# PRACTICE EXAM 25: 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 taxpayer's electronically filed return is rejected because the prior-year adjusted gross income entered for identity verification does not match IRS records. What is the general recommended next step for resolving this specific rejection?

A. Generally advise the client the return can only be filed on paper going forward, since an electronic filing rejection of this type generally cannot ever be corrected

B. Generally verify the correct prior-year adjusted gross income figure, or use the alternative Self-Select PIN identity verification method, before resubmitting the electronically filed return

C. Generally resubmit the identical return without any change, since a prior-year adjusted gross income mismatch generally resolves itself automatically upon a second submission attempt

D. Generally advise the client to file an entirely different filing status, since a prior-year adjusted gross income mismatch generally indicates the wrong status was originally selected

**2.** A preparer meets with a new client for the first time and wants to confirm the client's own identity before beginning to prepare a return. What is the general recommended practice regarding identity verification at this specific initial meeting?

A. Generally recommends reviewing a current government-issued photo identification document, comparing the name and other details against the information the client separately provided

B. Generally recommends relying exclusively on the client's own verbal statement of identity, without reviewing any government-issued photo identification document at the initial meeting

C. Generally recommends requiring the client to provide a notarized affidavit of identity, rather than simply reviewing a current government-issued photo identification document

D. Generally recommends deferring any identity verification entirely until after the return actually has been fully prepared and is ready for the client's own signature

**3.** A preparer's client asks about the general purpose of Form 56, Notice Concerning Fiduciary Relationship, filed by a person acting as a trustee or personal representative for another taxpayer. What is the general purpose this specific form generally serves?

A. Generally serves exclusively as a request for a filing extension, rather than as any form of fiduciary relationship notification filed with the IRS

B. Generally serves no actual practical purpose, existing only as an optional notification with no genuine effect on the fiduciary's own authority to act

C. Generally notifies the IRS that a person is acting in a fiduciary capacity for another taxpayer, generally establishing that fiduciary's own authority to act on that taxpayer's behalf

D. Generally serves exclusively as the taxpayer's own consent to have a preparer disclose confidential information to an unrelated third party such as a lender

**4.** A preparer, while reviewing the current year's already-prepared return before the client signs it, discovers a significant error understating the client's own current-year tax liability. What is the general recommended practice regarding this specific discovery?

A. Generally recommends allowing the client to sign the return exactly as originally prepared, then quietly correcting the error only if the IRS later specifically objects

B. Generally recommends declining to ever discuss the error with the client, since raising a self-identified error generally exposes the preparer to unnecessary liability

C. Generally recommends filing the return exactly as originally prepared, then separately notifying the IRS directly of the discovered error without informing the client

D. Generally recommends correcting the error before the client actually signs and files the return, rather than allowing the client to sign a return the preparer already knows is materially incorrect

**5.** A preparer's client asks about the general purpose of maintaining a written information security plan covering the preparer's own handling of client tax return data, as generally required under the FTC Safeguards Rule. What is the general purpose of this specific written plan?

A. Generally serves no actual practical purpose, existing only as an optional internal document with no genuine regulatory requirement attached to a paid tax preparer

B. Generally documents the specific administrative, technical, and physical safeguards the preparer maintains to protect client data from unauthorized access, use, or disclosure
C. Generally serves exclusively as the client's own consent to have the preparer disclose confidential information to an unrelated third party such as a lender
D. Generally applies only to a preparer operating as a large firm, with a sole practitioner preparer being entirely exempt from any written information security plan requirement

**6.** A preparer's client claims head of household filing status, and the preparer must verify the client actually maintained a household for a qualifying person for more than half the year. What is the general recommended due diligence practice regarding this specific verification?

A. Generally recommends asking sufficient factual questions about the household arrangement and the cost of maintaining it, documenting the responses that support the claimed filing status
B. Generally recommends accepting the client's own bare assertion of head of household status without asking any further factual question about the underlying household arrangement
C. Generally recommends requiring the client to provide a notarized statement from every other household member, rather than simply asking sufficient factual questions
D. Generally recommends declining to prepare the return entirely whenever a client claims head of household status, regardless of the specific facts actually presented

**7.** A preparer's client mentions receiving payments during the year through a third-party payment network for occasional personal item sales, and the client is unsure whether a Form 1099-K will be issued reporting these transactions. What is the general recommended practice regarding this specific inquiry?

A. Generally recommends treating the entire amount shown on any Form 1099-K received as automatically taxable income, without asking any further question about the underlying transactions
B. Generally recommends ignoring any Form 1099-K received entirely, since a third-party payment network report generally is never relevant to an individual taxpayer's own return
C. Generally recommends advising the client to close the third-party payment network account entirely, rather than asking any further question about the reported transactions
D. Generally recommends asking enough questions to determine whether the reported transactions actually represent taxable income, since a Form 1099-K can include a nontaxable personal item sale alongside taxable income

**8.** A representative previously held a Form 2848 Power of Attorney for a client, and the client subsequently executed a new Form 2848 covering the identical tax matters and identical tax years, naming a different representative, without indicating any intent to retain the prior representative. What is the general effect on the prior authorization?

A. Generally both the prior and the new Form 2848 generally remain simultaneously valid and in full effect, with no automatic revocation of either authorization occurring at all

B. Generally the prior Form 2848 generally remains the only valid authorization, with the new Form 2848 generally having no legal effect at all once actually filed

C. Generally the new Form 2848 generally revokes the prior Form 2848 for the identical matters and years, unless the client specifically indicates an intent to retain the prior representative as well

D. Generally both the prior and the new Form 2848 generally become entirely invalid the moment either representative actually is named on more than one authorization

**9.** A preparer employs both signing preparers, who sign the completed return, and non-signing preparers, who perform substantial preparation work such as drafting a significant portion of the return without ultimately signing it. How does the applicable preparer penalty framework generally treat a non-signing preparer?

A. Generally a non-signing preparer generally is entirely exempt from every applicable preparer penalty, since only the signing preparer generally can ever be held responsible under current law

B. Generally a non-signing preparer generally is subject to a harsher penalty than a signing preparer would face for the identical underlying conduct on the identical return

C. Generally the preparer penalty framework generally does not distinguish between a signing and a non-signing preparer at all, treating the entire firm as a single undifferentiated preparer

D. Generally a non-signing preparer generally still can be treated as a paid preparer subject to applicable preparer penalties if that preparer's own work constitutes a substantial portion of the return

**10.** A taxpayer receives an IRS Notice CP2000 proposing an adjustment to a previously filed return based on a mismatch between income the taxpayer reported and income a third party separately reported to the IRS. What is the general nature of this specific notice?

A. Generally a final notice of intent to levy, generally representing the final step in the IRS collection process before an actual levy action is taken

B. Generally a formal notice of a criminal referral, generally indicating the IRS intends to pursue a criminal fraud investigation based on the identified discrepancy

C. Generally an automated underreporter notice proposing a specific adjustment based on a data-matching discrepancy, generally inviting the taxpayer to agree, partially agree, or dispute the proposed adjustment

D. Generally a routine annual reminder notice unrelated to any specific data-matching discrepancy, generally sent automatically to every taxpayer regardless of the return's own accuracy

**11.** A preparer's client claims a dependent who has an Individual Taxpayer Identification Number rather than a Social Security Number. How does this specific distinction generally affect the client's own eligibility to claim certain credits for that dependent?

A. Generally a dependent identified by an Individual Taxpayer Identification Number generally may still qualify the taxpayer for the Credit for Other Dependents, but generally cannot qualify the taxpayer for the Child Tax Credit, which generally requires a valid Social Security Number

B. Generally an Individual Taxpayer Identification Number and a Social Security Number generally are treated identically for every dependent-related credit under current federal tax law

C. Generally a dependent identified by an Individual Taxpayer Identification Number generally can never be claimed for any credit at all, regardless of which specific credit is actually claimed

D. Generally a dependent identified by an Individual Taxpayer Identification Number generally qualifies the taxpayer for a larger Child Tax Credit than a dependent with a Social Security Number would

**12.** A client wants to authorize a representative using Form 2848 but is unable to meet in person, and the client asks about the general acceptability of an electronic signature on this specific authorization form. What is the general current IRS position on this specific practice?

A. Generally an electronic signature generally never is accepted on any IRS authorization form, requiring an original handwritten signature obtained through an in-person meeting in every case

B. Generally an electronic signature generally is accepted on Form 2848 under current IRS procedures, provided the applicable identity verification and submission requirements actually are satisfied

C. Generally an electronic signature generally is accepted only if the client also separately mails a duplicate handwritten signature copy within a specific number of days

D. Generally an electronic signature generally is accepted only for a business taxpayer's own authorization, with an individual taxpayer being required to provide a handwritten signature in every case

**13.** A preparer's client asks whether the preparer generally must ask about the client's own digital asset transactions during the year, given the digital asset question appearing directly on the front page of Form 1040. What is the general recommended practice regarding this specific question?

A. Generally recommends leaving the digital asset question blank on every return, since the preparer generally has no obligation at all to ask the client about any digital asset transaction

B. Generally recommends asking the client directly about any digital asset transaction during the year, since the preparer generally must accurately answer the digital asset question on the client's own behalf

C. Generally recommends automatically answering the digital asset question in the negative for every client, without asking the client any specific question about actual digital asset activity

D. Generally recommends declining to prepare the return entirely whenever a client mentions any digital asset transaction, regardless of the specific facts actually presented

**14.** A preparer's client asks whether the preparer generally has an obligation to explain the potential consequence of a substantial understatement of income tax before the client actually signs and files a return taking an aggressive, marginally supportable position. What is the general answer?

A. Generally no; a preparer generally has no obligation at all to discuss any potential penalty consequence with a client before that client actually signs and files the return

B. Generally yes, but only if the client's own aggressive position actually is later specifically challenged by the IRS, with no proactive obligation existing beforehand

C. Generally yes; a preparer generally should explain the potential exposure to a substantial understatement penalty and the level of authority generally needed to support the position before the client signs

D. Generally no; discussing a potential penalty consequence with a client generally is considered a form of unauthorized legal advice, regardless of the preparer's own credential

**15.** A preparer's client requests that a refund be directly deposited into the client's own bank account, and the preparer must enter the account and routing numbers on the return. What is the general recommended practice regarding this specific banking information before the return actually is filed?

A. Generally recommends entering whichever account and routing numbers the client happens to state verbally, without independently verifying either number against any actual bank document

B. Generally recommends declining to offer direct deposit entirely, requiring every client to instead receive a refund exclusively by paper check regardless of the client's own preference

C. Generally recommends entering the preparer's own business bank account instead of the client's own account, then separately forwarding the refund to the client once received

D. Generally recommends independently verifying the account and routing numbers against an actual bank document, such as a voided check or bank statement, rather than relying solely on the client's own verbal recitation

**16.** A preparer's client asks about the general recommended practice regarding providing the client with a complete copy of the client's own filed return once the return actually has been finalized and filed. What is the general recommended practice regarding this specific copy?

A. Generally recommends providing the client with a complete copy of the filed return, and generally also retaining a copy in the preparer's own records for the applicable retention period

B. Generally recommends providing the client with only a summary of the return's own key figures, rather than a genuinely complete copy of the entire filed return

C. Generally recommends retaining a copy solely in the preparer's own records, without ever actually providing any copy of the filed return directly to the client

D. Generally recommends providing the client with a complete copy of the return, but generally never separately retaining any copy at all in the preparer's own records

**17.** A taxpayer received interest income during the year from a private activity municipal bond that does not qualify for an exception to the alternative minimum tax preference rule. How is this specific interest generally treated?

A. Generally exempt from regular federal income tax, but generally treated as a tax preference item includible when calculating the alternative minimum tax

B. Generally fully taxable for both regular federal income tax and the alternative minimum tax, exactly the same treatment that generally applies to corporate bond interest

C. Generally entirely tax-exempt for both regular federal income tax and the alternative minimum tax, with no preference item treatment applying under current law

D. Generally taxable only for the alternative minimum tax and entirely exempt from regular federal income tax reporting requirements of any kind whatsoever

**18.** A taxpayer redeemed Series EE savings bonds during the year and used the proceeds entirely to pay qualified higher education expenses, and the taxpayer's modified adjusted gross income falls below the applicable phase-out threshold. How is the interest portion of the redemption generally treated?

A. Generally fully taxable as ordinary income regardless of how the redemption proceeds actually were used, since savings bond interest generally receives no special education-related exclusion

B. Generally excludable from gross income without any income-based phase-out limitation at all, regardless of the taxpayer's own modified adjusted gross income for the year

C. Generally treated as tax-exempt municipal bond interest, the same treatment that generally applies to interest earned on a state or local government bond

D. Generally excludable from gross income under the Education Savings Bond Program, provided the bonds were issued after 1989 to a taxpayer who was at least 24 years old at issuance

**19.** A taxpayer began receiving payments from a nonqualified annuity purchased with after-tax dollars, and each payment generally consists of both a return of the taxpayer's own investment and a taxable earnings component. How is each payment generally treated using the exclusion ratio?

A. Generally each payment is entirely excludable from gross income until the taxpayer's own original investment fully has been recovered, after which every later payment becomes taxable

B. Generally each payment is fully taxable as ordinary income in every case, since a nonqualified annuity generally receives no exclusion for the taxpayer's own original investment

C. Generally a portion of each payment is excludable from gross income as a nontaxable return of investment, calculated using an exclusion ratio, with the remainder taxable as ordinary income

D. Generally each payment is entirely tax-exempt, since a nonqualified annuity purchased with after-tax dollars generally is excluded from taxable income under current law

**20.** A taxpayer receives a pension distribution from a plan to which the taxpayer previously made after-tax contributions, and the plan administrator applied the simplified method to determine the nontaxable portion of each monthly payment. How is this pension distribution generally treated?

A. Generally the entire pension distribution is taxable as ordinary income in every case, since a pension generally receives no exclusion for a taxpayer's own after-tax contributions

B. Generally a calculated portion of each payment is excludable as a recovery of the taxpayer's own after-tax contributions, with the remaining portion taxable as ordinary income

C. Generally the entire pension distribution is entirely tax-exempt, since a taxpayer's own after-tax contributions generally exempt the full distribution from further taxation
D. Generally the pension distribution is treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to a stock sale

**21.** A taxpayer under the plan's own minimum retirement age received disability retirement income from an employer-sponsored plan following a qualifying disabling injury. How is this specific disability retirement income generally treated before the taxpayer reaches minimum retirement age?

A. Generally entirely tax-exempt until the taxpayer actually reaches minimum retirement age, at which point the disability income generally becomes fully taxable as ordinary income
B. Generally treated as a pension distribution from the moment first received, rather than being treated as wages until the taxpayer reaches minimum retirement age
C. Generally treated and reported as wages, subject to the same income tax treatment as the taxpayer's other regular wages, until the taxpayer actually reaches minimum retirement age
D. Generally treated as self-employment income, subjecting the disability retirement income to self-employment tax rather than to any form of wage-equivalent treatment

**22.** A taxpayer sold shares of stock short, borrowing shares to sell and later purchasing replacement shares to close the position, realizing a gain on the transaction. How is the holding period for this specific short sale gain generally determined?

A. Generally determined by the holding period of the replacement shares actually used to close the short position, rather than by the elapsed time the short position itself remained open
B. Generally determined exclusively by the elapsed time the short position itself remained open, from the date the shares actually were sold short to the date the position was closed
C. Generally always treated as long-term regardless of any holding period, since a short sale generally is excluded from the ordinary short-term versus long-term holding period analysis
D. Generally always treated as short-term regardless of any holding period, since a short sale generally can never qualify for the more favorable long-term capital gain rate

**23.** A taxpayer purchased a corporate bond at a discount to its own stated redemption price, and the bond's own terms provide for original issue discount accruing over the bond's own term. How is this specific original issue discount generally treated?

A. Generally entirely tax-exempt until the bond actually matures or is sold, at which point the entire accumulated original issue discount becomes taxable in a single year

B. Generally includible in the taxpayer's own gross income as it accrues each year, even though the taxpayer does not actually receive a corresponding cash payment representing that accrued amount

C. Generally treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to a gain on the eventual sale of the bond

D. Generally treated as a nontaxable return of the taxpayer's own original purchase price, rather than as any form of currently accruing taxable interest income

**24.** A taxpayer owns a vacation home that was rented to unrelated tenants for 200 days during the year and also used personally by the taxpayer for 25 days during that same year. How is this specific property generally classified for purposes of the vacation home rules?

A. Generally classified solely as rental property regardless of the taxpayer's own personal use, since any property actually rented for more than half the year generally is excluded from the vacation home rules

B. Generally classified solely as the taxpayer's own personal residence, with no rental-related deduction of any kind available despite the substantial number of days actually rented

C. Generally classified based exclusively on which use, personal or rental, generated the greater dollar amount of value for the taxpayer during that particular tax year

D. Generally classified as a residence rather than solely as rental property, since the taxpayer's own personal use exceeded the greater of 14 days or 10% of the days actually rented

**25.** A taxpayer regularly engages in an activity generating income, such as selling handmade crafts, but the activity consistently generates losses year after year and the taxpayer has not taken steps generally associated with operating the activity in a businesslike manner. How is this specific activity generally treated?

A. Generally treated as a trade or business in every case, regardless of the activity's own consistent losses or the taxpayer's own lack of businesslike operating practices

B. Generally treated as entirely tax-exempt, since a hobby activity generally is excluded from gross income reporting requirements regardless of the income actually generated

C. Generally treated as passive investment income, subjecting the activity's own income to the same passive activity loss limitation that generally applies to a rental property

D. Generally treated as a hobby rather than as a trade or business, meaning the resulting income remains taxable while the associated expenses generally are not deductible under current law

**26.** A taxpayer's employer provides group-term life insurance coverage exceeding $50,000, and the employer pays the full premium for this specific employer-provided coverage. How is the cost of coverage above the $50,000 threshold generally treated?

A. Generally entirely tax-exempt regardless of the total coverage amount, since employer-provided group-term life insurance generally is excluded from taxable income without any dollar limit
B. Generally includible in the employee's own gross income only if the employee actually receives an eventual death benefit payment under the policy during the same tax year
C. Generally includible in the employee's own gross income as imputed income, calculated using the IRS's own uniform premium table rather than the employer's own actual premium cost
D. Generally treated as self-employment income, subjecting the excess coverage cost to self-employment tax rather than to any form of imputed ordinary income treatment

**27.** A taxpayer age 72 directed the trustee of the taxpayer's own traditional IRA to transfer a distribution directly to a qualified charity, satisfying all applicable requirements for a qualified charitable distribution. How is this specific distribution generally treated?

A. Generally excludable from the taxpayer's own gross income, and generally may count toward satisfying the taxpayer's own required minimum distribution for the year
B. Generally fully includible in the taxpayer's own gross income as ordinary income, with a separate offsetting itemized charitable deduction then generally available for the identical amount
C. Generally includible in gross income only above a specific annual statutory dollar threshold, with any amount below that threshold generally excluded entirely from taxable income
D. Generally treated as a taxable early distribution subject to the 10% penalty, regardless of the taxpayer's own age at the time the distribution actually was made

**28.** A taxpayer inherited a traditional IRA from a parent who was not the taxpayer's spouse, and the taxpayer, as a non-eligible designated beneficiary, must generally withdraw the entire inherited account within ten years. How are these specific withdrawals from the inherited account generally treated?

A. Generally each withdrawal is entirely tax-exempt to the beneficiary, since an inherited traditional IRA generally passes to a non-spouse beneficiary free of any further income tax

B. Generally each withdrawal is includible in the beneficiary's own gross income as ordinary income, in the same manner the original account owner would have been taxed

C. Generally each withdrawal is treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to an inherited capital asset

D. Generally each withdrawal is treated as self-employment income, subjecting the inherited distribution to self-employment tax in addition to any regular income tax that might apply

**29.** A taxpayer received a back pay award as part of a settlement resolving an employment discrimination lawsuit against a former employer, structured as compensation for wages the taxpayer would have earned absent the discriminatory conduct. How is this specific back pay award generally treated?

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

B. Generally entirely tax-exempt, since a back pay award arising from an employment discrimination lawsuit generally is treated as a nontaxable personal injury settlement

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

D. Generally treated as a nontaxable return of the taxpayer's own capital, rather than as any form of currently taxable compensation for lost wages

**30.** A taxpayer received a settlement payment that included both compensatory damages for a documented physical injury and a separate award of punitive damages arising from the same underlying lawsuit. How is the punitive damages portion generally treated?

A. Generally entirely tax-exempt, since punitive damages arising from the identical lawsuit as an excludable physical injury settlement generally share the same tax-exempt treatment

B. Generally fully includible in the taxpayer's own gross income as taxable income, even though the compensatory damages for the documented physical injury generally remain excludable

C. Generally taxable only at a reduced flat 10% rate reserved for a punitive damages award, rather than being fully includible at the taxpayer's own ordinary income tax rate

D. Generally treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to a gain on a capital asset sale

**31.** A taxpayer holds Treasury Inflation-Protected Securities in a taxable brokerage account, and the securities' own principal value increased during the year due to an inflation adjustment, even though the taxpayer received no separate cash payment representing that specific increase. How is this specific inflation adjustment generally treated?

A. Generally entirely tax-exempt until the securities actually mature or are sold, at which point the entire accumulated inflation adjustment becomes taxable in a single year

B. Generally treated as a capital gain rather than as ordinary income, exactly the same treatment that generally applies to a gain on the eventual sale of the securities

C. Generally includible in the taxpayer's own gross income as taxable interest income in the year the adjustment actually occurs, despite the taxpayer not receiving a corresponding cash payment

D. Generally treated as a nontaxable return of the taxpayer's own original invested principal, rather than as any form of currently taxable interest income for the year

**32.** A taxpayer's self-directed IRA invests in an operating business structured as a partnership, and the IRA's own allocable share of that partnership's income constitutes unrelated business taxable income under the applicable rules. How is this specific unrelated business taxable income generally treated?

A. Generally the IRA's own otherwise tax-advantaged status generally fully shields all income earned within the account from any tax, regardless of the underlying investment's own character

B. Generally the individual IRA owner personally, rather than the IRA itself, generally owes any resulting unrelated business income tax directly on that owner's own individual return

C. Generally unrelated business taxable income generally cannot ever arise within an IRA under any circumstance, since an IRA generally is statutorily barred from any partnership investment

D. Generally the IRA itself generally may owe a separate unrelated business income tax on the income, despite the IRA's own otherwise tax-advantaged status under current law

**33.** A taxpayer took a loan against the cash value of a permanent life insurance policy during the year, and the policy remained in force with the loan outstanding at year-end. How is this specific policy loan generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary income in the year the loan actually is taken, exactly the same treatment that generally applies to an actual policy surrender

B. Generally not currently taxable, since a policy loan against the cash value of an in-force life insurance policy generally is not treated as a taxable distribution

C. Generally taxable only at a reduced flat 10% rate reserved for a policy loan, rather than being entirely excluded from taxable income while the policy remains in force

D. Generally treated as self-employment income, subjecting the policy loan amount to self-employment tax rather than to any form of exclusion from current taxation

**34.** A taxpayer received restricted stock from an employer that remains subject to a substantial risk of forfeiture until a future vesting date, and the taxpayer did not make a timely Section 83(b) election with respect to this specific grant. How is the stock's own value generally treated?

A. Generally includible in the taxpayer's own gross income as ordinary income at the fair market value on the earlier grant date, rather than on the later vesting date

B. Generally entirely tax-exempt at both the grant date and the vesting date, since restricted stock generally is excluded from taxable compensation under current federal tax law

C. Generally includible in the taxpayer's own gross income as ordinary income at the fair market value on the date the stock actually vests, rather than on the earlier grant date

D. Generally treated as a capital gain rather than as ordinary income at vesting, exactly the same treatment that generally applies to the eventual sale of the vested shares

**35.** A taxpayer sold shares of stock at a loss, and within the applicable window before the sale, a different account the taxpayer's own spouse controls purchased substantially identical replacement shares of the same stock. 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 to a purchase made by the identical taxpayer, not by that taxpayer's own spouse

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 original sale

C. Generally converted into an ordinary loss rather than a capital loss, rather than being disallowed under the applicable wash sale rule for this specific spousal purchase

D. Generally disallowed under the wash sale rule, since a purchase made by the taxpayer's own spouse within the applicable window generally is attributed to the taxpayer for this specific purpose

**36.** A taxpayer received a stock dividend from a corporation in which the taxpayer already held shares, receiving additional shares of the identical class of stock proportionate to the taxpayer's own existing holding, with no option to instead receive cash. How is this specific stock dividend generally treated?

A. Generally not currently taxable, with the taxpayer's own original basis instead spread across both the original shares and the newly received additional shares

B. Generally fully taxable as ordinary income at the fair market value of the newly received shares on the date of distribution, the same treatment as a cash dividend

C. Generally taxable as a capital gain equal to the fair market value of the newly received shares, rather than being treated as a currently nontaxable stock distribution

D. Generally treated as self-employment income, subjecting the newly received shares to self-employment tax rather than to any form of exclusion from current taxation

**37.** A taxpayer drove a personal vehicle while performing volunteer services for a qualified charitable organization, and the taxpayer wants to deduct the associated vehicle expense as a charitable contribution. How is this specific mileage generally treated?

A. Generally deductible using the identical standard business mileage rate applicable to the taxpayer's own trade or business travel, rather than any separate charitable mileage rate

B. Generally not deductible at all, since mileage driven while performing volunteer services generally is treated as a nondeductible personal expense under current law

C. Generally deductible using the applicable standard charitable mileage rate, a fixed statutory rate that generally is lower than the standard business mileage rate

D. Generally deductible only as a miscellaneous itemized deduction subject to the 2% adjusted gross income floor that historically applied to that specific deduction category

**38.** A taxpayer donated used clothing and household items to a qualified charitable organization, and the total claimed value of the noncash donation for the year exceeded $500. What is the general specialized form generally required to report this specific noncash donation?

A. Generally no specialized form is required at all for this specific noncash donation, since a noncash contribution generally requires no separate reporting beyond the standard itemized deduction schedule

B. Generally Form 8283, Noncash Charitable Contributions, generally is required to report the details of a noncash donation once the total claimed value for the year exceeds $500

C. Generally Form 8283 generally is required only once the total claimed value exceeds $5,000, with no separate reporting form required for a donation below that higher threshold

D. Generally Form 1099-C generally is the form required to report this specific noncash donation, rather than any form specifically designed for a noncash charitable contribution

**39.** A taxpayer donated a used vehicle to a qualified charitable organization, and the organization sold the vehicle rather than using it for the organization's own exempt purpose, and the sale generated proceeds below the vehicle's own claimed fair market value. How is the deductible amount generally treated?

A. Generally limited to the actual gross proceeds the charity received from selling the vehicle, rather than the vehicle's own higher claimed fair market value at the time of donation

B. Generally equal to the vehicle's own full claimed fair market value at the time of donation, regardless of the actual proceeds the charity later received from selling it

C. Generally equal to the vehicle's own original purchase price the taxpayer originally paid, rather than either the fair market value or the actual proceeds from any later sale

D. Generally entirely nondeductible, since a donated vehicle the charity subsequently sells rather than uses directly generally is disqualified entirely from any charitable deduction

**40.** A taxpayer contributed appreciated stock held for only eight months to a qualified public charity. How is the taxpayer's own deductible charitable contribution amount generally limited given this specific short-term holding period?

A. Generally the deduction generally is based on the stock's own full fair market value regardless of the holding period, exactly the same treatment that generally applies to long-term appreciated stock

B. Generally the contribution generally is entirely nondeductible, since only cash, rather than appreciated stock, generally qualifies for any charitable contribution deduction under current law

C. Generally the deduction generally is based on the stock's own original purchase price plus a fixed statutory percentage markup, rather than either the cost basis or fair market value

D. Generally limited to the taxpayer's own cost basis in the stock, rather than the stock's own higher fair market value, since the stock was not held long-term at the time of the gift

**41.** A taxpayer's personal vehicle was stolen from a driveway during the year, an ordinary theft unrelated to any federally declared disaster, and the taxpayer's insurance did not reimburse any portion of the loss. How is this specific theft loss generally treated as an itemized deduction under current law?

A. Generally fully deductible as an itemized deduction, subject to the applicable per-event and adjusted-gross-income floors, regardless of whether the loss actually arose from a federally declared disaster
B. Generally not deductible, since a personal casualty or theft loss not arising from a federally declared disaster generally is not deductible as an itemized deduction under current law
C. Generally deductible only as a business expense on Schedule C, rather than as any form of itemized deduction available to an individual taxpayer for a personal-use vehicle
D. Generally deductible above the line, available even to a taxpayer who claims the standard deduction instead of itemizing deductions for the year, regardless of the disaster requirement

**42.** A taxpayer paid mortgage interest during the year on acquisition debt used to purchase the taxpayer's own principal residence, and the total acquisition debt balance exceeded the applicable current-law limitation for deducting home mortgage interest. How is the interest generally treated in this specific circumstance?

A. Generally the entire amount of interest paid remains fully deductible regardless of the total acquisition debt balance, since current law generally imposes no dollar limitation on acquisition debt
B. Generally none of the interest paid is deductible at all once the acquisition debt balance exceeds the applicable current-law limitation, regardless of how far the balance actually exceeds that limit
C. Generally the interest deduction generally is limited to a fixed flat dollar amount regardless of the taxpayer's own actual acquisition debt balance or the current-law limitation itself
D. Generally the interest deduction generally is limited proportionally, based on the ratio of the applicable debt limitation to the taxpayer's own actual total acquisition debt balance

**43.** A taxpayer paid investment interest expense during the year on a loan used to purchase taxable investment securities, and the taxpayer's net investment income for the year was lower than the interest expense actually paid. How is the excess investment interest expense generally treated?

A. Generally the excess investment interest expense generally is entirely forfeited at year-end, with no carryforward of any kind permitted under current federal tax law
B. Generally the excess investment interest expense generally is fully deductible in the current year regardless of the taxpayer's own net investment income limitation for that year
C. Generally the excess investment interest expense generally may be carried forward and deducted in a future tax year, once the taxpayer actually has sufficient net investment income to absorb it

D. Generally the excess investment interest expense generally converts automatically into a nondeductible personal interest expense, rather than being available for any future-year carryforward

**44.** A taxpayer refinanced the mortgage on the taxpayer's own principal residence, paying points at closing on the new refinancing loan rather than on an original purchase-money mortgage. How are these specific refinancing points generally treated?

A. Generally must be amortized and deducted ratably over the full term of the new refinancing loan, rather than being deducted in full in the year the points actually were paid
B. Generally fully deductible in the year paid, exactly the same treatment that generally applies to points paid on an original loan used to purchase a principal residence
C. Generally entirely nondeductible in every case, since points paid on a refinancing loan generally are treated as a nondeductible closing cost regardless of the loan's own purpose
D. Generally deductible only as a miscellaneous itemized deduction subject to the 2% adjusted gross income floor that historically applied to that specific deduction category

**45.** A taxpayer pays for care for the taxpayer's own spouse, who is physically incapable of self-care, allowing the taxpayer to work full-time, and the spouse otherwise has no other disqualifying characteristic. How is the spouse generally treated for purposes of the child and dependent care credit's own qualifying person definition?

A. Generally the spouse generally can never qualify as a qualifying person for this specific credit under any circumstance, since the credit generally is limited exclusively to the care of a minor child
B. Generally the spouse generally qualifies only if the couple also has a minor child living in the same household, rather than qualifying independently based on the spouse's own incapacity alone
C. Generally the spouse generally can qualify as a qualifying person for purposes of the child and dependent care credit, since the credit's own definition extends beyond a minor child to a spouse incapable of self-care
D. Generally the spouse generally qualifies only for the Credit for Other Dependents instead, rather than for the separate child and dependent care credit under current federal tax law

**46.** A taxpayer claims the Earned Income Tax Credit, and the taxpayer does not have a qualifying child but otherwise satisfies the applicable age, residency, and income requirements for the credit. How is this specific taxpayer generally treated regarding eligibility for the credit?

A. Generally the taxpayer generally is entirely ineligible for the Earned Income Tax Credit, since the credit generally requires at least one qualifying child under current federal tax law

B. Generally the taxpayer generally remains eligible for the Earned Income Tax Credit at a reduced maximum credit amount, since the credit remains available to an eligible taxpayer without a qualifying child

C. Generally the taxpayer generally becomes eligible for the identical maximum credit amount available to a taxpayer claiming three or more qualifying children under current federal tax law

D. Generally the taxpayer generally must instead claim the Child Tax Credit in place of the Earned Income Tax Credit, since the two credits generally cannot both apply to the identical taxpayer

**47.** A taxpayer with a disability contributed to the taxpayer's own ABLE account, a tax-advantaged savings account for a qualifying individual with a disability, and the taxpayer also otherwise meets the general eligibility requirements for the Retirement Savings Contributions Credit. How is this specific ABLE account contribution generally treated for purposes of that credit?

A. Generally a contribution to an ABLE account generally can never qualify for the Retirement Savings Contributions Credit under any circumstance, since the credit generally is limited exclusively to a traditional retirement account contribution

B. Generally a contribution to an ABLE account generally qualifies for an entirely separate, larger, and fully refundable credit rather than for the standard Retirement Savings Contributions Credit itself

C. Generally a contribution to an ABLE account generally qualifies only if the taxpayer also separately contributes an identical dollar amount to a traditional or Roth IRA in the same tax year

D. Generally an eligible designated beneficiary's own contribution to an ABLE account generally can qualify for the Retirement Savings Contributions Credit, subject to the credit's own applicable income-based percentage and dollar limits

**48.** A taxpayer purchased a principal residence using a mortgage credit certificate issued by a state or local housing finance agency. What is the general effect of holding this specific mortgage credit certificate on the taxpayer's own federal tax liability?

A. Generally allows the taxpayer to claim a nonrefundable federal tax credit equal to a specified percentage of the mortgage interest actually paid during the year, in place of a corresponding itemized deduction for that same interest

B. Generally allows the taxpayer to claim a fully refundable federal tax credit equal to the entire mortgage interest amount actually paid during the year, without any percentage limitation

C. Generally has no effect at all on the taxpayer's own federal tax liability, since a mortgage credit certificate generally is treated exclusively as a state-level benefit under current law

D. Generally allows the taxpayer to claim an itemized deduction equal to double the mortgage interest amount actually paid during the year, rather than any form of federal tax credit

**49.** A taxpayer paid foreign income tax on foreign-source dividend income during the year, and the total foreign tax paid fell below the applicable simplified de minimis threshold for claiming the foreign tax credit without filing the full Form 1116. How is this specific foreign tax credit generally claimed?

A. Generally the taxpayer generally must always file Form 1116 to claim any foreign tax credit at all, regardless of how small the total foreign tax paid actually was for the year

B. Generally the taxpayer generally cannot claim the foreign tax credit at all once the total foreign tax paid falls below the applicable simplified de minimis threshold for the year

C. Generally the taxpayer generally must instead claim the foreign tax paid as an itemized deduction rather than as a credit, once the amount falls below the applicable threshold

D. Generally the taxpayer generally may claim the foreign tax credit directly without filing Form 1116, provided the total foreign tax paid falls below the applicable simplified de minimis threshold and other requirements are met

**50.** A taxpayer volunteers regularly for a qualified charitable organization, personally performing skilled professional services, such as legal or accounting work, without receiving any compensation for the time contributed. How is the fair market value of this specific volunteered time or service generally treated as a charitable contribution?

A. Generally not deductible, since the fair market value of a taxpayer's own personal time or services, even skilled professional services, generally is not deductible as a charitable contribution

B. Generally fully deductible at the fair market value the taxpayer would otherwise have charged a paying client for the identical skilled professional services actually performed

C. Generally deductible at a reduced flat hourly rate set annually by the IRS specifically for a volunteer's own donated skilled professional services

D. Generally deductible only if the charitable organization separately issues a written acknowledgment stating the specific fair market value of the volunteered service actually performed

**51.** A taxpayer who is an employee, rather than self-employed, incurred unreimbursed employee business expenses during the year, such as professional dues and supplies, and the taxpayer does not fall within a special statutory exception category. How are these specific unreimbursed employee business expenses generally treated under current law?

A. Generally fully deductible as a miscellaneous itemized deduction, subject to the same 2% adjusted gross income floor that historically applied to that specific deduction category under prior law

B. Generally not deductible, since the miscellaneous itemized deduction for unreimbursed employee business expenses generally was suspended under current law for a taxpayer outside a special exception category

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

D. Generally deductible without any limitation at all, since current law generally expanded rather than suspended the deduction for a typical employee's own unreimbursed business expense

**52.** A taxpayer serves as a member of a reserve component of the Armed Forces and traveled more than 100 miles from home overnight to attend a required reserve drill, incurring unreimbursed travel expenses. How are these specific unreimbursed reservist travel expenses generally treated?

A. Generally deductible only as a miscellaneous itemized deduction, unavailable to a taxpayer who instead claims the standard deduction rather than itemizing deductions for the year

B. Generally entirely nondeductible under current law, since the deduction for a reservist's own unreimbursed travel expense generally was eliminated along with other unreimbursed employee expenses

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

D. Generally deductible only if the reservist's own travel distance exceeded 500 miles from home, rather than the lower 100-mile threshold that actually applies under current law

**53.** A taxpayer's household is located in an area the President formally declared a federal disaster, and the taxpayer's own personal casualty loss from that specific disaster exceeded the taxpayer's own itemized deductions otherwise available for the year, such that the taxpayer would benefit more from itemizing than from the standard deduction solely because of the disaster loss. What is the general recommended practice?

A. Generally recommends itemizing deductions for the year, claiming the disaster loss as an itemized deduction, since a federally declared disaster loss generally remains a permitted itemized deduction under current law

B. Generally recommends claiming the standard deduction regardless of the disaster loss amount, since a federally declared disaster loss generally cannot be claimed as an itemized deduction under current law

C. Generally recommends splitting the disaster loss deduction evenly between the standard deduction and an itemized deduction, rather than choosing exclusively between the two available approaches

D. Generally recommends amending a prior-year return instead of claiming the disaster loss on the current-year return, regardless of which specific year the loss actually was sustained

**54.** A taxpayer received advance premium tax credit payments during the year toward Marketplace health insurance coverage, and upon reconciling the credit on Form 8962, the taxpayer's actual allowable credit was lower than the advance payments actually received, and the taxpayer's household income fell within a moderate range relative to the federal poverty line. How is the resulting excess advance payment generally treated?

A. Generally the taxpayer generally must repay the entire excess advance payment in full without any applicable repayment limitation, regardless of the taxpayer's own household income level

B. Generally the taxpayer generally has no repayment obligation at all, since any excess advance premium tax credit payment generally is forgiven automatically under current federal tax law

C. Generally the taxpayer generally must repay some or all of the excess advance payment, though the repayment amount generally is capped at an applicable dollar limitation based on household income relative to the federal poverty line

D. Generally the taxpayer generally may elect to repay the excess advance payment over a period of up to five years, rather than repaying the capped amount in a single year

**55.** A taxpayer paid tuition and required fees for the taxpayer's own graduate-level coursework at an eligible educational institution, coursework not eligible for the American Opportunity Tax Credit since the taxpayer already completed the first four years of postsecondary education. How is this specific graduate-level tuition generally treated for education credit eligibility?

A. Generally entirely ineligible for any education credit, since graduate-level coursework generally is categorically excluded from either the American Opportunity Tax Credit or the Lifetime Learning Credit

B. Generally eligible for the Lifetime Learning Credit, since that credit generally remains available for graduate-level coursework at an eligible institution regardless of the taxpayer's own prior undergraduate credit history

C. Generally eligible only for the American Opportunity Tax Credit instead, with the Lifetime Learning Credit generally being entirely unavailable for this specific type of graduate-level coursework

D. Generally eligible only if the taxpayer's own graduate program leads to a professional license, rather than being available for any other type of graduate-level degree program

**56.** A taxpayer paid for a service animal specifically trained to assist with a documented medical condition, such as a guide dog for a visually impaired taxpayer, including the costs of buying, training, and maintaining the animal. How are these specific service animal costs generally treated as a medical expense?

A. Generally not deductible at all as a medical expense, since any animal-related cost generally is treated as a purely personal expense regardless of the animal's own specific training

B. Generally deductible only for the initial purchase cost of the service animal, while the animal's ongoing training and maintenance costs generally are excluded from the deduction

C. Generally deductible only up to a fixed statutory dollar cap specifically reserved for a service animal under current federal tax law, unlike most other qualifying medical expenses

D. Generally deductible as a medical expense, since the cost of buying, training, and maintaining a service animal trained to assist with a documented medical condition generally qualifies under current federal tax law

**57.** A taxpayer's spouse died two years ago, and the taxpayer has maintained a household for a dependent child ever since, remaining unmarried through the current tax year. How is the taxpayer's own eligibility for qualifying surviving spouse filing status generally treated for the current year?

A. Generally the taxpayer generally remains eligible for qualifying surviving spouse filing status indefinitely, so long as the taxpayer continues maintaining a household for the dependent child

B. Generally the taxpayer generally becomes eligible for qualifying surviving spouse filing status for the first time only in the third year following the spouse's death, rather than in either of the two immediately following years

C. Generally the taxpayer generally must instead file as married filing jointly for the current year, since a deceased spouse's own filing status generally continues automatically for every future year

D. Generally the taxpayer generally is no longer eligible for qualifying surviving spouse filing status, since this specific status generally is available only for the two tax years immediately following the year of the spouse's death

**58.** A married taxpayer filing separately from a spouse has net investment income for the year, and the taxpayer's modified adjusted gross income exceeds the applicable Net Investment Income Tax threshold for the married filing separately status. How does this specific threshold generally compare to the threshold for a taxpayer using another filing status?

A. Generally the married filing separately threshold generally is identical to the threshold for a taxpayer filing jointly, since the Net Investment Income Tax threshold generally does not vary at all by filing status

B. Generally the married filing separately threshold generally is considerably higher than the threshold for a taxpayer filing jointly, the exact reverse of the actual general relationship between the two thresholds

C. Generally the married filing separately threshold generally is considerably lower than the threshold for a taxpayer filing jointly or as head of household, and generally is not adjusted annually for inflation

D. Generally the married filing separately threshold generally adjusts annually for inflation at a faster rate than the threshold applicable to a taxpayer filing jointly under current law

**59.** A self-employed taxpayer's net earnings from self-employment for the year exceeded the applicable statutory threshold triggering the Additional Medicare Tax. How does the Additional Medicare Tax generally apply to this specific self-employment income, as distinct from wage income?

A. Generally the Additional Medicare Tax generally applies to net earnings from self-employment exceeding the applicable threshold, in a manner generally similar to how the tax applies to wage income exceeding that same threshold

B. Generally the Additional Medicare Tax generally applies exclusively to wage income earned as a common-law employee, with self-employment income being entirely exempt from this specific additional tax

C. Generally the Additional Medicare Tax generally applies to self-employment income at double the rate that generally applies to an equivalent amount of wage income under current law

D. Generally the Additional Medicare Tax generally applies only to a self-employed taxpayer who also separately earns wage income from an unrelated employer during the same tax year

**60.** A taxpayer wants to file a claim for a refund based on a bad debt that became entirely worthless during a prior tax year, a claim generally subject to a longer statute of limitations than the standard refund claim period. What is the general special limitations period applicable to this specific type of claim?

A. Generally the identical three-year period that generally applies to a standard refund claim, with no special extended limitations period available for a worthless bad debt claim

B. Generally seven years from the date the original return was filed, rather than the shorter general three-year period that otherwise applies to a standard refund claim

C. Generally two years from the date the original return was filed, a shorter period than the general three-year period that otherwise applies to a standard refund claim

D. Generally there generally is no applicable limitations period at all for this specific type of claim, meaning a worthless bad debt refund claim generally may be filed at any time

**61.** A taxpayer's self-employment income arrives unevenly throughout the year, with most income earned in the fourth quarter, and the taxpayer wants to avoid an estimated tax underpayment penalty for the earlier quarters despite the uneven income pattern. What is the general method available for this specific circumstance?

A. Generally no special method exists at all for uneven income, requiring every taxpayer to calculate each quarterly estimated payment as if income were earned evenly throughout the year

B. Generally the annualized income installment method generally allows the taxpayer to calculate each quarterly required payment based on income actually earned through that specific point in the year, rather than assuming even income throughout the year

C. Generally the taxpayer generally must instead request a formal penalty waiver from the IRS after the fact, rather than using any specific method to calculate the estimated payments themselves

D. Generally the annualized income installment method generally applies only to a corporate taxpayer, with a self-employed individual taxpayer being entirely ineligible to use this specific method

**62.** A taxpayer's net capital loss for the year, after applying the annual $3,000 limitation against ordinary income, still has a substantial remaining unused balance. How long does this specific remaining capital loss carryforward generally last?

A. Generally the capital loss carryforward generally is limited to a maximum of five succeeding tax years, after which any remaining unused balance generally is forfeited entirely

B. Generally the capital loss carryforward generally is limited to a maximum of exactly one succeeding tax year, after which any remaining unused balance generally is forfeited entirely

C. Generally the capital loss carryforward generally lasts indefinitely, carried forward to each succeeding tax year, retaining its own original short-term or long-term character, until fully used

D. Generally the capital loss carryforward generally converts into an ordinary loss carryforward after three years, rather than retaining its own original capital loss character indefinitely

**63.** A taxpayer sold a principal residence owned and used as the taxpayer's main home for two of the five years preceding the sale, satisfying the applicable ownership and use tests, and the taxpayer is unmarried. Up to what general amount of gain may this taxpayer generally exclude from gross income?

A. Generally up to $500,000 of gain generally may be excluded from gross income for a single taxpayer, the identical higher exclusion amount generally reserved for a married couple filing jointly
B. Generally the entire gain, without any dollar limitation at all, generally may be excluded from gross income once the taxpayer satisfies the applicable two-of-five-year ownership and use tests
C. Generally no portion of the gain generally may be excluded from gross income unless the taxpayer also is age 55 or older at the time of the sale under current law
D. Generally up to $250,000 of gain generally may be excluded from gross income for a single taxpayer who satisfies the ownership and use tests, provided the exclusion has not been used within the preceding two years

**64.** A taxpayer sold a principal residence after owning and using it for only fourteen months, short of the standard two-year ownership and use requirement, because the taxpayer's employer required a sudden job relocation to a distant city. How is the home sale exclusion generally treated given this specific unforeseen circumstance?

A. Generally a partial exclusion generally is available, prorated based on the portion of the two-year period the taxpayer actually satisfied, since a job-related relocation generally qualifies as a recognized exception to the standard two-year requirement
B. Generally no exclusion at all is available, since the taxpayer generally must strictly satisfy the full two-year ownership and use requirement without any exception under current federal tax law
C. Generally the full $250,000 or $500,000 exclusion generally remains fully available despite the shortened period, since a job-related relocation generally waives the two-year requirement entirely rather than merely prorating it
D. Generally the exclusion generally is available only if the taxpayer's new job relocation distance exceeds a specific number of miles from the taxpayer's own prior residence

**65.** A payee failed to provide a correct taxpayer identification number to a payer despite repeated requests, triggering the payer's own obligation to begin backup withholding on future reportable payments made to that payee. What is the general flat percentage rate generally applied under current law for this specific backup withholding requirement?

A. Generally 10%, a lower flat rate than the actual current statutory backup withholding rate that generally applies under current federal tax law
B. Generally 24%, the current statutory flat backup withholding rate generally applied to a reportable payment made to a payee who failed to provide a correct taxpayer identification number
C. Generally 37%, the current top individual marginal ordinary income tax rate, rather than the lower flat rate that actually applies to backup withholding under current law
D. Generally 6.2%, the current employee-side Social Security tax rate, rather than the considerably higher flat rate that actually applies to backup withholding under current law

**66.** A self-employed taxpayer's sole proprietorship generated a large net business loss for the year, and the net loss exceeded the applicable annual excess business loss limitation for the taxpayer's filing status. How is the disallowed excess portion of this specific business loss generally treated?

A. Generally the disallowed excess business loss generally is forfeited entirely at the end of the current tax year, with no carryforward of any kind permitted under current federal tax law
B. Generally the disallowed excess business loss generally is carried back automatically to the three preceding tax years, rather than carried forward to a future tax year under current law
C. Generally the disallowed excess business loss generally converts into a nondeductible personal loss, rather than remaining available for any future-year business-related carryforward treatment
D. Generally the disallowed excess business loss generally is treated as a net operating loss carryforward, available to offset the taxpayer's own income in a future tax year

**67.** A taxpayer received a dividend from a domestic corporation and wants to know whether it qualifies as a qualified dividend eligible for the preferential capital gain tax rate, based on the taxpayer's own holding period for the underlying stock. What is the general minimum holding period requirement for this specific dividend?

A. Generally the stock generally must be held for more than one full year before the dividend actually is paid, the identical holding period that generally applies to long-term capital gain treatment
B. Generally there generally is no minimum holding period requirement at all, since any dividend from a domestic corporation generally automatically qualifies for the preferential capital gain tax rate

C. Generally the stock generally must be held for more than 60 days during the applicable 121-day period beginning 60 days before the stock's own ex-dividend date

D. Generally the stock generally must be held for more than 30 days during the applicable 90-day period beginning 30 days before the stock's own ex-dividend date

**68.** A taxpayer's alternative minimum taxable income for the year is high enough that the taxpayer's own alternative minimum tax exemption amount begins to phase out under the applicable statutory phase-out rule. How does this specific phase-out generally affect the taxpayer's own alternative minimum tax exposure?

A. Generally as alternative minimum taxable income rises above the applicable phase-out threshold, the exemption amount generally is reduced, increasing the amount of income actually subject to the alternative minimum tax

B. Generally the exemption amount generally increases as alternative minimum taxable income rises above the applicable phase-out threshold, the exact reverse of the actual general phase-out relationship

C. Generally the exemption amount generally remains completely unaffected by the taxpayer's own alternative minimum taxable income level, regardless of how high that income actually rises for the year

D. Generally the exemption amount generally is eliminated entirely and immediately the moment alternative minimum taxable income exceeds the applicable phase-out threshold by even a single dollar

**69.** A taxpayer's estimated tax underpayment penalty generally would otherwise apply for the year, but the taxpayer retired after reaching age 62 during the year or during the preceding tax year, and the underpayment resulted from reasonable cause rather than willful neglect. How is the penalty generally treated in this specific circumstance?

A. Generally the IRS generally may waive the estimated tax underpayment penalty for a taxpayer who retired after reaching age 62, or who became disabled, when the underpayment resulted from reasonable cause

B. Generally the penalty generally always applies in full regardless of the taxpayer's own recent retirement or disability, since no waiver of any kind is available under current federal tax law

C. Generally the penalty generally is automatically waived in full for every taxpayer who has reached age 62, regardless of whether the underpayment actually resulted from reasonable cause

D. Generally the penalty generally is automatically doubled for a taxpayer who retired after reaching age 62, rather than being subject to any possible waiver under current federal tax law

**70.** A first-time homebuyer under age 59½ took a distribution from a traditional IRA to help fund the purchase of a first home, applying the applicable statutory exception up to the specific lifetime dollar limit reserved for this purpose. How is this specific distribution treated regarding the 10% early distribution penalty?

A. Generally entirely tax-exempt and entirely excepted from the 10% penalty without any dollar limitation, since a first-time homebuyer distribution generally is excluded from taxable income altogether

B. Generally still subject to the full 10% penalty in every case, since the first-time homebuyer exception generally applies only to an employer-sponsored plan rather than to an IRA

C. Generally excepted from the 10% early distribution penalty up to a $10,000 lifetime limit for a first-time homebuyer, 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 applicable first-time homebuyer lifetime dollar limit

**71.** A taxpayer's total capital transactions for the year resulted in an overall net capital gain, meaning the taxpayer's net long-term capital gain exceeded any net short-term capital loss for the year. How is this specific net capital gain generally treated for federal income tax purposes?

A. Generally taxed entirely at the taxpayer's own ordinary income tax rate, exactly the same treatment that generally applies to the taxpayer's other regular wage or business income

B. Generally eligible for the preferential long-term capital gain tax rate, generally lower than the taxpayer's own ordinary income tax rate that otherwise would apply to an equivalent amount of ordinary income

C. Generally entirely tax-exempt regardless of the taxpayer's own overall income level, since a net capital gain generally is excluded from taxable income under current federal tax law

D. Generally taxed at a flat 37% rate reserved specifically for a net capital gain, rather than at the generally lower preferential long-term capital gain rate that actually applies

**72.** A taxpayer sold qualified small business stock issued directly by an eligible small business corporation, held for more than five years, realizing a substantial gain on the sale. How is this specific gain generally treated under the applicable qualified small business stock exclusion?

A. Generally the entire gain generally is fully taxable at the taxpayer's own ordinary income tax rate in every case, since no specific exclusion exists for qualified small business stock under current law

B. Generally the entire gain generally is automatically and fully excluded from gross income without any statutory percentage or dollar limitation applying under current federal tax law

C. Generally the gain generally is taxed as self-employment income, subjecting the entire amount to self-employment tax rather than to any capital gain exclusion treatment

D. Generally a portion or all of the gain generally may be excluded from gross income, up to the applicable statutory percentage and dollar limitation, provided the stock satisfies the qualified small business stock requirements

**73.** A self-employed taxpayer paid premiums for self-employed health insurance coverage during the year, and the taxpayer's net self-employment earnings for the year were relatively modest. How does this specific self-employment earnings level generally affect the self-employed health insurance deduction?

A. Generally the self-employed health insurance deduction generally has no relationship at all to the taxpayer's own net self-employment earnings, remaining fully deductible regardless of the earnings level

B. Generally the self-employed health insurance deduction generally is limited to the taxpayer's own net self-employment earnings for the year, meaning the deduction cannot exceed that earnings figure

C. Generally the self-employed health insurance deduction generally is limited instead to the taxpayer's own total household income, rather than to the taxpayer's own specific net self-employment earnings

D. Generally the self-employed health insurance deduction generally is entirely disallowed once net self-employment earnings fall below a specific statutory minimum threshold amount for the year

**74.** A taxpayer who is both age 65 or older and legally blind claims the standard deduction rather than itemizing deductions for the year. How does satisfying both of these specific conditions generally affect the taxpayer's own additional standard deduction amount?

A. Generally the taxpayer generally receives only a single additional standard deduction amount total, since a taxpayer generally cannot combine the age-based and blindness-based additional amounts

B. Generally the taxpayer generally receives no additional standard deduction amount at all, since satisfying both conditions simultaneously generally disqualifies the taxpayer from either separate additional amount

C. Generally the taxpayer generally receives two separate additional standard deduction amounts, one for reaching age 65 and a separate one for blindness, both added on top of the regular standard deduction

D. Generally the taxpayer generally receives triple the standard additional deduction amount, rather than simply two separate additional amounts stacked on top of the regular standard deduction

**75.** A high-income taxpayer whose modified adjusted gross income exceeds the applicable phase-out threshold for a direct Roth IRA contribution asks a preparer for general guidance on an alternative strategy commonly known as a backdoor Roth IRA. What is the general advising point regarding this specific strategy?

A. A preparer should advise the taxpayer that no strategy of any kind exists to fund a Roth IRA once modified adjusted gross income exceeds the applicable phase-out threshold
B. A preparer should advise the taxpayer that a nondeductible traditional IRA contribution can never later be converted to a Roth IRA, regardless of the taxpayer's own income level
C. A preparer should advise the taxpayer that converting a nondeductible traditional IRA contribution to a Roth IRA always triggers the full 10% early distribution penalty regardless of age
D. A preparer should advise the taxpayer that making a nondeductible traditional IRA contribution and then converting it to a Roth IRA can achieve a similar result, though the taxpayer should understand the pro-rata rule if other pretax IRA funds exist

**76.** A taxpayer who is age 66 and enrolled in Medicare asks a preparer for general guidance on the advantage of taking a nonqualified distribution from a Health Savings Account now that the taxpayer has reached this specific age. What is the general advising point regarding this specific comparison to the treatment before age 65?

A. A preparer should advise the taxpayer that after age 65 a nonqualified Health Savings Account distribution is taxed as ordinary income but no longer subject to the 20% penalty that applied before that age
B. A preparer should advise the taxpayer that a nonqualified Health Savings Account distribution remains subject to both ordinary income tax and the 20% penalty regardless of the taxpayer's own age
C. A preparer should advise the taxpayer that a nonqualified Health Savings Account distribution becomes entirely tax-free once the taxpayer reaches age 65, with neither tax nor penalty applying
D. A preparer should advise the taxpayer that a Health Savings Account can no longer be accessed for any purpose at all once the taxpayer enrolls in Medicare coverage

**77.** A taxpayer who must take a required minimum distribution from a traditional IRA and who also regularly makes charitable contributions asks a preparer for general guidance on directing the distribution to charity through a qualified charitable distribution rather than taking the distribution as cash and separately donating it. What is the general advising point?

A. A preparer should advise that taking the distribution as cash and separately donating it to charity always produces an identical or better tax result than a qualified charitable distribution
B. A preparer should advise that a qualified charitable distribution excludes the amount from gross income directly, which can be more valuable than taking the cash and claiming an itemized deduction, especially for a taxpayer who otherwise claims the standard deduction
C. A preparer should advise that a qualified charitable distribution is available only to a taxpayer who itemizes deductions, with no benefit at all available to a taxpayer claiming the standard deduction
D. A preparer should advise that a qualified charitable distribution increases the taxpayer's own adjusted gross income, the exact reverse of the actual general effect of this specific strategy

**78.** A taxpayer expects unusually low taxable income for the current year, placing the taxpayer within the 0% long-term capital gain bracket, and the taxpayer holds substantially appreciated stock with a large unrealized gain. What is the general advising point regarding realizing some of that gain during this specific low-income year?

A. A preparer should advise the taxpayer to consider selling enough appreciated stock to fill up the 0% capital gain bracket, since the gain recognized within that bracket can be realized federally tax-free
B. A preparer should advise the taxpayer that realizing a long-term capital gain during a low-income year always triggers a higher tax rate than realizing the identical gain during a high-income year
C. A preparer should advise the taxpayer to avoid selling any appreciated stock during a low-income year, since the 0% capital gain bracket generally is unavailable to any taxpayer regardless of income level
D. A preparer should advise the taxpayer that the capital gain tax rate is unrelated to the taxpayer's own taxable income level, remaining fixed regardless of how much other income the taxpayer has

**79.** A taxpayer nearing retirement is offered a choice between a lump-sum pension distribution and a series of guaranteed monthly annuity payments from the same employer-sponsored pension plan. What is the general advising point regarding the tax treatment differences between these two specific payout options?

A. A preparer should advise that both the lump-sum distribution and the monthly annuity payments are entirely tax-free regardless of how the taxpayer elects to receive the pension benefit

B. A preparer should advise that only the monthly annuity payments are ever taxable, while a lump-sum pension distribution generally is entirely excluded from gross income under current law

C. A preparer should advise that a lump sum is generally fully taxable in the year received unless properly rolled over to an IRA, while the monthly annuity payments are taxed as ordinary income spread across each year actually received

D. A preparer should advise that the lump sum and the annuity payments are taxed at an identical fixed flat rate, regardless of the taxpayer's own other income or the timing of receipt

**80.** A taxpayer wants to build an emergency fund while also earning a return that helps offset inflation, and asks a preparer for general guidance on the tax treatment of interest earned on Series I savings bonds compared to a taxable brokerage account holding a similar short-term investment. What is the general advising point?

A. A preparer should advise that interest on Series I savings bonds is fully taxable each year it accrues at both the federal and state level, identical to interest in a typical taxable brokerage account

B. A preparer should advise that interest on Series I savings bonds is entirely exempt from federal income tax under every circumstance, regardless of how the bond proceeds ultimately are used

C. A preparer should advise that Series I savings bonds cannot be purchased directly by an individual taxpayer, making any comparison to a taxable brokerage account irrelevant for planning purposes

D. A preparer should advise that interest on Series I savings bonds is exempt from state and local income tax and can be deferred federally until the bonds are redeemed or mature, unlike interest credited annually in a typical taxable account

**81.** A taxpayer who owes a significant balance each year despite otherwise timely filing asks a preparer for general guidance on whether increasing wage withholding, rather than continuing to rely on quarterly estimated payments from a side business, might simplify the taxpayer's own compliance going forward. What is the general advising point?

A. A preparer should advise that withholding and estimated payments are treated identically for penalty purposes regardless of timing, so increasing withholding provides no advantage over an equivalent increase in a later estimated payment

B. A preparer should advise that increasing wage withholding is never permitted once a taxpayer has also begun making quarterly estimated payments during the same tax year

C. A preparer should advise that withholding is treated as paid evenly throughout the year regardless of when it actually is withheld, so increasing withholding late in the year can still help avoid an underpayment penalty that quarterly estimates paid late in the year would not avoid

D. A preparer should advise that only a quarterly estimated payment, and never withholding, can ever be used to satisfy the taxpayer's own annual safe harbor requirement

**82.** A taxpayer sold appreciated rental real estate and wants to reinvest the proceeds into a similar rental property while asks a preparer for general guidance on the advantage of structuring the transaction as a like-kind exchange rather than a taxable sale followed by a separate purchase. What is the general advising point?

A. A preparer should advise that a like-kind exchange and a taxable sale followed by a separate purchase always produce an identical tax result, with no meaningful advising distinction between the two

B. A preparer should advise that a properly structured like-kind exchange can defer the recognition of gain on the sale, preserving more capital to reinvest compared to a taxable sale followed by a separate purchase

C. A preparer should advise that a like-kind exchange permanently eliminates the deferred gain entirely, rather than merely postponing recognition of that gain to a future tax year

D. A preparer should advise that a like-kind exchange is available only for personal-use property, with investment or business real estate being entirely ineligible under current federal tax law

**83.** A small business owner with several employees asks a preparer for general guidance on the advantage of establishing a SIMPLE IRA plan compared to a SEP-IRA plan, given the owner's desire to allow employees to make their own salary deferral contributions in addition to any employer contribution. What is the general advising point?

A. A preparer should advise that a SIMPLE IRA permits employees to make their own elective salary deferral contributions, an option a SEP-IRA does not offer, since a SEP-IRA generally allows only employer contributions

B. A preparer should advise that a SEP-IRA and a SIMPLE IRA are functionally identical regarding employee salary deferral contributions, with no meaningful advising distinction between the two plan types

C. A preparer should advise that a SEP-IRA permits employees to make their own elective salary deferral contributions, while a SIMPLE IRA allows only employer contributions, the reverse of the actual general distinction

D. A preparer should advise that neither a SIMPLE IRA nor a SEP-IRA is available to a small business owner who has any employees other than the owner personally

**84.** A taxpayer with a large unrealized capital gain asks a preparer for general guidance on the advantage of investing the gain proceeds in a Qualified Opportunity Fund rather than simply realizing and paying tax on the gain immediately. What is the general advising point regarding this specific strategy?

A. A preparer should advise that investing in a Qualified Opportunity Fund immediately eliminates the original gain entirely, rather than merely deferring recognition of that gain to a later tax year
B. A preparer should advise that a Qualified Opportunity Fund investment provides no tax benefit of any kind, functioning identically to any other ordinary taxable investment for federal tax purposes
C. A preparer should advise that only a short-term capital gain, and never a long-term capital gain, is eligible for deferral through investment in a Qualified Opportunity Fund
D. A preparer should advise that investing eligible gain in a Qualified Opportunity Fund within the applicable window can defer recognition of the original gain and potentially provide additional tax benefits on the new investment's own appreciation if held long enough

**85.** A taxpayer holds unexercised incentive stock options from an employer and asks a preparer for general guidance on the risk of exercising a large number of options in a single tax year given the alternative minimum tax implications. What is the general advising point regarding this specific timing concern?

A. A preparer should advise that exercising a large number of incentive stock options in one year can trigger a significant alternative minimum tax preference item, making it worth considering spreading the exercises across multiple years
B. A preparer should advise that exercising an incentive stock option never has any alternative minimum tax consequence, regardless of how many options are exercised or in how short a period
C. A preparer should advise that the alternative minimum tax applies only to a nonqualified stock option, with an incentive stock option being entirely exempt from any alternative minimum tax consideration
D. A preparer should advise that spreading incentive stock option exercises across multiple years always triggers a higher total tax liability than exercising every option in a single year

**86.** A taxpayer anticipating an elective medical or dental procedure asks a preparer for general guidance on the advantage of timing and bunching that procedure, along with other planned medical expenses, into a single tax year rather than spreading the expenses across two separate years. What is the general advising point?

A. A preparer should advise that the timing of a medical expense within a given calendar year has no effect at all on whether that expense clears the applicable adjusted gross income floor
B. A preparer should advise that concentrating medical expenses into a single year can help the total exceed the 7.5% adjusted gross income floor, making at least a portion of the expenses actually deductible in that specific year
C. A preparer should advise that spreading medical expenses evenly across two separate years always produces a larger combined deduction than concentrating them into a single tax year
D. A preparer should advise that the medical expense deduction has no adjusted gross income floor of any kind, making the timing of when an expense is paid entirely irrelevant

**87.** A grandparent wants to gift money to a grandchild for the grandchild's own future benefit and asks a preparer for general guidance on the advantage of using a 529 plan compared to a custodial account under the Uniform Transfers to Minors Act for this specific gift. What is the general advising point?

A. A preparer should advise that a custodial account and a 529 plan are functionally identical regarding kiddie tax exposure and donor control, with no meaningful advising distinction between the two
B. A preparer should advise that a 529 plan generally becomes the minor's own irrevocable asset at the time of the gift, while a custodial account generally allows the donor to retain full control indefinitely
C. A preparer should advise that funds in a custodial account are entirely exempt from the kiddie tax under current law, unlike a 529 plan, which generally remains fully subject to that tax
D. A preparer should advise that funds gifted to a custodial account become the minor's own irrevocable asset subject to the kiddie tax on any earnings, while a 529 plan generally offers more donor control and generally avoids the kiddie tax on qualified growth

**88.** A taxpayer established a revocable living trust and retained the power to revoke the trust and reclaim the trust assets at any time. How is the income earned by this specific grantor trust generally treated for federal income tax purposes?

A. Generally taxed entirely to the trust itself as a separate taxable entity, filing its own Form 1041 and paying tax at the compressed trust income tax rates

B. Generally entirely tax-exempt, since income earned within any revocable trust generally is excluded from taxable income regardless of the grantor's own retained powers

C. Generally taxed directly to the grantor on the grantor's own individual income tax return, rather than being separately taxed to the trust itself as a distinct taxable entity

D. Generally taxed to the trust's own named beneficiaries currently, regardless of whether any actual distribution of trust income was made to those beneficiaries during the year

**89.** A U.S. citizen taxpayer holds specified foreign financial assets exceeding the applicable statutory reporting threshold for the taxpayer's filing status, distinct from the separate threshold that triggers an FBAR filing obligation. What is the general specialized form used to report these specific foreign financial assets?

A. Generally FinCEN Form 114 generally is the sole form required for this specific foreign asset reporting obligation, with Form 8938 generally being an outdated form no longer in use

B. Generally Form 8938, Statement of Specified Foreign Financial Assets, generally is the form used to report specified foreign financial assets once the applicable threshold is exceeded, filed with the taxpayer's own income tax return

C. Generally no separate form exists at all for this specific reporting obligation once an FBAR already has been filed for the identical foreign financial assets

D. Generally Form 8854 generally is the form used to report this specific type of specified foreign financial asset, rather than any form specifically designed for this reporting purpose

**90.** A noncitizen surviving spouse inherits assets from a deceased U.S. citizen spouse's estate, and the estate wants to preserve the unlimited marital deduction that otherwise would not be automatically available for a transfer to a noncitizen spouse. What is the general specialized mechanism generally used to preserve this specific marital deduction?

A. Generally no mechanism exists at all to preserve the marital deduction for a transfer to a noncitizen surviving spouse, regardless of how the assets actually are structured or transferred

B. Generally the noncitizen surviving spouse generally must first obtain U.S. citizenship before any portion of the marital deduction becomes available for the identical inherited transfer

C. Generally transferring the assets into a Qualified Domestic Trust generally allows the estate to preserve the marital deduction despite the surviving spouse's own noncitizen status

D. Generally transferring the assets directly through Form 706 alone, without any additional trust structure, generally automatically preserves the full marital deduction for a noncitizen spouse

**91.** A dependent child under age 18 has unearned income for the year exceeding the applicable statutory threshold, and the parent does not elect to report the child's income on the parent's own return using Form 8814. What is the general specialized form the child instead generally must file to calculate the kiddie tax?

A. Generally Form 8615, Tax for Certain Children Who Have Unearned Income, generally is the form the child files to calculate the kiddie tax on the child's own separate return

B. Generally Form 8814 generally remains the only form available for this specific purpose, with no alternative form existing for a child who instead files a separate individual return

C. Generally no specialized form exists at all for this specific circumstance, since a child's own kiddie tax generally is calculated automatically without any separate reporting form

D. Generally Form 2120, Multiple Support Declaration, generally is the form used to calculate this specific child's own kiddie tax liability on a separate individual return

**92.** A taxpayer's total withholding and timely estimated payments fell short of the required amount for the year, and the taxpayer wants to calculate the exact estimated tax underpayment penalty rather than letting the IRS calculate it automatically. What is the general specialized form used for this specific calculation?

A. Generally Form 1040-ES generally is the form used to calculate this specific underpayment penalty, rather than being the form used to make the original estimated payments themselves

B. Generally no specialized form exists at all for this specific purpose, since an estimated tax underpayment penalty generally can only ever be calculated automatically by the IRS

C. Generally Form 4868 generally is the form used to calculate this specific underpayment penalty, rather than being the form used to request a filing extension

D. Generally Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, generally is the form used to calculate the exact estimated tax underpayment penalty

**93.** An estate distributes its own distributable net income to the estate's beneficiaries during the administration period, and the estate generally is entitled to a corresponding income distribution deduction for the amount actually distributed. What is the general specialized document the estate generally issues to each beneficiary reporting that beneficiary's own share of this distributed income?

A. Generally Schedule K-1 (Form 1041) generally is the specialized document the estate issues to each beneficiary, reporting that beneficiary's own share of the distributed income by character

B. Generally Form 1099-MISC generally is the specialized document the estate issues to each beneficiary, rather than any Schedule K-1 specifically associated with a Form 1041 filing

C. Generally no specialized document is required at all, since a beneficiary generally has no obligation to separately report any share of an estate's own distributed income

D. Generally Form W-2 generally is the specialized document the estate issues to each beneficiary, treating the distributed income as wage income subject to withholding

**94.** A taxpayer died during the tax year without having yet received a refund owed on the decedent's own final individual income tax return, and the surviving claimant is not the decedent's own court-appointed personal representative. What is the general specialized form this specific claimant generally must file to claim the refund?

A. Generally Form 56, Notice Concerning Fiduciary Relationship, generally is the sole form required for this specific refund claim, rather than any form specifically designed for claiming a decedent's refund

B. Generally no specialized form exists at all for this specific purpose, since a decedent's own refund generally is forfeited entirely once the decedent has died before receiving it

C. Generally Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, generally is the form filed to claim a decedent's own refund when the claimant is not a court-appointed personal representative

D. Generally Form 8379, Injured Spouse Allocation, generally is the form used for this specific decedent refund claim, rather than any form specifically designed for a deceased taxpayer's refund

**95.** A taxpayer's spouse died during the tax year, and the surviving spouse is preparing the couple's own final joint return covering the full tax year. How does the surviving spouse generally sign this specific joint return on the deceased spouse's own behalf?

A. Generally the surviving spouse generally cannot file a joint return at all for the year of death, being required instead to file as single or head of household for that specific year

B. Generally the surviving spouse generally signs the surviving spouse's own signature and generally writes 'filing as surviving spouse' in the area where the deceased spouse otherwise would have signed

C. Generally the surviving spouse generally must obtain a separate court order before being permitted to sign the deceased spouse's own portion of the jointly filed return

D. Generally the surviving spouse generally leaves the deceased spouse's own signature line entirely blank, rather than writing any specific notation in that area of the return

**96.** A U.S. taxpayer holds an interest in a foreign partnership and the taxpayer's own level of ownership and control triggers a specialized information reporting requirement beyond the taxpayer's own regular individual income tax return. What is the general specialized form used to report this specific foreign partnership interest?

A. Generally Form 5471 generally is the sole form required for this specific foreign partnership reporting obligation, since Form 8865 generally applies exclusively to a foreign corporation

B. Generally no specialized form exists at all for this specific reporting obligation, since a foreign partnership interest generally requires no reporting beyond the taxpayer's own regular return

C. Generally Form 3520 generally is the form used to report this specific foreign partnership interest, rather than any form specifically designed for a foreign partnership ownership interest

D. Generally Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, generally is the form used to report a qualifying interest in a foreign partnership

**97.** A U.S. taxpayer holds an ownership interest in a foreign corporation, and the taxpayer's own level of ownership meets the applicable statutory threshold triggering a specialized foreign corporation information reporting requirement. What is the general specialized form used to report this specific foreign corporation interest?

A. Generally Form 8865 generally is the sole form required for this specific foreign corporation reporting obligation, since Form 5471 generally applies exclusively to a foreign partnership

B. Generally no specialized form exists at all for this specific reporting obligation, since a foreign corporation ownership interest generally requires no reporting beyond the taxpayer's own regular return

C. Generally Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, generally is the form used to report a qualifying ownership interest in a foreign corporation

D. Generally Form 8938 generally is the sole form required for this specific foreign corporation reporting obligation, with Form 5471 generally being an outdated form no longer in use

**98.** A trust's own governing instrument requires all trust income to be distributed currently to the trust's beneficiaries each year, with no amount permitted to be accumulated or distributed to a charity. What is the general classification of this specific type of trust for federal income tax purposes?

A. Generally classified as a complex trust in every case, since a trust generally cannot be classified as a simple trust once it holds any income-producing asset of any kind
B. Generally classified as a simple trust, meaning the trust generally claims a distribution deduction for the required current income distribution and the beneficiaries generally report that income currently
C. Generally classified as a grantor trust in every case, meaning the trust's own income generally is taxed directly to the grantor rather than to the trust or its beneficiaries
D. Generally classified as an estate rather than as a trust, since a trust generally cannot separately exist once its own governing instrument requires a current income distribution

**99.** An executor of a decedent's estate wants the estate's own separately maintained revocable trust to be treated as part of the estate for income tax reporting purposes, rather than filing a separate Form 1041 for the trust. What is the general specialized election available for this specific purpose?

A. Generally the Section 645 election generally allows a qualified revocable trust to be treated as part of the decedent's own estate for income tax reporting purposes, combining the two into a single Form 1041 filing
B. Generally no election of any kind exists for this specific purpose, since a revocable trust generally must always file its own entirely separate Form 1041 apart from the decedent's own estate
C. Generally the Section 645 election generally applies only to an irrevocable trust, with a revocable trust being entirely ineligible for this specific combined-filing election
D. Generally the Section 645 election generally permanently merges the trust and the estate into a single entity, rather than merely combining the two for income tax reporting purposes

**100.** An executor of a newly opened decedent's estate asks a preparer about the general requirement to make quarterly estimated tax payments on behalf of the estate during the estate's own early period of administration. What is the general special relief available for this specific circumstance?

A. Generally an estate generally must make quarterly estimated tax payments from the very first day of administration, with no special relief of any kind available regardless of how recently the decedent died
B. Generally an estate generally is permanently and entirely exempt from ever making an estimated tax payment for the entire duration of the estate's own administration, however long that period lasts
C. Generally an estate generally is required to make estimated tax payments only if the estate's own beneficiaries collectively elect to require such payments during the administration period

D. Generally an estate generally is not required to make estimated tax payments for any tax year ending within two years of the decedent's own date of death, a special relief not available to most other taxable entities

## Answer Key and Explanations — Practice Exam 25

**1. B —** A preparer generally should verify the correct prior-year adjusted gross income figure, checking the client's own prior-year filed return or an IRS transcript, or use the alternative Self-Select PIN identity verification method instead, before resubmitting the electronically filed return, since this type of rejection generally stems from a data-matching mismatch rather than any substantive error on the current return itself.

**2. A —** A preparer meeting a new client for the first time should review a current government-issued photo identification document, such as a driver's license or passport, comparing the name and other identifying details against the information the client separately provided, a recommended safeguard intended to reduce the risk of identity theft and to help satisfy the preparer's broader due diligence obligations.

**3. C —** Form 56 notifies the IRS that a person, such as a trustee, executor, or guardian, is acting in a fiduciary capacity on behalf of another taxpayer, establishing that fiduciary's own authority to receive notices, sign returns, and otherwise act for the taxpayer, and generally also is used to notify the IRS when a previously established fiduciary relationship actually has terminated.

**4. D —** A preparer who discovers an error understating a client's current-year tax liability before the client signs the return should correct the error before the return is signed and filed, since knowingly allowing a client to sign an incorrect return would itself raise ethical and Circular 230 concerns for the preparer, distinct from discovering an error on an already-filed prior-year return.

**5. B —** A written information security plan generally documents the specific administrative, technical, and physical safeguards a preparer maintains to protect client tax return data from unauthorized access, use, or disclosure, a plan generally required under the FTC Safeguards Rule applying to a paid tax preparer as a financial institution for this specific regulatory purpose, regardless of the preparer's own firm size.

**6. A —** A preparer should ask sufficient factual questions about a client's household arrangement, such as who resided in the home and who paid more than half the cost of maintaining it, before claiming head of household filing status, documenting the client's responses to support the due diligence requirement that applies to this and certain other specific filing status and credit determinations.

**7. D —** A preparer should ask enough questions to determine whether transactions reported on a Form 1099-K represent taxable income, since a third-party payment network report can include a nontaxable sale of a personal item at a loss alongside taxable income, making it important for the preparer to distinguish between the two before determining how the amount should be treated.

**8. C —** A new Form 2848 covering the identical tax matters and identical tax years revokes a prior Form 2848 for those same matters and years, unless the client indicates on the new form an intent to retain the prior representative as well, a general revocation-by-substitution rule intended to prevent confusion over which representative currently holds valid authority for a given matter.

**9. D —** A non-signing preparer, who performs substantial preparation work on a return, such as drafting a significant portion of it, without signing the return, can be treated as a paid preparer subject to the applicable preparer penalty framework if that preparer's contribution constitutes a substantial portion of the return, so penalty exposure is not limited to whichever preparer signed the return.

**10. C —** A CP2000 notice is an automated underreporter notice the IRS issues when income or payment information a third party reported does not match the income reported on the taxpayer's filed return, generally proposing a specific adjustment and inviting the taxpayer to agree, partially agree, or dispute the proposed adjustment before any formal assessment actually is made based on the discrepancy.

**11. A —** A dependent identified by an Individual Taxpayer Identification Number rather than a Social Security Number may qualify the taxpayer for the nonrefundable Credit for Other Dependents, but cannot qualify the taxpayer for the Child Tax Credit, which requires the dependent to hold a Social Security Number issued before the return due date, a distinction a preparer should verify at intake.

**12. B —** An electronic signature is accepted on Form 2848 under current IRS procedures, provided the applicable identity verification and submission requirements actually are satisfied, reflecting the IRS's own broader modernization of its authorization and signature procedures, which generally has reduced the historical reliance on an original handwritten signature obtained through an in-person client meeting for this specific type of authorization form.

**13. B —** A preparer should ask the client about any digital asset transaction during the year, such as a sale, exchange, or receipt of virtual currency, since the preparer must accurately answer the digital asset question that appears on the front page of Form 1040, a question the IRS treats as a serious compliance item rather than as an optional checkbox.

**14. C —** A preparer should explain the exposure to a substantial understatement penalty, along with the level of authority needed to support an aggressive or marginally supportable position, before the client signs and files a return taking that position, since the client is entitled to make an informed decision about the position's relative risk before committing to it on a filed return.

**15. D —** A preparer should independently verify a client's bank account and routing numbers against a bank document, such as a voided check or bank statement, rather than relying solely on the client's verbal recitation of the numbers, since an incorrectly entered digit can misdirect the refund to the wrong account, an often difficult-to-reverse error affecting the client's receipt of the refund.

**16. A —** A preparer should provide the client with a complete copy of the client's filed return once the return has been finalized and filed, and should retain a copy in the preparer's records for the retention period, a recordkeeping practice supporting both the client's future reference needs and the preparer's ability to respond to an inquiry or examination involving that return.

**17. A** — Interest from a private activity municipal bond that does not qualify for a statutory exception remains exempt from regular federal income tax, but must be added back as a tax preference item when calculating the alternative minimum tax, distinguishing it from interest on a standard municipal bond, which generally is exempt for both regular tax and alternative minimum tax purposes.

**18. D** — Interest earned on a Series EE savings bond is excludable from gross income under the Education Savings Bond Program when used for education expenses, provided the bonds were issued after 1989 to an owner at least 24 years old at issuance, and the exclusion phases out once the taxpayer's adjusted gross income exceeds the threshold for the filing status.

**19. C** — A payment from a nonqualified annuity purchased with after-tax dollars is split using an exclusion ratio, calculated by dividing the taxpayer's investment in the contract by the expected total return, so that a portion of each payment is excludable as a nontaxable return of investment while the remaining portion is taxed as ordinary income, until the investment has been recovered.

**20. B** — A pension distribution from a plan funded partly with a taxpayer's own after-tax contributions generally allows a calculated portion of each payment to be excluded as a recovery of those after-tax contributions, using the simplified method to spread the recovery across the taxpayer's own expected number of payments, with the remaining portion of each payment generally taxed as ordinary income.

**21. C** — Disability retirement income an employee receives from an employer-sponsored plan before reaching the plan's minimum retirement age is treated and reported as wages, subject to the same income tax treatment that generally applies to the employee's other regular wages, with the classification generally changing to pension income only once the employee actually reaches the plan's own applicable minimum retirement age.

**22. A** — The holding period for determining whether a short sale gain is short-term or long-term is determined by the holding period of the replacement shares used to close the short position, meaning the character of the gain depends on how long the taxpayer held those closing shares, rather than on the calendar time the short position remained open in the market.

**23. B** — Original issue discount on a bond is includible in the taxpayer's gross income as ordinary interest income as it accrues each year under the constant yield method, though the taxpayer does not receive a corresponding cash payment representing that accrued amount until the bond matures or is sold, a phantom income treatment distinguishing it from a bond's stated interest payments.

**24. D** — A vacation home used personally for more than the greater of 14 days or 10% of the days rented at fair rental value during the year is classified as a residence rather than solely as rental property, meaning the taxpayer's rental expense deductions are limited to the rental income generated, rather than permitted to generate or increase a rental loss.

**25. D** — An activity generating losses where the taxpayer has not taken steps associated with operating in a businesslike manner, such as maintaining accurate books or developing a profit expectation, is treated as a hobby rather than as a trade or business under the applicable hobby loss rules, meaning the income remains taxable while the expenses are not deductible under current law.

**26. C** — The cost of employer-provided group-term life insurance coverage exceeding $50,000 is includible in the employee's gross income as imputed income, calculated using the IRS's uniform premium table based on the employee's own age rather than the employer's own actual premium cost, while the cost of coverage up to the $50,000 threshold generally remains excludable from the employee's own taxable income.

**27. A** — A qualified charitable distribution, a distribution the trustee of a taxpayer's IRA transfers to a qualified charity once the taxpayer reaches the eligible age, is excludable from the taxpayer's gross income up to the annual limit, and may count toward satisfying the taxpayer's required minimum distribution for the year, without the taxpayer needing to claim an offsetting itemized charitable deduction.

**28. B** — A withdrawal a non-spouse, non-eligible designated beneficiary takes from an inherited traditional IRA is includible in that beneficiary's gross income as ordinary income, in the same manner the original account owner would have been taxed had the original owner lived to take the distribution, with the inherited account required to be distributed within ten years following the original owner's death.

**29. A** — A back pay award structured as compensation for wages a taxpayer would have earned absent an employer's discriminatory conduct is taxable as ordinary wage income, subject to the same withholding and employment tax treatment as the taxpayer's other wages, since the award stands in the place of the wages the taxpayer would have earned had the discriminatory conduct never occurred.

**30. B** — Punitive damages are includible in a taxpayer's gross income as taxable income, even when awarded in the same lawsuit as compensatory damages for a documented physical injury that itself remains excludable, since the statutory exclusion generally applies only to damages compensating an actual physical injury or sickness, not to a punitive award intended instead to punish the defendant's own conduct.

**31. C** — The annual inflation adjustment to the principal value of a Treasury Inflation-Protected Security generally is includible in the taxpayer's own gross income as taxable interest income, often described as phantom income, in the year the adjustment actually occurs, despite the taxpayer not receiving a corresponding cash payment representing that specific increase until the security eventually matures or is sold.

**32. D** — When a self-directed IRA invests in an operating business generating unrelated business taxable income, such as through partnership investments or debt-financed property, the IRA itself may owe a separate unrelated business income tax on that income, despite the IRA's otherwise tax-advantaged status, a specialized exception a preparer generally should flag for a client considering this type of nontraditional IRA investment.

**33. B** — A loan taken against the cash value of a life insurance policy that remains in force is not taxable, since a policy loan is not treated as a distribution while the policy remains in effect, though the balance can become taxable if the policy lapses or is surrendered while the loan is outstanding, worth flagging for the client.

**34. C** — Restricted stock subject to a risk of forfeiture is includible in the recipient's gross income as ordinary income at the fair market value on the date the stock vests, rather than on the grant date, unless the recipient made a Section 83(b) election to include the value in income at grant, which this taxpayer did not make.

**35. D** — A loss on the sale of stock is disallowed under the wash sale rule when a taxpayer's spouse purchases substantially identical replacement shares within the sixty-one-day window, since a purchase made by a spouse is attributed to the selling taxpayer for this purpose, consistent with the general treatment of spouses as related parties under a range of federal tax provisions.

**36. A** — A proportionate stock dividend paid in shares of the identical class of stock the taxpayer already holds, with no option to receive cash, is not taxable, with the taxpayer's original cost basis spread across both the original shares and the newly received additional shares, deferring any gain recognition until the taxpayer eventually sells some or all of the combined holding.

**37. C** — Mileage driven while performing volunteer services for a qualified charitable organization generally is deductible as a charitable contribution using the applicable standard charitable mileage rate, a fixed statutory rate set by Congress that generally is considerably lower than the standard business mileage rate the IRS separately adjusts each year, reflecting the different statutory basis for each specific mileage rate.

**38. B** — A taxpayer who claims a total noncash charitable contribution deduction exceeding $500 for the year generally must complete and attach Form 8283, Noncash Charitable Contributions, providing details about the donated property, with an even more detailed appraisal summary generally required once the claimed value of a single item or group of similar items exceeds a higher additional statutory threshold.

**39. A** — When a charity sells a donated vehicle rather than using it for the organization's exempt purpose or an intervening use, the taxpayer's deductible charitable contribution is limited to the gross proceeds the charity received from the sale, rather than the vehicle's fair market value at donation, a limitation applying to a donated vehicle, boat, or airplane exceeding $500 in value.

**40. D** — A charitable contribution of appreciated stock held for one year or less limits the taxpayer's deductible amount to the stock's cost basis, rather than the stock's fair market value, since the favorable fair-market-value deduction is reserved for appreciated property the taxpayer has held long-term, meaning for more than one year, at the time of the contribution to the qualified charity.

**41. B** — A theft loss of property, such as a vehicle stolen from a driveway, that does not arise from a federally declared disaster is not deductible as an itemized deduction under current law, which suspended the personal casualty and theft loss deduction except for a loss arising from a federally declared disaster, a narrowing compared to the treatment under prior law.

**42. D** — When a taxpayer's total acquisition debt on a principal residence exceeds the applicable current-law limitation, $750,000 for debt incurred after the applicable effective date, the deductible mortgage interest is limited proportionally, calculated using the ratio of the applicable debt limitation to the taxpayer's total acquisition debt balance, rather than either allowing or disallowing the interest paid on the excess debt.

**43. C** — Investment interest expense is deductible up to the taxpayer's net investment income for the year, and any excess investment interest expense beyond that limitation may be carried forward and deducted in a future tax year, once the taxpayer has net investment income in that year to absorb the carried-forward amount, rather than being forfeited at the end of the year.

**44. A** — Points paid on a refinancing loan must be amortized and deducted ratably over the term of the new refinancing loan, rather than being deducted in full in the year paid, distinguishing this treatment from points paid on an original loan used to purchase or improve a principal residence, which remain deductible in the year paid when the requirements are satisfied.

**45. C** — A spouse who is physically or mentally incapable of self-care can qualify as a qualifying person for the child and dependent care credit, since that definition extends beyond a minor child to a spouse who lived with the taxpayer more than half the year, allowing the taxpayer to claim the credit for care expenses enabling the taxpayer to work.

**46. B** — A taxpayer without a qualifying child generally remains eligible for the Earned Income Tax Credit, provided the taxpayer satisfies the applicable age, residency, and income requirements, though the maximum credit amount available to a taxpayer without a qualifying child generally is considerably smaller than the maximum credit amount available to a taxpayer who does have one or more qualifying children.

**47. D** — A designated beneficiary's contribution to an ABLE account, a tax-advantaged savings account available to a qualifying individual with a disability, can qualify for the Retirement Savings Contributions Credit, subject to the same applicable income-based percentage and dollar limits that apply to a more traditional retirement account contribution, reflecting Congress's extension of this credit to this newer type of tax-advantaged account.

**48. A** — A mortgage credit certificate issued by a state or local housing finance agency allows the taxpayer to claim a nonrefundable federal tax credit equal to a percentage of the mortgage interest paid during the year, with the remaining mortgage interest not converted into the credit eligible for the standard itemized interest deduction, though the credit portion cannot be separately deducted.

**49. D** — A taxpayer whose foreign tax paid for the year falls below the simplified de minimis threshold may claim the foreign tax credit without filing Form 1116, provided the foreign income is passive income such as dividends or interest, a simplified election intended to reduce compliance burden for a taxpayer with a small foreign tax credit claim.

**50. A** — The value of a taxpayer's personal time or services donated to a qualified charitable organization, highly skilled professional services such as legal or accounting work, is not deductible as a charitable contribution under current law, though unreimbursed out-of-pocket expenses directly connected with the volunteer service, such as supplies or the applicable charitable mileage rate, generally remain separately deductible.

**51. B** — Unreimbursed employee business expenses are not deductible under current law for a typical employee outside a special statutory exception category, since the miscellaneous itemized deduction for this category of expense was suspended, with the deduction remaining available only to a narrow group, such as an Armed Forces reservist, a qualified performing artist, or a fee-basis state or local government official.

**52. C** — A reserve component member of the Armed Forces who travels more than 100 miles from home overnight for a required reserve drill may deduct the unreimbursed travel expense above the line, available even without itemizing, since this reservist expense remains one of the narrow exceptions current law preserved despite suspending most unreimbursed employee business expense deductions.

**53. A** — A preparer should recommend itemizing deductions for a taxpayer whose federally declared disaster loss, combined with the taxpayer's other itemized deductions, exceeds the standard deduction amount, since a casualty loss arising from a federally declared disaster remains a permitted itemized deduction under current law, unlike a casualty or theft loss unconnected to any federally declared disaster, which it suspended.

**54. C** — A taxpayer whose allowable premium tax credit is lower than the advance payments received must repay some or all of the excess, though for household income within a moderate range relative to the poverty line, the repayment is capped at a dollar limitation based on filing status and income, rather than requiring full dollar-for-dollar repayment.

**55. B** — Tuition and required fees paid for graduate-level coursework at an eligible educational institution remain eligible for the Lifetime Learning Credit, since that credit, unlike the American Opportunity Tax Credit, is not limited to the first four years of postsecondary education and has no limit on the number of years it may be claimed for the same eligible student's continuing education.

**56. D** — The cost of buying, training, and maintaining a service animal, such as a guide dog trained to assist a visually impaired taxpayer or a similarly trained animal assisting with another documented medical condition, qualifies as a deductible medical expense, subject to the same 7.5% adjusted gross income floor that applies to the medical expense deduction category for the year.

**57. D** — Qualifying surviving spouse filing status is available only for the two tax years following the year of a spouse's death, provided the taxpayer maintains a household for a dependent child and remains unmarried, meaning eligibility ends after those two years, requiring the taxpayer to file as single or head of household if qualified thereafter.

**58. C** — The Net Investment Income Tax threshold for married filing separately is lower than the threshold for filing jointly or head of household, and is not indexed for inflation, meaning a taxpayer filing separately reaches the threshold, and becomes subject to the tax, at a lower income level than under a different filing status.

**59. A —** The Additional Medicare Tax applies to net earnings from self-employment exceeding the statutory threshold for the taxpayer's filing status, similar to how it applies to wage income exceeding that threshold, though a self-employed taxpayer must calculate the tax on Form 8959, coordinating with any wage income separately earned during the year to avoid double-counting the combined threshold.

**60. B —** A refund claim based on a bad debt or security that became worthless during a prior tax year is subject to a special seven-year limitations period from the date the original return was filed, rather than the shorter three-year period that applies to a standard refund claim, reflecting the difficulty of pinpointing the year the debt or security became worthless.

**61. B —** A taxpayer whose income arrives unevenly throughout the year may use the annualized income installment method to calculate quarterly payments based on the income earned through that point in the year, rather than assuming income was earned evenly across the year, reducing or eliminating an underpayment penalty for a quarter when the bulk of the taxpayer's income was not received.

**62. C —** A taxpayer's unused capital loss, after applying the annual $3,000 limitation against ordinary income, may be carried forward indefinitely to each succeeding tax year, retaining its short-term or long-term character, until the loss is absorbed against a future capital gain or against the annual $3,000 limitation in a year, rather than being subject to any fixed number of carryforward years.

**63. D —** A taxpayer who owned and used a home as a residence for two of the five years before the sale may exclude up to $250,000 of gain under Section 121, if the exclusion was not used for another home sale within the two years; a married couple may exclude up to $500,000 when both spouses satisfy the use test.

**64. A —** A taxpayer who sells a principal residence before satisfying the two-year ownership and use requirement due to an unforeseen circumstance, such as an employer-required job relocation, may claim a partial home sale exclusion, prorated based on the portion of the two-year period the taxpayer satisfied before the sale, rather than being denied the exclusion or receiving the full exclusion amount.

**65. B —** The statutory backup withholding rate is 24%, applied as a flat percentage to a reportable payment, such as interest or dividend income, made to a payee who failed to provide a taxpayer identification number despite the payer's requests, with the withheld amount remitted to the IRS and later credited against the payee's tax liability once the return is filed.

**66. D —** The portion of a noncorporate taxpayer's business loss disallowed under the excess business loss limitation is treated as a net operating loss carryforward, available to offset income in a future year subject to the net operating loss carryforward rules, rather than being forfeited or immediately deductible in the current year despite exceeding the annual excess business loss limitation.

**67. C —** For a dividend to be treated as a qualified dividend eligible for the preferential capital gain tax rate, the stock must be held more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, a requirement intended to prevent capturing the preferential rate through only a brief, dividend-motivated holding.

**68. A** — As a taxpayer's alternative minimum taxable income rises above the applicable statutory phase-out threshold for the filing status, the alternative minimum tax exemption amount is gradually reduced, increasing the portion of the taxpayer's income subject to the alternative minimum tax, until the exemption amount is fully phased out to zero once alternative minimum taxable income reaches a sufficiently high level.

**69. A** — The IRS has discretion to waive the estimated tax underpayment penalty for a taxpayer who retired after age 62, or became disabled, during the year the underpayment occurred or the preceding year, when the underpayment resulted from reasonable cause rather than willful neglect, recognizing that retirement or disability can disrupt a taxpayer's estimated payment pattern.

**70. C** — A traditional IRA distribution used to help fund the purchase of a first home is excepted from the 10% early distribution penalty up to a $10,000 lifetime limit for a first-time homebuyer, though the distribution remains includible in the taxpayer's ordinary taxable income for the year, since only the penalty, not the tax, is excepted under this first-time homebuyer provision.

**71. B** — A taxpayer's net capital gain, the excess of net long-term capital gain over any net short-term capital loss, is eligible for the preferential rate, 0%, 15%, or 20% depending on taxable income, a more favorable structure than the graduated ordinary income tax rates that would apply to an equivalent amount of ordinary wage or business income.

**72. D** — Gain from the sale of qualified small business stock issued by an eligible corporation and held more than five years may be partially or fully excluded from gross income, up to the statutory percentage and dollar limitation, provided the stock satisfies the qualified small business stock requirements, a significant tax benefit intended to encourage investment in a qualifying small business.

**73. B** — The above-the-line self-employed health insurance deduction is limited to the taxpayer's net self-employment earnings for the year, meaning a taxpayer with modest net self-employment earnings cannot deduct more in health insurance premiums than that earnings figure, with any excess premium amount beyond that limitation generally not deductible above the line for the year in which the earnings limitation actually applies.

**74. C** — A taxpayer who satisfies both the age-65-or-older condition and the legally blind condition receives two separate additional standard deduction amounts, one for reaching the age threshold and one for blindness, both added on top of the taxpayer's regular standard deduction amount, meaning the two amounts stack rather than requiring a choice between them.

**75. D** — A preparer should advise a high-income taxpayer that making a nondeductible traditional IRA contribution and converting it to a Roth IRA, a backdoor Roth, can achieve a similar result to a direct Roth contribution, though the taxpayer should understand the pro-rata rule can create an unexpected taxable portion if other pretax IRA funds exist at conversion.

**76. A** — A preparer should advise a taxpayer who has reached age 65 that a nonqualified Health Savings Account distribution, one not used for a medical expense, is taxed as ordinary income but is no longer subject to the 20% penalty that applied before that age, allowing the account to operate like a retirement account for a nonmedical purpose after age 65.

**77. B** — A preparer should advise a taxpayer subject to a required minimum distribution who gives to charity that a qualified charitable distribution excludes the amount from gross income, which can be more valuable than taking the distribution as cash and claiming an itemized deduction, especially for a taxpayer who claims the standard deduction and gets no separate benefit from itemizing.

**78. A** — A preparer should advise a taxpayer expecting unusually low taxable income to consider selling enough appreciated stock to fill the 0% long-term capital gain bracket, since a gain recognized within that bracket can be realized free of federal tax, a strategy called gain harvesting that takes advantage of a low-income year the taxpayer might not have again soon.

**79. C** — A preparer should advise a taxpayer choosing between a lump-sum pension distribution and monthly annuity payments that a lump sum is taxable as ordinary income in the year received unless rolled over to an IRA or another plan, while annuity payments are taxed as ordinary income spread across each year received, a difference in the timing of the tax liability.

**80. D** — A preparer should advise a taxpayer that interest earned on Series I savings bonds is exempt from state and local income tax and can be deferred for tax purposes until the bonds are redeemed or mature, unlike interest earned in a taxable brokerage account, which is includible in gross income each year credited, regardless of withdrawal.

**81. C** — A preparer should advise a taxpayer that withholding is treated as paid evenly throughout the year regardless of when actually withheld, so increasing withholding late in the year can still help avoid an underpayment penalty in a way a late quarterly estimated payment cannot, since an estimated payment is credited only to the quarter paid.

**82. B** — A preparer should advise a taxpayer that a like-kind exchange of investment or business real estate can defer recognition of the realized gain on the relinquished property, preserving more capital to reinvest in the replacement property compared to selling outright and purchasing a new property, since a taxable sale triggers immediate recognition of the gain in that year.

**83. A** — A preparer should advise a small business owner that a SIMPLE IRA plan permits employees to make elective salary deferral contributions in addition to a required employer contribution, an option a SEP-IRA does not offer, since a SEP-IRA allows only employer contributions, a distinction that matters for an owner wanting employees to have more control over their retirement savings rate.

**84. D** — A preparer should advise a taxpayer with a large unrealized capital gain that investing the gain proceeds in a Qualified Opportunity Fund within the statutory window can defer recognition of the gain to a later year, and potentially provide a tax benefit on the new investment's future appreciation if held long enough to satisfy the holding period requirements.

**85. A** — A preparer should advise a taxpayer holding unexercised incentive stock options that exercising many options in a single tax year, without a disqualifying disposition that year, can trigger a significant alternative minimum tax preference item based on the bargain element, making it worth considering spreading the exercises across multiple years to manage the resulting exposure.

**86. B** — A preparer should advise a taxpayer anticipating an elective medical procedure to consider concentrating that expense, with other planned medical expenses, into a single tax year rather than spreading them across two years, since bunching can help the total exceed the 7.5% adjusted gross income floor, making a portion of the expenses deductible in that year rather than in neither.

**87. D** — A preparer should advise a grandparent that funds gifted to a custodial account under the Uniform Transfers to Minors Act become the minor's irrevocable asset, with earnings subject to the kiddie tax, while a 529 plan offers the donor more continuing control and avoids current taxation, including the kiddie tax, on growth used for the beneficiary's education expenses.

**88. C** — Income earned by a grantor trust, such as a revocable living trust over which the grantor retained power to revoke and reclaim the assets, is taxed to the grantor on the grantor's individual return, rather than separately taxed to the trust as a distinct entity, since the retained powers cause the trust to be disregarded as a separate taxpayer.

**89. B** — A U.S. taxpayer whose foreign financial assets exceed the reporting threshold for the filing status must file Form 8938, Statement of Specified Foreign Financial Assets, attached to the income tax return, a separate obligation from the FinCEN Form 114 FBAR filing, meaning a taxpayer may need to file both since the two have different thresholds, filing locations, and asset definitions.

**90. C** — A transfer of assets to a Qualified Domestic Trust allows an estate to preserve the unlimited marital deduction for a transfer to a noncitizen surviving spouse, a deduction not automatically available for this transfer, since an estate tax applies when the trust makes a distribution, deferring rather than eliminating the estate tax that would have applied at the spouse's death.

**91. A** — A dependent child whose unearned income exceeds the statutory threshold and whose parent does not elect to report that income on the parent's return using Form 8814 must file Form 8615, Tax for Children Who Have Unearned Income, on the child's return, to calculate the kiddie tax by applying the parent's marginal tax rate to the child's excess unearned income.

**92. D** — A taxpayer whose withholding and timely estimated payments fell short of the required amount may use Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, to calculate the estimated tax underpayment penalty, including applying the annualized income installment method if the taxpayer's income arrived unevenly during the year, rather than letting the IRS calculate a default penalty amount.

**93. A** — An estate that distributes its net income to beneficiaries during administration issues each beneficiary a Schedule K-1 (Form 1041), reporting that beneficiary's share of the income by character, such as interest, dividends, or capital gain, with the estate claiming an income distribution deduction on its Form 1041 for the amount distributed, shifting the tax burden to the beneficiaries.

**94. C** — A claimant who is not the decedent's court-appointed personal representative must file Form 1310, Statement of Person Claiming Refund Due a Deceased Taxpayer, to claim a refund on the decedent's final individual income tax return, a form not required when a personal representative is claiming the refund and a copy of the appointment certificate is attached to the final return.

**95. B** — A surviving spouse preparing a final joint return for the year of the other spouse's death signs as the surviving spouse and writes 'filing as surviving spouse' in the area where the deceased spouse would have signed, a notation sufficient to file the joint return without a court-appointed personal representative when the surviving spouse is filing the return.

**96. D** — A U.S. taxpayer whose ownership or control of a foreign partnership meets the statutory threshold must file Form 8865, Return of U.S. Persons With Respect to Foreign Partnerships, a specialized informational reporting form required in addition to the taxpayer's regular individual income tax return, intended to give the IRS visibility into a U.S. person's significant foreign partnership activity.

**97. C** — A U.S. taxpayer whose ownership interest in a foreign corporation meets the statutory threshold must file Form 5471, Information Return of U.S. Persons With Respect to Foreign Corporations, a specialized informational reporting form required in addition to the taxpayer's regular individual income tax return, with a significant penalty applying for a failure to timely file this foreign corporation information return.

**98. B** — A trust whose instrument requires all income to be distributed to beneficiaries each year, with no amount accumulated or given to charity, is classified as a simple trust for tax purposes, meaning the trust claims an income distribution deduction for the distribution while beneficiaries report that income on their returns, distinguishing it from a complex trust, which retains distribution discretion.

**99. A** — The Section 645 election allows a qualified revocable trust to be treated as part of the decedent's estate for income tax reporting, allowing the executor to file a single combined Form 1041 for both rather than two separate returns, an election available for a limited period after the decedent's death, offering administrative simplicity along with other potential tax advantages.

**100. D** — A decedent's estate is not required to make quarterly estimated tax payments for any tax year ending within two years of the decedent's date of death, a relief not available to most other taxable entities such as a trust, reflecting the recognition that an estate's early administration period often involves uncertainty about the estate's income and expenses during that window.