from this inherited Roth account generally treated?

A. Generally entirely tax-exempt to the beneficiary, since the account met the applicable five-year holding requirement before the original owner's death

B. Generally fully taxable as ordinary income to the beneficiary, exactly the same treatment that generally applies to an inherited traditional IRA distribution

C. Generally taxable only at a reduced flat 10% rate reserved for an inherited Roth IRA distribution, rather than being entirely tax-exempt

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

28. A taxpayer's total income includes a payment received from an employer as a payment under a supplemental unemployment benefit plan, funded and administered by the employer to supplement state unemployment compensation during a temporary layoff. How is this specific supplemental benefit generally treated?

A. Generally entirely tax-exempt, since a supplemental unemployment benefit is generally treated identically to the underlying state unemployment compensation it supplements

B. Generally taxable only at a reduced flat 10% rate reserved for a supplemental unemployment benefit, 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, distinguishing it from the separate treatment of state unemployment compensation itself

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

29. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after correctly timely removing an excess contribution made due to exceeding the applicable income phase-out limit, discovered after the original filing deadline but before the extended deadline. How is the associated earnings portion generally treated?

A. Generally entirely tax-exempt, exactly the same treatment that generally applies to the timely corrected excess contribution principal amount being withdrawn

B. Generally taxable as ordinary income in the year the excess contribution was originally made, and generally subject to the 10% penalty if the taxpayer is under 59½

C. Generally taxable only at a reduced flat 10% rate reserved for a corrective distribution, rather than at the taxpayer's own ordinary income tax rate

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

30. A taxpayer's total income includes a payment received from a former employer as a payment for accrued but unused vacation time, paid as part of a broader involuntary layoff severance package structured as a single combined payment. How is this specific combined payment generally treated?

A. Generally entirely tax-exempt, since a combined severance and vacation payout is generally treated as a nontaxable layoff-related benefit under current law

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

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

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

31. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to pay for adoption-related expenses, exceeding the applicable statutory dollar limit reserved for the birth or adoption exception. How is the amount exceeding that limit generally treated regarding the 10% penalty?

A. Generally excepted from the 10% penalty automatically in full, since any distribution used for adoption-related expenses generally qualifies for a full exception

B. Generally entirely tax-exempt, since a distribution used for adoption-related expenses is generally excluded from taxable income altogether under current law

C. Generally remains subject to the 10% early distribution penalty, since only the amount up to the applicable statutory limit is excepted under the birth or adoption provision

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

32. A taxpayer's total income includes a payment received from a class action settlement compensating shareholders for losses resulting from corporate securities fraud, where the taxpayer held the affected stock as a capital asset. How is this specific securities fraud settlement generally treated?

A. Generally treated as a reduction in the taxpayer's own basis in the affected stock, or as capital gain or loss, depending on whether the stock was still held or already sold

B. Generally fully taxable as ordinary income regardless of whether the taxpayer still held the affected stock or had already sold it before the settlement

C. Generally entirely tax-exempt, since a securities fraud settlement is generally treated identically to a personal physical injury settlement under current law

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

33. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after being the victim of a qualified disaster and repaying the amount within the applicable three-year repayment window permitted for that specific type of distribution. How is a timely repayment generally treated?

A. Generally has no effect at all on the original distribution's own tax treatment, meaning the original amount remains fully taxable despite the repayment

B. Generally treated as a tax-free rollover, allowing the taxpayer to file an amended return to recover tax previously paid on the original disaster distribution

C. Generally treated as a new separate contribution subject to the regular annual contribution limit, rather than as a repayment of the original distribution

D. Generally treated as a taxable event in its own right, requiring the taxpayer to report the repayment itself as additional taxable income

34. A taxpayer's total income includes a payment received from an employer as a payment under a qualified retirement plan loan the taxpayer failed to repay according to the plan's own terms following the taxpayer's own termination of employment. How is the resulting deemed distribution generally treated?

A. Generally treated as a taxable distribution in the year of default, generally includible in ordinary income and potentially subject to the 10% early distribution penalty
B. Generally entirely tax-exempt, since a defaulted plan loan is generally treated as a nontaxable forgiveness of debt rather than as a distribution
C. Generally taxable only at a reduced flat 10% rate reserved for a defaulted plan loan, rather than at the taxpayer's own ordinary income tax rate
D. Generally treated as self-employment income, subjecting the deemed distribution to self-employment tax in addition to any regular income tax

35. A taxpayer's total income includes a payment received from an employer as a de minimis fringe benefit, such as an occasional small gift card of nominal value provided for a birthday celebration in the office. How is this specific de minimis benefit generally treated?

A. Generally fully taxable as ordinary wage income in every case, exactly the same treatment that generally applies to a cash bonus paid for performance
B. Generally taxable only at a reduced flat 10% rate reserved for a de minimis fringe benefit, rather than being potentially excludable from wages
C. Generally treated as self-employment income, subjecting the benefit to self-employment tax in addition to any regular income tax that might otherwise apply
D. Generally excludable from the employee's taxable wages, since a truly minimal value benefit provided infrequently generally qualifies for the de minimis fringe benefit exclusion

36. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to make a qualified reservist repayment following the taxpayer's own return from a prior qualified reservist distribution period. How is a timely repayment of this specific distribution generally treated?

A. Generally has no effect at all on the original distribution's own tax treatment, meaning the original amount remains fully taxable despite the repayment

B. Generally treated as a new separate contribution subject to the regular annual contribution limit, rather than as a repayment of the original distribution

C. Generally treated similarly to a tax-free rollover, allowing the taxpayer to recover the tax previously paid on the original qualified reservist distribution

D. Generally treated as a taxable event in its own right, requiring the taxpayer to report the repayment itself as additional taxable income

37. A taxpayer itemizes deductions and paid for prescription hearing aids and related batteries for a documented hearing impairment during the year. How are these specific costs generally treated as a medical expense deduction?

A. Generally not deductible at all as a medical expense, since a hearing aid generally is treated as a personal comfort item rather than a medical device

B. Generally deductible only for the initial purchase cost, while ongoing battery and maintenance costs are generally excluded from the deduction

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

D. Generally deductible as a medical expense, including both the hearing aids themselves and the ongoing cost of related batteries and maintenance

38. A taxpayer paid for a capital improvement installing central air conditioning specifically recommended by a physician to address a documented severe respiratory condition. How is the cost of this specific 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 from the improvement

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 under current law

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

39. A taxpayer claims the American Opportunity Tax Credit for a dependent's first year of college, and the taxpayer's modified adjusted gross income falls within the applicable phase-out range for this specific credit. How does this affect the credit amount generally available?

A. Generally the credit amount generally is reduced proportionally as modified adjusted gross income rises within the applicable phase-out range for the taxpayer's filing status

B. Generally the credit amount generally remains unaffected by income level, since the American Opportunity Tax Credit generally has no income-based limitation of any kind

C. Generally the credit amount generally is entirely eliminated the moment income exceeds the lower end of the applicable phase-out range for the credit

D. Generally the credit amount generally increases as income rises within the phase-out range, the exact reverse of the actual general phase-out rule

40. A taxpayer paid qualified expenses to install a qualifying geothermal heat pump in the taxpayer's own main home during the year. Which general nonrefundable credit is most likely available for this specific renewable energy property?

A. The energy efficient home improvement credit generally is the only available credit, since a geothermal heat pump generally qualifies exclusively under that provision

B. No credit at all is generally available for a geothermal heat pump, since this generally is considered an ordinary nondeductible personal home expense

C. The residential clean energy credit generally is available, calculated as an applicable percentage of the qualifying cost with no overall dollar cap on that cost

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

41. A taxpayer paid for a legal fee related to obtaining alimony under a divorce or separation instrument executed before 2019, where the alimony itself remains taxable to the recipient under the applicable pre-2019 grandfather rule. How is this specific legal fee generally treated?

A. Generally not deductible, since legal fees related to a divorce, including a fee for obtaining taxable alimony, generally fall within the suspended miscellaneous itemized deduction category

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

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

D. Generally deductible only if the alimony itself is also nontaxable to the recipient, rather than being taxable under the applicable pre-2019 rule

42. A taxpayer paid qualified expenses for a dependent's enrollment in a registered apprenticeship program recognized by the Department of Labor, using funds distributed from a 529 college savings plan. How is this specific distribution generally 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 only if the apprenticeship program is also affiliated with a four-year degree-granting institution

C. Generally treated as a qualified education expense only up to a fixed statutory dollar limit lower than the limit for traditional college tuition

D. Generally treated as a qualified education expense, generally making the earnings portion of the distribution tax-exempt, since a registered apprenticeship program generally qualifies under current law

43. A taxpayer paid for cosmetic surgery during the year that was not necessary to correct a deformity arising from a congenital abnormality, a personal injury, or a disfiguring disease. How is this specific cosmetic surgery generally treated as a medical expense?

A. Generally fully deductible as a medical expense regardless of the surgery's own underlying purpose or medical necessity under current federal tax law

B. Generally deductible only if the taxpayer itemizes deductions, rather than being categorically excluded from the medical expense deduction altogether

C. Generally not deductible as a medical expense, since cosmetic surgery not necessary to correct a qualifying medical condition generally is excluded from the deduction

D. Generally deductible only up to a fixed statutory dollar cap specifically reserved for elective cosmetic procedures under current federal tax law

44. A taxpayer's modified adjusted gross income disqualifies the taxpayer from making a deductible traditional IRA contribution, and the taxpayer instead makes a nondeductible contribution, properly reporting it on Form 8606. What is the general benefit of this specific reporting?

A. Generally provides no meaningful benefit at all, since a nondeductible contribution generally is taxed identically to a deductible contribution upon distribution
B. Generally establishes the taxpayer's own basis in the account, ensuring the nondeductible portion is not taxed again when eventually distributed
C. Generally allows the taxpayer to convert the nondeductible contribution into a fully deductible one retroactively for the same specific tax year
D. Generally exempts the entire account from any future required minimum distribution obligation, regardless of the taxpayer's own eventual age

45. A taxpayer paid for a qualifying expense using funds from a flexible spending account for dependent care, and separately also paid additional out-of-pocket dependent care expenses beyond what the account covered. How is the additional out-of-pocket portion generally treated for the dependent care credit?

A. Generally the additional out-of-pocket portion generally never qualifies for the dependent care credit once any amount was already covered through the pretax account
B. Generally the additional out-of-pocket portion generally may still qualify for the dependent care credit, up to the applicable overall expense limit minus what the pretax account already covered
C. Generally the additional out-of-pocket portion generally qualifies for the dependent care credit without any reduction for the amount the pretax account already covered
D. Generally the additional out-of-pocket portion generally must first be reimbursed through the pretax account before it can ever qualify for the credit

46. A taxpayer paid qualified expenses toward a Coverdell Education Savings Account contribution for a dependent, and the taxpayer's modified adjusted gross income falls within the applicable phase-out range for this specific contribution type. How does this affect the maximum contribution generally available?

A. Generally the maximum contribution generally remains unaffected by income level, since a Coverdell account generally has no income-based limitation of any kind
B. Generally the maximum contribution generally is entirely eliminated the moment income exceeds the lower end of the applicable phase-out range for the account
C. Generally the maximum contribution generally increases as income rises within the phase-out range, the exact reverse of the actual general phase-out rule

D. Generally the maximum contribution generally phases out and is reduced proportionally as modified adjusted gross income rises within the applicable phase-out range

47. A taxpayer paid state and local real property tax on a vacation home used exclusively for personal purposes and never rented out during the year. How is this specific real property tax generally treated as an itemized deduction?

A. Generally not deductible at all, since real property tax on a vacation home generally is categorically excluded from the itemized deduction regardless of use
B. Generally deductible above the line, available even to a taxpayer who claims the standard deduction instead of itemizing deductions for the year
C. Generally deductible as an itemized deduction, subject to the same overall combined $10,000 state and local tax cap that applies to the taxpayer's other state and local taxes
D. Generally deductible only if the vacation home is also rented out for at least part of the year, rather than being used exclusively personally

48. A taxpayer claims the child tax credit for a qualifying child who also has a valid Social Security number, but the taxpayer files using an individual taxpayer identification number rather than a Social Security number. How does the taxpayer's own identification number type generally affect eligibility?

A. Generally the taxpayer generally still may claim the credit for a qualifying child with a valid Social Security number, even though the taxpayer's own identification number is an ITIN
B. Generally the taxpayer generally can never claim the child tax credit at all once the taxpayer's own identification number is an ITIN rather than a Social Security number
C. Generally the qualifying child generally also must file using an ITIN rather than a Social Security number for the taxpayer to claim the credit
D. Generally the taxpayer generally must obtain a Social Security number within the same tax year before any credit of this kind may be claimed

49. A taxpayer paid for a specialized ergonomic chair recommended by a physician to address a documented chronic back condition, used both at the taxpayer's home office and general living space. How is this specific chair generally treated as a medical expense?

A. Generally fully deductible as a medical expense in every case, regardless of how much the chair is also used for the taxpayer's own general personal comfort

B. Generally deductible as a medical expense to the extent it is specifically prescribed to treat the documented condition, though a chair with substantial general personal use may be scrutinized

C. Generally not deductible at all as a medical expense, since any furniture item generally is categorically excluded regardless of a physician's own prescription

D. Generally deductible only as a home office business expense, rather than under the medical expense deduction category available under current federal tax law

50. A taxpayer paid qualified higher education expenses for the taxpayer's own graduate program using student loan proceeds rather than cash on hand, and later claimed the Lifetime Learning Credit for the same expenses. How is this specific funding source generally treated for credit eligibility?

A. Generally expenses paid with borrowed student loan funds generally never qualify for the credit, since only expenses paid with the taxpayer's own cash generally qualify

B. Generally expenses paid with borrowed student loan funds generally qualify for the credit only once the underlying loan itself is actually fully repaid

C. Generally expenses paid with borrowed student loan funds generally still qualify for the credit in the year the expenses actually were paid to the institution

D. Generally expenses paid with borrowed student loan funds generally qualify for a reduced credit amount, proportional to the loan's own applicable interest rate

51. A taxpayer paid qualified adoption expenses for a special needs child, as determined by the applicable state agency, where the state determination allows the taxpayer to claim the full applicable adoption credit regardless of the taxpayer's own actual qualified expenses paid. How is this specific rule generally applied?

A. Generally a special needs adoption generally receives no different treatment at all, and the credit generally remains strictly limited to actual qualified expenses paid

B. Generally a special needs adoption generally disqualifies the taxpayer entirely from claiming any adoption credit, contrary to the treatment for a standard adoption

C. Generally a special needs adoption generally reduces the available adoption credit amount, rather than allowing the full credit regardless of actual expenses

D. Generally a special needs adoption generally allows the taxpayer to claim the full applicable adoption credit amount even if actual qualified expenses paid were less than that full amount

52. A taxpayer paid for prescribed insulin and other diabetic supplies during the year for a documented diagnosis of diabetes. How are these specific costs generally treated as a medical expense deduction?

A. Generally deductible as a medical expense, including both the insulin itself and related diabetic supplies such as testing strips and a glucose monitor

B. Generally deductible only for the insulin itself, while related diabetic supplies such as testing strips and a glucose monitor are generally excluded

C. Generally not deductible at all as a medical expense, since diabetic management costs generally are treated as an ordinary nondeductible personal expense

D. Generally deductible only if the taxpayer is also enrolled in a formal diabetes management program administered by a licensed medical facility

53. A taxpayer paid for membership dues to a health club recommended generally by a physician for overall wellness, without a specific diagnosed medical condition being treated by the membership. How is this specific health club membership generally treated as a medical expense?

A. Generally fully deductible as a medical expense whenever any physician recommends general exercise, regardless of whether a specific condition is actually being treated

B. Generally deductible only if the taxpayer is also over age 50, rather than being categorically excluded regardless of the taxpayer's own age

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

D. Generally not deductible as a medical expense, since a health club membership for general wellness, absent a specific diagnosed condition being treated, generally is a nondeductible personal expense

54. A taxpayer paid for a laser eye surgery procedure to correct nearsightedness, eliminating the taxpayer's own prior need for corrective eyeglasses or contact lenses. How is this specific vision correction surgery generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since laser eye surgery generally is treated as an elective cosmetic procedure under current law

B. Generally deductible only if the taxpayer is also legally blind before the procedure, rather than being available for a less severe vision defect

C. Generally deductible as a medical expense, since a procedure correcting a vision defect generally qualifies even though it also eliminates the need for eyeglasses or contacts
D. Generally deductible only for the cost of pre-surgery consultation, while the procedure's own actual cost is generally excluded from the deduction

55. A taxpayer paid for prescription-strength sunscreen recommended by a dermatologist to manage a documented photosensitivity skin condition, distinct from a general over-the-counter sunscreen purchased for ordinary sun protection. How is this specific prescribed sunscreen generally treated?

A. Generally deductible as a medical expense, since a sunscreen product specifically prescribed to manage a documented medical skin condition generally qualifies
B. Generally not deductible at all as a medical expense, since any sunscreen product generally is categorically excluded regardless of a physician's own prescription
C. Generally deductible only if purchased directly from a hospital pharmacy, rather than from a standard retail pharmacy filling the same prescription
D. Generally deductible only for the cost of the dermatologist visit itself, while the prescribed product's own separate cost is generally excluded

56. A taxpayer paid for a full set of dentures to replace teeth lost due to periodontal disease during the year. How is the cost of these specific dentures generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since dentures generally are treated as a purely cosmetic dental item under current federal tax law
B. Generally deductible as a medical expense, since dentures generally qualify as a dental treatment addressing the structural and functional effects of tooth loss
C. Generally deductible only if the tooth loss also resulted from an accident, rather than from an underlying disease such as periodontal disease
D. Generally deductible only up to a fixed statutory dollar cap specifically reserved for a denture or other prosthetic dental device

57. A taxpayer's income includes a gain from selling stock the taxpayer acquired as a gift, where the donor's own adjusted basis at the time of the gift exceeded the stock's fair market value on the date of the gift. How is the taxpayer's own basis generally determined for computing a subsequent gain?

A. Generally the donor's own adjusted basis carries over to the recipient for computing a subsequent gain, using the general carryover basis rule that applies to most gifted property
B. Generally the recipient's own basis always equals the stock's fair market value on the date of the gift, regardless of the donor's own original basis
C. Generally the recipient's own basis always equals zero, requiring the entire sale proceeds to be recognized as gain regardless of the donor's own basis
D. Generally the recipient's own basis is determined exclusively by the sale price actually received, rather than by any reference to the donor's own basis

58. A taxpayer's income includes a gain from selling stock the taxpayer inherited from a decedent, where the stock's fair market value on the date of death exceeded the decedent's own original adjusted basis. How is the taxpayer's own basis generally determined for computing gain or loss?

A. Generally the taxpayer's own basis generally carries over unchanged from the decedent's own original adjusted basis, the same rule that generally applies to gifted property
B. Generally the taxpayer's own basis always equals zero, requiring the entire sale proceeds to be recognized as gain regardless of the decedent's own basis
C. Generally the taxpayer's own basis generally is stepped up to the stock's fair market value on the applicable valuation date, rather than carrying over the decedent's own original lower basis
D. Generally the taxpayer's own basis is determined exclusively by the sale price actually received, rather than by any reference to the stock's own value at death

59. A taxpayer's total income includes both long-term capital gain and short-term capital gain recognized in the same tax year, along with a capital loss carryover from a prior year. How are these different categories generally netted together to determine the taxpayer's own final capital gain or loss position?

A. Generally all capital gains and losses generally are simply added together in a single combined total, with no separate netting of short-term and long-term categories
B. Generally only the long-term category generally is considered, with any short-term gain or loss generally disregarded entirely for federal tax purposes
C. Generally only the short-term category generally is considered, with any long-term gain or loss generally disregarded entirely for federal tax purposes
D. Generally short-term gains and losses generally are netted together first, long-term gains and losses generally are netted together separately, and the two net results generally are then combined

60. A taxpayer's total income includes a gain from the sale of a rental property, where the taxpayer also has suspended passive activity losses from prior years related to that same property. How are these specific suspended losses generally treated in the year of a fully taxable disposition?

A. Generally the suspended passive losses generally remain permanently suspended and nondeductible, even upon a fully taxable disposition of the entire activity
B. Generally the suspended passive losses generally become fully deductible against the taxpayer's other income in the year of a fully taxable disposition of the entire interest in the activity
C. Generally the suspended passive losses generally may only offset the specific gain recognized on that same property, with no excess deductible against other income
D. Generally the suspended passive losses generally are entirely forfeited upon disposition, rather than becoming available for a current deduction of any kind

61. A taxpayer's income includes a distribution from a traditional pension plan structured as a joint and survivor annuity, where the taxpayer made after-tax contributions to the plan during the taxpayer's own working years. How is the after-tax contribution portion generally recovered under the applicable annuity rules?

A. Generally recovered entirely tax-free in the very first year of payments, with all subsequent payments generally being fully taxable regardless of remaining basis
B. Generally recovered tax-free over the expected payment period using the applicable exclusion ratio, spreading the after-tax basis recovery across the annuity payments
C. Generally never recovered at all, since the after-tax contribution portion generally is forfeited once the pension begins making annuity payments
D. Generally recovered entirely through a single lump-sum tax-free payment made before the regular annuity payments generally are permitted to begin

62. A taxpayer's income includes a gain from selling an interest in a publicly traded partnership, structured differently for tax purposes than a gain from selling ordinary corporate stock. What general characteristic of a publicly traded partnership generally makes its own tax reporting more complex for an individual investor?

A. Generally the investor generally receives a Schedule K-1 reflecting a share of the partnership's own income, deductions, and credits, rather than a simpler Form 1099 reporting a dividend

B. Generally a publicly traded partnership generally issues an identical Form 1099-DIV to every investor, the same simple reporting document used for ordinary corporate stock

C. Generally a publicly traded partnership generally has no separate tax reporting obligation at all, with investors bearing no responsibility for any income recognition

D. Generally a publicly traded partnership investor generally reports the investment exclusively as a passive real estate holding, regardless of the partnership's own actual business

63. A taxpayer's income includes a gain from selling municipal bonds held as an investment, where the bonds were purchased at a discount to their own face value and later sold before maturity at a price reflecting some accretion of that original market discount. How is the accretion portion generally treated upon sale?

A. Generally the entire gain, including the accretion of market discount, generally is treated as tax-exempt income, the same treatment as the bond's own regular tax-exempt interest

B. Generally the entire gain, including the accretion of market discount, generally is treated entirely as ordinary income, with no portion eligible for capital gain treatment

C. Generally the accretion of market discount generally is treated as ordinary income upon sale or maturity, while any remaining gain generally is treated as capital gain

D. Generally the entire gain, including the accretion of market discount, generally is treated entirely as long-term capital gain regardless of the taxpayer's own actual holding period

64. A taxpayer's income includes a distribution from an employer-sponsored nonqualified stock appreciation rights plan, structured as a cash payment equal to the appreciation in the employer's own stock value over a specified period, with no actual stock ever transferred. How is this specific cash payment generally treated?

A. Generally entirely tax-exempt, since a stock appreciation right settled in cash generally is treated as a nontaxable return of the employee's own capital

B. Generally taxed as long-term capital gain, exactly the same treatment that generally applies to a gain on the sale of an actual capital asset

C. Generally taxed only at a reduced flat 10% rate reserved for a stock appreciation rights payment, rather than at ordinary wage tax rates

D. Generally fully taxable as ordinary wage income at the time the cash payment actually is received, subject to withholding and employment tax like other compensation

65. A taxpayer's income includes a gain from selling a personal residence that also included a home office used regularly and exclusively for the taxpayer's own business, where depreciation was claimed on the home office portion in prior years. How does this prior depreciation generally affect the home sale gain exclusion?

A. Generally the entire gain, including the amount attributable to the previously claimed depreciation, generally remains fully eligible for the home sale gain exclusion without any adjustment
B. Generally the taxpayer generally must recapture the previously claimed depreciation as unrecaptured section 1250 gain, which generally is not eligible for the home sale gain exclusion
C. Generally the taxpayer generally loses the entire home sale gain exclusion once any portion of the home was ever used for a business purpose
D. Generally the previously claimed depreciation generally has no effect at all on the gain calculation, since depreciation on a home office generally is not actually recaptured upon sale

66. A taxpayer's income includes a gain from an involuntary conversion of business property, such as property destroyed by fire, where insurance proceeds exceeded the property's own adjusted basis and the taxpayer properly reinvests the proceeds in qualifying replacement property within the applicable statutory period. How is the resulting gain generally treated?

A. Generally the gain generally may be deferred to the extent the proceeds are properly reinvested in qualifying replacement property within the applicable statutory period following the conversion
B. Generally the entire gain generally must be recognized immediately in the year of the involuntary conversion, regardless of any subsequent reinvestment in replacement property
C. Generally the entire gain generally is permanently tax-exempt, regardless of whether the proceeds actually are reinvested in any qualifying replacement property
D. Generally the entire gain generally is treated as ordinary income rather than capital gain, regardless of the underlying business property's own actual character

67. A taxpayer's income includes a gain from selling a capital asset held for more than one year, where the taxpayer's overall taxable income places the taxpayer within the lowest applicable long-term capital gain rate bracket for the year. What is generally true about this specific rate bracket?

A. Generally every taxpayer, regardless of overall taxable income, generally pays the identical long-term capital gain rate on any amount of long-term gain recognized

B. Generally the lowest applicable bracket generally still requires paying the same rate that applies to short-term capital gain, rather than a preferential rate

C. Generally the lowest applicable bracket generally applies only to a taxpayer who is also over age 65, rather than being available to any qualifying taxpayer

D. Generally a taxpayer within the lowest applicable long-term capital gain rate bracket generally may pay a 0% federal rate on that portion of long-term capital gain

68. A taxpayer's income includes a gain from selling a principal residence used partly as a rental property during a period before the taxpayer converted it back to full-time personal use before the eventual sale. How does this prior nonqualified rental use generally affect the home sale gain exclusion?

A. Generally the entire gain, including any amount attributable to the prior rental use period, generally remains fully eligible for the home sale gain exclusion without any adjustment

B. Generally the taxpayer generally loses the entire home sale gain exclusion once any portion of the home was ever used as a rental property

C. Generally gain allocable to the period of nonqualified rental use generally is not eligible for the home sale gain exclusion, based on a ratio of nonqualified use to total ownership

D. Generally the prior rental use period generally has no effect at all on the gain calculation, since rental use before conversion back to personal use generally is disregarded

69. A taxpayer's income includes a gain from selling a capital asset, and the taxpayer also incurred a capital loss carryover from three years earlier that has not yet been fully used. How long generally may an individual taxpayer's unused capital loss carryover be carried forward?

A. Generally an individual taxpayer's unused capital loss carryover generally may be carried forward indefinitely until it is fully used or the taxpayer's death

B. Generally an individual taxpayer's unused capital loss carryover generally expires after exactly five years, regardless of whether it was ever actually used

C. Generally an individual taxpayer's unused capital loss carryover generally may never be carried forward at all, and generally is forfeited after the first year

D. Generally an individual taxpayer's unused capital loss carryover generally may only be carried back to an earlier tax year, rather than carried forward

70. A taxpayer's income includes interest paid on a personal loan used entirely for personal, non-investment, non-business purposes, such as funding a vacation. How is this specific personal loan interest generally treated for federal income tax purposes?

A. Generally deductible as an itemized deduction subject to the same 7.5% adjusted gross income floor that generally applies to a medical expense
B. Generally deductible above the line, available even to a taxpayer who claims the standard deduction instead of itemizing deductions for the year
C. Generally not deductible at all, since interest on a loan used entirely for personal purposes generally is treated as nondeductible personal interest under current law
D. Generally deductible only up to a fixed statutory dollar cap specifically reserved for interest on a personal, non-investment loan of this kind

71. A taxpayer's income includes a gain from exercising and immediately selling incentive stock options in the same transaction, known as a disqualifying disposition because the applicable holding period requirements were not met. How is the resulting gain generally treated in this specific circumstance?

A. Generally the entire gain generally is treated as long-term capital gain regardless of the disqualifying disposition, the same treatment reserved for a qualifying disposition
B. Generally the bargain element generally is treated as ordinary income in the year of the disqualifying disposition, rather than receiving the more favorable treatment available for a qualifying disposition
C. Generally the entire gain generally is entirely tax-exempt, since an incentive stock option generally receives favorable treatment regardless of the disposition's own timing
D. Generally the entire gain generally is treated as self-employment income, subjecting the gain to self-employment tax rather than to ordinary wage treatment

72. A taxpayer's income includes a gain recognized from a short sale of stock the taxpayer had borrowed and later covered by purchasing replacement shares. How is the holding period generally determined for characterizing the resulting gain as short-term or long-term?

A. Generally the holding period generally is based exclusively on how long the short position itself remained open, regardless of the replacement shares' own holding period

B. Generally a short sale gain generally is always treated as long-term capital gain regardless of any holding period consideration for either the short position or replacement shares
C. Generally a short sale gain generally is always treated as ordinary income rather than capital gain, regardless of any holding period consideration involved
D. Generally the holding period generally is based on how long the taxpayer held the replacement shares used to close out the short position, not how long the short position itself was open

73. A taxpayer's income includes a gain from selling stock acquired through a nonqualified employee stock purchase plan that does not meet the requirements for statutory treatment. How is this specific gain generally treated compared to a qualifying statutory plan purchase?

A. Generally the entire gain generally is treated identically to a qualifying statutory plan purchase, with no meaningful distinction between the two plan types
B. Generally the entire gain generally is entirely tax-exempt, since any employee stock purchase plan generally excludes the resulting gain from taxable income
C. Generally the discount portion generally is treated as ordinary income at the time of purchase, rather than being deferred until sale as under a qualifying statutory plan
D. Generally the entire gain generally is treated as self-employment income, subjecting the gain to self-employment tax rather than to ordinary wage treatment

74. A taxpayer's income includes a gain from selling a capital asset used partly for business and partly for personal purposes, such as a vehicle, where the taxpayer maintained records allocating the asset's use between the two categories. How is the resulting gain or loss generally allocated?

A. Generally the entire gain or loss generally is treated exclusively as personal, regardless of any documented business use percentage for the asset
B. Generally the entire gain or loss generally is treated exclusively as business-related, regardless of any documented personal use percentage for the asset
C. Generally the taxpayer generally may elect to disregard any allocation entirely and instead treat the entire transaction under whichever category produces the lower tax
D. Generally the gain or loss generally is allocated between the business and personal portions based on the taxpayer's own documented usage percentage, with different rules generally applying to each portion

75. A taxpayer asks a preparer for general advice about whether to take a lump-sum Social Security benefit for prior months of delayed retirement or continue receiving the higher ongoing monthly benefit going forward. What general point should the preparer generally raise?

A. Generally raise that taking the lump-sum generally reduces the ongoing monthly benefit back to the earlier claiming age's own lower amount, a tradeoff the taxpayer should weigh against the immediate lump-sum cash need

B. Generally raise that taking the lump-sum benefit generally has no effect at all on the ongoing monthly benefit amount going forward

C. Generally raise that a lump-sum Social Security benefit option generally is not available under any circumstance to a retired taxpayer

D. Generally raise that the lump-sum benefit generally is entirely tax-exempt, while the ongoing monthly benefit generally remains fully taxable

76. A taxpayer asks a preparer for general advice about the tax consequences of taking a distribution from a nonqualified deferred compensation plan structured as a series of scheduled future payments the taxpayer cannot accelerate. What general point should the preparer generally raise?

A. Generally raise that the entire deferred amount generally becomes taxable immediately in the current year, regardless of the plan's own fixed future payment schedule

B. Generally raise that each scheduled payment generally is taxed as ordinary income in the year actually received, according to the plan's own fixed distribution schedule

C. Generally raise that the deferred compensation generally is entirely tax-exempt, since the taxpayer cannot accelerate or otherwise control the distribution timing

D. Generally raise that the taxpayer generally may elect to accelerate the entire schedule into the current year purely to simplify tax reporting

77. A taxpayer asks a preparer for general advice about whether the taxpayer generally should claim a dependent parent as a qualifying relative, given that the taxpayer provides more than half the parent's support but the parent does not live with the taxpayer. What general point should the preparer generally raise?

A. Generally raise that a qualifying relative parent generally does not need to live with the taxpayer, unlike most other qualifying relative categories that generally require a shared household

B. Generally raise that a parent generally can never be claimed as a qualifying relative dependent under any circumstance, regardless of the support actually provided

C. Generally raise that the parent generally must live with the taxpayer for at least half the year before any dependency claim of this kind becomes possible

D. Generally raise that claiming a parent as a dependent generally requires the taxpayer to also claim head of household filing status in the same year

78. A taxpayer asks a preparer for general advice about the tax consequences of exercising a right of rescission on a recently purchased annuity contract within the applicable free-look period. What general point should the preparer generally raise?

A. Generally raise that rescinding an annuity contract generally always triggers full taxation of the entire premium paid, the same treatment as a taxable surrender

B. Generally raise that the free-look period generally applies only to a qualified retirement account annuity, excluding a nonqualified annuity purchase entirely

C. Generally raise that rescinding the contract generally triggers the 10% early distribution penalty automatically, regardless of the taxpayer's own age at rescission

D. Generally raise that properly rescinding the contract within the free-look period generally is treated as if the purchase never occurred, generally avoiding any taxable event from the transaction

79. A taxpayer asks a preparer for general advice about the tax consequences of a planned sale of a rental property held for many years with substantial accumulated depreciation, compared to instead continuing to hold and rent the property indefinitely. What general point should the preparer generally raise?

A. Generally raise that selling the property generally has no tax consequence at all, since depreciation recapture generally applies only upon the taxpayer's own death

B. Generally raise that selling generally triggers recognition of the accumulated depreciation recapture and any remaining gain, while continuing to hold generally defers that recognition, a general timing tradeoff to weigh

C. Generally raise that continuing to hold the property indefinitely generally eliminates the accumulated depreciation recapture entirely, rather than merely deferring it

D. Generally raise that the taxpayer generally must sell the property within five years of the original purchase or lose the ability to claim any further depreciation

80. A taxpayer asks a preparer for general advice about whether the taxpayer generally should convert a traditional IRA to a Roth IRA using funds withdrawn from the traditional IRA itself to pay the resulting conversion tax, rather than using outside funds. What general point should the preparer generally raise?

A. Generally raise that using IRA funds to pay the conversion tax generally has no downside at all compared to using an outside source of funds

B. Generally raise that using IRA funds to pay the conversion tax generally is the only permissible method under current law for funding a Roth conversion

C. Generally raise that using IRA funds to pay the conversion tax generally reduces the amount actually converted and may trigger the 10% penalty on the withdrawn portion if the taxpayer is under 59½

D. Generally raise that using IRA funds to pay the conversion tax generally eliminates the resulting tax liability entirely, rather than merely funding that liability

81. A taxpayer asks a preparer for general advice about the tax consequences of establishing a revocable living trust to hold the taxpayer's own assets during the taxpayer's lifetime. What general point should the preparer generally raise about the trust's own income tax treatment?

A. Generally raise that a revocable living trust generally is treated as a grantor trust, meaning the trust's income generally continues to be reported on the taxpayer's own individual return during the taxpayer's lifetime

B. Generally raise that a revocable living trust generally is taxed as a fully separate entity, requiring its own distinct Form 1041 filing during the taxpayer's own lifetime

C. Generally raise that establishing a revocable living trust generally eliminates federal income tax on the trust's own assets entirely during the taxpayer's lifetime

D. Generally raise that a revocable living trust generally converts all the taxpayer's own income into tax-exempt income for as long as the trust remains revocable

82. A taxpayer asks a preparer for general advice about the tax consequences of taking on a home mortgage with a cash-out refinance, using a portion of the proceeds to pay off high-interest credit card debt. What general point should the preparer generally raise about the interest deductibility?

A. Generally raise that the entire cash-out refinance loan generally remains deductible in full, regardless of how the cash-out portion of the proceeds actually is used

B. Generally raise that a cash-out refinance generally eliminates the deductibility of the original acquisition debt portion entirely, even though it remains part of the new loan
C. Generally raise that the credit card debt itself generally becomes deductible once it is paid off using mortgage proceeds, converting it into deductible mortgage interest
D. Generally raise that only the portion of the new loan attributable to acquiring, building, or substantially improving the home generally remains deductible, not the portion used to pay off unrelated debt

83. A taxpayer asks a preparer for general advice about the tax consequences of a planned charitable bequest naming a qualifying charity as the beneficiary of the taxpayer's own traditional IRA upon death, rather than naming an individual heir. What general point should the preparer generally raise?

A. Generally raise that naming a charity as an IRA beneficiary generally has no tax advantage at all compared to naming an individual heir instead
B. Generally raise that naming the charity directly generally avoids income tax on the IRA distribution entirely, since a charity generally is tax-exempt, unlike the taxable result if an individual heir instead inherited the same account
C. Generally raise that the charity generally must pay the same income tax on the IRA distribution that an individual heir otherwise would have owed
D. Generally raise that naming a charity as an IRA beneficiary generally disqualifies the taxpayer's estate from claiming any other charitable deduction that same year

84. A taxpayer asks a preparer for general advice about the tax consequences of paying a dependent's medical expenses directly to the healthcare provider, rather than reimbursing the dependent for expenses the dependent already paid. What general point should the preparer generally raise about gift tax?

A. Generally raise that a payment made directly to a medical provider generally is excluded from gift tax regardless of amount, an exclusion unavailable if the taxpayer instead reimburses the dependent directly
B. Generally raise that paying a medical provider directly generally has no different gift tax treatment at all compared to reimbursing the dependent directly
C. Generally raise that a direct payment to a medical provider generally counts fully against the taxpayer's own annual gift tax exclusion amount for that dependent
D. Generally raise that only a payment actually made to a dependent's own parent, rather than to the medical provider, generally qualifies for any gift tax exclusion

85. A taxpayer asks a preparer for general advice about whether the taxpayer generally should elect S corporation status for a small business currently operating as a sole proprietorship, given growing self-employment tax exposure. What is generally the appropriate scope of the preparer's response?

A. Generally the preparer generally must make the entity election decision unilaterally on the client's behalf, since this question generally falls squarely within tax preparation services alone
B. Generally the preparer generally should refuse to discuss any aspect of the question, since entity structure generally has no connection to individual tax preparation
C. Generally the preparer may explain the general tax mechanics of an S corporation election, such as reasonable compensation requirements, while noting the broader entity choice decision generally involves legal and business considerations beyond preparation
D. Generally the preparer generally should guarantee a specific dollar amount of self-employment tax savings before the client actually makes the entity election

86. A taxpayer asks a preparer for general advice about the tax consequences of a planned exercise of a right of first refusal to purchase employer stock at a discounted price offered only to long-tenured employees. What general point should the preparer generally raise?

A. Generally raise that the discount generally is entirely tax-exempt, since a right of first refusal generally is treated identically to a qualified employee discount
B. Generally raise that the discount generally is treated exclusively as a capital gain, rather than as any form of ordinary compensation income to the employee
C. Generally raise that the discount generally is treated as a nontaxable gift from the employer, rather than as any form of currently taxable compensation
D. Generally raise that the discount generally is likely to be treated as additional taxable compensation, similar to the general treatment of a nonqualified stock option's own bargain element

87. A taxpayer asks a preparer for general advice about the tax consequences of a planned lump-sum distribution from a pension plan where the taxpayer was born before 1936, potentially eligible for a special averaging method. What general point should the preparer generally raise?

A. Generally raise that ten-year averaging generally is available to any taxpayer taking a lump-sum pension distribution, regardless of the taxpayer's own birth year

B. Generally raise that ten-year averaging remains available only to a narrow group of taxpayers meeting a specific age-based grandfather rule, and generally should be evaluated against ordinary rollover treatment

C. Generally raise that ten-year averaging generally eliminates the distribution from taxable income entirely, rather than merely changing how the tax is calculated

D. Generally raise that ten-year averaging generally applies automatically without any election, rather than requiring the taxpayer to affirmatively choose the method

88. A taxpayer's dependent is a qualifying child, and the taxpayer wants to know whether an adopted child generally is treated the same as a biological child for purposes of the relationship test. What is the general treatment of an adopted child under this specific test?

A. Generally an adopted child generally never satisfies the relationship test until the adoption is fully and finally legally completed under state law

B. Generally an adopted child generally satisfies the relationship test only if the child is also a United States citizen at the time of adoption

C. Generally an adopted child, including a child lawfully placed for legal adoption, generally is treated identically to a taxpayer's own biological child for the relationship test

D. Generally an adopted child generally satisfies the relationship test only if the child was adopted before reaching the applicable qualifying child age limit

89. A taxpayer's trust document requires the trustee to distribute all trust accounting income to the beneficiary but permits the trustee discretion over whether to also distribute trust principal. How does this specific combination generally affect the trust's classification as simple or complex?

A. Generally this trust generally is classified as a complex trust, since any discretion at all over principal distribution generally disqualifies the trust from simple trust status

B. Generally this trust generally is classified as a grantor trust, a category generally defined by the grantor's own retained control rather than by distribution requirements

C. Generally this trust generally is classified as a simple trust, since the discretion over principal alone generally does not convert an otherwise income-distributing trust into a complex trust

D. Generally this trust generally has no valid classification at all under current law, since the combination of features described generally is not a recognized trust structure

90. A taxpayer's household includes a qualifying child who is permanently and totally disabled, and the child is now age 30. How does the child's own age generally affect the qualifying child relationship despite exceeding the standard age limits that otherwise would apply?

A. Generally a permanently and totally disabled child generally is subject to the identical age limit that applies to a nondisabled child, with no exception for disability status
B. Generally a permanently and totally disabled child generally qualifies only under the qualifying relative rules once the child exceeds age 24, never as a qualifying child
C. Generally a permanently and totally disabled child generally loses qualifying child eligibility entirely once the child reaches age 18, regardless of the disability's own severity
D. Generally a child who is permanently and totally disabled generally has no upper age limit under the qualifying child rules, unlike a nondisabled child who generally must be under a specific age

91. A taxpayer's estate is being administered, and the executor wants to know whether the estate generally may deduct administration expenses, such as executor fees and legal fees, on the estate's own income tax return or the estate tax return. What is the general rule regarding this specific choice?

A. Generally the estate generally may elect to deduct qualifying administration expenses on either the estate's own income tax return or the federal estate tax return, but generally not on both
B. Generally the estate generally must always deduct administration expenses exclusively on the federal estate tax return, with no election to instead use the income tax return
C. Generally the estate generally must always deduct administration expenses exclusively on the estate's own income tax return, with no election to instead use the estate tax return
D. Generally the estate generally may deduct the identical administration expenses on both the income tax return and the estate tax return without any double-deduction restriction

92. A taxpayer's dependent qualifies as a qualifying child, and the taxpayer wants to know whether a stepchild generally is treated the same as a biological child for purposes of the relationship test used to determine dependency. What is the general treatment of a stepchild under this specific test?

A. Generally a stepchild generally never satisfies the relationship test, regardless of how long the stepparent relationship has actually existed
B. Generally a stepchild generally is treated identically to a taxpayer's own biological child for purposes of the relationship test used to determine a qualifying child

C. Generally a stepchild generally satisfies the relationship test only if the stepparent has also formally and legally adopted the child

D. Generally a stepchild generally satisfies the relationship test only if the child's own biological parent has since passed away

93. A taxpayer's return includes income from a foreign pension the taxpayer receives as a United States citizen living abroad, where the pension is not covered by an applicable tax treaty provision addressing its treatment. How is this specific foreign pension income generally treated for federal purposes?

A. Generally entirely tax-exempt for federal purposes, since a foreign-source pension generally is excluded from a United States citizen's own worldwide income

B. Generally fully taxable as ordinary income for federal purposes, includible in the taxpayer's worldwide income regardless of the pension's own foreign source

C. Generally taxable only at a reduced flat 10% rate reserved for a foreign pension, rather than at the taxpayer's own ordinary income tax rate

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

94. A taxpayer's household includes a qualifying child for whom the taxpayer wants to claim the child tax credit, but the child does not have a valid Social Security number and instead has an individual taxpayer identification number. How does this generally affect the taxpayer's ability to claim the child tax credit for that specific child?

A. Generally the child cannot be counted toward the child tax credit without a valid Social Security number, though the child still may qualify the taxpayer for the separate credit for other dependents

B. Generally the child's own identification number type has no bearing at all on either the child tax credit or the credit for other dependents

C. Generally an individual taxpayer identification number generally is fully sufficient for the child tax credit, the same as a valid Social Security number

D. Generally the taxpayer generally may substitute the child's own birth certificate in place of a Social Security number for the child tax credit

95. A taxpayer's trust document specifically identifies a beneficiary who is also the trust's own grantor, structured so that trust income generally is distributed back to the person who created and funded the trust. How does this specific structure generally affect the trust's classification for tax purposes?

A. Generally this structure generally has no effect at all on the trust's classification, and the trust generally remains classified as a complex trust regardless of the grantor's own beneficial interest

B. Generally this structure generally causes the trust to be classified as a simple trust, requiring the trust to distribute all its income currently regardless of the grantor's own status

C. Generally this structure generally causes the trust to be classified as a charitable trust, regardless of whether any charitable beneficiary is actually named in the document

D. Generally this structure generally causes the trust to be classified as a grantor trust, since the grantor's own retention of a beneficial interest generally is one of the recognized grantor trust triggers

96. A taxpayer's household includes a foster child the taxpayer cared for only part of the year before the child was moved to another foster placement by the placing agency. How does this partial-year foster placement generally affect the taxpayer's ability to claim the child as a qualifying child?

A. Generally any foster placement of any length, including a placement lasting only a single day, generally automatically satisfies the residency requirement in full

B. Generally a foster child generally never satisfies the qualifying child residency requirement, regardless of the actual length of the specific placement

C. Generally the taxpayer generally still must satisfy the more-than-half-year residency requirement for the specific child, meaning a shorter foster placement may not by itself satisfy that requirement

D. Generally the residency requirement generally is waived entirely for a foster child, unlike the requirement that otherwise applies to a biological or adopted child

97. A taxpayer's estate includes a specific bequest of tangible personal property to a named beneficiary, separate from the residuary estate passing to other heirs. How is income earned by the estate before this specific bequest actually is distributed generally treated for fiduciary income tax purposes?

A. Generally the income generally is taxed directly to the named beneficiary immediately upon the decedent's own death, regardless of when the bequest actually is distributed

B. Generally the income generally is entirely tax-exempt during the administration period, regardless of how long the specific bequest distribution actually is delayed

C. Generally the income generally is taxed to the estate itself under Form 1041 until the specific bequest property actually is distributed to the named beneficiary

D. Generally the income generally is taxed to the estate's own executor personally, rather than to either the estate itself or the eventual beneficiary

98. A taxpayer's dependent is a qualifying child for whom the taxpayer wants to claim the earned income tax credit, and the child also happens to be permanently and totally disabled at age 22. How does the child's own age and disability status generally affect earned income tax credit eligibility?

A. Generally a permanently and totally disabled child generally is subject to the identical age limit that applies to a nondisabled child for earned income tax credit purposes

B. Generally a permanently and totally disabled child generally can never qualify the taxpayer for the earned income tax credit under any circumstance

C. Generally a permanently and totally disabled child generally qualifies the taxpayer for the earned income tax credit only if the child also has no earned income of the child's own

D. Generally a permanently and totally disabled child generally has no upper age limit for earned income tax credit qualifying child purposes, unlike a nondisabled child who generally must be under a specific age

99. A taxpayer's household includes a qualifying relative dependent who received Social Security benefits during the year, and the taxpayer wants to know how these benefits generally are treated when calculating the dependent's own gross income for the gross income test. What is the general treatment?

A. Generally the nontaxable portion of the dependent's own Social Security benefits generally is excluded from the gross income test, while any taxable portion generally is included

B. Generally the entire amount of the dependent's own Social Security benefits generally is included in full when calculating the gross income test, regardless of taxability

C. Generally the entire amount of the dependent's own Social Security benefits generally is excluded in full from the gross income test, regardless of taxability

D. Generally Social Security benefits generally are disregarded entirely for purposes of the gross income test, but generally are still counted under the separate support test

100. A taxpayer's estate return, Form 1041, reports both tax-exempt municipal bond interest and taxable dividend income earned during the estate's own administration period. How is the tax-exempt interest generally treated when calculating the estate's own distributable net income?

A. Generally the tax-exempt interest generally is entirely excluded from distributable net income, the same treatment that applies to the estate's own taxable income calculation

B. Generally the tax-exempt interest generally is included in distributable net income, even though it remains excluded from the estate's own taxable income calculation

C. Generally the tax-exempt interest generally converts into fully taxable income once it is actually received by the estate rather than by an individual

D. Generally distributable net income generally is calculated using only the estate's own taxable income items, with tax-exempt interest excluded from every calculation

Answer Key and Explanations — Practice Exam 22

1. D — When a source document's distribution code appears inconsistent with the client's own description of the transaction, a preparer should discuss the discrepancy with the client and, if warranted, contact the plan administrator before relying on the code as the sole basis for the return position, since the code could be mistaken or the client's own description could be incomplete.

2. B — A preparer who learns a client won a sweepstakes prize should inquire further and help the client determine the prize's fair market value as of the date actually received, since prize and award income generally is fully taxable regardless of whether the payer issued a corresponding information return documenting the specific prize amount.

3. A — A written record documenting the source of each figure used in preparing a complex return generally supports the preparer's own ability to explain and defend each reported figure if a position is later questioned during an examination, generally reducing the risk of an unsupported or inconsistent explanation being offered well after the return actually was filed.

4. C — A preparer generally should retain the client's own signed Form 8879 e-file authorization for the applicable retention period, not merely the separate electronic transmission acceptance confirmation, since the signed authorization generally is what documents the client's own consent to have the specific return actually electronically filed on the client's behalf.

5. A — A CP504 notice generally represents a more urgent stage in the IRS collection process, generally warning the taxpayer of an intent to levy certain assets such as a state tax refund, while an earlier CP501 notice generally is a less urgent initial balance-due reminder, reflecting the general escalating sequence of collection notices the IRS generally sends for an unpaid liability.

6. B — Circular 230 generally permits a contingent fee arrangement for services rendered in connection with seeking a penalty or interest abatement, since this specific circumstance generally falls within a recognized exception to the general prohibition on a contingent fee for preparing an original return, reflecting the distinct nature of abatement work compared to original return preparation.

7. D — A CP2501 notice generally alerts a taxpayer to a potential discrepancy between the filed return and third-party information the IRS received, generally inviting the taxpayer to respond and explain the discrepancy before a more formal CP2000 notice proposing a specific adjustment is actually issued, giving the taxpayer an earlier opportunity to address the issue.

8. C — A preparer generally should follow up when evidence such as recurring bank statement deposits suggests a rental activity the client did not proactively mention, since simply ignoring the evidence without asking would generally fall short of the preparer's general due diligence obligation to gather complete and accurate client information before preparing the return.

9. D — Form 56 generally notifies the IRS that a fiduciary, such as an executor, administrator, or trustee, has assumed the powers, rights, and duties of a deceased or incapacitated taxpayer, and generally establishes the fiduciary's own authority to act on that taxpayer's behalf, distinguishing this specific role from the more limited representative authority granted by a Form 2848.

10. A — A preparer generally should explain the frivolous position penalty risk to a client insisting on a previously rejected tax protester argument, and generally should decline to include such a position on the return, since knowingly assisting with a frivolous position generally exposes both the client and, potentially, the preparer to a separate penalty exposure of their own.

11. C — Clearly documenting a provision addressing the consequence of a client's own missed documentation deadline, such as a potential extension filing or an adjusted fee, generally clarifies expectations up front, generally reducing the risk of a later misunderstanding about timing responsibility and generally supporting the preparer's own position if a dispute arises over a delayed or rushed filing.

12. B — A preparer generally may rely on a client's own credible representation regarding a claimed charitable contribution, supported by a receipt or acknowledgment letter from the charity where reasonably available, consistent with the general due diligence standard of reasonable inquiry rather than requiring independent verification directly through the charity's own internal donor records for every claimed gift.

13. C — Form 2210 generally calculates whether an underpayment of estimated tax penalty applies for the year and, if so, the specific penalty amount, or alternatively documents that the taxpayer met an applicable exception or safe harbor, such as the prior-year tax safe harbor, that would generally reduce or eliminate the otherwise applicable penalty.

14. D — A preparer generally should caution a client who mentions relying on a generic online tax calculator's own estimate that such a tool may not accurately reflect the client's own specific facts and circumstances, and should not replace the preparer's own more thorough professional analysis, since a generic calculator generally cannot account for every nuance of an individual taxpayer's own situation.

15. A — Documenting the specific rationale for classifying a worker as an independent contractor, addressing factors such as behavioral and financial control and the nature of the relationship, generally creates a contemporaneous record supporting that classification decision, generally useful if the classification is later questioned during an IRS examination or by the worker in a separate dispute.

16. B — A preparer should proactively ask a client about participation in a stock lending arrangement, since a resulting substitute payment made in lieu of a dividend generally is taxable but generally does not receive the same favorable qualified dividend treatment, a distinction a client may overlook since the substitute payment often appears similar to an ordinary dividend on a brokerage statement.

17. A — A moving expense reimbursement paid under an accountable plan generally is fully taxable as ordinary wage income for a non-military move, since the general moving expense exclusion generally is suspended under current law except for a qualifying active-duty military relocation, unlike other accountable plan reimbursements that generally remain excludable when unrelated to a suspended expense category.

18. B — Interest earned on a series I savings bond generally is excludable from taxable income under the education savings bond program when the redemption proceeds are used for qualified higher education expenses and the taxpayer's modified adjusted gross income falls within the applicable statutory limits, a favorable treatment unavailable to a taxpayer whose income exceeds those specific limits.

19. D — The portion of a traditional IRA distribution attributable to previously made nondeductible contributions, properly tracked on Form 8606, generally is not taxable, since it represents a nontaxable return of the taxpayer's own after-tax basis in the account, distinct from the portion attributable to deductible contributions and earnings, which generally remains fully taxable upon distribution.

20. C — A settlement structured entirely as back pay for unpaid overtime wages generally is 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 stands in the place of the wages the taxpayer would have originally earned had the overtime actually been paid on time.

21. C — A traditional IRA distribution used to pay health insurance premiums by a taxpayer who actually received unemployment compensation for at least the applicable required consecutive-week period generally is excepted from the 10% early distribution penalty under the unemployed health insurance premium exception, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income for the year.

22. A — A qualified transportation fringe benefit, such as an employer-provided monthly transit pass, generally is excludable from the employee's taxable wages up to the applicable statutory monthly limit, with any amount provided by the employer above that specific limit generally becoming includible in the employee's taxable wages, similar in structure to the treatment of other capped fringe benefits.

23. B — A traditional IRA distribution taken by a taxpayer certified by a physician as terminally ill, meeting the applicable statutory definition for this relatively new exception, is excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, since only the penalty, not the underlying tax, is excepted under this specific provision.

24. D — A state-administered paid family leave benefit received during a period of bonding with a newborn child is taxable as other income, includible in the recipient's gross income for federal purposes and generally reported on an applicable state-issued information return, a treatment many new parents overlook since the benefit is not automatically subject to withholding unless separately elected by the recipient.

25. B — A traditional 401(k) distribution taken within the applicable one-year window following a qualifying birth or adoption, up to the applicable statutory dollar limit for this exception, is excepted from the 10% early distribution penalty, though the distribution itself generally remains includible in the taxpayer's ordinary taxable income, and the taxpayer generally has the option to repay the distributed amount later.

26. D — A cash refund of an airline fare the taxpayer originally paid for a canceled flight generally is not taxable income, since the refund generally represents a return of the taxpayer's own previously spent capital rather than any newly earned income, consistent with the general treatment of a straightforward refund of a personal expense the taxpayer already paid.

27. A — A distribution from an inherited Roth IRA generally is entirely tax-exempt to a non-spouse beneficiary when the account met the applicable five-year holding requirement before the original owner's death, though the beneficiary generally still must fully distribute the account within the applicable ten-year period following the original owner's death, even though the distributions themselves generally remain tax-free.

28. C — A supplemental unemployment benefit paid by an employer to supplement state unemployment compensation during a temporary layoff generally is fully taxable as ordinary wage income, subject to withholding and employment tax, a distinct treatment from the state unemployment compensation itself, which generally is taxable as other income rather than as wages subject to the same employment tax withholding.

29. B — The earnings attributable to a timely corrected excess IRA contribution, removed before the extended filing deadline, are taxable as ordinary income in the year the excess contribution was originally made, and generally subject to the 10% early distribution penalty if the taxpayer was under age 59½ at that time, unlike the excess principal itself, which is not separately taxed again.

30. D — A combined payment including both severance and unused accrued vacation time, paid as part of an involuntary layoff package, is fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, since both components generally are considered compensation connected to the employment relationship regardless of how they are packaged together.

31. C — A traditional IRA distribution used for adoption expenses that exceeds the applicable statutory dollar limit reserved for the birth or adoption exception remains subject to the 10% early distribution penalty on the excess amount above that limit, since only the portion up to the statutory cap qualifies, with any amount beyond it treated under the standard penalty rules.

32. A — A securities fraud class action settlement is treated as a reduction in the taxpayer's basis in the affected stock if still held, or as capital gain or loss reflecting an adjustment to the amount realized if already sold, since the settlement relates directly to the value and character of the underlying capital asset rather than to separate ordinary income.

33. B — A qualified disaster distribution repaid within the applicable three-year repayment window generally is treated as a tax-free rollover, generally allowing the taxpayer to file an amended return for the year the original distribution was included in income to recover any tax previously paid, effectively unwinding the original distribution's taxable treatment once the repayment is timely and properly made.

34. A — A retirement plan loan the taxpayer fails to repay according to the plan's terms, following termination of employment, is treated as a taxable deemed distribution in the year of default, includible in the taxpayer's ordinary income and potentially subject to the 10% early distribution penalty if the taxpayer has not yet reached the applicable exception age or met another exception.

35. D — A de minimis fringe benefit, such as an occasional small item of nominal value provided infrequently, is excludable from the employee's taxable wages, since accounting for such a minor benefit generally would be administratively impracticable, though a gift card is generally treated as a cash equivalent and often does not actually qualify for this exclusion despite its small face value.

36. C — A timely repayment of a qualified reservist distribution generally is treated similarly to a tax-free rollover, generally allowing the taxpayer to recover tax previously paid on the original distribution, reflecting the general policy of allowing a reservist called to active duty flexibility to later restore retirement savings withdrawn during the period of active service without a permanent tax cost.

37. D — The cost of prescription hearing aids for a documented hearing impairment generally qualifies as a deductible medical expense, including both the initial device cost and the ongoing cost of related batteries and maintenance, subject to the same overall 7.5% adjusted gross income floor that generally applies to the medical expense deduction category as a whole.

38. B — A capital improvement made for a documented medical purpose, such as installing central air conditioning to address a severe respiratory condition, 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 also increasing the home's value generally is not considered a medical cost.

39. A — A taxpayer whose modified adjusted gross income falls within the applicable American Opportunity Tax Credit phase-out range generally faces a proportional reduction in the available credit amount, with the reduction generally increasing as income rises through the range, until the credit generally reaches zero once income exceeds the upper end of that applicable range for the taxpayer's filing status.

40. C — A taxpayer who installs a qualifying geothermal heat pump generally may claim the residential clean energy credit, calculated as an applicable percentage of the qualifying cost with no overall dollar cap on that underlying cost, distinct from the energy efficient home improvement credit generally reserved for a more incremental efficiency upgrade like insulation or an efficient window.

41. A — A legal fee related to obtaining alimony, even alimony that remains taxable to the recipient under the pre-2019 grandfather rule, generally is 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 specific type of fee.

42. D — A 529 plan distribution used for expenses related to a registered apprenticeship program recognized by the Department of Labor generally is treated as a qualified education expense, generally making the earnings portion of that distribution tax-exempt, reflecting an expansion of qualified 529 plan uses beyond traditional college tuition to include a recognized apprenticeship pathway.

43. C — Cosmetic surgery that is not necessary to correct a deformity arising from a congenital abnormality, a personal injury from an accident or trauma, or a disfiguring disease generally is not deductible as a medical expense, since the tax law generally excludes a procedure undertaken purely to improve the taxpayer's own general appearance from the medical expense deduction category entirely.

44. B — Properly reporting a nondeductible traditional IRA contribution on Form 8606 establishes the taxpayer's own basis in the account, generally ensuring that this specific nondeductible portion is not taxed again when the funds are eventually distributed, since without this record the entire distribution otherwise could be treated as fully taxable, resulting in an unintended double taxation of the same contributed amount.

45. B — Dependent care expenses paid out of pocket beyond what a pretax flexible spending account already covered generally may still qualify for the dependent care credit, up to the applicable overall qualifying expense limit reduced by the amount already reimbursed through the pretax account, avoiding a double tax benefit for the identical portion of dependent care expense across both benefits.

46. D — A taxpayer whose modified adjusted gross income falls within the applicable Coverdell Education Savings Account phase-out range generally faces a proportional reduction in the maximum allowable contribution, with the reduction generally increasing as income rises through the range, until the contribution limit generally reaches zero once income exceeds the upper end of that applicable range.

47. C — Real property tax paid on a vacation home used exclusively for personal purposes generally is deductible as an itemized deduction, subject to the same overall combined $10,000 cap on state and local taxes that applies to the taxpayer's other state and local tax payments, meaning the vacation home tax generally counts toward, rather than separate from, that same overall cap.

48. A — A taxpayer who files using an individual taxpayer identification number rather than a Social Security number generally still may claim the child tax credit for a qualifying child who has a valid Social Security number, since the identification number requirement for this credit generally applies specifically to the qualifying child, not necessarily to the filing taxpayer's own identification number.

49. B — An ergonomic chair specifically recommended by a physician to address a documented chronic condition generally may qualify as a deductible medical expense, though an item like a chair that also serves substantial general personal use, beyond the specific medical need, generally receives closer scrutiny than an item used exclusively for the underlying medical purpose being treated.

50. C — Qualified higher education expenses paid using student loan proceeds still qualify for an education credit such as the Lifetime Learning Credit in the year the expenses actually were paid to the educational institution, since the source of the funds used to pay the expense generally does not affect credit eligibility, only the timing and qualifying nature of the expense itself.

51. D — When a state agency determines a child has special needs for adoption assistance purposes, the taxpayer generally may claim the full applicable adoption credit amount, even if the taxpayer's own actual qualified adoption expenses paid were less than that full amount, a favorable exception to the general rule limiting the adoption credit to a taxpayer's own actual substantiated qualified expenses.

52. A — Prescribed insulin and related diabetic management supplies, such as testing strips and a glucose monitor, generally qualify as a deductible medical expense for a taxpayer with a documented diagnosis of diabetes, subject to the same overall 7.5% adjusted gross income floor that generally applies to the medical expense deduction category as a whole for every qualifying item combined.

53. D — A health club membership recommended generally by a physician for overall wellness, without addressing a specific diagnosed medical condition, generally is not deductible as a medical expense, since the tax law generally treats a membership for general health improvement as a nondeductible personal expense, distinct from a program specifically prescribed to treat a diagnosed condition like obesity or hypertension.

54. C — Laser eye surgery to correct a vision defect such as nearsightedness generally qualifies as a deductible medical expense, since the procedure generally corrects a genuine medical vision impairment rather than serving a purely cosmetic purpose, even though a side effect of the correction is that the taxpayer no longer needs to rely on corrective eyeglasses or contact lenses going forward.

55. A — A prescription-strength sunscreen specifically recommended by a dermatologist to manage a documented photosensitivity condition generally qualifies as a deductible medical expense, distinguishing it from an ordinary over-the-counter sunscreen purchased for general sun protection, which generally is treated as a nondeductible personal care item absent a specific prescription addressing a diagnosed medical condition.

56. B — The cost of dentures to replace teeth lost due to periodontal disease generally qualifies as a deductible medical expense, since dentures generally are considered dental treatment addressing the structural and functional consequences of tooth loss, subject to the same overall 7.5% adjusted gross income floor that generally applies to the medical expense deduction category as a whole.

57. A — For computing a subsequent gain on gifted property, the recipient's basis generally is the donor's own adjusted basis at the time of the gift, the general carryover basis rule, though a different, lower basis generally applies specifically for computing a loss when the fair market value at the time of the gift was lower than the donor's own adjusted basis.

58. C — Inherited property generally receives a basis equal to its fair market value on the applicable valuation date, generally the date of the decedent's death or an alternate valuation date if properly elected, rather than carrying over the decedent's own original lower adjusted basis, a favorable step-up that generally eliminates built-in gain that accrued during the decedent's own lifetime.

59. D — A taxpayer with both short-term and long-term capital transactions in the same year must net short-term gains and losses together first, and separately net long-term gains and losses together, before generally combining the two net results into a single overall net capital gain or loss position, which then determines the applicable tax treatment and any carryover to a future year.

60. B — Suspended passive activity losses become fully deductible against the taxpayer's other income, including nonpassive income, in the year the taxpayer has a fully taxable disposition of the taxpayer's entire interest in the passive activity, generally releasing the previously suspended losses that had been limited under the passive activity loss rules during the years the property was actually held and operated.

61. B — The portion of a pension annuity payment attributable to a taxpayer's own after-tax contributions generally is recovered tax-free over the expected payment period using an applicable exclusion ratio, generally spreading the recovery of the taxpayer's own after-tax basis proportionally across the annuity payments received, rather than recovering it all at once or not at all.

62. A — An investor in a publicly traded partnership generally receives a Schedule K-1 reflecting the investor's own proportional share of the partnership's income, deductions, and credits, rather than the simpler Form 1099-DIV used for ordinary corporate stock dividends, generally adding complexity to the investor's own tax reporting compared to holding a similarly liquid, exchange-traded corporate stock.

63. C — Gain from selling a municipal bond purchased at a market discount is split, with the portion attributable to the accretion of that original market discount treated as ordinary income upon sale or maturity, while any remaining gain beyond the accreted discount generally is treated as capital gain, a nuance distinguishing this transaction from the bond's own regular tax-exempt interest payments.

64. D — A cash payment from a nonqualified stock appreciation rights plan, reflecting the appreciation in an employer's stock value without any stock being transferred, is fully taxable as ordinary wage income at the time the cash payment actually is received by the employee, subject to the same withholding and employment tax treatment that generally applies to other forms of employee compensation.

65. B — A taxpayer who claimed depreciation on a home office portion of a personal residence must recapture that previously claimed depreciation as unrecaptured section 1250 gain upon sale, an amount not eligible for the home sale gain exclusion, even though the remaining gain attributable to the personal-use portion of the home generally may still qualify for the applicable statutory exclusion amount.

66. A — Gain from an involuntary conversion of business property, such as property destroyed by fire and compensated through insurance proceeds, may be deferred to the extent the taxpayer reinvests the proceeds in qualifying replacement property within the applicable statutory period following the conversion, a deferral provision intended to avoid taxing a gain that largely reflects an unplanned event.

67. D — A taxpayer whose overall taxable income falls within the lowest applicable long-term capital gain rate bracket for the year may pay a 0% federal rate on the portion of long-term capital gain falling within that bracket, a favorable outcome available to a taxpayer with relatively modest overall taxable income even though other income remains taxed at the taxpayer's ordinary rates.

68. C — When a principal residence was used for a period of nonqualified use, such as a rental period before the taxpayer converted the home back to personal use, the portion of gain allocable to that period, based on a ratio of nonqualified use to total ownership, is not eligible for the home sale exclusion, though the remaining gain still may qualify.

69. A — An individual taxpayer's unused capital loss carryover generally may be carried forward indefinitely to future tax years until it is fully used to offset capital gain or the annual $3,000 ordinary income limit, or until the taxpayer's own death, at which point any remaining unused carryover generally is lost and does not pass to the taxpayer's estate or heirs.

70. C — Interest paid on a loan used for a personal purpose, such as funding a vacation, generally is not deductible at all, since the tax law generally classifies this type of interest as nondeductible personal interest, distinct from the more favorable treatment generally available for interest on a loan used to acquire a home, fund an investment, or operate a business.

71. B — When incentive stock options are exercised and the resulting shares are sold before satisfying the applicable holding period requirements, a disqualifying disposition, the bargain element is treated as ordinary income in the year of the disposition, rather than receiving the more favorable capital gain treatment available had the holding periods been satisfied before the sale.

72. D — The character of gain from a short sale generally is determined by the holding period of the replacement shares the taxpayer ultimately delivers to close out the short position, rather than by how long the short position itself was open, a distinct and often counterintuitive rule compared to the holding period analysis used for a standard, non-short sale transaction.

73. C — Stock acquired through a nonqualified employee stock purchase plan that does not meet the statutory requirements generally results in the discount portion being treated as ordinary income at the time of purchase, rather than being deferred until the eventual sale as generally occurs under a qualifying statutory plan, a less favorable timing of income recognition for the employee participant.

74. D — A capital asset used partly for business and partly for personal purposes requires the resulting gain or loss to be allocated between the two portions based on the taxpayer's documented usage percentage, with the business portion subject to the business asset gain or loss rules and the personal portion subject to the different, often less favorable personal-use property rules.

75. A — A preparer generally may raise that electing a lump-sum payment for prior months of delayed retirement generally reduces the taxpayer's ongoing monthly benefit back to the amount associated with the earlier claiming age, a tradeoff the taxpayer generally should weigh against the immediate cash need against the value of the higher benefit the taxpayer otherwise would continue receiving for life.

76. B — A preparer may raise that a properly structured nonqualified deferred compensation plan results in each scheduled payment being taxed as ordinary income in the year it actually is received, according to the plan's own fixed distribution schedule, since the taxpayer's own inability to accelerate the payments generally is what preserves this favorable deferred timing of taxation under the applicable rules.

77. A — A preparer may raise that a taxpayer's parent is one of the relationships exempted from the household member residency requirement that otherwise applies to a qualifying relative, meaning the taxpayer may claim a parent who does not live with the taxpayer, provided the taxpayer still provides more than half the parent's support and the other qualifying relative tests are met.

78. D — A preparer may raise that properly exercising a right of rescission on an annuity contract within the applicable free-look period generally is treated as if the purchase never occurred, generally avoiding any taxable event from the transaction, distinct from a later surrender of the contract after the free-look period has expired, which generally would be treated as a taxable distribution.

79. B — A preparer generally may raise that selling a long-held rental property generally triggers recognition of the accumulated depreciation recapture and any remaining gain in the year of sale, while continuing to hold and rent the property generally defers that recognition further into the future, a general income-timing tradeoff the taxpayer should weigh alongside the property's own investment and cash-flow considerations.

80. C — A preparer may raise that using funds withdrawn from the traditional IRA itself to pay the resulting Roth conversion tax reduces the amount converted and, if the taxpayer is under age 59½, may also trigger the 10% early distribution penalty on the withdrawn portion used to pay the tax, a cost avoided by using an outside source of funds instead.

81. A — A preparer may raise that a revocable living trust is treated as a grantor trust for federal income tax purposes, meaning the trust's income continues to be reported directly on the taxpayer's individual return during the taxpayer's lifetime, rather than requiring a separate Form 1041 filing, since the taxpayer retains the power to revoke the trust and reclaim its assets.

82. D — A preparer may raise that after a cash-out refinance, only the portion of the new mortgage attributable to buying, building, or improving the home remains deductible as mortgage interest, while the portion used for an unrelated purpose, such as paying off credit card debt, is treated as nondeductible personal interest despite being part of the same loan.

83. B — A preparer may raise that naming a qualifying charity directly as the beneficiary of a traditional IRA allows the charity to receive the distribution without owing income tax, since a qualifying charity is tax-exempt, an outcome generally more tax-efficient than leaving the same tax-deferred account to an individual heir, who generally would owe ordinary income tax on the inherited distributions.

84. A — A preparer may raise that a payment made directly to a medical provider on behalf of another person is excluded from gift tax without limit, an exclusion unavailable if the taxpayer instead reimburses the dependent directly for expenses already paid, since in that case the payment is treated as an ordinary gift subject to the standard annual exclusion limit.

85. C — A preparer generally may explain the general tax mechanics relevant to an S corporation election, such as the requirement to pay the owner reasonable compensation subject to payroll tax while remaining distributions generally avoid self-employment tax, while generally noting that the broader entity structure decision generally involves legal formation and business considerations beyond the scope of individual tax preparation alone.

86. D — A preparer may raise that a discount available only to long-tenured employees through a special right of first refusal is likely to be treated as additional taxable compensation to the employee, similar in character to the bargain element of a nonqualified stock option, rather than qualifying for the exclusion reserved for a broad-based qualified employee discount program.

87. B — A preparer may raise that ten-year averaging for a lump-sum pension distribution remains available only to the narrow group of taxpayers meeting an age-based grandfather rule tied to a birth year before 1936, and that this special method should be evaluated against the alternative of a tax-free rollover, since averaging still results in current taxation while a rollover defers it.

88. C — An adopted child, including a child lawfully placed with the taxpayer for legal adoption even before the adoption is finally completed, is treated identically to a biological child for purposes of the relationship test used to determine whether the child is the taxpayer's qualifying child, reflecting the policy of treating an adoptive relationship the same as a biological one.

89. C — A trust required to distribute all its accounting income currently to the beneficiary, even if the trustee retains discretion over whether to also distribute principal, still qualifies as a simple trust for the year, since the classification focuses on the mandatory current distribution of income, not on the separate treatment of principal, which a simple trust does not distribute regardless.

90. D — A child who is permanently and totally disabled has no upper age limit under the qualifying child rules, meaning such a child, even at age 30 or older, generally may still qualify as the taxpayer's qualifying child for dependency and related tax benefit purposes, an exception to the standard age limits that otherwise generally apply to a nondisabled qualifying child.

91. A — An estate may elect to deduct qualifying administration expenses, such as executor fees and legal fees, on either the estate's fiduciary income tax return or the federal estate tax return, whichever produces the more favorable overall result, but is not permitted to deduct the identical expense on both returns, since a double deduction is prohibited under the applicable election rules.

92. B — A stepchild generally is treated identically to a taxpayer's own biological child for purposes of the relationship test used to determine whether the child is the taxpayer's qualifying child, reflecting the general policy of treating a stepparent relationship the same as a biological relationship for dependency purposes, without requiring a formal legal adoption to have actually occurred.

93. B — A foreign pension received by a United States citizen, absent an applicable tax treaty provision addressing its treatment, is taxable as ordinary income for federal purposes, includible in the taxpayer's worldwide income, since a United States citizen is taxed on worldwide income regardless of where that income is sourced, subject to any applicable foreign tax credit for tax paid abroad.

94. A — A qualifying child without a valid Social Security number, such as one who instead has only an individual taxpayer identification number, cannot be counted toward the child tax credit, though the child still may qualify the taxpayer for the separate, smaller nonrefundable credit for other dependents, which has a less restrictive identification number requirement than the child tax credit itself.

95. D — A trust structured so income is distributed back to the person who created and funded it is classified as a grantor trust, since a grantor's retention of a beneficial interest in the trust's income is one of several statutory triggers causing grantor trust treatment, meaning the trust's income is taxed directly to the grantor rather than at the trust level.

96. C — A taxpayer caring for a foster child only part of the year still must satisfy the more-than-half-year residency requirement to claim the child as a qualifying child, meaning a shorter foster placement does not, by itself, satisfy the residency test, the same standard that applies to a biological, adopted, or step-relationship qualifying child under the applicable dependency rules.

97. C — Income earned by an estate before a bequest of tangible personal property is distributed to the named beneficiary is taxed to the estate itself on Form 1041 during the period the property remains under the estate's administration, since a bequest does not carry out distributable net income in the same manner that a distribution from the residuary estate would.

98. D — A child who is permanently and totally disabled has no upper age limit for purposes of being a qualifying child for the earned income tax credit, meaning a disabled child at age 22 or older still may qualify the taxpayer, mirroring the disability exception that applies to the age limit for the qualifying child dependency test more broadly.

99. A — For purposes of the gross income test used to determine whether someone qualifies as a taxpayer's qualifying relative dependent, only the taxable portion of the dependent's Social Security benefits is included in the calculation, while the nontaxable portion is excluded, meaning a dependent living mostly on Social Security often has little gross income counted toward this test.

100. B — Tax-exempt municipal bond interest is included in an estate's calculation of distributable net income, even though that same interest remains excluded from the estate's taxable income, since distributable net income generally serves a distinct purpose, determining how much of a distribution to a beneficiary carries out taxable versus tax-exempt character, rather than simply mirroring the estate's own taxable income figure.