PRACTICE EXAM 23: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

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

1. A preparer's client provides a Schedule K-1 reporting a loss from a limited partnership, and the client also mentions the client is not actively involved in the partnership's own operations in any way. What is the preparer's recommended first step regarding this loss?

A. Deduct the entire loss immediately against the client's other income without any further analysis, since a Schedule K-1 loss is always fully deductible
B. Determine whether the passive activity loss rules limit deductibility of the loss before including it on the return, given the client's own lack of active involvement
C. Disregard the loss entirely from the return, since a limited partnership loss generally can never be deducted under any circumstance
D. Convert the loss into a nonbusiness bad debt automatically, rather than analyzing whether it is instead subject to the passive activity loss rules

2. A preparer's client mentions receiving a portion of a lawsuit settlement in structured future payments rather than as a single lump sum, but did not bring documentation showing how the settlement was allocated. What is the preparer's general obligation regarding this specific structured settlement?

A. The preparer should inquire further into how the settlement was allocated among its various components before determining the taxability of each structured payment
B. The preparer has no obligation to ask further questions, since a structured settlement generally is exempt from federal income tax reporting entirely
C. The preparer should advise the client that structured settlement payments are never taxable until the entire payment schedule concludes
D. The preparer should decline to prepare the return entirely, since a structured settlement can never be reliably substantiated by a taxpayer alone

3. A preparer's client asks about the general purpose of maintaining a client intake questionnaire covering foreign accounts, digital assets, and household employment, updated annually rather than reused unchanged from a prior year. What is the general benefit of this specific updating practice?

A. Generally serves no actual practical purpose, existing only as an optional formality with no genuine effect on the preparer's own due diligence obligations
B. Generally applies only to a new client's own first-year engagement, with a returning client being entirely exempt from any updated questionnaire
C. Generally serves exclusively as a marketing tool describing the preparer's own expertise, rather than as any form of genuine intake practice
D. Generally helps the preparer capture a client's own current-year circumstances, since a client's own situation and the relevant reporting requirements can both change from year to year

4. A preparer's client asks whether the preparer generally must retain a record explaining why a particular return position was taken when multiple reasonable interpretations of an ambiguous tax provision existed. What is the general recommended practice?

A. Generally recommends documenting nothing at all, since the preparer's own return position generally speaks for itself without any further explanation needed
B. Generally recommends retaining this specific documentation for exactly thirty days only, rather than for the full applicable retention period
C. Generally recommends documenting the reasoning behind the position taken, including why the chosen interpretation was selected over another reasonable alternative
D. Generally recommends never taking a position on an ambiguous provision at all, rather than documenting the reasoning behind a chosen interpretation

5. A preparer's client asks about the general difference between an IRS Notice CP71 and a Notice of Federal Tax Lien for an outstanding tax balance. What is the general distinction between these two specific IRS communications?

A. A CP71 generally is an annual balance-due reminder notice, while a Notice of Federal Tax Lien generally represents a more formal step establishing the government's legal claim to property

B. A CP71 and a Notice of Federal Tax Lien are generally functionally identical documents, with no meaningful distinction between the two specific communications

C. A Notice of Federal Tax Lien generally always precedes a CP71 in every case, the exact reverse of the actual general relationship between the two

D. A CP71 generally applies only to a business return, while a Notice of Federal Tax Lien generally applies only to an individual return under current law

6. A preparer's client asks whether a preparer generally may advertise using the phrase 'IRS-approved' to describe the preparer's own tax preparation services. What is the general Circular 230 standard regarding this specific advertising claim?

A. Generally fully permitted without restriction, since Circular 230 generally imposes no standard on any specific advertising claim referencing the IRS

B. Generally prohibited, since the IRS generally does not endorse or approve any specific preparer, making this claim generally false or misleading under the applicable advertising standard

C. Generally permitted only if the preparer actually holds an Enrolled Agent credential, with no other limitation applying to this specific claim

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

7. A preparer's client asks about the general purpose of an IRS Notice CP08 informing the taxpayer of a potential eligibility for an additional credit not claimed on the originally filed return. What is the general purpose this specific notice generally serves?

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

B. Generally serves no actual practical purpose, existing only as an optional informational notice with no genuine effect on the taxpayer's own refund

C. Generally informs the taxpayer of a potential credit eligibility the IRS identified based on the filed return, inviting the taxpayer to respond with supporting information

D. Generally serves exclusively to notify the taxpayer of a completed criminal referral, rather than of any potential additional credit eligibility

8. A preparer's client asks whether the preparer generally must inquire about a client's own recent name change following a marriage when the client's provided Social Security card still reflects a prior name. What is the general recommended practice regarding this specific discrepancy?

A. Generally recommends ignoring the discrepancy entirely and filing the return using whichever name the client happens to provide verbally during the interview
B. Generally recommends refusing to prepare the return until the client obtains a new driver's license reflecting the updated name
C. Generally recommends filing the return using the prior name permanently, rather than ever transitioning to the client's own updated legal name
D. Generally recommends confirming with the client whether the name change has been reported to the Social Security Administration, since a mismatch can generally delay processing of the return

9. A preparer's client asks about the general purpose of an IRS Form 4506, Request for Copy of Tax Return, compared to a Form 4506-T requesting only a transcript. What is the general distinction between these two specific request forms?

A. A Form 4506 and a Form 4506-T are generally functionally identical requests, with no meaningful distinction between the two specific forms
B. Generally a Form 4506-T requests an actual copy of the filed return itself, while a Form 4506 requests only a summarized transcript of the return information
C. Generally a Form 4506 requests an actual copy of the filed return itself, while a Form 4506-T requests only a summarized transcript of the return information
D. Generally a Form 4506 applies only to a business return, while a Form 4506-T applies only to an individual return under current law

10. A preparer's client asks whether the preparer generally must advise the client about the risk of an information return penalty when the client, as a small business owner, failed to timely file a required Form 1099-NEC for a contractor paid during the year. What is the general answer?

A. 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
B. Generally yes, but only if the contractor payment actually exceeded a specific dollar threshold, with no similar obligation below that threshold

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

D. Generally yes; the preparer generally should explain the tiered penalty structure for a late-filed information return and generally recommend timely filing to minimize the client's own exposure

11. A preparer's client asks about the general purpose of a specific engagement letter provision addressing the preparer's own limited role when the client also separately retains a financial advisor for investment guidance. What is the general benefit of clearly documenting this specific provision?

A. Generally clarifies for the client that the preparer's own role is limited to tax matters, reducing the risk of a later misunderstanding about investment advice responsibility

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 engagement, with an individual return engagement being entirely exempt from this specific practice

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 self-employed health insurance premium amount through the insurance carrier before preparing the return claiming the related deduction. What is the general recommended practice?

A. Generally must independently contact the insurance carrier to verify every claimed premium amount before ever preparing the return claiming the deduction

B. Generally may rely on the client's own credible representation, supported by a premium statement or policy document where reasonably available

C. Generally must personally review the client's own bank statements line by line to confirm every individual premium payment before preparing the return

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

13. A preparer's client asks about the general purpose of Form 8962, Premium Tax Credit, filed in connection with the client's own Marketplace health insurance coverage. 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 reconcile any current-year premium tax credit

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

C. Generally reconciles the advance premium tax credit actually received against the credit the taxpayer was actually entitled to claim based on the taxpayer's own final income

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 a friend's own informal tax advice rather than the preparer's own professional analysis. What is the general answer to this question?

A. Generally yes; a preparer generally should caution the client that informal advice from a nonprofessional may not reflect the client's own specific facts or current tax law accurately

B. Generally no; a preparer generally has no obligation at all to comment on any advice the client received outside the preparer's own engagement

C. Generally yes, but only if the client actually followed the friend's advice and it resulted in an error, with no proactive obligation beforehand

D. Generally no; commenting on informal advice from a nonprofessional is generally considered a form of unauthorized legal advice, regardless of credential

15. A preparer's client asks about the general purpose of documenting the specific reason a client was determined to qualify for head of household filing status, before the return is actually filed claiming this specific status. What is the general benefit of this documentation practice?

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

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

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

D. Generally creates a contemporaneous record supporting the filing status determination, useful if the status is later questioned during an examination or a data-matching inquiry

16. A preparer's client asks whether the preparer generally must ask about a client's own participation in a community solar program generating a monthly bill credit rather than direct electricity generation on the client's own property. What is the general answer to this question?

A. Generally no; a community solar bill credit is generally treated as entirely nontaxable under current law regardless of the program's own actual structure

B. Generally yes; a preparer generally should ask enough to determine whether the bill credit represents taxable income or a nontaxable utility bill reduction, since the treatment can vary by program structure

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; community solar program 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 referral bonus for successfully referring a new hire who completed the applicable probationary period. How is this specific referral bonus generally treated?

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

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

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

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

18. A taxpayer's total income includes interest earned on a state income tax refund the taxpayer received, paid because the state delayed issuing the refund beyond a statutory processing period. How is this specific interest generally treated?

A. Generally entirely tax-exempt, since interest paid on a delayed state refund is generally treated identically to the underlying refund's own tax treatment

B. Generally taxable only at a reduced flat 10% rate reserved for refund-related interest, rather than at ordinary income tax rates

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

D. Generally fully taxable as ordinary income, includible in the taxpayer's gross income and generally reported separately from the underlying state tax refund itself

19. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after being called to active military duty for a period exceeding 179 days, applying the qualified reservist distribution exception for the first time. How is the distribution treated regarding the 10% penalty?

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

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

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

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

20. A taxpayer's total income includes a payment received from a former employer as payment for accumulated but unused personal days, paid upon the taxpayer's own voluntary resignation, where the employer's policy pays out this benefit regardless of the reason for separation. How is this payout generally treated?

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

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

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

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

21. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after correctly determining the account had been properly converted from a SEP-IRA maintained by the taxpayer's own prior self-employment, now treated as a regular traditional IRA. How is a distribution from this converted account generally treated?

A. Generally taxed under the normal traditional IRA distribution rules, since a SEP-IRA generally is treated as a type of traditional IRA once contributions have ceased and the account functions as a regular IRA

B. Generally entirely tax-exempt, since a distribution from a former SEP-IRA account is generally excluded from taxable income altogether under current law

C. Generally taxable only at a reduced flat 10% rate reserved for a former SEP-IRA distribution, rather than at ordinary income tax rates

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

22. A taxpayer's total income includes a payment received from an employer under a qualified moving expense reimbursement for a permanent change of station move, and the taxpayer is an active-duty member of the Armed Forces moving pursuant to a military order. How is this specific reimbursement generally treated?

A. Generally fully taxable as ordinary wage income in every case, exactly the same treatment that generally applies to a nonmilitary moving expense reimbursement

B. Generally excludable from the taxpayer's taxable wages, since the moving expense exclusion generally remains available for a qualifying active-duty military move under current law

C. Generally taxable only at a reduced flat 10% rate reserved for a military moving expense reimbursement, rather than being potentially excludable from taxable wages

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

23. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after being diagnosed with a qualifying disability under the applicable statutory definition, but the taxpayer is still able to perform some limited work activity. How is this treated regarding the 10% penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty, since any medical diagnosis automatically satisfies the disability exception under current law

B. Generally still subject to the full 10% penalty in every case, since performing any limited work activity automatically disqualifies the taxpayer from this exception

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

D. Generally excepted from the 10% early distribution penalty if the taxpayer meets the applicable statutory definition of disability, generally requiring the inability to engage in any substantial gainful activity

24. A taxpayer's total income includes a payment received from a state as a homestead exemption rebate reducing the taxpayer's own property tax liability, structured as a direct credit applied against the property tax bill rather than as a separate cash payment. How is this specific rebate generally treated?

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

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

C. Generally not taxable income, since a rebate applied directly against the taxpayer's own property tax bill generally represents a reduction in tax liability rather than income

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

25. A taxpayer's total income includes a distribution received from a traditional 401(k) plan the taxpayer took after correctly determining the plan permits an in-service withdrawal upon reaching age 59½, even though the taxpayer remains actively employed by the same employer. How is this treated regarding the 10% penalty?

A. Generally still subject to the full 10% penalty in every case, since remaining actively employed by the same employer disqualifies the taxpayer from this age-based exception

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

C. Generally excepted from the 10% early distribution penalty since the taxpayer has reached age 59½, 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 taxpayer's own age

26. A taxpayer's total income includes a payment received as a rebate from a manufacturer for purchasing a qualifying energy-efficient appliance, structured as a mail-in rebate processed several months after the original purchase. How is this specific manufacturer rebate generally treated?

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

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

C. Generally taxable only at a reduced flat 10% rate reserved for a manufacturer rebate, rather than being entirely excluded from taxable income

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

27. A taxpayer's total income includes a distribution received from an inherited traditional IRA where the taxpayer is a minor child of the deceased original account owner, qualifying as an eligible designated beneficiary. How does the applicable ten-year distribution rule generally apply once the child reaches the age of majority?

A. Generally the ten-year distribution rule generally begins to run once the minor child reaches the age of majority, rather than starting immediately upon the original owner's death

B. Generally the ten-year distribution rule generally never applies at all to a minor child beneficiary, regardless of when the child eventually reaches the age of majority

C. Generally the ten-year distribution rule generally begins to run immediately upon the original owner's death, identical to the treatment of a non-eligible designated beneficiary

D. Generally the account generally must be fully distributed before the child actually reaches the age of majority, rather than after reaching that age

28. A taxpayer's total income includes a payment received from a former employer as a payment settling a claim for unpaid commissions, structured entirely as the commission amount the taxpayer would have earned had the commissions been properly calculated and paid on time. How is this specific settlement generally treated?

A. Generally entirely tax-exempt, since a commission 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 commission settlement, rather than at the taxpayer's own ordinary wage rate
C. Generally treated as a nontaxable return of the taxpayer's own capital, rather than as any form of currently taxable compensation
D. Generally fully taxable as ordinary wage income, subject to regular withholding and employment tax, the same treatment as the taxpayer's other regular wages

29. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after correctly timely removing an excess contribution resulting from an ineligible rollover contribution mistakenly made to the account. 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 under a phantom stock plan, structured as a cash payment tracking the value of the employer's own stock without any actual stock ownership ever being transferred. How is this specific phantom stock payment generally treated?

A. Generally entirely tax-exempt, since a phantom stock plan payment generally is treated as a nontaxable return of the employee's own capital under current law
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 phantom stock plan 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

31. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took to satisfy a properly executed qualified domestic relations order transferring a portion of the account to a former spouse pursuant to a divorce. How is the transferred portion generally treated for the transferring spouse?

A. Generally not taxable to the transferring spouse, since a properly executed transfer pursuant to a qualified domestic relations order generally is not treated as a taxable distribution to that spouse
B. Generally fully taxable to the transferring spouse as ordinary income, exactly the same treatment that generally applies to a standard voluntary distribution
C. Generally taxable only at a reduced flat 10% rate reserved for a qualified domestic relations order transfer, rather than being entirely nontaxable
D. Generally treated as self-employment income to the transferring spouse, subjecting the transfer to self-employment tax in addition to any regular income tax

32. A taxpayer's total income includes a payment received from a class action settlement compensating the taxpayer for emotional distress that did originate from an underlying personal physical injury sustained in a workplace accident. How is this specific emotional distress component generally treated?

A. Generally fully taxable as ordinary income, exactly the same treatment that generally applies to emotional distress damages that do not originate from a physical injury
B. Generally taxable only at a reduced flat 10% rate reserved for emotional distress damages, rather than being entirely tax-exempt regardless of the underlying cause
C. Generally entirely tax-exempt, since emotional distress damages that originate from an underlying personal physical injury generally qualify for the same statutory exclusion as the physical injury damages themselves
D. Generally treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to a stock sale

33. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took after being the victim of domestic abuse, applying the applicable statutory early distribution penalty exception recently made available for this specific circumstance, up to the applicable annual dollar limit. How is this treated regarding the 10% penalty?

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

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

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

D. Generally excepted from the 10% early distribution penalty up to the applicable annual dollar limit for this specific exception, though the distribution remains includible in ordinary taxable income

34. A taxpayer's total income includes a payment received from a former employer as a payment under a change-in-control retention bonus, structured as a lump-sum payment contingent on the taxpayer remaining employed through the closing of a corporate merger. How is this specific retention bonus generally treated?

A. Generally entirely tax-exempt, since a retention bonus tied to a corporate merger is generally treated as a nontaxable transaction-related benefit under current law

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

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

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

35. A taxpayer's total income includes a distribution received from a traditional IRA the taxpayer took while also maintaining eligibility for the retirement savings contributions credit in the same tax year, based on a separate new contribution made to a different retirement account. How does this specific distribution generally affect that separate credit?

A. Generally the distribution generally has no effect at all on the retirement savings contributions credit, regardless of the timing or amount of the distribution taken

B. Generally the distribution generally automatically disqualifies the taxpayer entirely from the retirement savings contributions credit for every future tax year

C. Generally the distribution generally reduces the amount of contributions eligible for the retirement savings contributions credit under the applicable testing period rules, potentially lowering or eliminating the credit

D. Generally the distribution generally increases the amount of contributions eligible for the retirement savings contributions credit, the exact reverse of the actual general rule

36. A taxpayer's total income includes a payment received from a state as a one-time rebate issued broadly to residents to offset rising energy costs, where the IRS has not issued specific guidance addressing this particular state's own rebate program. How is this specific energy cost rebate generally treated absent such guidance?

A. Generally fully taxable as other income for federal purposes absent a specific applicable statutory exclusion or IRS guidance addressing this particular rebate program

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

C. Generally taxable only at a reduced flat 10% rate reserved for a state energy cost rebate, rather than at ordinary federal income tax rates

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

37. A taxpayer itemizes deductions and paid for a wig purchased upon a physician's recommendation to address hair loss resulting from cancer treatment. How is this specific wig cost generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since a wig generally is treated as a purely cosmetic item regardless of the underlying medical cause

B. Generally deductible only if purchased directly from a hospital gift shop, rather than from a standard retail wig supplier filling the same recommendation

C. Generally deductible only for the cost of the physician consultation itself, while the wig's own separate purchase cost is generally excluded

D. Generally deductible as a medical expense, since a wig recommended by a physician to address hair loss caused by a disease or its treatment generally qualifies

38. A taxpayer paid for acupuncture treatment during the year to address chronic pain, performed by a licensed acupuncturist recognized under the applicable state licensing framework. How is this specific acupuncture treatment generally treated as a medical expense?

A. Generally deductible as a medical expense, since acupuncture performed by a licensed practitioner to treat a medical condition generally qualifies under current federal tax law

B. Generally not deductible at all as a medical expense, since any alternative or complementary treatment generally is categorically excluded regardless of licensing status

C. Generally deductible only if a licensed physician also personally performs the acupuncture, rather than a separately licensed acupuncturist performing the treatment

D. Generally deductible only up to a fixed statutory dollar cap specifically reserved for alternative medicine treatment under current federal tax law

39. A taxpayer contributed to a traditional IRA during the year, and the taxpayer's spouse is an active participant in an employer-sponsored plan while the taxpayer personally is not an active participant in any employer plan. How does the spouse's own active participant status generally affect the taxpayer's own IRA deduction?

A. Generally the spouse's own active participant status has no effect at all on the taxpayer's own IRA deduction, since only the taxpayer's own status generally matters

B. Generally the taxpayer's own deduction phases out based on the couple's combined modified adjusted gross income, using a separate, generally higher phase-out range than applies to the active participant spouse

C. Generally the taxpayer's own deduction is entirely eliminated automatically once the spouse becomes an active participant, regardless of the couple's own combined income

D. Generally the taxpayer's own deduction increases once the spouse becomes an active participant, the exact reverse of the actual general phase-out rule

40. A taxpayer paid qualified expenses for a dependent's enrollment in an accredited online degree program offered entirely through distance learning by an eligible educational institution. How is this specific online enrollment generally treated for education credit eligibility?

A. Generally never eligible for any education credit, since an online degree program generally is categorically excluded regardless of the institution's own eligible status

B. Generally eligible only for the Lifetime Learning Credit, with the American Opportunity Tax Credit generally being entirely unavailable for online enrollment

C. Generally treated the same as in-person enrollment for education credit eligibility purposes, since an eligible institution's own online degree program generally qualifies under current law

D. Generally eligible only if the taxpayer's dependent also attends at least one in-person class session at the institution's own physical campus

41. A taxpayer paid for a portion of a swimming pool installation specifically recommended by a physician to address a documented severe arthritic condition requiring aquatic therapy. How is this specific pool cost generally treated as a medical expense?

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

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

C. Generally not deductible at all as a medical expense, since a swimming pool generally is treated as a purely recreational item regardless of any physician's own recommendation

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

42. A taxpayer paid qualified expenses for a dependent's participation in a specialized summer academic enrichment program focused entirely on general subject-matter tutoring rather than childcare, while the taxpayer worked. How is this specific tutoring-focused program generally treated for the child and dependent care credit?

A. Generally fully qualifies for the child and dependent care credit, since any program the taxpayer's child attends while the taxpayer works generally qualifies automatically

B. Generally qualifies for the credit only if the program also includes an overnight component, rather than being excluded based on its own academic focus

C. Generally qualifies for the American Opportunity Tax Credit instead, the same credit generally reserved for the taxpayer's own postsecondary education expenses

D. Generally does not qualify for the child and dependent care credit, since a program focused primarily on academic enrichment rather than functional care generally is excluded from this specific credit

43. A taxpayer paid state and local sales tax rather than state and local income tax during the year, electing to deduct sales tax instead since the taxpayer resides in a state with no state income tax. How is this specific election generally treated?

A. Generally not permitted at all; a taxpayer generally must always deduct state and local income tax exclusively, regardless of whether the taxpayer's own state actually imposes an income tax
B. Generally permitted; a taxpayer generally may elect to deduct state and local general sales tax instead of state and local income tax, subject to the same overall combined $10,000 cap
C. Generally permitted, but the sales tax deduction generally is not subject to the same overall combined $10,000 cap that applies to the income tax deduction
D. Generally permitted only if the taxpayer resides in a state with no local sales tax at all, rather than being generally available to any qualifying taxpayer

44. A taxpayer paid for orthopedic shoes and shoe inserts specifically prescribed by a podiatrist to address a documented foot deformity, where the cost of the orthopedic shoes exceeded what a comparable regular shoe would have cost. How is this excess cost generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since footwear generally is treated as an ordinary nondeductible personal expense regardless of any prescription
B. Generally deductible for the entire cost of the orthopedic shoes, without regard to what a comparable regular shoe would have otherwise cost
C. Generally deductible as a medical expense to the extent the cost exceeds what a comparable regular shoe would have cost, since only the incremental medical-specific cost qualifies
D. Generally deductible only if the podiatrist also personally fits and dispenses the shoes, rather than a separate retailer filling the same prescription

45. A taxpayer claims the Lifetime Learning Credit for the taxpayer's own continuing professional education coursework, 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 remains unaffected by income level, since the Lifetime Learning Credit generally has no income-based limitation of any kind

B. 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

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

46. A taxpayer paid for a portion of an in-home elevator installation specifically recommended by a physician to address a documented severe mobility impairment preventing the taxpayer from using the home's own stairs. How is this specific elevator cost 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 elevator installation

B. Generally not deductible at all as a medical expense, since a home elevator generally is treated as a luxury item regardless of any physician's own recommendation

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

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

47. A taxpayer paid for a specialized air filtration system installed specifically to address a documented severe allergy condition diagnosed by an allergist, distinct from a general home air purifier purchased for ordinary comfort. How is this specific filtration system generally treated as a medical expense?

A. Generally deductible as a medical expense to the extent the cost exceeds any resulting increase in the home's own fair market value, since it addresses a diagnosed medical condition

B. Generally not deductible at all as a medical expense, since any home air filtration system generally is categorically excluded regardless of an allergist's own diagnosis

C. Generally fully deductible as a medical expense in every case, regardless of any resulting increase in the home's own fair market value from the system

D. Generally deductible only for the cost of the allergist consultation itself, while the filtration system's own separate installation cost is generally excluded

48. A taxpayer paid qualified expenses toward a dependent's participation in a residential drug and alcohol treatment program, including the cost of meals and lodging provided as part of the inpatient program. How are these specific meals and lodging costs generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since meals and lodging generally are categorically excluded regardless of their connection to inpatient medical treatment
B. Generally deductible only for the treatment portion itself, while the meals and lodging portion is generally excluded from the medical expense deduction entirely
C. Generally deductible as a medical expense, since meals and lodging provided as an integral part of inpatient medical treatment generally qualify under current federal tax law
D. Generally deductible only if the program is also government-operated, rather than being available for a privately operated residential treatment program

49. A taxpayer paid for legal guardianship proceedings to establish guardianship over an incapacitated adult family member, incurring legal fees directly related to the guardianship process itself. How are these specific legal fees generally treated for federal income tax purposes?

A. Generally fully deductible as an itemized deduction subject to the 2% adjusted gross income floor, the same treatment that historically applied to certain legal fees
B. Generally not deductible, since legal fees related to establishing a personal guardianship generally are treated as a nondeductible personal expense under current law
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 as a medical expense, subject to the same 7.5% adjusted gross income floor that generally applies to other qualifying medical costs

50. A taxpayer paid for a smoking cessation program consisting of counseling sessions with a licensed therapist specifically focused on nicotine addiction treatment. How is this specific counseling program generally treated as a medical expense?

A. Generally deductible as a medical expense, since counseling specifically focused on treating a diagnosed addiction generally qualifies under current federal tax law
B. Generally not deductible at all as a medical expense, since any counseling program generally is categorically excluded regardless of its own specific medical focus

C. Generally deductible only if a licensed physician also personally conducts the counseling sessions, rather than a separately licensed therapist conducting them
D. Generally deductible only up to a fixed statutory dollar cap specifically reserved for a smoking cessation counseling program under current federal tax law

51. A taxpayer paid for a dependent's participation in a private tutoring program focused on general academic subjects, unrelated to any diagnosed learning disability or medical condition, while the taxpayer worked during after-school hours. How is this specific general tutoring cost generally treated for the child and dependent care credit?

A. Generally fully qualifies for the child and dependent care credit, since any activity occurring while the taxpayer works generally qualifies automatically regardless of its own purpose
B. Generally qualifies for the credit only if the tutoring also occurs at the taxpayer's own home rather than at an outside tutoring center or facility
C. Generally does not qualify for the child and dependent care credit, since general academic tutoring unrelated to functional care generally is excluded from this specific credit's qualifying expense category
D. Generally qualifies for the American Opportunity Tax Credit instead, the same credit generally reserved for the taxpayer's own postsecondary education expenses

52. A taxpayer paid for a specialized medical alert system providing emergency monitoring for the taxpayer's own elderly dependent parent living independently with a documented risk of falling. How is this specific medical alert system generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since a medical alert system generally is treated as a purely convenience item regardless of the documented fall risk
B. Generally deductible only if the elderly dependent also lives in the taxpayer's own home, rather than being available for a dependent living independently elsewhere
C. Generally deductible only for the cost of the initial installation, while the ongoing monthly monitoring fee is generally excluded from the deduction
D. Generally deductible as a medical expense, since a medical alert system addressing a documented medical risk generally qualifies as a device related to medical care

53. A taxpayer paid for a portion of home modifications widening interior doorways specifically to accommodate a wheelchair used by the taxpayer's own disabled dependent. How is this specific doorway widening cost 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 doorway widening

B. Generally not deductible at all as a medical expense, since a doorway widening modification generally is treated as an ordinary home improvement regardless of any medical need

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

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

54. A taxpayer paid qualified expenses for a dependent's enrollment in a study abroad program administered by an eligible domestic educational institution, where credits earned abroad count toward the dependent's own degree at the domestic institution. How is this specific study abroad tuition generally treated for education credit eligibility?

A. Generally never eligible for any education credit, since any study abroad program generally is categorically excluded regardless of the sponsoring domestic institution's own eligible status

B. Generally eligible only for the Lifetime Learning Credit, with the American Opportunity Tax Credit generally being entirely unavailable for a study abroad program

C. Generally eligible only if the dependent also completes at least half the degree program's own coursework within the United States physically

D. Generally treated the same as domestic enrollment for education credit eligibility purposes, since the program generally is administered by an eligible domestic institution granting credit toward the degree

55. A taxpayer paid premiums during the year for a qualified long-term care insurance policy covering the taxpayer's own future long-term care needs, and the taxpayer wants to itemize the premium as a medical expense subject to the applicable age-based dollar limit. How is this specific premium generally treated as a medical expense?

A. Generally deductible as a medical expense up to an annually adjusted dollar limit that increases based on the taxpayer's own attained age by the end of the tax year

B. Generally fully deductible in an unlimited amount as a medical expense, regardless of the taxpayer's own age or any annually adjusted statutory dollar limit

C. Generally not deductible at all as a medical expense, since a qualified long-term care insurance premium generally is treated as a nondeductible personal insurance cost

D. Generally deductible only as a business expense on Schedule C, rather than as an itemized medical expense available to a taxpayer who is not self-employed

56. A taxpayer claims the Child Tax Credit for a qualifying child who resided with the taxpayer for more than half the year, and the taxpayer's modified adjusted gross income exceeds the applicable threshold for the taxpayer's filing status. How does exceeding this threshold generally affect the credit amount?

A. Generally the credit amount generally remains completely unaffected regardless of how far modified adjusted gross income exceeds the applicable threshold amount

B. Generally the credit amount generally is reduced by a fixed percentage of the excess income over the applicable threshold, potentially phasing the credit down toward zero

C. Generally the credit amount generally is eliminated entirely and immediately the moment income exceeds the threshold by even a single dollar of excess income

D. Generally the credit amount generally increases once income exceeds the threshold, the exact reverse of the actual general phase-out relationship that applies

57. A taxpayer sold shares of stock held for eleven months, realizing a gain, and the taxpayer's taxable income places the taxpayer within the top ordinary income tax bracket for the year. How is this specific gain generally taxed?

A. Generally taxed as a long-term capital gain at the applicable preferential rate, since eleven months generally satisfies the long-term holding period requirement

B. Generally entirely tax-exempt, since a gain realized within the same calendar year of purchase generally is excluded from taxable income under current law

C. Generally taxed at a flat 10% rate reserved for a short-term capital gain, rather than at the taxpayer's own ordinary income tax rate

D. Generally taxed as a short-term capital gain at the taxpayer's own ordinary income tax rate, since the stock was held for one year or less before the sale

58. A taxpayer sold a home that served as the taxpayer's principal residence for three of the five years preceding the sale, with the remaining two years reflecting a period the home was rented to an unrelated tenant. How is the resulting gain generally allocated between qualifying and nonqualifying use?

A. Generally the gain generally is allocated between the qualifying use period and the nonqualifying use period, with only the portion allocable to qualifying use eligible for the exclusion

B. Generally the entire gain qualifies for the full home sale exclusion regardless of the nonqualifying rental period, since the ownership and use tests were technically satisfied

C. Generally none of the gain qualifies for the home sale exclusion at all, since any nonqualifying rental period during the five-year period disqualifies the entire exclusion

D. Generally the gain generally is allocated based on the home's own square footage used for rental purposes, rather than based on the actual nonqualifying time period

59. A taxpayer realized a net capital loss during the year exceeding the annual $3,000 limit available to offset the taxpayer's own ordinary income. How is the excess portion of this net capital loss generally treated?

A. Generally forfeited entirely at the end of the current tax year, with no carryforward of any kind permitted under current federal tax law

B. Generally carried back to the three preceding tax years instead of carried forward, the reverse of the actual general carryforward treatment that applies

C. Generally carried forward indefinitely to future tax years, retaining its original short-term or long-term character, until fully absorbed against future capital gains or the annual limit

D. Generally converted automatically into an ordinary business loss, rather than retaining its own original capital loss character for carryforward purposes

60. A taxpayer paid interest during the year on a personal auto loan used exclusively to purchase a vehicle for personal, nonbusiness use. How is this specific personal auto loan interest generally treated for federal income tax purposes?

A. Generally fully deductible as an itemized deduction, the same treatment that generally applies to home mortgage interest on a qualified residence

B. Generally not deductible, since interest paid on a loan used to acquire personal-use property generally is treated as nondeductible personal interest under current law

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 as investment interest expense, subject to the same net investment income limitation that generally applies to that specific category

61. A taxpayer exercised an incentive stock option and then sold the acquired shares within the same calendar year, before satisfying either the one-year-from-exercise or two-year-from-grant holding period requirement. How is the resulting gain generally treated given this disqualifying disposition?

A. Generally treated as a disqualifying disposition, with the bargain element generally taxed as ordinary income and any additional gain generally taxed under the regular capital gain rules

B. Generally treated as a qualifying disposition in every case, with the entire gain generally taxed at the preferential long-term capital gain rate regardless of the holding period

C. Generally entirely tax-exempt, since an incentive stock option gain generally is excluded from taxable income altogether under current federal tax law

D. Generally taxed entirely as self-employment income, subjecting the full gain to self-employment tax rather than to the regular capital gain or ordinary income rules

62. A taxpayer sold shares of stock at a loss and, within thirty days before the sale, had purchased substantially identical replacement shares of the same stock in a separate taxable brokerage account. How is this specific loss generally treated under the wash sale rule?

A. Generally fully allowed as a deductible capital loss, since the wash sale rule generally applies only when the replacement shares are purchased after, not before, the sale

B. Generally fully allowed as a deductible capital loss, since the wash sale rule generally applies only to a purchase made in the identical brokerage account as the sale

C. Generally disallowed under the wash sale rule, since substantially identical shares were acquired within the applicable sixty-one-day window surrounding the sale date

D. Generally converted into an ordinary loss rather than a capital loss, rather than being disallowed under the applicable wash sale rule

63. A taxpayer sold investment real property at a gain and reported the transaction using the installment method, since a portion of the sale price is being collected across several future tax years rather than entirely at closing. How is the gain generally recognized under this method?

A. Generally recognized entirely in the year of sale regardless of the installment method election, the exact reverse of the actual general installment method treatment

B. Generally recognized entirely in the final year the last installment payment is actually received, rather than proportionally across each individual payment received

C. Generally excluded entirely from taxable income, since an installment sale of investment real property generally is treated as a nontaxable transaction
D. Generally recognized proportionally as each installment payment is actually received, based on the gross profit percentage applicable to the overall transaction

64. A taxpayer exchanged business-use real property for other business-use real property of a like kind in a transaction properly structured to qualify for nonrecognition treatment, receiving no cash or other non-like-kind property (boot) in the exchange. How is the realized gain generally treated?

A. Generally recognized entirely in the year of the exchange, the exact reverse of the actual general nonrecognition treatment that applies to a qualifying like-kind exchange
B. Generally deferred entirely, with no gain currently recognized, since a qualifying like-kind exchange of business or investment real property receiving no boot generally results in full deferral
C. Generally recognized only to the extent of 50% of the realized gain, rather than being either fully deferred or fully recognized under the applicable rule
D. Generally entirely tax-exempt on a permanent basis, rather than merely deferred through a corresponding reduction to the replacement property's own basis

65. A taxpayer sold business equipment that had been depreciated using accelerated depreciation, realizing a gain on the sale that exceeded the total depreciation previously claimed on the equipment. How is the portion of gain equal to the depreciation previously claimed generally treated?

A. Generally recaptured as ordinary income under the applicable depreciation recapture rule, up to the amount of depreciation previously claimed on the equipment
B. Generally taxed entirely as long-term capital gain, since depreciation recapture generally applies only to real property rather than to business equipment
C. Generally entirely tax-exempt, since a gain attributable to previously claimed depreciation generally is excluded from taxable income under current law
D. Generally taxed entirely as self-employment income, subjecting the recaptured portion to self-employment tax rather than to ordinary income tax treatment

66. A taxpayer's sole proprietorship generated a net operating loss for the year after all allowable business deductions exceeded the business's own gross income. How is this specific net operating loss generally treated under current federal tax law?

A. Generally forfeited entirely at the end of the current tax year, with no carryforward or carryback of any kind permitted under current federal tax law

B. Generally carried forward indefinitely to future tax years, generally limited to offsetting up to 80% of taxable income in any single future carryforward year

C. Generally carried back automatically to the two preceding tax years in every case, rather than carried forward to a future tax year under current law

D. Generally deductible only against the taxpayer's own future self-employment income, rather than against the taxpayer's other future taxable income generally

67. A taxpayer received a Form 1099 reporting income and failed to provide a correct taxpayer identification number to the payer despite the payer's repeated requests. How is the payer generally required to respond to this specific failure?

A. Generally required to refuse to make any further payment at all to the taxpayer until a correct taxpayer identification number is actually provided by the taxpayer

B. Generally required to report the taxpayer immediately to state law enforcement, rather than to begin the applicable backup withholding procedure under current law

C. Generally required to begin backup withholding at the applicable statutory flat rate on future payments made to the taxpayer until a correct taxpayer identification number is provided

D. Generally not required to take any specific action at all, since backup withholding generally applies only when the payer itself independently elects to withhold

68. A taxpayer's total tax liability for the year, after subtracting withholding and estimated payments actually made, resulted in an underpayment, and the taxpayer wants to know whether an exception to the estimated tax penalty might apply. What is one generally available exception to this specific penalty?

A. Generally no exception of any kind exists to the estimated tax penalty once an underpayment for the year has actually occurred under current federal tax law

B. Generally an exception applies only if the taxpayer's total underpayment amount was under a fixed statutory dollar cap reserved specifically for a full exception

C. Generally an exception applies only if the taxpayer files an extension request, rather than being tied to the taxpayer's own actual withholding and payment history

D. Generally an exception applies if the taxpayer's total withholding and timely estimated payments equaled or exceeded the safe harbor percentage of the prior year's own tax liability

69. A taxpayer's dependent child under age 18 has unearned income for the year exceeding the applicable statutory threshold triggering the kiddie tax rules. How is the child's excess unearned income generally taxed under these rules?

A. Generally taxed entirely at the child's own individual tax rate in every case, since the kiddie tax rules generally apply only to a child's own earned income
B. Generally entirely tax-exempt, since a dependent child's own unearned income generally is excluded from taxable income altogether under the kiddie tax rules
C. Generally taxed at a flat 10% rate reserved specifically for kiddie tax purposes, rather than at the parent's own generally higher marginal tax rate
D. Generally taxed at the parent's own marginal tax rate to the extent it exceeds the applicable statutory threshold, rather than at the child's own generally lower individual tax rate

70. A taxpayer's modified adjusted gross income for the year exceeds the applicable statutory threshold for the Net Investment Income Tax, and the taxpayer also has net investment income for the year. How is the Net Investment Income Tax generally calculated in this circumstance?

A. Generally imposed at 3.8% on the taxpayer's entire modified adjusted gross income, rather than being limited to the lesser of net investment income or the excess amount
B. Generally imposed at a flat 10% rate on the taxpayer's own net investment income alone, rather than at the applicable 3.8% rate under current federal tax law
C. Generally imposed at 3.8% on the lesser of the taxpayer's own net investment income or the amount by which modified adjusted gross income exceeds the applicable threshold
D. Generally imposed only if the taxpayer also owes the Additional Medicare Tax in the same year, rather than applying independently based on the taxpayer's own income level

71. A taxpayer's wages from a single employer during the year exceeded the applicable statutory threshold triggering the Additional Medicare Tax withholding obligation. How is the employer generally required to handle this specific withholding obligation?

A. Generally not required to withhold any Additional Medicare Tax at all, since this specific tax generally is collected exclusively through the employee's own estimated tax payments

B. Generally required to withhold the Additional Medicare Tax once the employee's own wages from that employer alone exceed the applicable statutory threshold, regardless of the employee's own filing status or other income

C. Generally required to withhold the Additional Medicare Tax only if the employee separately requests it in writing, rather than automatically once wages exceed the threshold

D. Generally required to withhold the Additional Medicare Tax based on the employee's own combined household income from all sources, rather than based on wages from that employer alone

72. A taxpayer's total taxable income for the year falls below the applicable statutory threshold under which the IRS-published Tax Tables must generally be used, rather than the Tax Computation Worksheet or Schedule D Tax Worksheet, to determine the taxpayer's own regular tax liability. What is the general distinction between these two computation methods?

A. Generally the Tax Tables generally apply below a specified taxable income threshold, providing a precomputed tax amount, while the Tax Computation Worksheet generally applies above that threshold, requiring a formula-based calculation

B. Generally the Tax Tables and the Tax Computation Worksheet are generally functionally identical, with no meaningful distinction in when each specific method must be used

C. Generally the Tax Computation Worksheet generally applies below the specified taxable income threshold, while the Tax Tables generally apply above that same specified threshold

D. Generally the Tax Tables generally apply only to a taxpayer filing as head of household, while the Tax Computation Worksheet generally applies to every other filing status

73. A taxpayer received qualified dividend income during the year from a domestic corporation, and the taxpayer's overall taxable income placed the taxpayer within the lowest ordinary income tax bracket for the year. How is this specific qualified dividend income generally taxed?

A. Generally taxed at the taxpayer's own full ordinary income tax rate, since qualified dividend income generally receives no preferential tax rate treatment under current law

B. Generally taxed at a flat 15% rate in every case regardless of the taxpayer's own overall taxable income level or applicable ordinary tax bracket

C. Generally taxed at a 0% preferential rate, since qualified dividend income generally is taxed using the same preferential long-term capital gain rate structure, which can be 0% at lower income levels

D. Generally entirely tax-exempt regardless of the taxpayer's own income level, since qualified dividend income generally is excluded from taxable income altogether

74. A taxpayer's sole proprietorship generated net earnings from self-employment for the year, and the taxpayer wants to know how the self-employment tax base is generally calculated before applying the applicable Social Security and Medicare tax rates. What is the general calculation method?

A. Generally the full net earnings from self-employment generally are used directly as the tax base, without any preliminary reduction applied before the applicable rates
B. Generally net earnings from self-employment generally are first multiplied by 50% before the applicable Social Security and Medicare tax rates are actually applied to that reduced base
C. Generally net earnings from self-employment generally are first reduced by the standard deduction amount before the applicable self-employment tax rates are actually applied
D. Generally net earnings from self-employment generally are first multiplied by 92.35% before the applicable Social Security and Medicare tax rates are actually applied to that reduced base amount

75. A taxpayer approaching retirement asks a preparer for general guidance on the difference between a Roth conversion completed in a lower-income year versus one completed in a higher-income year. What is the general advising point regarding this specific timing decision?

A. Generally the timing of a Roth conversion has no effect at all on the tax cost of the conversion, since the conversion amount generally is taxed identically regardless of the taxpayer's own income level
B. Generally converting during a lower-income year generally allows the conversion amount to be taxed at a lower marginal rate, generally making the conversion more tax-efficient than converting during a higher-income year
C. Generally converting during a higher-income year is always more tax-efficient, the exact reverse of the actual general relationship between income level and conversion timing
D. Generally a Roth conversion generally cannot be completed at all during a year in which the taxpayer's own income is unusually low, regardless of the potential tax benefit

76. A taxpayer asks a preparer for general guidance on the tax advantage of bunching itemized deductions, such as charitable contributions, into a single tax year rather than spreading them evenly across two consecutive years. What is the general advising point regarding this specific strategy?

A. Generally bunching deductions into a single year can generally push total itemized deductions above the standard deduction amount in that year, while the other year still uses the standard deduction

B. Generally bunching deductions into a single year generally provides no tax benefit at all, since a taxpayer's own total itemized deductions generally remain identical regardless of the specific year in which they are actually paid

C. Generally bunching deductions into a single year generally is prohibited under current law, requiring a taxpayer to spread the same total deduction amount evenly across multiple years

D. Generally bunching deductions into a single year generally only benefits a taxpayer who does not otherwise qualify to claim the standard deduction in any year

77. A taxpayer asks a preparer for general guidance on the advantage of contributing to a Health Savings Account compared to a general-purpose taxable savings account for future medical expenses. What is the general advising point regarding this specific comparison?

A. Generally a Health Savings Account and a general-purpose taxable savings account are generally functionally identical for tax purposes, with no meaningful advising distinction between the two accounts

B. Generally a Health Savings Account generally offers tax-free growth only, with contributions and qualified withdrawals both remaining fully taxable under current law

C. Generally a general-purpose taxable savings account generally offers a greater tax advantage than a Health Savings Account for a taxpayer saving specifically for future medical expenses

D. Generally a Health Savings Account generally offers a triple tax advantage, including a deductible contribution, tax-deferred growth, and tax-free qualified withdrawal, unlike a general-purpose taxable account

78. A taxpayer approaching the required beginning date for required minimum distributions asks a preparer about the general consequence of failing to withdraw the full required amount by the applicable deadline. What is the general advising point regarding this specific failure?

A. Generally no consequence at all applies to a missed required minimum distribution, since this requirement generally is treated as a purely advisory guideline rather than a mandatory rule

B. Generally the taxpayer's entire retirement account generally must be immediately liquidated and closed following a missed required minimum distribution deadline

C. Generally an excise tax penalty generally applies to the shortfall amount not timely withdrawn, calculated as a percentage of the amount that should have been distributed but was not

D. Generally the missed distribution amount generally is simply added to the following year's own required distribution, with no separate penalty of any kind applying

79. A taxpayer asks a preparer for general guidance on the advantage of maximizing pretax contributions to a traditional 401(k) plan during a high-earning year compared to making the equivalent contribution to a Roth 401(k) in that same year. What is the general advising point?

A. Generally a pretax traditional 401(k) contribution during a high-earning year generally reduces current taxable income at the taxpayer's own higher current marginal rate, an advantage a Roth contribution does not provide

B. Generally a pretax traditional 401(k) contribution and a Roth 401(k) contribution generally produce an identical current-year tax result, regardless of the taxpayer's own current marginal tax rate

C. Generally a Roth 401(k) contribution always produces a greater current-year tax benefit than a pretax traditional 401(k) contribution, the exact reverse of the actual general relationship

D. Generally neither a pretax traditional 401(k) contribution nor a Roth 401(k) contribution generally provides any current-year tax benefit of any kind under current law

80. A taxpayer asks a preparer for general guidance on the general advantage of contributing to a 529 education savings plan compared to a general-purpose taxable brokerage account for a dependent's future college expenses. What is the general advising point regarding this specific comparison?

A. Generally a 529 plan and a general-purpose taxable brokerage account are generally functionally identical for tax purposes, with no meaningful advising distinction between the two account types

B. Generally a 529 plan generally offers tax-deferred growth and a generally tax-free qualified withdrawal for education expenses, an advantage a general-purpose taxable brokerage account does not offer

C. Generally a 529 plan generally offers a federal income tax deduction for every contribution made, the same treatment that generally applies to a traditional IRA contribution

D. Generally a general-purpose taxable brokerage account generally offers a greater tax advantage than a 529 plan for a taxpayer saving specifically for a dependent's future college expenses

81. A taxpayer asks a preparer for general guidance on the tax advantage of tax-loss harvesting within a taxable brokerage account before the end of the tax year. What is the general advising point regarding this specific year-end strategy?

A. Generally selling a losing investment position generally realizes a capital loss that can offset a realized capital gain elsewhere in the taxpayer's own portfolio, and any excess loss can offset up to $3,000 of ordinary income

B. Generally tax-loss harvesting generally provides no tax benefit at all, since a realized capital loss generally cannot offset any other item on the taxpayer's own return under current law

C. Generally tax-loss harvesting generally can only be used to offset a future capital gain, with no ability at all to offset any portion of the taxpayer's own ordinary income

D. Generally tax-loss harvesting generally is prohibited under current law for any taxpayer who also has a realized capital gain elsewhere in the same tax year

82. A taxpayer asks a preparer for general guidance on the general advantage of itemizing a mortgage interest deduction compared to claiming the standard deduction, given the taxpayer's own relatively modest total itemizable expenses for the year. What is the general advising point?

A. Generally a taxpayer who paid any mortgage interest at all generally must always itemize deductions, regardless of whether the standard deduction would actually produce a better overall tax result

B. Generally the preparer generally should compare the taxpayer's own total itemized deductions against the standard deduction amount, generally recommending whichever produces the lower overall taxable income

C. Generally the standard deduction generally is always the superior choice for every taxpayer, regardless of the taxpayer's own actual total itemized deduction amount for the year

D. Generally itemizing deductions generally is available only to a taxpayer who also owns a business, with a taxpayer earning solely wage income being categorically ineligible

83. A taxpayer nearing Medicare enrollment age asks a preparer for general guidance on how a large one-time Roth conversion completed shortly before enrollment might affect the taxpayer's own future Medicare premium. What is the general advising point regarding this specific timing concern?

A. Generally a Roth conversion generally has no effect at all on any future Medicare premium calculation, regardless of the size of the conversion or the taxpayer's own timing

B. Generally a Roth conversion generally reduces a taxpayer's future Medicare premium, the exact reverse of the actual general relationship between conversion income and the premium surcharge

C. Generally the Medicare premium surcharge generally is based exclusively on the taxpayer's own asset holdings, rather than on the taxpayer's own modified adjusted gross income for a given year

D. Generally a large Roth conversion generally increases modified adjusted gross income for that year, which generally is used to determine a Medicare premium surcharge applied roughly two years later

84. A taxpayer asks a preparer for general guidance on the advantage of using a donor-advised fund to make a large charitable contribution rather than making the equivalent contribution directly to the ultimate charity in a single year. What is the general advising point regarding this specific vehicle?

A. Generally a donor-advised fund and a direct charitable contribution are generally functionally identical for tax purposes, with no meaningful advising distinction between the two approaches

B. Generally a contribution to a donor-advised fund generally is never deductible at all, unlike a direct contribution made straight to the ultimate charity itself

C. Generally contributing to a donor-advised fund generally allows the taxpayer to claim the full charitable deduction in the contribution year, while the taxpayer decides which charities actually receive distributions over time

D. Generally a donor-advised fund generally requires the entire contributed amount to be distributed to a charity within the same tax year the original contribution actually was made

85. A self-employed taxpayer asks a preparer for general guidance on the advantage of establishing a solo 401(k) plan compared to a SEP-IRA for the taxpayer's own retirement savings, given the taxpayer's relatively modest net self-employment earnings. What is the general advising point?

A. Generally a solo 401(k) and a SEP-IRA generally permit an identical maximum total contribution at every earnings level, with no meaningful advising distinction between the two plan types

B. Generally a SEP-IRA generally permits a greater total contribution than a solo 401(k) at every earnings level, the exact reverse of the actual general relationship between the two plans

C. Generally a solo 401(k) generally permits both an employee elective deferral and an employer contribution, generally allowing a greater total contribution than a SEP-IRA alone at the same modest earnings level

D. Generally neither a solo 401(k) nor a SEP-IRA generally is available at all to a self-employed taxpayer with relatively modest net self-employment earnings for the year

86. A taxpayer asks a preparer for general guidance on the advantage of gifting appreciated stock directly to a qualified charity rather than selling the stock and donating the resulting cash proceeds. What is the general advising point regarding this specific comparison?

A. Generally donating appreciated stock directly and selling the stock before donating cash produce an identical tax result, with no meaningful advising distinction between the two approaches

B. Generally donating appreciated stock directly generally triggers immediate recognition of the entire embedded capital gain, unlike selling the stock and donating the resulting cash proceeds instead

C. Generally the charitable deduction generally is limited to the taxpayer's own original cost basis in the stock, rather than to the stock's own full fair market value at the time of the gift

D. Generally donating appreciated stock directly generally avoids recognizing the capital gain on the appreciation while still generally allowing a charitable deduction for the stock's own full fair market value

87. A taxpayer asks a preparer for general guidance on the advantage of making an estimated tax payment before year-end rather than waiting until the return is actually filed the following spring, given the taxpayer's own significant self-employment income for the year. What is the general advising point?

A. Generally timely estimated payments generally avoid or reduce the underpayment penalty that generally applies when a taxpayer's total withholding and timely payments fall short of the required amount

B. Generally an estimated tax payment made before year-end generally provides no advantage at all over waiting until the return is actually filed, since the total tax liability generally remains identical either way

C. Generally an estimated tax payment generally is required only from a taxpayer who also owns a corporation, with a self-employed sole proprietor being categorically exempt from this requirement

D. Generally waiting until the return is actually filed the following spring generally always produces a lower total tax liability than making a timely estimated payment before year-end

88. A decedent's estate generated income after the date of death but before the estate's assets were actually distributed to the estate's beneficiaries. What is the general federal income tax reporting requirement for this specific post-death income?

A. Generally reported entirely on the decedent's own final individual income tax return, regardless of whether the income actually was earned before or after the date of death

B. Generally reported on Form 1041, the estate's own separate income tax return, rather than on the decedent's own final individual income tax return covering the period before death

C. Generally excluded entirely from federal income tax reporting, since income earned by an estate after the date of death generally is treated as nontaxable
D. Generally reported directly by each individual beneficiary on that beneficiary's own return, without any separate estate-level return being filed at all

89. A married couple files a joint return for a year in which one spouse understated the couple's own joint tax liability without the other spouse's knowledge, and the innocent spouse later seeks relief from the resulting liability. What is the general standard for this specific relief?

A. Generally any spouse who signs a joint return generally is automatically entitled to full innocent spouse relief upon request, regardless of the requesting spouse's own actual knowledge
B. Generally the innocent spouse generally must show the requesting spouse did not know and had no reason to know of the understatement when the joint return actually was signed
C. Generally innocent spouse relief generally is entirely unavailable under current law once a joint return actually has been filed and the applicable liability has already been assessed
D. Generally the requesting spouse generally must show the couple actually has since divorced, with no relief otherwise available to a couple who remains legally married

90. A taxpayer files a return reporting income earned in a foreign country, and the taxpayer paid income tax to that foreign country on the same income. What is one general method available for reducing the resulting double taxation on this specific foreign-source income?

A. Generally the taxpayer generally may claim a foreign tax credit for the foreign income tax actually paid, generally subject to a limitation based on the U.S. tax attributable to the same foreign-source income
B. Generally no method at all generally is available to reduce this specific double taxation, since foreign-source income generally must be fully taxed by both countries without any relief
C. Generally the taxpayer generally must amend the foreign return instead, since a U.S. return generally cannot account for any foreign tax actually paid to another country
D. Generally the entire foreign tax paid generally is deductible dollar-for-dollar against the taxpayer's own gross income, rather than being claimed as a nonrefundable tax credit

91. A taxpayer files an amended individual income tax return using Form 1040-X to correct an error discovered on a previously filed original return. What is the general statutory deadline for filing this specific amended return to claim a refund?

A. Generally exactly one year from the date the original return actually was filed, with no alternative measuring date of any kind available under current law

B. Generally the earlier of three years from the date the original return actually was filed or two years from the date the tax actually was paid, rather than the later of those two dates

C. Generally there generally is no statutory deadline at all for filing an amended return claiming a refund, regardless of how much time actually has passed since the original filing

D. Generally the later of three years from the date the original return actually was filed or two years from the date the tax actually was paid, whichever date is actually later

92. A taxpayer operates a small farming business and wants to know the general specialized return schedule used to report the farm's own income and expenses, as distinct from the Schedule C generally used for a nonfarm sole proprietorship. What is the general specialized schedule used?

A. Generally Schedule C, Profit or Loss From Business, generally is used identically for both a farming business and a nonfarm sole proprietorship, with no separate specialized schedule existing

B. Generally Schedule E, Supplemental Income and Loss, generally is the specialized schedule used to report a farm's own income, rather than any dedicated farm-specific schedule

C. Generally Schedule F, Profit or Loss From Farming, generally is used to report the farm's own specific income and expenses, rather than the Schedule C generally used for a nonfarm sole proprietorship

D. Generally a farming business generally is prohibited from filing as a sole proprietorship at all, requiring the business to instead be structured as a separate corporate entity

93. A U.S. citizen taxpayer maintains a foreign financial account with an aggregate value exceeding the applicable statutory threshold at any point during the calendar year. What is the general specialized reporting requirement triggered by this specific foreign account?

A. Generally required to file only the taxpayer's own regular Form 1040 income tax return, with no additional specialized foreign account reporting form required under current law

B. Generally required to close the foreign account entirely before the end of the calendar year, rather than being required to file any specific additional reporting form

C. Generally required to file FinCEN Form 114, the Report of Foreign Bank and Financial Accounts, commonly referred to by its own specific acronym, separately from the taxpayer's own income tax return

D. Generally required to file Form 1041, the same fiduciary income tax return generally used to report a decedent's estate's own separate income for a tax year

94. A taxpayer's dependent child has only unearned income for the year and no earned income at all, and the parents want to know whether the child's unearned income can be reported directly on the parents' own return instead of filing a separate return for the child. What is the general answer?

A. Generally yes, using Form 8814, provided the child's unearned income falls within the applicable dollar limits and consists exclusively of interest, dividends, and capital gain distributions
B. Generally no; a dependent child's unearned income generally can never be reported on a parent's own return under any circumstance, regardless of the amount or the income's own specific character
C. Generally yes, but only if the child's unearned income also includes wage income earned from a part-time job, rather than being limited to interest, dividends, and capital gain distributions alone
D. Generally yes, but only by using Form 1040-X to amend the parent's own already-filed original return, rather than by using any dedicated election form

95. A taxpayer who is a nonresident alien for the tax year earned wages from a U.S. employer for services actually performed within the United States. What is the general federal income tax return the taxpayer generally is required to file to report this U.S.-source wage income?

A. Generally the taxpayer generally files the identical Form 1040 used by a U.S. citizen or resident alien, with no separate specialized nonresident alien return existing under current law
B. Generally Form 1040-NR, the specialized return generally used by a nonresident alien to report U.S.-source income subject to U.S. federal income tax
C. Generally the taxpayer generally has no federal income tax filing obligation at all, since a nonresident alien's U.S.-source wage income generally is automatically exempt from taxation
D. Generally the taxpayer generally files Form 1041, the same fiduciary income tax return generally used to report a decedent's estate's own separate income for a tax year

96. A taxpayer's household employee, such as a nanny, was paid wages during the year exceeding the applicable statutory threshold triggering so-called nanny tax obligations. What is the general specialized reporting mechanism used to report and pay these specific household employment taxes?

A. Generally reported using Schedule C, the identical schedule generally used to report a nonfarm sole proprietorship's own separate business income and expenses

B. Generally no specialized reporting mechanism at all exists for household employment taxes, since a household employee generally is treated as an independent contractor under current law

C. Generally reported using Form 941, the same quarterly payroll tax return generally filed by a business that has employees performing services other than household work

D. Generally reported using Schedule H, filed together with the employer's own Form 1040, rather than through a separate standalone employment tax return filed independently of the individual income tax return

97. A taxpayer received a Schedule K-1 from an S corporation in which the taxpayer is a shareholder, reporting the taxpayer's own allocable share of the corporation's income for the year. How is this specific S corporation income generally reported on the taxpayer's own individual return?

A. Generally reported on Schedule C, Profit or Loss From Business, the identical schedule generally used to report a nonfarm sole proprietorship's own separate business income

B. Generally not reported at all on the taxpayer's own individual return, since S corporation income generally is taxed exclusively at the corporate level rather than passed through

C. Generally reported on Schedule E, Supplemental Income and Loss, flowing through to the taxpayer's own Form 1040 as the taxpayer's allocable share of the S corporation's income

D. Generally reported on Schedule F, Profit or Loss From Farming, regardless of whether the S corporation actually operates a farming business or a different type of business

98. A decedent's estate is large enough that the executor believes a federal estate tax return may be required, and the executor asks a preparer for general guidance on the specific form used to report this specific tax. What is the general form used?

A. Generally Form 1041, the fiduciary income tax return, generally is the same form used to report a decedent's own gross estate value for federal estate tax purposes

B. Generally Form 1040, the same individual income tax return generally filed by a living taxpayer, generally is also used to report a decedent's own gross estate value

C. Generally no federal form at all generally exists for this specific purpose, since federal estate tax generally is reported exclusively through a state-level probate filing

D. Generally Form 706, the United States Estate Tax Return, generally is used to report the value of a decedent's own gross estate and to calculate any resulting federal estate tax liability

99. A U.S. taxpayer received a gift during the year from a nonresident alien relative living abroad, exceeding the applicable statutory reporting threshold for a foreign gift. What is the general specialized reporting requirement triggered by this specific foreign gift?

A. Generally required to file Form 3520 reporting the foreign gift received, even though the gift itself generally is not subject to federal income tax as a gift to the recipient

B. Generally required to report the foreign gift as taxable income directly on the taxpayer's own Form 1040, the same treatment generally applied to a domestic cash gift received

C. Generally no reporting requirement at all exists for a foreign gift received by a U.S. taxpayer, regardless of the gift's own actual dollar value or the donor's own residency status

D. Generally required to file Form 709, the same gift tax return generally filed by the donor making a taxable gift, rather than any recipient-side foreign gift reporting form

100. A taxpayer's return includes income from a trust of which the taxpayer is a beneficiary, and the trust distributed the year's own income to the taxpayer as required under the trust's own governing terms. How is this specific distributed trust income generally reported on the taxpayer's own individual return?

A. Generally not reported at all on the taxpayer's own individual return, since trust income distributed to a beneficiary generally is taxed exclusively at the trust level

B. Generally reported on Schedule E, Supplemental Income and Loss, based on the amount and character shown on the Schedule K-1 the taxpayer received from the trust

C. Generally reported on Schedule C, Profit or Loss From Business, the identical schedule generally used to report a nonfarm sole proprietorship's own separate business income

D. Generally reported on Schedule F, Profit or Loss From Farming, regardless of whether the underlying trust actually holds a farming business or a different type of asset

Answer Key and Explanations — Practice Exam 23

1. B — When a client reports a loss from a limited partnership and mentions no active involvement in the partnership's own operations, a preparer should determine whether the passive activity loss rules limit the loss's deductibility before including it on the return, since a passive loss generally may only offset passive income absent an applicable exception.

2. A — A preparer who learns a client is receiving structured settlement payments should inquire further into how the underlying settlement was allocated among its various components, such as physical injury damages versus lost wages or punitive damages, since the taxability of each component can differ significantly and generally must be analyzed separately before preparing the return.

3. D — Updating a client intake questionnaire annually, rather than reusing an unchanged prior-year version, generally helps a preparer capture a client's own current-year circumstances, since both a client's own situation, such as a new digital asset holding, and the applicable reporting requirements themselves can meaningfully change from one year to the next.

4. C — A preparer generally should document the reasoning behind a return position taken on an ambiguous tax provision, including why the chosen interpretation was selected over another reasonable alternative, since this documentation generally supports the preparer's own further defense if the position is later questioned during an examination or otherwise scrutinized.

5. A — A CP71 notice generally is an annual reminder of an outstanding tax balance, while a Notice of Federal Tax Lien generally represents a more formal collection step establishing the government's own legal claim against a taxpayer's property, reflecting the general escalating sequence of communications and actions the IRS generally may take for an unresolved tax liability.

6. B — Circular 230 generally prohibits false or misleading advertising, and describing a preparer's services as 'IRS-approved' generally is considered misleading, since the IRS generally does not endorse or approve any specific individual preparer, similar to the general prohibition on any advertising claim suggesting an official government endorsement that does not actually exist.

7. C — A CP08 notice generally informs a taxpayer that the IRS identified a potential eligibility for an additional credit, such as the additional child tax credit, not claimed on the originally filed return, generally inviting the taxpayer to respond with supporting information so the IRS can determine whether the taxpayer actually qualifies for the additional credit amount.

8. D — A preparer generally should confirm with a client whose name recently changed following a marriage whether that change actually has been reported to the Social Security Administration, since a mismatch between the name used on the return and the name on file with the Social Security Administration generally can delay processing or trigger an unnecessary IRS inquiry.

9. C — Form 4506 is used to request an actual copy of a previously filed tax return itself, generally subject to a fee and a longer processing time, while Form 4506-T generally is used to request a free, generally faster summarized transcript of the return information, a distinction that matters when deciding which specific request best fits the client's own particular need.

10. D — A preparer generally should explain the tiered penalty structure that generally applies to a late-filed Form 1099-NEC, with the penalty amount generally increasing the longer the delay continues, and generally should recommend the client file as promptly as possible to minimize the client's own exposure to this escalating information return penalty.

11. A — Clearly documenting a provision addressing the preparer's own limited role relative to a separately retained financial advisor generally clarifies for the client that the preparer's own responsibility is limited to tax matters, generally reducing the risk of a later misunderstanding about who bears responsibility for investment guidance versus tax return preparation and compliance.

12. B — A preparer generally may rely on a client's own credible representation regarding a claimed self-employed health insurance premium, supported by a premium statement or policy document where reasonably available, consistent with the general due diligence standard of reasonable inquiry rather than requiring independent verification directly through the insurance carrier for every claimed premium.

13. C — Form 8962 generally reconciles the advance premium tax credit a taxpayer actually received toward Marketplace health insurance coverage against the credit the taxpayer was actually entitled to claim based on the taxpayer's own final reported income for the year, generally resulting in either an additional credit or a repayment obligation depending on the comparison.

14. A — A preparer generally should caution a client who mentions relying on a friend's own informal tax advice that such advice may not accurately reflect the client's own specific facts and circumstances or current tax law, and should not replace the preparer's own professional analysis, since an unqualified source generally cannot account for every nuance of an individual taxpayer's own situation.

15. D — Documenting the specific reason a client was determined to qualify for head of household filing status, such as maintaining the household and identifying the qualifying person, generally creates a contemporaneous record supporting that determination, generally useful if the filing status is later questioned during an examination or a data-matching inquiry comparing the return against other household members' own filings.

16. B — A preparer generally should ask enough about a client's participation in a community solar program to determine whether the resulting bill credit represents taxable income or a nontaxable reduction in the client's own utility bill, since the specific tax treatment generally can vary meaningfully depending on how the particular community solar program itself is actually structured.

17. B — A referral bonus paid by an employer for successfully referring a new hire is generally fully taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other regular wages, regardless of the specific event, such as completing a probationary period, that actually triggers the payment.

18. D — Interest paid by a state on a delayed income tax refund is taxable as ordinary income for federal purposes, includible in the taxpayer's gross income and reported separately from the underlying state tax refund, since interest income is taxable regardless of its source, unlike the refund principal, which may or may not be taxable depending on the tax benefit rule.

19. A — A traditional IRA distribution taken by a taxpayer called to active military duty for a period exceeding the applicable statutory minimum is excepted from the 10% early distribution penalty under the qualified reservist distribution exception, though the distribution itself generally remains includible in ordinary taxable income, since only the penalty, not the underlying tax, is excepted under this specific provision.

20. C — A payment for accumulated but unused personal days, paid upon a taxpayer's voluntary resignation under a policy that pays this benefit regardless of the reason for separation, 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 payout generally represents deferred compensation for time already accrued.

21. A — A distribution from an account originally established as a SEP-IRA is taxed under the normal traditional IRA distribution rules, since a SEP-IRA is treated as a type of traditional IRA for distribution purposes, meaning the same early distribution penalty exceptions and required minimum distribution rules that generally apply to a regular traditional IRA generally apply equally to this specific account.

22. B — A qualified moving expense reimbursement for a permanent change of station move remains excludable from a taxpayer's taxable wages when the taxpayer is an active-duty member of the Armed Forces moving pursuant to a military order, since this circumstance is the sole exception preserved under current law to the general suspension of the moving expense exclusion for most other taxpayers.

23. D — A traditional IRA distribution is excepted from the 10% early distribution penalty if the taxpayer meets the applicable statutory definition of disability, requiring an inability to engage in substantial gainful activity due to a medically determinable impairment expected to result in death or last at least twelve months, a stricter standard than having a diagnosed condition.

24. C — A homestead exemption rebate applied directly against a taxpayer's property tax bill is not taxable income, since the rebate generally represents a reduction in the taxpayer's own property tax liability rather than a separate item of income, though the taxpayer's itemized deduction for property tax actually paid, if any, generally must reflect the reduced amount actually paid after the rebate.

25. C — An in-service withdrawal from a traditional 401(k) plan taken once the taxpayer has reached age 59½ generally is excepted from the 10% early distribution penalty, since reaching this specific applicable age threshold generally satisfies the age-based exception regardless of whether the taxpayer remains actively employed, though the distribution itself generally remains includible in ordinary taxable income.

26. B — A manufacturer rebate for purchasing a qualifying appliance is not taxable income, since the rebate is treated as a reduction in the purchase price of the item bought, consistent with the general treatment of a rebate tied to a purchase, regardless of whether the rebate is processed immediately at the point of sale or later through a mail-in claim process.

27. A — A minor child of a deceased IRA owner, qualifying as an eligible designated beneficiary, may take distributions based on life expectancy until reaching the age of majority, after which the ten-year distribution rule begins, requiring the account to be distributed within ten years after that age, rather than starting immediately upon the original owner's death.

28. D — A settlement structured as unpaid commissions the taxpayer would have earned had they been properly calculated and paid on time 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.

29. B — The earnings attributable to a timely corrected excess IRA contribution, resulting from an ineligible rollover contribution made to the account, are taxable as ordinary income in the year the excess contribution was made, and subject to the 10% early distribution penalty if the taxpayer was under age 59½ at that time, unlike the excess principal, which is not separately taxed.

30. D — A cash payment from a phantom stock plan, tracking the value of an employer's stock without any stock ownership ever being transferred, generally 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.

31. A — A transfer of a portion of a traditional IRA to a former spouse pursuant to a properly executed qualified domestic relations order is not taxable to the transferring spouse, since this transfer is not treated as a taxable distribution, with the receiving former spouse becoming responsible for the tax consequences of subsequent distribution taken from that spouse's received portion.

32. C — Emotional distress damages that originate from an underlying personal physical injury, such as distress connected to a workplace accident causing physical harm, are entirely tax-exempt, qualifying for the same statutory exclusion that generally applies to the physical injury damages themselves, distinguishing this circumstance from emotional distress damages that do not trace back to an actual underlying physical injury or sickness.

33. D — A traditional IRA distribution taken by a taxpayer who has experienced domestic abuse, applying the applicable statutory early distribution penalty exception recently made available for this circumstance, is excepted from the 10% early distribution penalty up to the applicable annual dollar limit for this exception, though the distribution itself remains includible in the taxpayer's ordinary taxable income for the year.

34. B — A change-in-control retention bonus, structured as a lump-sum payment contingent on the taxpayer remaining employed through a corporate merger's closing, 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 represents compensation connected to the employment relationship regardless of the specific triggering corporate event.

35. C — A distribution taken from a retirement account during the applicable testing period reduces the amount of contributions otherwise eligible for the retirement savings contributions credit, potentially lowering or eliminating the credit the taxpayer otherwise would have claimed based on a separate new contribution, since the credit calculation nets contributions against distributions taken within the applicable testing period surrounding the contribution.

36. A — A state-issued energy cost rebate generally is fully taxable as other income for federal purposes absent a specific applicable statutory exclusion or absent specific IRS administrative guidance addressing this particular state's own rebate program, making it important for a preparer to check for current guidance before assuming a favorable exclusion applies to this type of broadly distributed state payment.

37. D — A wig purchased upon a physician's recommendation to address hair loss caused by a disease, such as cancer, or its treatment generally qualifies as a deductible medical expense, subject to the same overall 7.5% adjusted gross income floor that generally applies to the medical expense deduction category as a whole for this and every other qualifying item combined.

38. A — Acupuncture treatment performed by a licensed acupuncturist to address a medical condition such as chronic pain qualifies as a deductible medical expense, subject to the same 7.5% adjusted gross income floor that applies to the medical expense deduction category, reflecting the rule that a legitimate treatment for a medical condition may qualify regardless of whether it is conventional or alternative.

39. B — When only one spouse is an active participant in an employer-sponsored retirement plan, the non-active-participant spouse's own traditional IRA deduction generally phases out based on the couple's combined modified adjusted gross income, using a separate and generally higher phase-out range than applies to the active participant spouse, reflecting a more favorable treatment for the non-participating spouse's own contribution.

40. C — Enrollment in an accredited online degree program offered through distance learning by an eligible educational institution generally is treated the same as in-person enrollment for purposes of education credit eligibility, since the credit generally focuses on the institution's own eligible status and the student's own enrollment status, rather than on the specific instructional delivery method used by that eligible institution.

41. A — A swimming pool installed for a documented medical purpose, such as aquatic therapy recommended by a physician for a severe arthritic condition, is deductible as a medical expense to the extent the cost exceeds any increase in the home's fair market value, since the portion increasing the home's value is not considered a medical cost under the capital improvement rule.

42. D — A program focused on academic enrichment or subject-matter tutoring, rather than on providing functional care enabling the taxpayer to work, does not qualify for the child and dependent care credit, since the credit is limited to expenses for care of a qualifying person, distinguishing it from an educational or tutoring-focused program that happens to occur during the same working hours.

43. B — A taxpayer may elect to deduct state and local sales tax instead of state and local income tax as an itemized deduction, useful for a taxpayer residing in a state with no state income tax, though the sales tax deduction remains subject to the same combined $10,000 cap on state and local taxes that applies to the income tax deduction.

44. C — Orthopedic shoes and shoe inserts prescribed by a podiatrist to address a documented foot deformity are deductible as a medical expense only to the extent the cost exceeds what a comparable regular shoe would have cost, since only the incremental cost attributable to the specialized medical need qualifies for the deduction, similar to the rule applied to specialized reading materials.

45. B — A taxpayer whose modified adjusted gross income falls within the applicable Lifetime Learning 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.

46. D — A home elevator installed for a documented medical purpose, such as addressing a severe mobility impairment preventing stair use, is deductible as a medical expense only to the extent the cost exceeds any resulting increase in the home's fair market value, since the portion increasing the home's value is not considered a medical cost under the applicable capital improvement rule.

47. A — A specialized air filtration system installed to address a documented severe allergy condition diagnosed by an allergist is deductible as a medical expense to the extent the cost exceeds any increase in the home's fair market value, distinguishing it from a general air purifier purchased for ordinary comfort, which is treated as a nondeductible personal expense absent a medical need.

48. C — Meals and lodging provided as an integral part of inpatient medical care, such as a residential drug and alcohol treatment program, qualify as a deductible medical expense, since the tax law treats meals and lodging that are a necessary component of receiving inpatient medical treatment differently from meals and lodging incurred while away from home for a non-inpatient medical purpose.

49. B — Legal fees incurred to establish guardianship over an incapacitated adult family member are not deductible, since this type of personal legal expense generally is treated as a nondeductible personal expense, distinct from a legal fee connected to producing or collecting taxable income or to a specific business purpose, which in some circumstances may receive different treatment under the applicable rules.

50. A — A smoking cessation counseling program conducted by a licensed therapist and specifically focused on treating nicotine addiction generally qualifies as a deductible medical expense, subject to the same overall 7.5% adjusted gross income floor that generally applies to the medical expense deduction category as a whole, reflecting the general treatment of a program addressing a recognized medical condition.

51. C — General academic tutoring unrelated to a diagnosed learning disability or medical condition does not qualify for the child and dependent care credit, since the credit generally is limited to expenses for functional care enabling the taxpayer to work, distinguishing ordinary academic tutoring from tutoring specifically prescribed to address a diagnosed condition, which generally may instead qualify as a medical expense.

52. D — A medical alert system providing emergency monitoring for a dependent with a documented medical risk, such as a fall risk, qualifies as a deductible medical expense, including both the initial equipment cost and the ongoing monitoring fee, subject to the same 7.5% adjusted gross income floor that applies to the medical expense deduction category for the dependent's qualifying costs.

53. C — Widening interior doorways to accommodate a wheelchair used by a disabled dependent is deductible as a medical expense to the extent the cost exceeds any resulting increase in the home's fair market value, though a modification like a doorway widening, which adds little or no resale value, often qualifies for a deduction close to or equal to its full cost.

54. D — Tuition paid for a study abroad program administered by an eligible domestic educational institution, where credits earned abroad count toward the dependent's degree at that institution, is treated the same as domestic enrollment for purposes of education credit eligibility, since the credit focuses on the sponsoring institution's eligible status rather than on the physical location where the coursework is completed.

55. A — A premium paid for a qualified long-term care insurance policy is deductible as a medical expense up to an annually adjusted dollar limit that increases based on the taxpayer's attained age by the end of the tax year, with the premium amount combined with the taxpayer's other qualifying medical expenses and subject to the same 7.5% adjusted gross income floor.

56. B — Once a taxpayer's modified adjusted gross income exceeds the applicable Child Tax Credit threshold for the taxpayer's filing status, the credit amount generally is reduced by a fixed percentage of the excess income over that threshold, generally phasing the credit down gradually rather than eliminating it immediately upon crossing the threshold amount by even a small margin.

57. D — A gain on stock held for eleven months generally is taxed as a short-term capital gain at the taxpayer's own ordinary income tax rate, since the holding period did not exceed one year, the threshold generally required to qualify for the more favorable long-term capital gain rate available to a taxpayer who holds a capital asset for a longer period.

58. A — When a home served as a principal residence for part of the period, and was rented to a tenant for a separate nonqualifying-use period, the gain on sale must be allocated between the qualifying and nonqualifying use periods, with only the portion allocable to qualifying use eligible for the home sale exclusion, rather than allowing the exclusion against the gain.

59. C — A net capital loss exceeding the annual $3,000 limit against ordinary income generally is carried forward indefinitely to future tax years, retaining its original short-term or long-term character, until it generally is fully absorbed against future capital gains or against the annual limit in a later year, rather than being forfeited or carried back to a prior year.

60. B — Interest paid on a loan used to acquire property for personal, nonbusiness use, such as a personal auto loan, generally is not deductible, since personal interest generally was eliminated as a deductible category under current law, distinguishing it from qualified residence interest or business interest, which may remain deductible subject to their own separate applicable rules.

61. A — Selling incentive stock option shares before satisfying both the one-year-from-exercise and two-year-from-grant holding period requirements triggers a disqualifying disposition, under which the bargain element is taxed as ordinary income in the year of sale, while any additional gain beyond the bargain element generally is taxed under the regular short-term or long-term capital gain rules based on the actual holding period.

62. C — A loss on the sale of stock is disallowed under the wash sale rule when substantially identical shares were purchased within the sixty-one-day window, spanning thirty days before through thirty days after the sale date, regardless of whether the replacement purchase occurred in the same or a separate brokerage account, with the disallowed loss added to the replacement shares' basis.

63. D — Under the installment method, gain on a sale of investment real property generally is recognized proportionally as each installment payment is actually received across the applicable future tax years, based on applying the transaction's own gross profit percentage to each payment, rather than requiring the entire gain to be recognized immediately in the year of the original sale.

64. B — A qualifying like-kind exchange of business or investment real property structured to receive no cash or other non-like-kind property, known as boot, generally results in full deferral of the realized gain, with no gain currently recognized, though the deferred gain generally remains embedded in the replacement property through a corresponding reduction to that property's own carryover basis.

65. A — When depreciable business equipment is sold at a gain, the portion of the gain equal to the depreciation previously claimed on the equipment generally is recaptured and taxed as ordinary income under the applicable depreciation recapture rule, with only any remaining gain in excess of the recaptured amount generally eligible for treatment under the more favorable capital gain rules.

66. B — A net operating loss generated by a sole proprietorship generally is carried forward indefinitely to future tax years under current federal tax law, generally limited to offsetting up to 80% of taxable income in any single future carryforward year, rather than being forfeited or automatically carried back to an earlier tax year.

67. C — A payer generally is required to begin backup withholding at the applicable statutory flat rate on future reportable payments made to a payee who failed to provide a correct taxpayer identification number despite the payer's repeated requests, with the withheld amount generally remitted to the IRS and later credited against the payee's own eventual tax liability.

68. D — One generally available exception to the estimated tax underpayment penalty applies when a taxpayer's total withholding and timely estimated payments equaled or exceeded the applicable safe harbor percentage of the prior year's own total tax liability, generally protecting the taxpayer from the penalty even though the current year's actual liability, once finally determined, exceeded the payments actually made.

69. D — Under the kiddie tax rules, a dependent child's unearned income for the year exceeding the applicable statutory threshold is taxed at the parent's marginal tax rate rather than at the child's lower individual tax rate, an approach generally intended to prevent a parent from shifting investment income to a child to obtain a lower overall tax rate on that income.

70. C — The Net Investment Income Tax generally is imposed at a 3.8% rate on the lesser of the taxpayer's own net investment income for the year or the amount by which the taxpayer's modified adjusted gross income exceeds the applicable statutory threshold for the taxpayer's filing status, meaning the tax generally applies to whichever of these two amounts is actually smaller.

71. B — An employer is required to begin withholding the Additional Medicare Tax once an employee's wages from that employer alone exceed the applicable statutory threshold for the year, regardless of the employee's filing status or any other income the employee might separately have, since the employer generally applies the withholding trigger based solely on the wages that employer itself actually pays.

72. A — The IRS-published Tax Tables generally apply when a taxpayer's taxable income falls below a specified statutory threshold, providing a precomputed tax amount for that specific income range and filing status, while the Tax Computation Worksheet generally applies once taxable income exceeds that threshold, requiring the taxpayer to apply a formula-based calculation instead of reading a precomputed table amount.

73. C — Qualified dividend income generally is taxed using the same preferential rate structure that generally applies to long-term capital gain, meaning a taxpayer within the lowest applicable ordinary income tax bracket generally can have qualified dividend income taxed at a 0% preferential rate, rather than at the taxpayer's own regular, generally higher ordinary income tax rate that would otherwise apply.

74. D — The self-employment tax base generally is calculated by first multiplying net earnings from self-employment by 92.35%, a reduction generally intended to approximate the employer-equivalent portion of Social Security and Medicare tax that a common-law employee's own employer would otherwise separately pay, before the applicable combined Social Security and Medicare tax rates are actually applied to that reduced base amount.

75. B — A preparer should advise a taxpayer that converting a traditional retirement account to a Roth account during a lower-income year allows the taxable conversion amount to be taxed at a lower marginal rate, making the conversion more tax-efficient than completing the identical conversion during a higher-income year when the same amount would be taxed at a higher marginal rate.

76. A — A preparer should advise a taxpayer that bunching itemized deductions, such as concentrating two years' charitable contributions into a single tax year, can push that year's itemized deductions above the standard deduction amount, allowing the taxpayer to itemize in the bunching year while claiming the standard deduction in the other year, maximizing the taxpayer's deduction benefit across the two years.

77. D — A preparer should advise a taxpayer that a Health Savings Account offers a triple tax advantage unavailable through a general-purpose taxable savings account: a deductible contribution, tax-deferred growth on the account balance, and a generally tax-free withdrawal when the funds actually are used for a qualified medical expense, making it a generally more tax-efficient vehicle for anticipated future medical costs.

78. C — A preparer should advise a taxpayer that failing to withdraw the required minimum distribution amount by the deadline triggers an excise tax penalty calculated as a percentage of the shortfall amount not withdrawn, making it important for the taxpayer to calculate and satisfy the required amount each year, though the penalty may be reduced if the shortfall is timely corrected.

79. A — A preparer should advise a taxpayer that a pretax contribution to a traditional 401(k) plan during a high-earning year reduces the taxpayer's current taxable income at the taxpayer's higher current marginal tax rate, an immediate current-year benefit a Roth 401(k) contribution does not provide, though the future tax treatment of eventual withdrawals generally differs meaningfully between the two account types.

80. B — A preparer should advise a taxpayer that a 529 education savings plan offers tax-deferred growth on the account balance and a tax-free qualified withdrawal when the funds are used for the dependent's education expenses, an advantage a taxable brokerage account does not offer, since investment growth in the taxable account remains subject to tax as it accrues or upon sale.

81. A — A preparer should advise a taxpayer that tax-loss harvesting, selling a losing position before year-end, realizes a capital loss that can offset a realized gain elsewhere in the portfolio, with excess loss beyond gains able to offset up to $3,000 of ordinary income for the year, subject to the wash sale rule if a substantially identical replacement is purchased soon.

82. B — A preparer generally should advise a taxpayer with relatively modest total itemizable expenses to compare the taxpayer's own total itemized deductions, including mortgage interest, against the standard deduction amount available for the taxpayer's filing status, generally recommending whichever approach actually produces the lower overall taxable income, rather than assuming itemizing is automatically preferable simply because mortgage interest was paid.

83. D — A preparer should advise a taxpayer nearing Medicare enrollment age that a large Roth conversion completed in a year increases modified adjusted gross income for that year, and that this income figure is used to determine a Medicare premium surcharge, known as the income-related monthly adjustment amount, applied two years later based on a look-back to the year's reported income.

84. C — A preparer should advise a taxpayer that contributing to a donor-advised fund allows the taxpayer to claim the charitable deduction in the year of the contribution to the fund, while retaining the flexibility to recommend which charities receive distributions from the fund over a longer period, useful for a taxpayer wanting to bunch a deduction in a single high-income year.

85. C — A preparer should advise a self-employed taxpayer with relatively modest net self-employment earnings that a solo 401(k) plan permits both an employee elective deferral contribution and a separate employer profit-sharing contribution, generally allowing a greater total contribution at a modest earnings level than a SEP-IRA, which generally permits only the employer-type contribution calculated as a percentage of net self-employment earnings.

86. D — A preparer should advise a taxpayer that donating appreciated stock held long-term to a charity avoids recognizing the capital gain on the stock's appreciation, while allowing the taxpayer to claim a charitable deduction based on the stock's fair market value at the time of the gift, producing a better tax result than selling the stock and donating the cash proceeds.

87. A — A preparer should advise a taxpayer with significant self-employment income that making timely estimated tax payments avoids or reduces the underpayment penalty that applies when a taxpayer's total withholding and timely estimated payments fall short of the required amount, since the total tax liability remains the same either way, but the timing of payment affects whether a penalty is assessed.

88. B — Income earned by a decedent's estate after the date of death, before the estate's assets are distributed to the beneficiaries, is reported on Form 1041, the estate's own separate fiduciary income tax return, distinguishing this post-death income from income earned by the decedent personally before death, which instead generally is reported on the decedent's own final individual income tax return.

89. B — A spouse seeking innocent spouse relief from an understated joint tax liability must show the requesting spouse did not know, and had no reason to know, of the understatement at the time the joint return was signed, among other applicable requirements, reflecting the general policy of protecting a spouse who was genuinely unaware of the other spouse's own erroneous reporting.

90. A — A taxpayer who paid income tax to a foreign country on foreign-source income may claim a foreign tax credit for the foreign tax paid, subject to a limitation based on the amount of U.S. tax attributable to that same foreign-source income, providing relief from the double taxation that otherwise would result from both countries taxing the identical item of income.

91. D — A taxpayer must file Form 1040-X claiming a refund within the later of three years from the date the original return was filed or two years from the date the tax was paid, whichever of these two measuring dates actually is later, a deadline generally known as the refund statute of limitations applicable to an amended individual income tax return.

92. C — A taxpayer operating a small farming business reports the farm's own specific income and expenses on Schedule F, Profit or Loss From Farming, a specialized schedule reflecting certain farming-specific rules, such as the treatment of raised livestock and certain government payments, distinct from the general Schedule C generally used to report a nonfarm sole proprietorship's own business income and expenses.

93. C — A U.S. citizen taxpayer maintaining a foreign financial account with an aggregate value exceeding the statutory threshold at any point during the calendar year is required to file FinCEN Form 114, the Report of Foreign Bank and Financial Accounts, a report filed separately from the taxpayer's regular income tax return and subject to its separate filing deadline and penalty structure.

94. A — A parent may elect to report a dependent child's unearned income on the parent's return using Form 8814, provided the child's unearned income falls within the dollar limits and consists of interest, dividends, and capital gain distributions, sparing the family from filing a separate return for the child, though this election can produce a higher tax than filing separately.

95. B — A nonresident alien who earned U.S.-source wage income from a U.S. employer for services actually performed within the United States generally is required to file Form 1040-NR, the specialized return generally used by a nonresident alien to report income effectively connected with a U.S. trade or business or otherwise subject to U.S. federal income tax under the applicable rules.

96. D — An individual taxpayer who paid a household employee, such as a nanny, wages exceeding the applicable statutory threshold generally reports and pays the resulting household employment taxes, commonly called the nanny tax, using Schedule H, filed together with the employer's own individual Form 1040 return, rather than through a separate standalone quarterly employment tax return.

97. C — A shareholder's allocable share of an S corporation's income, reported to the shareholder on a Schedule K-1, is reported on the shareholder's own individual return using Schedule E, Supplemental Income and Loss, which flows the pass-through income onto the shareholder's own Form 1040, consistent with the general pass-through taxation treatment applicable to an S corporation under current federal tax law.

98. D — An executor of a sufficiently large decedent's estate generally uses Form 706, the United States Estate Tax Return, to report the value of the decedent's own gross estate and to calculate any resulting federal estate tax liability, a return generally separate and distinct from Form 1041, which instead reports the estate's own ongoing fiduciary income during administration.

99. A — A U.S. taxpayer who received a gift from a nonresident alien exceeding the applicable statutory reporting threshold is required to file Form 3520 reporting the foreign gift received, though the gift itself is not subject to federal income tax to the recipient, since Form 3520 serves an informational reporting purpose rather than triggering an tax on the gift amount received.

100. B — Trust income distributed to a beneficiary as required under the trust's governing terms generally is reported by the beneficiary on Schedule E, Supplemental Income and Loss, based on the amount and character of income shown on the Schedule K-1 the beneficiary actually received from the trust, consistent with the general conduit treatment applicable to a simple trust's own distributed income.