PRACTICE EXAM 26: 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 paid tax return preparer's Preparer Tax Identification Number (PTIN) must generally be renewed under Circular 230. How often is renewal required to maintain an active PTIN?

A. Every three years, coinciding with continuing education reporting cycles
B. Only once, at initial issuance, with no further renewal required
C. Every five years, aligned with the preparer's EFIN renewal cycle
D. Annually, before the start of each new filing season

2. A preparer transmits a client's return electronically using the client's self-selected PIN. What form authorizes the preparer to enter that PIN on the taxpayer's behalf and documents the taxpayer's consent to electronic filing?

A. Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return
B. Form 8879, IRS e-file Signature Authorization
C. Form 8821, Tax Information Authorization
D. Form 2848, Power of Attorney and Declaration of Representative

3. How long must a paid preparer generally retain copies of prepared returns, or a list of the taxpayers and types of returns prepared, after the close of the return period?

A. One year
B. Five years

C. Three years
D. Seven years

4. Before a firm can electronically transmit returns to the IRS, what must it obtain in addition to each preparer's PTIN?

A. An Electronic Filing Identification Number (EFIN) issued through IRS e-Services
B. A state-issued business license specific to tax preparation
C. A separate employer identification number for each preparer on staff
D. A surety bond filed with the taxpayer's state of residence

5. A taxpayer checks the Third Party Designee box on Form 1040 and names their preparer. What is the scope of authority this grants the preparer?

A. Limited authority to discuss that specific return's processing with the IRS
B. Full power of attorney to represent the taxpayer before IRS Appeals
C. Authority to sign future returns on the taxpayer's behalf indefinitely
D. Authority to receive the taxpayer's refund directly into the preparer's account

6. A married couple files jointly, but the refund is applied entirely to one spouse's pre-marriage federal student loan debt. What form allows the other spouse to claim their share of the joint refund?

A. Form 8857, Request for Innocent Spouse Relief
B. Form 8888, Allocation of Refund
C. Form 8379, Injured Spouse Allocation
D. Form 8919, Uncollected Social Security and Medicare Tax on Wages

7. A taxpayer wants a preparer to be able to receive and inspect confidential tax information from the IRS, but does not want to grant authority to represent them or advocate on their behalf. Which form accomplishes this narrower purpose?

A. Form 2848, Power of Attorney and Declaration of Representative
B. Form 8821, Tax Information Authorization
C. Form 56, Notice Concerning Fiduciary Relationship
D. Form 4506, Request for Copy of Tax Return

8. When a preparer claims the Earned Income Tax Credit, Child Tax Credit, American Opportunity Tax Credit, or head of household status on a client's return, what form documents that the required due diligence steps were performed?

A. Form 8862, Information to Claim Certain Credits After Disallowance
B. Schedule 8812, Credits for Qualifying Children and Other Dependents
C. Form 1040-X, Amended U.S. Individual Income Tax Return
D. Form 8867, Paid Preparer's Due Diligence Checklist

9. As a general rule, within what period after filing the original return may a taxpayer file an amended return to claim a refund?

A. Three years from the date the original return was filed
B. One year from the original filing date
C. Two years from the date any tax was paid, if later than the filing deadline
D. Six years from the date the original return was filed

10. A taxpayer previously was a victim of tax-related identity theft and now must include a six-digit number on their e-filed return to verify their identity. What is this number called?

A. Personal Identification Number (PIN) for e-file signature
B. Preparer Tax Identification Number (PTIN)
C. Electronic Filing PIN (EFP)
D. Identity Protection PIN (IP PIN)

11. A taxpayer is facing an imminent threat of adverse action and has been unable to resolve a persistent problem through normal IRS channels. Which IRS function exists specifically to assist in this situation?

A. The Office of Professional Responsibility
B. The Taxpayer Advocate Service
C. The IRS Whistleblower Office
D. The Return Preparer Office

12. A practitioner identifies a conflict of interest between two clients but believes competent representation of both remains possible. Under Circular 230, what must generally occur before the practitioner may proceed?

A. The practitioner must withdraw from representing both clients immediately
B. The practitioner must report the conflict to the IRS before continuing
C. Each affected client must give informed, written consent to the conflict
D. Nothing further is required as long as the practitioner discloses verbally

13. A taxpayer's e-filed return is rejected because a claimed dependent's Social Security number was already used as a dependent on another already-accepted return. What is the general recommended next step?

A. Generally, resubmit the identical return electronically without any changes
B. Generally, remove the dependent and refile electronically to avoid further delay
C. Generally, advise the client the dependent can never be claimed again
D. Generally, paper file the return, since the duplicate claim must be resolved manually

14. A preparer takes a position on a client's return that lacks a reasonable basis and results in an understatement of tax. What penalty exposure does the preparer generally face under Section 6694?

A. A penalty equal to a set dollar amount or a share of the return income
B. No penalty applies unless the position was also fraudulent
C. Automatic suspension of the preparer's PTIN for one filing season
D. Criminal prosecution is the only available IRS remedy

15. A federally authorized tax practitioner claims a confidentiality privilege similar to the attorney-client privilege for tax advice given to a client. In what setting does this privilege NOT apply?

A. Civil tax matters before the IRS
B. Criminal tax matters and proceedings
C. Civil tax proceedings in federal court
D. Noncriminal tax matters before the IRS Independent Office of Appeals

16. While preparing a client's current-year return, a preparer discovers an error on a return the client filed in a prior year, already accepted by the IRS. What is the preparer's obligation under Circular 230?

A. The preparer must immediately notify the IRS of the prior error
B. The preparer must refuse to prepare the current-year return until the error is fixed
C. The preparer must advise the client of the error and its consequences, but is not required to prepare an amended return
D. The preparer has no obligation, since the error occurred in a closed year

17. How is unemployment compensation received by a taxpayer during the year generally treated for federal income tax purposes?

A. Excluded from gross income up to the first $2,400 received
B. Excluded entirely, since it replaces lost wages rather than earned income
C. Fully includible in gross income, reported on Schedule 1
D. Includible only if the taxpayer also received wages during the same year

18. A divorce or separation agreement executed in 2019 includes alimony payments. How are these payments generally treated for the paying spouse?

A. Deductible by the payer, and includible in the recipient's income
B. Not deductible by the payer, and not includible in the recipient's income
C. Deductible only if the recipient spouse also itemizes deductions
D. Partially deductible, limited to 50% of the payments made during the year

19. A taxpayer who itemizes deductions has gambling winnings and losses in the same year. How are the losses generally treated?

A. Deductible in full, even if losses exceed winnings for the year
B. Not deductible under any circumstances, regardless of winnings reported
C. Deductible above the line in arriving at adjusted gross income
D. Deductible as an itemized deduction, but only up to the amount of winnings reported

20. A degree-seeking student receives a scholarship that covers tuition, required fees, and room and board. Which portion of the scholarship is generally taxable?

A. The portion allocated to room and board
B. The entire scholarship, since financial aid is always taxable income
C. None of the scholarship, since all degree-related aid is excluded
D. Only the portion that exceeds the student's total qualified expenses for books

21. A U.S. citizen living and working abroad meets either the bona fide residence test or the physical presence test. What election allows a portion of foreign earnings to be excluded from U.S. gross income?

A. The foreign tax credit, claimed exclusively on Schedule 3
B. The foreign earned income exclusion, claimed on Form 2555
C. The foreign housing deduction, available only to self-employed taxpayers
D. An automatic exclusion requiring no election or form to be filed

22. A taxpayer's credit card debt is cancelled, and the taxpayer was insolvent immediately before the cancellation. What allows the taxpayer to exclude some or all of the cancelled debt from gross income?

A. An automatic exclusion available to all taxpayers regardless of financial condition
B. The exclusion applies only if the debt was a home mortgage

C. No exclusion is available once a Form 1099-C has been issued
D. The insolvency exclusion, claimed using Form 982, limited to the extent of insolvency

23. A taxpayer actively participates in a rental real estate activity that produces a loss. Assuming modified AGI is within the eligible range, what is the maximum special loss allowance against nonpassive income?

A. $50,000, phased out as modified AGI rises above $150,000
B. An unlimited amount, since real estate losses are never treated as passive
C. $25,000, phased out as modified AGI rises above $100,000
D. $3,000, the same limit that applies to capital loss deductions

24. Since the Tax Cuts and Jobs Act, like-kind exchange treatment under Section 1031 is generally limited to which type of property?

A. Real property held for investment or business use
B. Personal property such as business vehicles and equipment
C. Both real and personal property, with no restriction on type
D. Intangible personal property such as patents and franchise rights

25. A taxpayer receives a court-ordered award compensating for lost wages resulting from wrongful termination. How is this award generally treated for federal income tax purposes?

A. Excluded entirely as compensation for a personal injury
B. Taxable as ordinary income, since it replaces wages that would have been taxable
C. Taxable only to the extent it exceeds the taxpayer's original salary
D. Excluded because it originated from a court judgment rather than employment

26. An employer maintains an educational assistance program under Section 127. Up to what annual amount of benefits may an employee generally exclude from gross income?

A. $2,500 in annual benefits
B. $10,000 in annual benefits
C. $5,250 in annual benefits
D. No dollar limit, provided coursework is job-related

27. The taxable portion of a taxpayer's Social Security benefits is determined by comparing provisional income to base amounts. What is the maximum percentage of benefits that can be includible in gross income?

A. 85%
B. 100%
C. 50%
D. 65%

28. A taxpayer under age 59½ takes a distribution from a traditional IRA to pay for unreimbursed medical expenses exceeding 7.5% of AGI. How does this affect the 10% early distribution penalty?

A. The distribution is fully subject to the penalty regardless of the medical expenses
B. The penalty is waived entirely, with no dollar limitation applied
C. The exception applies only if the taxpayer is also permanently disabled
D. The distribution qualifies for a penalty exception up to the amount exceeding the AGI threshold

29. For a Roth IRA distribution to be a tax-free qualified distribution, the account must have been open at least five years AND which additional condition must generally be met?

A. The owner must have made contributions in every one of the five years
B. The owner must be at least age 59½, disabled, deceased, or using a first-time homebuyer exception
C. The account balance must exceed $10,000 at the time of distribution
D. The owner must no longer have any earned income for the year

30. A self-employed contractor exchanges services with another business owner, receiving no cash but instead an equal value of the other owner's services. How is this transaction generally treated for tax purposes?

A. The transaction is excluded from income since no cash changed hands
B. Only half of the fair market value is included in gross income
C. The fair market value of services received is includible in gross income
D. The transaction is reported only if a written contract exists

31. A taxpayer receives jury duty pay from the court but is required by their employer to remit it to the employer in exchange for continued regular wages. How is the jury duty pay generally handled on the return?

A. Excluded entirely from gross income, since it was not kept by the taxpayer
B. Included in gross income with no offsetting adjustment available
C. Reported only by the employer, never by the individual taxpayer
D. Included in gross income, with an offsetting adjustment to income for the amount turned over to the employer

32. An employee exercises nonqualified stock options granted by their employer. When is the resulting compensation generally includible in the employee's gross income?

A. In the year of exercise, based on the difference between fair market value and the exercise price
B. In the year the options were originally granted
C. In the year the underlying stock is eventually sold
D. Never, since option exercises are treated as a nontaxable stock transaction

33. A taxpayer holds tax-exempt municipal bonds and also receives Social Security benefits. Although the municipal bond interest itself is exempt from federal income tax, how does it affect the return?

A. It has no effect anywhere on the return, since it is fully tax-exempt

B. It is included in the provisional income calculation used to determine how much Social Security is taxable
C. It reduces the amount of Social Security benefits that must be reported
D. It disqualifies the taxpayer from claiming the standard deduction

34. A taxpayer makes an interest-free loan of $50,000 to a family member. Under the below-market loan rules, what is generally imputed to the lender for tax purposes?

A. No income is imputed as long as the loan is between family members
B. A gift tax liability equal to the full loan amount
C. Interest income, calculated using the applicable federal rate
D. Imputed rental income based on the loan's intended use

35. A taxpayer becomes disabled and receives benefits from a disability policy for which the taxpayer paid 100% of the premiums with after-tax dollars. How are the benefit payments generally treated?

A. Excluded from gross income, since the premiums were paid with after-tax dollars
B. Fully includible in gross income regardless of who paid the premiums
C. Includible only to the extent benefits exceed the total premiums paid
D. Excluded only if the taxpayer is also receiving Social Security disability

36. A taxpayer sells a personal-use automobile for less than its original purchase price. How is the resulting loss generally treated for federal income tax purposes?

A. Deductible as a capital loss, subject to the $3,000 annual limit
B. Deductible in full as a casualty loss
C. Deductible only if the vehicle was used partly for business purposes
D. Not deductible, since losses on the sale of personal-use property are nondeductible

37. A taxpayer who itemizes deductions may deduct unreimbursed medical expenses only to the extent they exceed what percentage of adjusted gross income?

A. 10%
B. 7.5%
C. 2%
D. 5%

38. For a taxpayer who itemizes deductions, what is the general annual limit on the combined deduction for state and local income, sales, and property taxes?

A. $15,000 per year
B. No dollar limit at all
C. $5,000 per year
D. $10,000 per year

39. An eligible K-12 educator who purchases classroom supplies out of pocket may claim an above-the-line deduction up to what amount, without needing to itemize?

A. $500
B. $1,000
C. $300
D. $150

40. A taxpayer paying interest on a qualified student loan may deduct up to $2,500 above the line, subject to what limitation?

A. A phase-out based on the taxpayer's modified adjusted gross income
B. The deduction is available only if the taxpayer itemizes
C. The deduction requires the loan to have originated within the current tax year
D. The deduction is unlimited once the taxpayer's income exceeds a set floor

41. A taxpayer actively participates in an employer retirement plan and also contributes to a traditional IRA. How does this affect the traditional IRA deduction?

A. The deduction is eliminated entirely, regardless of income
B. The deduction phases out based on the taxpayer's modified AGI
C. The deduction is unaffected, since IRA and employer plan limits are independent
D. The deduction doubles to account for the additional retirement savings

42. A self-employed taxpayer establishes a SEP-IRA. Contributions are generally limited to the lesser of a set dollar amount or what percentage of net self-employment earnings?

A. 10% of net self-employment earnings
B. 50% of net self-employment earnings
C. Roughly 25% of net self-employment earnings
D. 100% of net self-employment earnings, with no dollar cap

43. A sole proprietor with qualified business income may generally deduct what percentage of that income under Section 199A, subject to income-based limitations?

A. 10%
B. 15%
C. 25%
D. 20%

44. The Child Tax Credit is available for each qualifying child under what age at the end of the tax year?

A. 17
B. 18
C. 19
D. 16

45. A taxpayer claims a dependent who does not qualify for the Child Tax Credit, such as a dependent parent. What credit may still be available for that dependent?

A. The Earned Income Tax Credit
B. The Credit for Other Dependents
C. The Dependent Care Credit
D. The Additional Child Tax Credit

46. A taxpayer incurs qualified adoption expenses finalizing the adoption of an eligible child. What tax benefit may be available for these expenses?

A. An unlimited above-the-line deduction for all adoption-related costs
B. A fully refundable credit with no income-based phase-out
C. No federal tax benefit is available for private adoption expenses
D. A nonrefundable adoption credit, subject to an annual dollar limit and income phase-out

47. The American Opportunity Tax Credit is available for a maximum of how many years per eligible student, and what portion of the credit is refundable?

A. Two years, with the entire credit refundable
B. Unlimited years, with none of the credit refundable
C. Four years, with up to 40% of the credit refundable
D. Four years, with none of the credit refundable

48. A moderate-income taxpayer contributes to a traditional IRA and meets the eligibility requirements. What nonrefundable credit may be available in addition to any deduction for the contribution?

A. The Retirement Savings Contributions Credit (Saver's Credit)
B. The Foreign Tax Credit
C. The Premium Tax Credit
D. The Recovery Rebate Credit

49. A homeowner installs qualifying energy-efficient windows and insulation in their primary residence. What credit may be available for these improvements?

A. The Energy Efficient Home Improvement Credit, subject to annual dollar limits by category

B. An unlimited deduction for the full cost of the improvements

C. The Residential Clean Energy Credit, which applies only to solar installations

D. No credit is available unless the home is newly constructed

50. A taxpayer purchases a new qualifying clean vehicle. What generally determines whether the taxpayer can claim the clean vehicle credit?

A. Only the purchase price of the vehicle, with no other requirements

B. Meeting requirements including vehicle assembly location, battery sourcing, and the taxpayer's income limits

C. Only the taxpayer's state of residence at the time of purchase

D. The credit is available automatically for any electric or hybrid vehicle

51. Under current law, a personal casualty loss is generally deductible only if it results from what type of event?

A. Any sudden, unexpected, or unusual event, regardless of declaration

B. Theft only, with casualty losses no longer deductible under any circumstance

C. An event occurring in the taxpayer's state of legal residence

D. A federally declared disaster

52. A taxpayer's itemized deduction for gambling losses is limited in what way?

A. Limited to $3,000 per year, similar to the capital loss limit

B. Unlimited, regardless of the amount of winnings reported

C. Limited to the amount of gambling winnings reported for the year

D. Limited to 50% of adjusted gross income for the year

53. A self-employed taxpayer who qualifies for the home office deduction may choose between which two methods of calculating it?

A. The standard mileage method and the actual expense method

B. The simplified method (a flat rate per square foot) and the regular method (actual expenses allocated by business-use percentage)

C. The direct method and the indirect method, both requiring Form 4562 only

D. A flat annual credit or an itemized deduction, but never both

54. A self-employed taxpayer deducts health insurance premiums above the line. What limits this deduction?

A. The deduction is capped at a flat dollar amount regardless of earnings

B. The deduction is limited to 50% of premiums paid during the year

C. The deduction requires the taxpayer to also itemize deductions

D. Limited to net self-employment earnings and unavailable if subsidized coverage was available

55. A divorce agreement was executed in 2017 and later modified in 2021 without changing the alimony terms. How are the alimony payments treated for the payer?

A. Not deductible, since all alimony agreements are now subject to current law

B. Deductible only if the recipient spouse agrees in writing each year

C. Deductible above the line, since the pre-2019 tax treatment carries forward under the unmodified agreement

D. Deductible as an itemized deduction rather than an above-the-line adjustment

56. A taxpayer takes out a home equity loan and uses the proceeds to substantially improve the home securing the loan. How is the interest on this loan generally treated?

A. Deductible as qualified residence interest, subject to the overall acquisition debt limit

B. Never deductible, since home equity loan interest was permanently disallowed

C. Deductible only if the loan proceeds are used for a business purpose

D. Deductible without regard to any overall debt limitation

57. A married couple decides to file separate returns using Married Filing Separately status. What is a common consequence of this filing status?

A. The SALT deduction cap doubles to $20,000 per spouse
B. Both spouses automatically qualify for the full standard deduction regardless of the other's choice
C. Retirement account contribution limits increase to compensate for the separate filing
D. The SALT deduction cap is reduced to $5,000 per spouse, and certain credits become unavailable

58. A taxpayer's sole proprietorship generates a net operating loss for the year. Under current law, how may this loss generally be used against future income?

A. Carried back two years automatically, with no forward carryforward allowed
B. Carried forward for a maximum of five years, then it expires
C. Carried forward indefinitely, limited to 80% of taxable income in the year applied
D. Applied without limitation against 100% of future taxable income

59. A taxpayer wants to avoid an estimated tax underpayment penalty. Paying in, through withholding and estimates, at least what percentage of the prior year's tax liability generally satisfies the safe harbor, assuming prior-year AGI was $150,000 or less?

A. 90%
B. 100%
C. 110%
D. 80%

60. A child's unearned income exceeds the applicable kiddie tax threshold for the year. How is the excess amount generally taxed?

A. At the parents' top marginal tax rate, rather than the child's own rate
B. At the child's own marginal tax rate, regardless of the amount
C. At a flat 10% rate regardless of the parents' income
D. It is excluded from taxable income entirely if the child is a full-time student

61. Long-term capital gains for most individual taxpayers are generally taxed at which set of rates, depending on taxable income?

A. 0%, 15%, or 20%
B. 10%, 20%, or 30%
C. 0%, 12%, or 22%
D. 15%, 25%, or 35%

62. An employer withholds Additional Medicare Tax once an employee's wages from that employer exceed $200,000, regardless of filing status. What form reconciles this withholding with the employee's actual liability based on total household income and filing status?

A. Form 8960, Net Investment Income Tax
B. Schedule SE, Self-Employment Tax
C. Form 2210, Underpayment of Estimated Tax
D. Form 8959, Additional Medicare Tax

63. For purposes of the passive activity loss rules, income and loss are generally sorted into which three categories?

A. Earned, unearned, and deferred
B. Ordinary, capital, and exempt
C. Active, passive, and portfolio
D. Business, investment, and personal

64. A taxpayer sells depreciable real property held long-term, recognizing gain attributable to straight-line depreciation previously claimed. At what maximum rate is this unrecaptured Section 1250 gain generally taxed?

A. 20%

B. 25%
C. 28%
D. 15%

65. A taxpayer's capital losses for the year exceed capital gains. How much of the net capital loss may generally be deducted against ordinary income in that year?

A. The full net loss, with no annual limitation
B. $10,000, matching the SALT deduction cap
C. $3,000 ($1,500 if married filing separately), with any excess carried forward
D. None of the loss may offset ordinary income in the current year

66. For purposes of computing alternative minimum taxable income, how is the regular-tax deduction for state and local taxes generally treated?

A. Allowed in full, identical to its treatment for regular tax
B. Added back, since it is not allowed in computing alternative minimum taxable income
C. Allowed up to the $10,000 SALT cap, then added back beyond that
D. Doubled for AMT purposes to offset the loss of other deductions

67. To qualify for Head of Household filing status, a taxpayer must generally pay more than what percentage of the cost of maintaining a home for a qualifying person?

A. 25%
B. 75%
C. 100%
D. 50%

68. For a calendar-year individual taxpayer, the general due dates for quarterly estimated tax payments fall in which months?

A. April, June, September, and January of the following year
B. March, June, September, and December
C. April, July, October, and December
D. January, April, July, and October

69. A taxpayer discovers that a former spouse understated tax on a jointly filed return without the taxpayer's knowledge. What relief may allow the requesting spouse to avoid liability for that understatement?

A. Injured spouse relief, requested using Form 8379
B. Innocent spouse relief, requested using Form 8857
C. An automatic exemption requiring no separate request or form
D. Relief is unavailable once a joint return has been filed

70. The Net Investment Income Tax generally applies to which type of income, once the applicable modified AGI threshold is exceeded?

A. Wages and self-employment income only
B. All income sources equally, with no distinction by type
C. Only tax-exempt municipal bond interest
D. Interest, dividends, capital gains, and rental income, not wages

71. Divorced parents cannot agree on who claims their child as a dependent. Absent a signed release, which parent generally has the right to claim the child?

A. The custodial parent, based on which parent the child lived with for the greater number of nights
B. The parent who provided more than half of the child's financial support
C. The parent named first on the child's birth certificate
D. Whichever parent files their return first each year

72. A married couple lives in a community property state and files separate returns. How is community income generally reported?

A. Reported entirely by the spouse who earned it, as under common law
B. Reported entirely by the higher-earning spouse for administrative simplicity
C. Generally split equally between the spouses, regardless of which spouse actually earned it
D. Excluded from both returns until the couple files jointly in a later year

73. A taxpayer's marginal tax rate differs from their effective tax rate in what way?

A. The two terms describe the same calculation, just using different names
B. The effective rate is always higher than the marginal rate
C. The marginal rate applies to the last dollar of income, unlike the effective rate
D. The marginal rate applies only to self-employment income

74. A taxpayer owns a specified service trade or business, such as a law practice. Once taxable income exceeds the applicable threshold, how is the QBI deduction generally affected?

A. It is unaffected, since specified service businesses are exempt from any limitation
B. It phases out and is eliminated entirely once income exceeds the upper end of the phase-out range
C. It doubles to compensate for the business's service classification
D. It becomes fully refundable once the phase-out threshold is reached

75. A taxpayer with significant unrealized capital gains elsewhere in their portfolio sells a losing investment to realize a capital loss before year-end. What must the taxpayer avoid to ensure the loss remains currently deductible?

A. Selling any investment that has been held for less than one year
B. Reporting the transaction on Schedule C instead of Schedule D
C. Realizing more than $3,000 of losses in a single tax year
D. Repurchasing a substantially identical security within 30 days before or after the sale, which would trigger the wash sale rule

76. A taxpayer in a temporarily low tax bracket is considering converting a portion of a traditional IRA to a Roth IRA. What is the primary tax tradeoff to advise on?

A. Paying tax on the converted amount now, for future tax-free withdrawals
B. The conversion is entirely tax-free regardless of the taxpayer's bracket
C. The conversion triggers the 10% early distribution penalty in all cases
D. The conversion permanently disqualifies the taxpayer from future Roth contributions

77. A taxpayer's itemized deductions normally fall just below the standard deduction each year. What strategy might allow the taxpayer to benefit from itemizing in alternating years?

A. Bunching two or more years of charitable contributions into a single tax year
B. Spreading a single large contribution evenly across several future years
C. Converting charitable contributions into a nonrefundable tax credit instead
D. Making all contributions through payroll deduction instead of directly to charities

78. A taxpayer enrolled in a high-deductible health plan is deciding whether to maximize HSA contributions. What advising point best describes the HSA's tax advantage?

A. Contributions are deductible, but all withdrawals are taxed as ordinary income
B. Growth is taxable annually, similar to a standard brokerage account
C. The advantage is limited to a one-time deduction with no ongoing tax benefit
D. Contributions are generally deductible, growth is tax-deferred, and qualified withdrawals are tax-free

79. A client is saving for a child's future college costs and asks about a 529 plan's tax advantage compared to a taxable brokerage account. What should the advisor highlight?

A. Contributions are always deductible on the federal return regardless of state
B. Withdrawals are tax-free for any purpose, not just education
C. Earnings grow tax-deferred and are tax-free when used for qualified education expenses
D. The account offers no advantage over a taxable brokerage account

80. A taxpayer approaching the required beginning date for retirement account distributions asks when required minimum distributions must begin, and the consequence of missing one. What should the advisor explain?

A. RMDs are optional as long as the account owner is still employed

B. RMDs must begin at the applicable age, and missing one triggers an excise tax

C. There is no penalty for missing an RMD, only a delayed distribution

D. RMDs apply only to Roth IRAs, not traditional retirement accounts

81. A newly self-employed taxpayer asks whether they can simply have a spouse increase W-2 withholding instead of making quarterly estimated payments. What should the advisor confirm?

A. Withholding from one spouse can never be applied to the other spouse's tax liability

B. Only estimated payments satisfy the safe harbor, regardless of withholding amounts

C. Withholding is treated as paid evenly throughout the year, so increasing it can effectively cover the self-employed spouse's liability

D. Self-employed taxpayers are exempt from the underpayment penalty entirely

82. A client holds highly appreciated stock and wants to donate it while retaining an income stream during their lifetime. What structure should the advisor discuss?

A. A direct outright gift of the stock to the charity, with no retained interest

B. A qualified charitable distribution from a retirement account

C. A donor-advised fund, which does not permit any retained income interest

D. A charitable remainder trust, which provides income to the donor with the remainder passing to charity

83. A taxpayer expects to have significantly higher income next year. What year-end planning point should the advisor raise regarding capital gains?

A. Capital gains rates are identical regardless of the taxpayer's income level

B. Consider realizing gains in the current, lower-bracket year rather than deferring them into the higher-income year

C. Gains should always be deferred as long as possible without exception

D. Realizing gains in either year produces the same tax result

84. A client is considering selling their primary residence but has only lived there for eighteen months. What should the advisor point out about the home sale exclusion?

A. Meeting the two-of-five-year ownership and use test is generally required to qualify for the full exclusion

B. The exclusion is available regardless of how long the home was owned or used

C. The exclusion only requires ownership, with no personal-use requirement at all

D. Waiting will not affect eligibility, since the test is based solely on gain amount

85. A client wants to transfer appreciated stock to an adult child in a much lower tax bracket before the child sells it. What should the advisor explain about the child's basis?

A. The child receives a fully stepped-up basis equal to fair market value on the gift date

B. The gift triggers immediate capital gains tax to the donor at the time of transfer

C. The child's basis resets to zero, making the entire sale proceeds taxable

D. The child generally takes the donor's carryover basis and holding period, so the child's own lower rate applies to any gain at sale

86. A Medicare-enrolled client is close to a modified AGI threshold that would trigger higher Medicare Part B and Part D premiums. What should the advisor discuss?

A. IRMAA thresholds apply only to taxpayers under age 65

B. Medicare premiums are unaffected by income at any level

C. Strategies to manage MAGI, such as timing income or charitable distributions

D. Once triggered, an IRMAA surcharge can never be reduced in a future year

87. A self-employed taxpayer with no employees wants to maximize retirement contributions and asks about a Solo 401(k) compared to a SEP-IRA. What advantage should the advisor highlight?

A. A Solo 401(k) allows an employee salary deferral contribution in addition to the employer profit-sharing contribution, potentially allowing larger total contributions
B. A SEP-IRA always allows a higher total contribution than a Solo 401(k)
C. Only a SEP-IRA permits any contribution for a self-employed taxpayer with no employees
D. The two plans have identical contribution limits and features in every respect

88. An estate's income tax return, Form 1041, is generally required once the estate's gross income for the year reaches what amount?

A. $1,000
B. $600
C. $400
D. $12,000

89. A cash-method decedent dies partway through the year. Which items are generally reported on the decedent's final Form 1040?

A. All income the decedent would have earned for the entire year
B. Only income received after death, reported by the estate instead
C. No income is reported on the final return; all income shifts to the estate
D. Income actually or constructively received before death

90. A trust distributes cash to its beneficiaries during the year. What concept generally limits the amount of that distribution taxable to the beneficiaries rather than the trust?

A. The trust's original funding amount
B. Distributable net income (DNI)
C. The trust's total gross income for the year, with no adjustments
D. The trustee's discretionary distribution ceiling set in the trust document

91. A taxpayer makes gifts to several individuals during the year. Gifts to any one recipient below the annual exclusion amount generally require what?

A. A Form 709 filing regardless of the amount gifted
B. Immediate payment of gift tax on the full amount gifted
C. No gift tax return, since they fall under the annual per-recipient exclusion
D. Reporting on the recipient's own income tax return as taxable income

92. A decedent's estate is valued well below the federal basic exclusion amount. What is the general consequence for federal estate tax purposes?

A. No federal estate tax is owed, since the estate falls below the exclusion amount
B. The estate must still pay tax on the entire value above zero
C. A Form 706 must be filed and tax paid regardless of estate size
D. The exclusion applies only to estates of married decedents

93. A grandparent transfers substantial assets directly to a grandchild, skipping the grandchild's parent. What additional tax may apply to this type of transfer?

A. No additional tax applies beyond ordinary gift tax rules
B. The transfer is automatically exempt from any additional tax
C. The generation-skipping transfer tax, in addition to any applicable gift or estate tax
D. Only income tax applies, since transfer taxes do not apply across generations

94. A nonresident alien who earns U.S.-source income during the year generally files which return?

A. Form 1040, identical to a U.S. citizen's return
B. Form 1040-NR, U.S. Nonresident Alien Income Tax Return
C. Form 1040-SR, U.S. Tax Return for Seniors
D. No return is required if taxes were withheld at the source

95. A U.S. person with signature authority over foreign financial accounts must file an FBAR (FinCEN Form 114) if the aggregate value of those accounts exceeds what amount at any point during the year?

A. $10,000
B. $50,000
C. $100,000
D. $5,000

96. An individual files for Chapter 7 bankruptcy. How is the resulting bankruptcy estate generally treated for federal income tax purposes?

A. It is disregarded entirely, with all income reported on the debtor's personal return
B. It is treated as a partnership between the debtor and the trustee
C. It is exempt from federal income tax under all circumstances
D. As a separate taxable entity, generally required to file its own return

97. A long-term U.S. resident who meets certain net worth or tax liability thresholds relinquishes citizenship. What may apply as a result of this expatriation?

A. No additional tax applies once citizenship is formally relinquished
B. The expatriation (exit) tax, generally treating covered property as sold for fair market value on the day before expatriation
C. Only the recipient of any future gifts from the expatriate is taxed
D. The exit tax applies only if the individual owes back taxes at the time

98. A married couple holds community property in a community property state, and one spouse dies. How is the basis of the community property generally adjusted?

A. Only the deceased spouse's half receives a step-up in basis
B. Neither half receives any basis adjustment at the first spouse's death

C. The surviving spouse's half receives a step-down in basis instead
D. Both halves of the community property generally receive a full step-up in basis to fair market value

99. A trust qualifies as a qualified disability trust for a beneficiary who is disabled. How does this classification generally affect the trust's income tax exemption?

A. The trust receives an exemption comparable to an individual's exemption
B. The trust receives no exemption amount at all
C. The trust's exemption amount is reduced below the standard trust exemption
D. The classification affects only the trust's filing deadline, not its exemption

100. A charitable remainder trust must generally file which annual information return, in addition to any income tax obligations of its beneficiaries?

A. Form 1041, with no additional information return required
B. Form 990-PF, Return of Private Foundation
C. Form 5227, Split-Interest Trust Information Return
D. Form 706, United States Estate Tax Return

Answer Key and Explanations — Practice Exam 26

1. D — A Preparer Tax Identification Number must generally be renewed annually before the start of each filing season to remain valid for preparing returns for compensation. A preparer who continues preparing returns for compensation after a PTIN expires risks penalties, since an expired PTIN no longer satisfies the identification requirement paid preparers must meet.

2. B — Form 8879, IRS e-file Signature Authorization, documents a taxpayer's consent to have the preparer enter the taxpayer's self-selected PIN and transmit the return electronically. The preparer retains the signed form rather than submitting it with the return, and it establishes that the taxpayer reviewed and authorized the return before electronic filing.

3. C — A paid preparer must generally retain copies of prepared returns, or a list identifying each taxpayer and the type of return prepared, for at least three years after the close of the return period. This recordkeeping requirement supports IRS oversight of paid preparers and helps preparers respond to inquiries about previously filed returns.

4. A — A firm must obtain an Electronic Filing Identification Number through IRS e-Services before it can transmit returns electronically to the IRS, in addition to each individual preparer's own PTIN. The EFIN identifies the firm as an authorized e-file provider, while the PTIN identifies the specific preparer responsible for each return.

5. A — Checking the Third Party Designee box on Form 1040 grants the named preparer limited authority to discuss that specific return's processing with the IRS, such as resolving notices or missing information. It does not grant the broader representation authority a Power of Attorney provides, and it does not extend to future tax years.

6. C — Form 8379, Injured Spouse Allocation, allows a spouse who filed a joint return to claim their share of a refund that would otherwise be entirely applied to the other spouse's separate pre-marriage debt, such as a student loan. This differs from innocent spouse relief, which instead addresses liability for an understatement of tax.

7. B — Form 8821, Tax Information Authorization, allows a designated person to receive and inspect a taxpayer's confidential tax information without granting representation authority. Form 2848, by contrast, grants power of attorney to represent the taxpayer before the IRS, so a taxpayer wanting information sharing only, without advocacy, should use Form 8821 instead.

8. D — Form 8867, Paid Preparer's Due Diligence Checklist, documents that a preparer completed the required due diligence steps before claiming certain refundable credits or head of household status on a client's return. Failing to complete and retain this documentation can expose the preparer to a separate due diligence penalty for each failure.

9. A — As a general rule, a taxpayer may file an amended return claiming a refund within three years from the date the original return was filed, or two years from the date the tax was paid, whichever is later. This statute of limitations balances finality for the government against a reasonable window to correct errors.

10. D — An Identity Protection PIN is a six-digit number the IRS issues to taxpayers, often after a prior identity theft incident, that must be included on the e-filed or paper return to verify the taxpayer's identity. A return filed without a required IP PIN will generally be rejected or delayed pending additional verification.

11. B — The Taxpayer Advocate Service is an independent organization within the IRS that assists taxpayers facing significant hardship or an imminent adverse action who have been unable to resolve their problem through normal IRS channels. It operates independently of the examination and collection functions to give taxpayers an additional avenue for resolution.

12. C — When a practitioner identifies a conflict of interest but reasonably believes competent and diligent representation of each affected client remains possible, Circular 230 generally requires each affected client give informed consent, confirmed in writing, before the practitioner may continue representing them. Proceeding without this consent violates the practitioner's ethical obligations.

13. D — When an e-filed return is rejected because a dependent's Social Security number was already used and accepted on another return, the return generally cannot be resubmitted electronically as filed. It must instead be paper filed, since the duplicate claim requires manual IRS review to determine which taxpayer is actually entitled to the dependent.

14. A — Under Section 6694, a preparer who takes a position lacking a reasonable basis, resulting in an understatement of tax, faces a penalty generally equal to the greater of a set dollar amount or a percentage of the income the preparer derived from preparing the return, with higher penalties for willful or reckless conduct.

15. B — The Section 7525 privilege extends attorney-client-like confidentiality to communications between a taxpayer and a federally authorized tax practitioner, but only in noncriminal tax matters before the IRS and in noncriminal tax proceedings in federal court. The privilege does not apply in criminal tax matters, where it offers the client no protection.

16. C — Upon discovering an error on a client's already-filed prior-year return, a preparer must advise the client of the error and its potential consequences, but Circular 230 does not require the preparer to prepare an amended return or to notify the IRS directly. The decision whether to amend generally remains the client's to make.

17. C — Unemployment compensation is generally fully includible in a taxpayer's gross income and reported on Schedule 1, regardless of the amount received during the year. Payers issue Form 1099-G reporting the total compensation paid, and recipients may elect voluntary withholding to avoid an unexpected balance due when the return is filed.

18. B — For a divorce or separation agreement executed after December 31, 2018, alimony payments are not deductible by the paying spouse and are not includible in the recipient spouse's gross income. This reversed the treatment under agreements executed before 2019, where payments were generally deductible to the payer and taxable to the recipient.

19. D — An itemizing taxpayer may deduct gambling losses, but only up to the amount of gambling winnings reported for the year; losses exceeding winnings provide no additional tax benefit and cannot be carried forward. Winnings must be reported in full as income, separate from any offsetting loss deduction claimed on Schedule A.

20. A — A scholarship covering tuition and required fees is generally excluded from gross income for a degree-seeking student, but any portion allocated to room and board is taxable, since room and board are not qualified education expenses. The student must include that taxable portion in gross income for the year received.

21. B — A U.S. citizen who meets either the bona fide residence test or the physical presence test may elect the foreign earned income exclusion on Form 2555, excluding a set amount of foreign earnings from U.S. gross income. This election is separate from, and cannot be combined with, a foreign tax credit on the excluded income.

22. D — A taxpayer who was insolvent immediately before debt cancellation may exclude the cancelled debt from gross income using Form 982, but only to the extent of the insolvency, meaning liabilities exceeded the fair market value of assets. Any cancelled debt beyond that insolvency amount remains taxable and must be reported as income.

23. C — A taxpayer who actively participates in a rental real estate activity may deduct up to $25,000 of losses against nonpassive income, with the allowance phasing out as modified AGI rises above $100,000 and disappearing at $150,000. Above the phase-out range, losses generally remain suspended until passive income or a disposition occurs.

24. A — Since the Tax Cuts and Jobs Act, Section 1031 like-kind exchange treatment is limited to real property held for investment or business use; personal property such as vehicles and equipment no longer qualifies. Exchanges of personal property completed after the effective date are instead treated as fully taxable sales for federal income tax purposes.

25. B — A court-ordered award compensating for lost wages from wrongful termination is generally taxable as ordinary income, because it replaces wages that themselves would have been taxable had employment continued. This differs from damages compensating for physical injury or sickness, which may be excluded under a separate Code provision, even though both awards originate from litigation.

26. C — An employee may generally exclude up to $5,250 annually in benefits received under an employer's Section 127 educational assistance program, covering tuition, fees, books, and related costs, whether the coursework is job-related or not. Amounts the employer provides above this annual limit are generally includible in the employee's wages, subject to payroll tax withholding.

27. A — Depending on a taxpayer's provisional income relative to the applicable base amounts, up to a maximum of 85% of Social Security benefits may be includible in gross income; taxpayers with lower provisional income may have a smaller portion, or none, of their benefits taxed, but the remaining 15% always stays excluded.

28. D — A taxpayer under age 59½ who takes an early traditional IRA distribution to pay unreimbursed medical expenses may qualify for a penalty exception limited to the amount of expenses exceeding 7.5% of adjusted gross income. Any distribution beyond that exception amount remains subject to the ordinary 10% early distribution penalty.

29. B — For a Roth IRA distribution to qualify as tax-free, the five-year holding period must be satisfied, and the owner must also be at least age 59½, disabled, deceased, or using the limited first-time homebuyer exception. A distribution failing either condition may still return contributions tax-free but could trigger tax on earnings.

30. C — When a taxpayer exchanges services for another party's services rather than cash, the fair market value of the services received is includible in the taxpayer's gross income, exactly as if cash had changed hands. Both parties to a bartering transaction generally have income to report, regardless of whether a written contract exists.

31. D — Jury duty pay is includible in gross income, but a taxpayer required to turn the pay over to an employer in exchange for continued regular wages may claim an offsetting adjustment to income for the amount surrendered, preventing the jury pay from effectively being taxed twice on the same return.

32. A — Compensation from exercising a nonqualified stock option is generally includible in the employee's gross income in the year of exercise, measured as the difference between the stock's fair market value and the exercise price paid. This amount is ordinary wage income, separate from any later capital gain on the stock's sale.

33. B — Although tax-exempt municipal bond interest is excluded from federal taxable income, it is still included in the provisional income calculation used to determine what portion, if any, of a taxpayer's Social Security benefits is taxable. A taxpayer with substantial municipal bond interest may see more of their benefits become taxable.

34. C — Under the below-market loan rules, a lender who makes an interest-free or below-market loan generally must recognize imputed interest income, calculated using the applicable federal rate, even though no actual interest was actually collected from the borrower during the year. Certain small loans between family members may fall under a limited exception to this general rule.

35. A — Disability benefit payments are generally excluded from gross income when the taxpayer paid 100% of the policy premiums with after-tax dollars, since the taxpayer already bore the cost of the coverage. If an employer paid the premiums instead, or the taxpayer deducted them, the resulting benefits become taxable when received.

36. D — A loss realized on the sale of personal-use property, such as a personal vehicle, is generally not deductible for federal income tax purposes, since personal losses are treated differently than losses on investment or business property. Only gains on personal-use property sales are taxable; losses simply provide no tax benefit.

37. B — An itemizing taxpayer may deduct unreimbursed medical expenses only to the extent they exceed 7.5% of adjusted gross income for the year; expenses below that threshold provide no itemized deduction benefit. Taxpayers with significant medical costs relative to income often find bunching elective procedures into one year increases the deductible amount.

38. D — An itemizing taxpayer's combined deduction for state and local income, sales, and property taxes is generally capped at $10,000 per year, regardless of the actual amount paid. This cap applies whether the taxes relate to a primary residence, additional property, or state income tax withheld from wages during the year.

39. C — An eligible K-12 educator may claim an above-the-line deduction of up to $300 for unreimbursed classroom supplies, available even to taxpayers who claim the standard deduction rather than itemizing. This deduction directly reduces adjusted gross income, which can also help preserve eligibility for other income-based deductions and credits, each filing season.

40. A — The above-the-line deduction for student loan interest, up to $2,500 annually, phases out as the taxpayer's modified adjusted gross income rises within an annually adjusted range, and is unavailable once income exceeds the upper limit. Unlike many itemized deductions, this one remains available to taxpayers who claim the standard deduction.

41. B — When a taxpayer actively participates in an employer-sponsored retirement plan, the deduction for traditional IRA contributions phases out based on modified adjusted gross income, potentially eliminating the deduction entirely at higher income levels. A nonparticipating spouse may still have a separate, higher phase-out range for their own contribution, under the separate active-participant rules.

42. C — A self-employed taxpayer's SEP-IRA contribution is generally limited to the lesser of a set annual dollar amount or a percentage of net self-employment earnings, calculated as roughly 20% after accounting for the deduction for one-half of self-employment tax, even though the stated plan rate is 25% of compensation for employees.

43. D — A sole proprietor with qualified business income may generally deduct 20% of that income under Section 199A, subject to limitations based on taxable income, the type of trade or business, and, at higher income levels, wage and property-based restrictions that can reduce or eliminate the deduction. The deduction reduces taxable income but not self-employment tax owed.

44. A — The Child Tax Credit is available for each qualifying child who has not reached age 17 by the end of the tax year; a child who turns 17 during the year no longer qualifies for this credit, though the smaller Credit for Other Dependents may still be available for that child instead.

45. B — A dependent who does not meet the qualifying child requirements for the Child Tax Credit, such as an elderly dependent parent or an older qualifying relative, may still generate the smaller, nonrefundable Credit for Other Dependents, provided the dependent otherwise meets the general dependency and support requirements for the year.

46. D — A taxpayer who incurs qualified expenses finalizing an eligible adoption may claim a nonrefundable adoption credit, subject to an annually adjusted dollar limit per child and a phase-out based on modified adjusted gross income. Unused credit amounts may generally be carried forward for a limited number of subsequent tax years.

47. C — The American Opportunity Tax Credit is available for a maximum of four years per eligible student pursuing a degree, and up to 40% of the credit is refundable even if the taxpayer owes no tax. This makes it more valuable than the fully nonrefundable Lifetime Learning Credit for many eligible families.

48. A — A moderate-income taxpayer who contributes to a traditional IRA, Roth IRA, or employer retirement plan may qualify for the nonrefundable Retirement Savings Contributions Credit, commonly called the Saver's Credit, in addition to any separate deduction for the contribution itself. Eligibility and the credit percentage depend on filing status and income.

49. A — A homeowner installing qualifying energy-efficient improvements, such as insulation or efficient windows, to their primary residence may claim the Energy Efficient Home Improvement

Credit, subject to separate annual dollar limits for different categories of improvements that reset each year. This credit is generally nonrefundable and applies to existing homes, not new construction.

50. B — Eligibility for the clean vehicle credit generally depends on multiple requirements beyond simply purchasing a qualifying vehicle, including where the vehicle was assembled, sourcing requirements for battery components and critical minerals, and income limits based on the purchaser's modified adjusted gross income and filing status for the year, before any credit can be claimed.

51. D — Under current law, a personal casualty loss is generally deductible only if it results from a federally declared disaster; losses from other sudden or unusual events, such as an isolated household accident, generally are not deductible as itemized casualty losses under the rules currently in effect, regardless of how unexpected the loss may have been.

52. C — An itemizing taxpayer's deduction for gambling losses is limited to the amount of gambling winnings reported for the year; losses in excess of winnings provide no additional deduction and cannot be carried forward to a future year or used to offset other types of income, such as wages, reported on the same return.

53. B — A qualifying self-employed taxpayer may choose between the simplified method, which applies a flat rate per square foot of qualifying office space up to a maximum, and the regular method, which allocates actual home expenses by business-use percentage, generally producing a larger deduction for higher-cost homes, for most self-employed taxpayers.

54. D — The above-the-line deduction for a self-employed taxpayer's health insurance premiums cannot exceed the taxpayer's net self-employment earnings for the year, and is unavailable for any month the taxpayer was eligible to participate in a subsidized health plan through an employer or a spouse's employer, even if the taxpayer declined that coverage.

55. C — A divorce agreement executed before 2019 that is later modified without changing its alimony terms generally retains the original pre-2019 tax treatment, meaning payments remain deductible by the payer and taxable to the recipient, unless the modification specifically states current-law treatment should apply going forward instead, for the payer and recipient alike.

56. A — Interest on a home equity loan remains deductible as qualified residence interest when the loan proceeds are used to buy, build, or substantially improve the home securing the debt, subject to the overall acquisition debt limit; interest on proceeds used for unrelated personal purposes generally is not deductible under current law.

57. D — Married taxpayers who file separately face several disadvantages, including a SALT deduction cap reduced to $5,000 per spouse rather than the $10,000 available on a joint return, and ineligibility for several credits, such as the Earned Income Tax Credit and certain education credits, generally unavailable to separate filers, when compared to filing jointly.

58. C — Under current law, a net operating loss generally may be carried forward indefinitely to future tax years, but its use in any given year is generally limited to 80% of that year's taxable income before applying the deduction. Carrybacks are generally unavailable for most losses arising under the current rules.

59. B — A taxpayer generally avoids an estimated tax underpayment penalty by paying, through withholding and timely estimated payments combined, at least 100% of the prior year's total tax liability, assuming prior-year adjusted gross income was $150,000 or less; higher-income taxpayers must generally pay 110% of the prior year's liability instead, to avoid any penalty exposure.

60. A — Once a child's unearned income for the year exceeds the applicable kiddie tax threshold, the excess is generally taxed at the parents' top marginal tax rate rather than the child's own, typically lower, rate. This rule discourages shifting investment income to a child solely to obtain a lower tax rate.

61. A — Long-term capital gains recognized by most individual taxpayers are generally taxed using a separate rate structure of 0%, 15%, or 20%, depending on the taxpayer's total taxable income for the year, rather than being taxed at the taxpayer's ordinary marginal tax rate that applies to wages and other ordinary income.

62. D — Because an employer withholds Additional Medicare Tax only once wages from that single employer exceed $200,000, regardless of the employee's actual filing status or combined household income, Form 8959 reconciles the amount withheld against the employee's actual liability, which is based on the applicable threshold for the taxpayer's filing status that year.

63. C — For purposes of the passive activity loss rules, income and loss are generally sorted into three categories: active income from a trade or business in which the taxpayer materially participates, passive income from activities in which the taxpayer does not materially participate, and portfolio income such as interest and dividends.

64. B — Gain attributable to straight-line depreciation previously claimed on long-term depreciable real property, known as unrecaptured Section 1250 gain, is generally taxed at a maximum rate of 25%, a higher rate than the standard long-term capital gain rates that otherwise apply to the remaining gain recognized on that same property sale.

65. C — When a taxpayer's capital losses for the year exceed capital gains, generally only $3,000 of the net loss ($1,500 if married filing separately) may offset ordinary income in the current year, with any remaining excess loss carried forward indefinitely, subject to that same annual limitation, until it is fully used.

66. B — The regular-tax itemized deduction for state and local taxes is added back when computing alternative minimum taxable income, since state and local taxes are not an allowable deduction for AMT purposes. This addback is one of the more common AMT preference adjustments for taxpayers who itemize and pay significant state taxes.

67. D — To qualify for Head of Household filing status, a taxpayer must generally pay more than 50% of the cost of maintaining a home that was the principal residence for the taxpayer and a qualifying person for more than half the year, in addition to being unmarried or considered unmarried on the last day of the year.

68. A — For a calendar-year individual taxpayer, quarterly estimated tax payments are generally due in April, June, September, and January of the following year, corresponding to unequal three-month periods rather than strict calendar quarters, and a missed or late payment for any one period can trigger an underpayment penalty for that specific period.

69. B — A taxpayer who did not know, and had no reason to know, about a former or current spouse's understatement of tax on a jointly filed return may request innocent spouse relief using Form 8857, potentially avoiding liability for the portion of the joint understatement attributable to the other spouse's actions.

70. D — The Net Investment Income Tax generally applies to net investment income such as interest, dividends, capital gains, and rental income once modified adjusted gross income exceeds the applicable threshold, but wages and self-employment income are generally excluded from the base, even though they may be subject to the Additional Medicare Tax instead.

71. A — Absent a signed Form 8332 release from the custodial parent, the custodial parent, generally the parent with whom the child lived for the greater number of nights during the year, has the default right to claim the child as a dependent, regardless of which parent actually provided more financial support during the year.

72. C — In a community property state, income earned by either spouse during the marriage is generally treated as community income and split equally between the spouses for tax purposes, even when the spouses choose to file separate returns rather than a joint return, unless a specific exception applies to that income.

73. C — A taxpayer's marginal tax rate is the rate applied to the last dollar of taxable income, reflecting the highest bracket reached, while the effective tax rate is the taxpayer's total tax liability expressed as a percentage of total income, and is generally lower than the marginal rate because of the progressive bracket structure.

74. B — For a specified service trade or business, such as a law or accounting practice, the Section 199A deduction phases out as taxable income rises through the applicable range and is eliminated entirely once income exceeds the upper end, unlike non-service businesses, which retain a wage-based limitation instead of full elimination.

75. D — A taxpayer harvesting a capital loss to offset gains elsewhere in the portfolio must avoid repurchasing a substantially identical security within 30 days before or after the sale, since doing so triggers the wash sale rule and disallows the loss for current deduction, instead adding it to the replacement security's basis.

76. A — A Roth conversion requires the taxpayer to include the converted amount in current-year taxable income, so the primary advising tradeoff is paying tax now, ideally while in a temporarily lower bracket, in exchange for tax-free qualified withdrawals in retirement, when the taxpayer may otherwise be in a higher bracket, later in life.

77. A — A taxpayer whose itemized deductions normally fall just short of the standard deduction may benefit from bunching two or more years of charitable contributions into a single year, pushing that year's itemized total above the standard deduction, while claiming the standard deduction in the intervening years when contributions are minimal.

78. D — An HSA offers a distinctive triple tax advantage: contributions are generally deductible or made pretax, account growth is tax-deferred, and qualified medical withdrawals are entirely tax-free, making it attractive for an eligible taxpayer enrolled in a high-deductible plan who can afford to pay current medical costs out of pocket, throughout the year.

79. C — A 529 plan allows earnings to grow tax-deferred, and withdrawals are entirely tax-free at the federal level when used for qualified education expenses, making it generally more tax-efficient than a taxable brokerage account for the same savings goal, and many states also offer a deduction or credit for contributions made.

80. B — Required minimum distributions must generally begin at the applicable age set under current law, and a taxpayer who fails to withdraw the full required amount by the deadline faces an excise tax on the shortfall, making proactive planning around the required beginning date an important part of retirement account advising.

81. C — Because withholding is treated as paid evenly throughout the year regardless of when it was actually withheld, a self-employed taxpayer's spouse can increase W-2 withholding late in the year to effectively cover the self-employed spouse's own tax liability, potentially avoiding the need for separate quarterly estimated payments altogether that year.

82. D — A charitable remainder trust allows a donor to contribute highly appreciated property, receive an income stream from the trust during their lifetime or a term of years, defer immediate capital gains recognition on the contributed property, and ultimately pass the remaining trust assets to one or more designated charities at the end of the trust term.

83. B — A taxpayer expecting significantly higher income next year should generally consider realizing capital gains in the current, lower-bracket year rather than deferring them, since the same gain could be taxed at a meaningfully higher rate if recognized only after the taxpayer moves into the higher tax bracket expected next year.

84. A — Before advising a client to sell a primary residence, the advisor should confirm whether the taxpayer meets the ownership and use test, generally requiring the home to have been owned and used as the principal residence for at least two of the preceding five years, to qualify for the full exclusion.

85. D — When appreciated stock is gifted rather than sold by the donor, the recipient generally takes the donor's carryover basis and holding period rather than a stepped-up basis, so gifting to a family member in a much lower tax bracket can reduce the overall tax paid once the stock is eventually sold.

86. C — Because Medicare Part B and Part D premiums increase once modified adjusted gross income crosses specific IRMAA thresholds, an advisor should discuss strategies such as timing income recognition or using qualified charitable distributions to help a Medicare-enrolled client manage MAGI and avoid crossing into a higher premium tier that year.

87. A — A Solo 401(k) allows a self-employed taxpayer with no employees to make both an employee salary deferral contribution and an employer profit-sharing contribution, which can allow a higher total contribution than a SEP-IRA, which permits only the employer-type contribution based on a percentage of net self-employment earnings for the year.

88. B — An estate's fiduciary income tax return, Form 1041, is generally required once the estate's gross income for the tax year reaches $600, a threshold considerably lower than the personal exemption amounts applicable to an individual return, reflecting the more limited exemption generally available to an estate as a separate taxable entity.

89. D — A cash-method decedent's final Form 1040 generally includes income actually or constructively received before the date of death; income received after death is instead reported either by the estate on its own Form 1041 or directly by the beneficiary who received it, depending on how the underlying asset actually passed.

90. B — Distributable net income, commonly called DNI, generally limits the amount of a trust distribution that is taxable to the beneficiaries who received it, with any distribution amount exceeding DNI treated as a nontaxable return of trust principal rather than as additional taxable income passed through to that beneficiary for the year.

91. C — Gifts to any single recipient that fall within the annual per-recipient gift tax exclusion generally require no Form 709 gift tax return, since such gifts are not considered taxable gifts. A return becomes necessary once gifts to one recipient in a year exceed that annual exclusion amount for the year.

92. A — When a decedent's total estate value falls well below the federal basic exclusion amount, no federal estate tax is owed, and in many cases no Form 706 filing is even required, unless the executor wants to file anyway to elect portability of any unused exclusion for the surviving spouse's later use.

93. C — A transfer that skips a generation, such as a grandparent transferring assets directly to a grandchild while the grandchild's parent is living, may trigger the generation-skipping transfer tax in addition to any gift or estate tax otherwise due, a separate tax intended to prevent avoiding transfer tax at the skipped generation.

94. B — A nonresident alien who earns income from U.S. sources during the year generally files Form 1040-NR, U.S. Nonresident Alien Income Tax Return, which applies different rules than a citizen's or resident alien's Form 1040, including limitations on certain deductions, credits, and filing statuses generally available to the taxpayer, under current law.

95. A — A U.S. person with a financial interest in, or signature authority over, one or more foreign financial accounts must file an FBAR, FinCEN Form 114, if the aggregate value of those accounts exceeded $10,000 at any point during the calendar year, even if no single account individually exceeded that amount.

96. D — When an individual files for Chapter 7 bankruptcy, the resulting bankruptcy estate is generally treated as a separate taxable entity for federal income tax purposes, generally required to file its own return reporting the estate's income, separate from the debtor's own personal income tax return covering the same period, under bankruptcy law.

97. B — A long-term U.S. resident or citizen who meets specified net worth or average tax liability thresholds and relinquishes citizenship or long-term residency may become subject to the expatriation, or exit, tax, which generally treats most property as sold at fair market value the day before expatriation for computing gain, under current law.

98. D — In a community property state, when one spouse dies, both halves of the couple's community property generally receive a full step-up in basis to fair market value, unlike common law states, where typically only the deceased spouse's individually owned half receives a stepped-up basis at the date of the first spouse's death.

99. A — A trust that qualifies as a qualified disability trust for the benefit of a disabled beneficiary is generally allowed an income tax exemption amount comparable to an individual taxpayer's exemption, substantially larger than the minimal exemption amount otherwise allowed to most standard nongrantor trusts under the rules that apply each year.

100. C — A charitable remainder trust generally must file Form 5227, Split-Interest Trust Information Return, annually, reporting the trust's financial activities, distributions to the income beneficiary, and the remainder interest ultimately passing to charity, in addition to any income tax obligations of the trust's beneficiaries on distributions actually received, each year it remains active.