PRACTICE EXAM 27: 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. Circular 230 describes 'best practices' for tax advisors, including communicating clearly with clients about the terms of an engagement. What is the general nature of this best practices standard?

A. Aspirational guidance encouraging high-quality practice, rather than a set of mandatory, separately enforceable duties
B. A mandatory checklist that, if violated, automatically results in preparer disbarment
C. A requirement that applies only to attorneys and CPAs, not enrolled agents
D. A standard enforced exclusively through state bar disciplinary proceedings

2. Under Circular 230, a practitioner providing written tax advice to a client must generally do what regarding the factual assumptions underlying that advice?

A. Accept all facts the client provides without any independent evaluation
B. Make reasonable factual inquiries and not rely on assumptions the practitioner knows or should know are unreasonable
C. Decline to provide any written advice unless facts are independently audited
D. Base the advice solely on facts contained in the prior year's return

3. A paid preparer completes a client's paper-filed return. What must generally appear on the return before it is filed?

A. The preparer's Social Security number instead of a PTIN
B. Only the preparer's firm name, with no individual signature required

C. The preparer's signature only, since a PTIN is optional for paper returns
D. The preparer's signature and PTIN

4. A taxpayer fails to file a required return despite IRS notices. What may the IRS do in response, using third-party information such as Forms W-2 and 1099?

A. Automatically waive the filing requirement after two years of nonfiling
B. File a joint return on the taxpayer's behalf without consent
C. Prepare a Substitute for Return (SFR) on the taxpayer's behalf
D. Refer the matter directly to criminal prosecution with no other action taken

5. A taxpayer needs a free transcript summarizing prior-year return information rather than an actual copy of the filed return. Which form should be used?

A. Form 4506, Request for Copy of Tax Return
B. Form 4868, Application for Automatic Extension of Time to File
C. Form 8821, Tax Information Authorization
D. Form 4506-T, Request for Transcript of Tax Return

6. A preparer suspects a client may have unreported income from a source the client did not mention. What IRS transcript can help identify income documents filed under the client's SSN?

A. The Account Transcript
B. The Wage and Income Transcript
C. The Record of Account Transcript
D. The Return Transcript

7. A preparer wants to charge a fee based on a percentage of the taxpayer's refund. Under Circular 230, when is this generally permitted?

A. Always permitted, as long as the client agrees to the arrangement in writing

B. Permitted only for returns claiming the Earned Income Tax Credit

C. Generally prohibited, except in limited circumstances such as certain IRS examinations or refund claims for previously filed returns

D. Permitted for any return prepared during the regular filing season

8. Under Circular 230, a practitioner's advertising and solicitation of new business is subject to what general restriction?

A. It must not be false, fraudulent, or misleading

B. All advertising by practitioners is prohibited under Circular 230

C. Advertising is permitted only through direct mail, never other media

D. Fee information can never be mentioned in any advertisement

9. A tax preparation firm reasonably expects to prepare more than the threshold number of individual returns in a calendar year. What does this generally require?

A. No special requirement, since e-filing is always optional for firms

B. Filing all returns on paper to avoid the electronic mandate

C. Electronically filing those returns, since preparers expecting to file 11 or more are generally required to e-file

D. Obtaining a separate license beyond the standard EFIN to continue preparing returns

10. A firm applies to become an IRS Authorized e-file Provider. What role must the application designate to take responsibility for the firm's e-file operations?

A. A licensed enrolled agent employed full-time by the firm

B. A Principal or Responsible Official

C. A state-licensed notary public affiliated with the firm

D. An independent third-party compliance auditor

11. A preparer discloses a client's tax return information to a third party for a purpose unrelated to preparing the return, without the client's consent. What penalty exposure does the preparer face?

A. No penalty, since return information is not considered confidential once prepared
B. Only a civil penalty under Section 6694 for an unreasonable position
C. Automatic revocation of the preparer's PTIN with no other consequence
D. Potential criminal and civil penalties under Section 7216 for unauthorized disclosure or use of return information

12. A client mentions occasional rideshare driving income but did not bring a Form 1099-NEC or 1099-K. What is the preparer's general due diligence obligation?

A. Ask sufficient questions to confirm whether the income was actually received
B. No obligation exists unless the client independently produces a tax form
C. Report only the income shown on any tax forms actually provided
D. Refuse to prepare the return until a Form 1099 is obtained

13. A non-credentialed preparer voluntarily completes continuing education requirements to obtain limited representation rights before the IRS for clients whose returns they prepared. What IRS program does this describe?

A. The Enrolled Agent Special Enrollment Examination program
B. The Registered Tax Return Preparer program, still currently in effect
C. The Annual Filing Season Program (AFSP)
D. The Circular 230 Provisional Practitioner designation

14. A taxpayer wants to grant a representative power of attorney using Form 2848. How must the scope of that authority generally be described?

A. Specific tax matters and specific tax periods or years, rather than a general, unlimited grant of authority
B. As broadly as possible, covering all past and future tax matters indefinitely
C. Only orally, since Form 2848 merely confirms a prior verbal agreement
D. Limited exclusively to income tax matters, regardless of the taxpayer's actual need

15. As a general rule, within how many years after a return is filed must the IRS generally assess additional tax, absent fraud or a substantial understatement?

A. One year, with no extended period under any circumstances
B. Ten years, matching the collection statute of limitations
C. Two years, regardless of the size of any understatement
D. Three years, extending to six years if gross income is understated by more than 25%

16. A preparer completes a client's return and the client signs it under penalties of perjury. Who bears ultimate legal responsibility for the accuracy of the information reported?

A. The preparer exclusively, with no responsibility resting on the taxpayer
B. The taxpayer, even though the preparer may also face separate penalty exposure for errors
C. The IRS, since it reviews and accepts the return before processing
D. Neither party bears responsibility once the return has been electronically filed

17. An employee exercises an incentive stock option (ISO) and continues to hold the stock. What is the general regular income tax consequence at the time of exercise?

A. The full spread between fair market value and exercise price is immediately taxable as wages
B. The transaction is taxed as a short-term capital gain at exercise
C. No regular taxable income results at exercise, though the spread may be an AMT preference item
D. Exercise always triggers backup withholding at the maximum rate

18. A taxpayer holds Series EE savings bonds and normally reports the accrued interest only when the bonds are redeemed. What election allows the taxpayer to instead report interest as it accrues each year?

A. An election to report accrued interest annually, applied consistently to all similar bonds owned
B. No such election exists; interest must always be reported only at redemption
C. An election available only in the final year before the bond matures

D. An election that applies only to bonds purchased for a dependent child

19. A taxpayer enrolls in a dividend reinvestment plan, automatically using cash dividends to purchase additional shares rather than receiving cash. How are the reinvested dividends generally treated?

A. Excluded from income, since no cash was actually received by the taxpayer
B. Taxable only when the additional shares are eventually sold
C. Taxable at a reduced rate because the dividends were reinvested rather than spent
D. Fully taxable in the year received, exactly as if the cash had been received directly

20. For a dividend to be taxed as a qualified dividend at the preferential capital gain rates, the taxpayer must generally satisfy what holding period requirement for the underlying stock?

A. Holding the stock for the entire calendar year in which the dividend was paid
B. Holding the stock for at least one full year before the dividend was declared
C. No holding period applies; all dividends automatically qualify for the preferential rate
D. Holding the stock for more than 60 days during the 121-day period surrounding the ex-dividend date

21. A taxpayer owns shares in a mutual fund that distributes capital gains realized by the fund's manager during the year. How is this capital gain distribution generally reported?

A. As short-term capital gain, since it was distributed during the current year
B. As long-term capital gain on Schedule D, regardless of how long the taxpayer personally held the fund shares
C. As ordinary dividend income, identical to an interest payment
D. As a nontaxable return of the taxpayer's original investment

22. A taxpayer's stock in a company that filed bankruptcy becomes completely worthless during the year. How is this loss generally treated?

A. As an ordinary loss, fully deductible against wages in the year of worthlessness

B. As a casualty loss, subject to the federally declared disaster requirement
C. As a capital loss, treated as if the security were sold for zero on the last day of the tax year
D. No deduction is allowed until the company is formally dissolved

23. A taxpayer's investment in qualifying small business stock becomes worthless. Under Section 1244, how may a portion of this loss be treated, unlike a typical stock loss?

A. As a fully nondeductible personal loss, regardless of the stock's qualification
B. As an ordinary loss up to an annual limit, rather than entirely as a capital loss
C. As a casualty loss requiring a federally declared disaster
D. As self-employment income subject to self-employment tax

24. An employer provides a qualified transportation fringe benefit, such as transit passes or parking, to an employee. How is this benefit generally treated, up to the applicable monthly limit?

A. Excluded from the employee's taxable wages, up to a monthly dollar limit set for each benefit category
B. Fully taxable to the employee, regardless of the benefit's monthly value
C. Excluded only if the employee also uses public transit exclusively
D. Excluded without any dollar limitation, regardless of the benefit's value

25. An employer occasionally provides employees with small-value items, such as holiday gifts of minimal value, that would be administratively impractical to account for individually. How are these items generally treated?

A. Fully taxable, since all employer-provided property is includible in wages
B. Excluded only if provided exclusively in cash rather than as property
C. Excluded from the employee's income as a de minimis fringe benefit
D. Taxable only above a specific dollar threshold set annually by the IRS

26. An employer maintains a written adoption assistance program under Section 137. How are qualifying benefits provided to an employee under this program generally treated, up to the annual limit?

A. Fully taxable as wages, identical to ordinary compensation

B. Excluded without any dollar limitation or income-based phase-out

C. Excluded only if the employee also separately qualifies for the adoption credit

D. Excluded from the employee's gross income, up to an annually adjusted dollar limit, subject to income phase-out

27. A taxpayer receives a settlement for emotional distress damages that did not originate from a physical injury or physical sickness. How is this settlement generally treated?

A. Taxable as ordinary income, since it did not originate from a physical injury or sickness

B. Excluded entirely, since all personal injury settlements are nontaxable

C. Taxable only to the extent the settlement exceeds the taxpayer's legal fees

D. Excluded up to a set annual dollar limit, with any excess taxable

28. A retiring employee takes a lump-sum distribution of employer stock from a qualified retirement plan. What special tax treatment may apply to the appreciation in the stock's value while held in the plan?

A. The full value of the stock is always taxed as ordinary income immediately at distribution

B. Net unrealized appreciation may be taxed as capital gain when the stock is later sold, rather than as ordinary income at distribution

C. The appreciation is permanently excluded from taxation under all circumstances

D. The appreciation is taxed as self-employment income upon distribution

29. A taxpayer's vacation home is used both personally and rented out during the year, exceeding the personal-use threshold that would otherwise limit it to the vacation-home rules. How are expenses generally allocated between rental and personal use?

A. All expenses are deducted against rental income regardless of personal-use days

B. No expenses may be deducted once any personal use of the home occurs

C. Based on the ratio of actual rental days to total days of use, allocating expenses proportionally between the two
D. Expenses are allocated equally, regardless of how many days each use actually occurred

30. A taxpayer receives royalty payments from a mineral lease on land they own. On what schedule is this royalty income generally reported?

A. Schedule C, Profit or Loss from Business
B. Schedule E, Supplemental Income and Loss
C. Schedule B, Interest and Ordinary Dividends
D. Schedule D, Capital Gains and Losses

31. A taxpayer wins a non-cash prize, such as a vacation package, from a promotional sweepstakes. How is this prize generally treated for federal income tax purposes?

A. Excluded entirely, since it was not received as compensation for services
B. Includible only if the taxpayer later sells or otherwise disposes of the prize
C. Includible at only half of its fair market value
D. Includible in gross income at its fair market value

32. A taxpayer inherits stock from a parent's estate. What is the taxpayer's general basis in the inherited stock for purposes of a later sale?

A. The stock's fair market value on the date of the parent's death (or the alternate valuation date, if elected)
B. The parent's original purchase price, carried over unchanged to the heir
C. Zero, since inherited property generally has no basis until sold
D. The average of the parent's original cost and the current market value

33. A taxpayer receives gifted stock that had declined in value while the donor owned it. If the taxpayer later sells the stock at a loss, what basis generally applies?

A. The donor's original cost basis, used for both gain and loss regardless of value
B. Always the fair market value at the time of the gift, regardless of gain or loss
C. The fair market value at the time of the gift, if lower than the donor's basis and used to determine a loss
D. The midpoint between the donor's basis and the fair market value at the gift date

34. An employer makes a contribution directly to an eligible employee's Health Savings Account. How is this employer contribution generally treated for the employee?

A. Excluded from the employee's gross income, and counted toward the employee's annual HSA contribution limit
B. Fully includible in the employee's taxable wages for the year
C. Excluded from income but not counted against the employee's annual contribution limit
D. Treated as a taxable fringe benefit subject to income tax withholding only

35. A taxpayer who owns timberland cuts and sells standing timber held for investment. Under Section 631, how may the resulting gain generally be treated?

A. Always as ordinary income, regardless of how long the timber was held
B. As capital gain, if the timber was held long-term before the cutting or disposal
C. As tax-exempt income, since timber is treated as an agricultural product
D. As self-employment income subject to self-employment tax in all cases

36. A taxpayer engaged in a farming business had an unusually high income year compared to the three prior years. What election may help reduce the current year's tax by spreading some income across those prior years?

A. The annualized income installment method, elected using Form 2210
B. The look-back method for long-term contracts, elected using Form 8697
C. Income averaging is no longer available for any type of taxpayer
D. Farm income averaging, elected using Schedule J

37. A taxpayer pursuing a single graduate-level course, not seeking a degree, pays qualified tuition. Which education credit may still be available, unlike the American Opportunity Tax Credit?

A. No credit is available for coursework outside a degree program

B. The American Opportunity Tax Credit, since both credits have identical eligibility rules

C. The Lifetime Learning Credit, which does not require degree-seeking status or a minimum course load

D. The Retirement Savings Contributions Credit, extended to cover education expenses

38. A taxpayer pays a daycare provider to care for two qualifying children while working. What is the general maximum amount of expenses that may be used to calculate the Child and Dependent Care Credit?

A. $3,000 in qualifying expenses, regardless of the number of qualifying persons

B. $10,000 in qualifying expenses for two or more qualifying persons

C. There is no dollar limit on qualifying expenses used for the credit

D. $6,000 in qualifying expenses for two or more qualifying persons

39. A taxpayer received advance payments of the Premium Tax Credit toward marketplace health coverage during the year. What must the taxpayer generally do when filing the return?

A. Nothing further is required, since advance payments are automatically final

B. Reconcile the advance payments against the actual allowable credit using Form 8962

C. Repay the entire advance amount regardless of actual eligibility

D. Report the advance payments as taxable wage income on Form 1040

40. A civilian taxpayer relocates for a new job during the year and incurs moving expenses. Under current law, how are these expenses generally treated?

A. Not deductible, since the moving expense deduction is suspended for most civilian taxpayers under current law

B. Fully deductible above the line, regardless of the reason for the move

C. Deductible only if the taxpayer itemizes deductions for the year
D. Deductible up to a flat dollar limit set annually by the IRS

41. A taxpayer itemized deductions in the prior year, including a deduction for state income tax paid, and receives a state income tax refund in the current year. How is this refund generally treated?

A. Always fully includible in current-year income, regardless of the prior year's deduction
B. Always excluded from income, since a refund simply returns the taxpayer's own money
C. Includible in current-year income, but only to the extent the prior deduction actually produced a tax benefit
D. Includible only if the taxpayer claimed the state and local sales tax deduction instead

42. A taxpayer pays points to obtain a mortgage used to purchase their main home, and the points meet the requirements to be treated as prepaid interest. How are these points generally deducted?

A. Amortized ratably over the life of the mortgage loan
B. Fully deductible in the year paid, subject to meeting specific IRS requirements for the loan and its purpose
C. Not deductible at all, since points are treated as a loan origination fee
D. Deductible only in the year the mortgage is fully paid off

43. A taxpayer pays private mortgage insurance premiums required by their lender. How is the deductibility of these premiums generally treated under current law?

A. Fully deductible as qualified residence interest, identical to mortgage interest
B. Deductible above the line, regardless of whether the taxpayer itemizes
C. Deductible only for taxpayers whose adjusted gross income exceeds a set floor
D. Not deductible, since the itemized deduction for mortgage insurance premiums is not currently available

44. A taxpayer wants to make a traditional IRA contribution for the prior tax year. By what deadline must this contribution generally be made?

A. The unextended due date of the prior year's tax return, generally April 15
B. The extended due date of the return, if the taxpayer filed for an extension
C. December 31 of the prior tax year, with no exceptions
D. Any time before the IRS begins processing the taxpayer's return

45. A taxpayer age 57 is enrolled in family high-deductible health plan coverage. In addition to the standard family HSA contribution limit, what additional amount may this taxpayer generally contribute?

A. No additional amount, since catch-up contributions apply only to retirement accounts
B. An additional amount equal to 50% of the standard family limit
C. A catch-up contribution available to HSA owners age 55 and older
D. An unlimited additional amount, since the taxpayer is over age 55

46. A taxpayer contributes more than the allowable amount to a traditional IRA for the year and does not withdraw the excess before the filing deadline. What is the general consequence?

A. No consequence, as long as the taxpayer eventually withdraws the excess at retirement
B. A 6% excise tax on the excess contribution for each year it remains in the account
C. A one-time flat penalty of $50, regardless of the excess amount
D. Automatic disqualification of the entire IRA account for future contributions

47. A taxpayer makes a large cash contribution to a public charity. Up to what percentage of adjusted gross income may generally be deducted for cash contributions to public charities in a single year?

A. 60%
B. 30%
C. 50%
D. 100%

48. A taxpayer permanently restricts the future development of land they own by granting a qualified conservation easement to a land trust. What tax benefit may be available for this donation?

A. No deduction is available, since easements do not involve an outright transfer of property
B. An above-the-line deduction equal to the full value of the underlying land
C. A nonrefundable credit equal to the easement's appraised value
D. A charitable contribution deduction for the value of the easement, subject to special percentage limitations

49. A taxpayer paid foreign income tax on foreign-source income. What choice does the taxpayer generally have regarding how to treat this foreign tax on the U.S. return?

A. The foreign tax must always be claimed as a credit, with no election available
B. Elect to either claim a foreign tax credit or deduct the foreign tax as an itemized deduction
C. The foreign tax must always be deducted, since a credit is never permitted
D. The foreign tax provides no U.S. tax benefit under any circumstances

50. A graduate student who already completed four years of undergraduate education pursues a master's degree. Which education credit is generally available to this student, rather than the American Opportunity Tax Credit?

A. The Lifetime Learning Credit, since the four-year AOTC limit was reached
B. Neither credit is available once undergraduate education is complete
C. The American Opportunity Tax Credit, extended automatically for graduate study
D. The Retirement Savings Contributions Credit, applied instead to graduate tuition

51. A self-employed taxpayer uses a personal vehicle for business purposes and wants to deduct the related costs. What are the two general methods available for calculating this deduction?

A. The simplified method and the regular method, identical to the home office deduction
B. The declining balance method and the straight-line method
C. The cash method and the accrual method
D. The standard mileage rate method and the actual expense method

52. A sole proprietor's customer fails to pay for services already provided and included in the proprietor's income, and the debt becomes wholly worthless. How is this business bad debt generally treated?

A. As a short-term capital loss, subject to the $3,000 annual limitation

B. As a nondeductible personal loss, since the proprietor extended credit voluntarily

C. As an ordinary loss, deductible in the year it becomes wholly or partially worthless

D. As a casualty loss, requiring a federally declared disaster designation

53. A taxpayer personally loans money to a friend outside of any trade or business, and the friend never repays the loan, which becomes completely worthless. How is this nonbusiness bad debt generally treated?

A. As an ordinary loss, fully deductible against wages in the year of worthlessness

B. As a short-term capital loss, deductible only in the year the debt becomes completely worthless

C. As a business bad debt, deductible when the debt becomes partially worthless

D. As a nondeductible personal loss, regardless of the debt's actual worthlessness

54. For purposes of the mortgage interest deduction, a taxpayer's 'qualified residence' generally may include which properties?

A. Only the taxpayer's main home, with no other property ever qualifying

B. Any number of properties the taxpayer owns, with no limitation

C. The taxpayer's main home, plus one additional home the taxpayer chooses to treat as a second residence

D. Only rental properties the taxpayer actively manages

55. A cash-basis taxpayer's employer makes a bonus check available for pickup on December 30, but the taxpayer does not physically collect it until January 3 of the following year. In which year is the bonus generally taxable?

A. The following year, since the taxpayer did not physically possess the check until then

B. Whichever year the taxpayer chooses, since the choice is entirely elective
C. Neither year, since delayed pickup eliminates the income entirely
D. The prior year, since the funds were constructively received once made available without restriction

56. A 20-year-old taxpayer who was a full-time student for at least five months during the year contributed to a Roth IRA. How does full-time student status generally affect eligibility for the Saver's Credit?

A. It generally disqualifies the taxpayer from claiming the Saver's Credit for that year
B. It has no effect on eligibility, since only income determines the credit
C. It doubles the available credit percentage for the student
D. It disqualifies the taxpayer only if enrolled in a graduate program

57. An unmarried taxpayer does not qualify for Head of Household status because no qualifying person lived with them for more than half the year. What filing status generally applies instead?

A. Married Filing Separately, since the taxpayer previously had a spouse
B. Qualifying Surviving Spouse, regardless of when the spouse died
C. Single
D. Head of Household, since being unmarried alone is generally sufficient

58. A taxpayer wants to claim a dependent parent as a qualifying relative. What is one general requirement regarding the parent's own gross income for the year?

A. The parent's gross income must exceed half of the taxpayer's own income
B. There is no gross income limit for a qualifying relative who is a parent
C. The parent's gross income must come exclusively from Social Security benefits
D. The parent's gross income must be below the applicable annually adjusted threshold amount

59. A taxpayer's 19-year-old child, not a full-time student, lived with the taxpayer for eight months of the year and earned modest income. What generally determines whether the child can still be claimed as a qualifying child?

A. Only the child's own gross income, with no other test applying

B. Whether the child meets the age, relationship, residency, and support tests, since a non-student generally must be under age 19

C. Only whether the child lived with the taxpayer at all during the year

D. Whether the child filed their own separate tax return during the year

60. Several siblings together provide more than half the total support for their elderly parent, but no single sibling individually provides more than half. What may allow one sibling to claim the parent as a dependent?

A. A multiple support agreement, filed using Form 2120, if the claiming sibling provided more than 10% of the support

B. No dependent may be claimed unless one sibling alone provides over half the support

C. All siblings must claim an equal fractional share of the dependency exemption

D. The oldest sibling automatically receives the right to claim the dependent

61. A taxpayer who can be claimed as a dependent on another person's return has earned income during the year. How is this dependent's own standard deduction generally calculated?

A. Always equal to the full regular standard deduction, regardless of dependent status

B. Zero, since a dependent is never entitled to any standard deduction

C. Always equal to the dependent's total earned income, with no cap applied

D. Generally the greater of a set minimum amount or earned income plus a set addition, capped at the regular standard deduction

62. A taxpayer has both ordinary income and long-term capital gain for the year. When computing tax using the Qualified Dividends and Capital Gain Tax Worksheet, how is the capital gain generally treated relative to the ordinary income?

A. The ordinary income fills the lower tax brackets first, with the capital gain stacked on top and taxed at its own preferential rates

B. The capital gain fills the lower tax brackets first, before any ordinary income is considered

C. Ordinary income and capital gain are blended together and taxed at a single average rate
D. The capital gain is taxed entirely at the taxpayer's highest ordinary marginal rate

63. A taxpayer earns at least two-thirds of their total gross income from farming during the year. What special estimated tax rule may generally apply to this taxpayer?

A. The taxpayer is entirely exempt from any estimated tax or underpayment penalty rules
B. The taxpayer may make one estimated payment by a set date instead of quarterly payments
C. The taxpayer must make additional, more frequent payments beyond the standard quarterly schedule
D. The taxpayer must use the annualized income installment method exclusively, with no other option

64. A taxpayer had no tax liability at all for the prior full 12-month tax year and was a U.S. citizen or resident for that entire year. How does this generally affect the current year's underpayment penalty?

A. It has no effect; the current year's safe harbor is always based only on current-year liability
B. It only reduces, but does not eliminate, the current year's potential penalty
C. The taxpayer generally avoids the underpayment penalty for the current year regardless of current-year withholding and payments
D. It applies only if the taxpayer also files an extension for the current year

65. A taxpayer previously deducted a nonbusiness bad debt that produced a tax benefit, and in a later year unexpectedly recovers part of that debt. How is the recovered amount generally treated?

A. Always excluded from income, since the amount was previously written off as worthless
B. Treated as a new nonbusiness bad debt deduction in the recovery year
C. Includible in income in the year recovered, to the extent the earlier deduction provided a tax benefit
D. Includible in income only if the original debt exceeded $10,000

66. A taxpayer's farming business generates a net operating loss for the year, and the taxpayer wants to carry the loss back to obtain a refund of prior-year tax. What special carryback option may be available, unlike most other current-law losses?

A. No carryback is available for any loss, including farming losses, under current law
B. A special two-year carryback election available specifically for certain farming losses
C. A mandatory five-year carryback that cannot be waived or elected out of
D. An unlimited carryback period available to all farming losses without election

67. A married couple lives in a community property state and files an injured spouse claim on a joint return where the refund was applied to one spouse's separate debt. How may community property rules affect the injured spouse's allocated share?

A. Community property rules may affect how income and withholding are allocated between the spouses in computing the injured spouse's share
B. Community property rules have no bearing whatsoever on an injured spouse allocation
C. The injured spouse automatically receives 100% of the joint refund regardless of income
D. Injured spouse relief is entirely unavailable to residents of community property states

68. A taxpayer's gross income for the year is below the applicable filing threshold for their filing status and age. What is the general consequence regarding the requirement to file a federal income tax return?

A. The taxpayer must still file a return whenever any income was earned
B. The taxpayer is permanently barred from filing a return in a future year
C. The IRS will automatically assess a penalty for any unfiled return regardless of income
D. The taxpayer is generally not required to file a return, though filing may still be beneficial to claim a refund

69. A taxpayer receives a lump-sum Social Security payment in the current year that covers benefits attributable to several prior years. What election may allow the taxpayer to reduce the current year's tax on this lump sum?

A. An election to compute the taxable portion as if the benefits had been received in the earlier years to which they relate
B. An election to exclude the entire lump-sum payment from taxable income
C. An election to spread the payment evenly over the next five future years instead
D. No special election exists; the entire amount is always taxed in the year received

70. A taxpayer materially participates in an operating business and separately rents real property to that same business at fair rental value. How is this self-rental income generally treated for the Net Investment Income Tax?

A. Always included in net investment income, regardless of the taxpayer's participation

B. Generally excluded, since it derives from a business the taxpayer materially participates in

C. Excluded only if the rental property is located in a different state

D. Included in net investment income only if the tenant business is unprofitable

71. A married couple originally filed separate returns using Married Filing Separately status. After the filing deadline has passed, can the couple generally amend to switch to Married Filing Jointly?

A. No, once separate returns are filed, the choice can never be changed

B. Only if both spouses' original returns were audited and adjusted first

C. Yes, a couple may generally amend from separate to joint returns within the applicable statute of limitations

D. Only within 30 days of the original filing deadline, with no exceptions

72. A cash-basis taxpayer earns interest credited to a savings account on December 31, available for withdrawal that same day, but does not withdraw it until the following January. In which year is this interest generally taxable?

A. The year the taxpayer actually withdraws the funds from the account

B. Whichever year results in the lower overall tax liability for the taxpayer

C. The interest is never taxable if it remains in the account beyond year-end

D. The year it was credited and made available for withdrawal, under the constructive receipt doctrine

73. A taxpayer previously claimed a deduction that reduced their tax liability, and in a later year recovers or is reimbursed for that same item. What general principle determines whether the recovery must be included in income?

A. The recovery is always fully excluded from income, regardless of the earlier deduction

B. The recovery is always fully included in income, regardless of the earlier deduction

C. The constructive receipt doctrine, which applies only to income, not to recoveries of deductions

D. The tax benefit rule, which includes the recovery in income only to the extent the earlier deduction actually reduced tax liability

74. A U.S. citizen is married to a nonresident alien spouse who has no U.S.-source income. What election allows the couple to file a joint U.S. return, treating the nonresident spouse as a resident for tax purposes?

A. The Section 645 election, ordinarily used for a revocable trust

B. The Section 6013(g) election

C. The innocent spouse relief election under Form 8857

D. The qualified joint venture election available to spouses in business together

75. A client's itemized deductions are close to, but slightly below, the standard deduction amount for their filing status this year. What should the advisor do before finalizing the return?

A. Compare itemized deductions against the standard deduction each tax year

B. Always use whichever method was used on the prior year's return

C. Always itemize, since itemizing is generally viewed as more thorough

D. Always use the standard deduction, since it requires less documentation

76. In February, a client mentions they have not yet made a prior-year IRA contribution and asks whether it is too late. What should the advisor confirm?

A. It is too late, since IRA contributions must be made by December 31 of the tax year

B. The client can still contribute at any point during the current calendar year

C. The contribution can still be made up until the unextended filing deadline of the current return, typically April 15

D. The deadline has already passed and can never be extended under any circumstances

77. A client nearing the age when required minimum distributions must begin wants to reduce future RMD amounts. What strategy should the advisor discuss regarding the window before RMDs begin?

A. Converting a portion of the traditional retirement account to a Roth account before RMDs begin, reducing the future RMD base

B. Waiting until after RMDs begin to convert, since conversions are unavailable earlier

C. Increasing traditional contributions in the years just before RMDs begin

D. There is no way to affect the size of future required minimum distributions

78. A client operates their business as an S corporation and pays themselves a very low salary while taking large profit distributions instead. What should the advisor caution about this arrangement?

A. No compensation is ever required, since all S corporation income can be distributed as profit

B. Distributions are always taxed identically to salary, making the split irrelevant

C. Reasonable compensation rules apply only to C corporations, not S corporations

D. The IRS generally requires S corporation shareholder-employees to be paid reasonable compensation for services performed before taking distributions

79. A client is considering converting their primary residence into a rental property before eventually selling it. What timing point should the advisor raise regarding the Section 121 home sale exclusion?

A. Converting the home to a rental has no effect on eligibility for the exclusion

B. The two-of-five-year ownership and use test must still be met at sale

C. The exclusion becomes permanently unavailable the moment the home is rented at all

D. The five-year testing period restarts completely once the home is rented out

80. A client plans to exercise a large block of incentive stock options this year. What should the advisor discuss regarding the timing of the exercise across multiple years?

A. AMT exposure from ISO exercises cannot be managed through timing under any circumstances

B. Exercising the entire block in a single year always minimizes total tax paid

C. Spreading the exercises across multiple years can help manage the AMT preference item and avoid a large single-year AMT liability

D. ISO exercises never create any alternative minimum tax exposure to plan around

81. A client is deciding whether to claim Social Security benefits early or delay claiming until a later age. What tax-related point should the advisor raise about this decision?

A. Social Security benefits are never subject to federal income tax, regardless of claiming age

B. Claiming age has no bearing whatsoever on the client's future tax situation

C. Delaying benefits increases the future monthly amount, which can also increase the portion of benefits subject to tax in later years

D. Claiming early always results in a lower total lifetime tax burden

82. A client wants an immediate charitable deduction this year but has not yet decided which specific charities to ultimately support. What structure should the advisor discuss?

A. A private foundation, which requires all grants to be finalized before any deduction is allowed

B. A charitable remainder trust, which provides no deduction until the trust terminates

C. There is no structure that allows a deduction before specific charities are chosen

D. A donor-advised fund, which allows an immediate deduction upon contribution with grants to specific charities recommended later

83. A client recently got married and started a new, higher-paying job in the same year. What should the advisor recommend regarding withholding?

A. No action is needed, since withholding automatically adjusts for life events

B. Reviewing and updating Form W-4 withholding, since a major life event can significantly change the appropriate withholding amount

C. Withholding should always be set to the maximum rate after any life event

D. The client should wait until the following tax season to make any changes

84. A client sells investment real property and intends to complete a like-kind exchange under Section 1031. What two deadlines should the advisor emphasize?

A. Identifying replacement property within 45 days and completing the exchange within 180 days of the original sale

B. Identifying replacement property within 90 days and completing the exchange within one year

C. There are no specific deadlines as long as the exchange is eventually completed

D. Completing the entire exchange within 30 days of the original sale

85. A client is about to receive a large annual bonus. What should the advisor explain about how withholding on this bonus may differ from the client's actual tax liability?

A. Bonuses are never subject to any income tax withholding by the employer

B. The flat supplemental withholding rate always exceeds every taxpayer's actual marginal rate

C. Bonus withholding is always identical to regular wage withholding, with no separate rate

D. Employers often withhold on supplemental wages like bonuses at a flat rate, which may not match the client's actual marginal tax rate

86. A client receives a large, unexpected capital gain late in the year and is concerned about an underpayment penalty for the earlier quarters when income was much lower. What method should the advisor discuss?

A. The annualized income installment method, which can reduce or eliminate the penalty by matching required payments to when income was actually earned

B. There is no way to avoid an underpayment penalty once income varies significantly during the year

C. The client must simply accept the penalty, since it cannot be reduced after the fact

D. Filing an amended return for each earlier quarter is the only available remedy

87. An elderly client with significantly appreciated assets is deciding whether to gift assets to heirs now or leave them as a bequest at death. What basis-related tradeoff should the advisor explain?

A. Both a lifetime gift and a bequest always result in the same stepped-up basis for the heir

B. A lifetime gift generally passes the donor's carryover basis, while a bequest generally allows the heir to receive a stepped-up basis at death

C. A lifetime gift always provides a better basis outcome for the heir than a bequest

D. Basis is entirely unaffected by whether the transfer occurs during life or at death

88. A taxpayer transfers appreciating assets into an irrevocable trust, retaining the right to receive fixed annuity payments for a set term, with any remaining value passing to heirs. What estate planning vehicle does this describe?

A. A Qualified Personal Residence Trust (QPRT)

B. A simple trust distributing all income annually

C. A Grantor Retained Annuity Trust (GRAT)

D. A charitable remainder trust

89. A taxpayer transfers their personal residence into an irrevocable trust, retaining the right to live in the home for a set term of years, after which the home passes to the taxpayer's children. What estate planning vehicle does this describe?

A. A Grantor Retained Annuity Trust

B. A qualified disability trust

C. A charitable remainder unitrust

D. A Qualified Personal Residence Trust (QPRT)

90. An estate is required to file a federal estate tax return. What is the general deadline for filing Form 706, and what extension is generally available?

A. Three months after the date of death, with no extension available

B. One year after the date of death, with a one-year extension available

C. Nine months after the date of death, with a six-month extension generally available upon request

D. April 15 of the year following the date of death, identical to Form 1040

91. A decedent's estate does not use the decedent's entire federal estate tax basic exclusion amount. What election may allow the surviving spouse to use that unused exclusion amount in the future?

A. The portability election, transferring the deceased spousal unused exclusion (DSUE) to the surviving spouse
B. The Section 645 election, treating a revocable trust as part of the estate
C. The alternate valuation date election under Section 2032
D. The special use valuation election under Section 2032A

92. An estate's executor wants to select the estate's first tax year end date. What flexibility does the estate generally have that an individual taxpayer does not?

A. The estate must always use a calendar year, identical to an individual taxpayer
B. The estate may elect a fiscal year rather than being required to use the calendar year
C. The estate must always use a fiscal year, and can never elect a calendar year
D. The estate's tax year is automatically determined by the decedent's date of birth

93. A trustee makes a distribution to trust beneficiaries within the first 65 days of the new tax year. What election allows this distribution to be treated as if made in the prior tax year?

A. The Section 645 election for a qualified revocable trust
B. The Section 121 election for a principal residence
C. The Section 1041 election for property transfers between spouses
D. The Section 663(b) election, commonly called the 65-day rule

94. An estate includes farmland that would ordinarily be valued at its highest potential commercial use for estate tax purposes. What election may allow the land to instead be valued at its actual use value?

A. The alternate valuation date election under Section 2032
B. The special use valuation election under Section 2032A
C. The portability election for the deceased spousal unused exclusion
D. The qualified conservation easement exclusion

95. An estate's assets have declined in value in the months following the decedent's death. What election may allow the estate to value all its assets six months after death instead of on the date of death?

A. The special use valuation election under Section 2032A
B. The portability election for the unused exclusion amount
C. The alternate valuation date election under Section 2032
D. The fiscal year election for the estate's income tax return

96. A U.S. person is treated as the owner of a foreign trust, or receives a distribution from one. What forms are generally required to report this foreign trust activity?

A. Form 3520 and, if applicable, Form 3520-A
B. Form 8938 only, with no separate foreign trust reporting form required
C. Form 5471, the same form used for foreign corporations
D. Schedule B, identical to reporting foreign bank account interest

97. A foreign individual spends a significant number of days in the United States over the current and two preceding years. What test may cause this individual to be treated as a U.S. resident alien for tax purposes?

A. The green card test, which applies only to individuals with lawful permanent residency
B. The substantial presence test, based on a weighted count of days present over a three-year period
C. The bona fide residence test, used for the foreign earned income exclusion
D. The physical presence test, used only for the foreign earned income exclusion

98. An individual is a nonresident alien for part of the year and becomes a resident alien for the remainder of the same year. What type of return does this individual generally file?

A. A standard Form 1040, identical to a full-year resident's return
B. A standard Form 1040-NR, identical to a full-year nonresident's return

C. Two entirely separate returns filed with two different IRS service centers
D. A dual-status return, combining nonresident and resident treatment within the same tax year

99. A taxpayer takes a return position based on a specific provision of a U.S. income tax treaty that overrides otherwise applicable U.S. tax law. What form generally must be filed to disclose this treaty-based position?

A. Form 8833, Treaty-Based Return Position Disclosure
B. Form 8938, Statement of Specified Foreign Financial Assets
C. Form 8865, Return of U.S. Persons With Respect to Foreign Partnerships
D. Form 2555, Foreign Earned Income

100. An estate's executor distributes all estate assets to the beneficiaries before ensuring the estate's outstanding tax liabilities are paid. What personal exposure does the executor generally face as a result?

A. No personal exposure whatsoever, since the executor acted only in a representative capacity
B. Personal liability only if the beneficiaries were close family members
C. Potential personal liability for the estate's unpaid taxes, up to the value of the assets distributed
D. Automatic criminal prosecution regardless of the executor's knowledge or intent

Answer Key and Explanations — Practice Exam 27

1. A — Circular 230's best practices provisions describe aspirational standards encouraging high-quality representation, such as clear client communication and diligent advice, but they are generally not separately enforceable duties carrying their own discipline the way the mandatory duties elsewhere in Circular 230 are. Practitioners are still expected to strive toward them as sound professional practice.

2. B — Circular 230's written advice standards generally require a practitioner to make reasonable inquiries when facts appear incorrect, incomplete, or inconsistent, and not to rely on a factual assumption the practitioner knows or should know is unreasonable. This protects both the client and the practitioner from advice built on a faulty factual foundation.

3. D — A paid preparer who completes a client's return, whether filed on paper or electronically, must generally sign the return and include their PTIN, identifying who prepared it for compensation. Omitting this identifying information can expose the preparer to a penalty for failing to properly identify themselves as the return's paid preparer.

4. C — When a taxpayer fails to file a required return, the IRS may prepare a Substitute for Return using available third-party information such as Forms W-2 and 1099, generally computing tax using the least favorable filing status and without most credits or deductions the taxpayer might otherwise have claimed on a voluntarily filed return.

5. D — Form 4506-T requests a free transcript summarizing key information from a previously filed return, while Form 4506 requests an actual copy of the return itself, generally for a fee. A transcript is often sufficient for verification purposes such as loan applications, making Form 4506-T the more commonly used and faster option.

6. B — A Wage and Income Transcript compiles the information returns, such as Forms W-2 and 1099, that third parties filed under a taxpayer's Social Security number, helping a preparer identify income sources the client may not have disclosed. This differs from an Account Transcript, which instead shows balance and payment history for a filed return.

7. C — Circular 230 generally prohibits a practitioner from charging a contingent fee, such as a percentage of the refund, for preparing an original return, though limited exceptions exist, such as representing a client in certain IRS examinations or in pursuing a refund claim connected to an already-filed return. This guards against incentives to overstate refunds.

8. A — Circular 230 permits practitioners to advertise their services but prohibits advertising or solicitation that is false, fraudulent, or misleading, including statements that create unjustified expectations about results the practitioner can realistically achieve for a client. A practitioner who advertises guaranteed outcomes or exaggerated audit success rates risks discipline under this restriction.

9. C — A preparer or firm that reasonably expects to file 11 or more individual income tax returns during the calendar year is generally required to electronically file those returns, under the IRS e-file mandate for specified tax return preparers. Limited exceptions exist, such as taxpayers who specifically choose to opt out of e-filing in writing.

10. B — An e-file application requires the firm to designate at least one Principal, an owner or officer with authority over the firm's e-file operations, and generally a Responsible Official who oversees day-to-day e-file compliance. The IRS conducts a suitability check on these individuals before issuing the firm's Electronic Filing Identification Number.

11. D — Section 7216 imposes potential criminal and civil penalties on a preparer who knowingly or recklessly discloses or uses a client's tax return information for a purpose other than preparing the return, without the client's proper consent. Certain limited exceptions exist, such as disclosures required by court order or for quality or peer review.

12. A — A preparer has a general due diligence obligation to ask sufficient questions to determine whether income was actually received, since gig economy income is taxable whether or not a Form

1099-NEC or 1099-K was issued. Relying solely on the forms the client happens to bring in can result in an incomplete and inaccurate return.

13. C — The Annual Filing Season Program is a voluntary IRS program allowing non-credentialed preparers to complete continuing education and obtain a Record of Completion, which grants limited representation rights before the IRS for clients whose returns they personally prepared and signed. It does not grant the full representation rights an enrolled agent holds.

14. A — Form 2848 requires the taxpayer to identify specific tax matters, such as income tax, and specific tax periods or years the representative is authorized to handle, rather than granting a general, unlimited power of attorney. This scope limitation protects the taxpayer by confining the representative's authority to only what was actually intended.

15. D — As a general rule, the IRS must assess additional tax within three years after a return is filed, but this period extends to six years if the taxpayer omits more than 25% of gross income shown on the return. No time limit applies at all in cases involving fraud or an unfiled return.

16. B — Even though a paid preparer may face separate penalties for errors on a return they prepared, the taxpayer who signs the return under penalties of perjury bears ultimate legal responsibility for the accuracy of the information reported. This is why a competent preparer reviews the completed return with the client before it is filed.

17. C — Exercising an incentive stock option generally produces no regular taxable income at the time of exercise, unlike a nonqualified stock option. However, the spread between the stock's fair market value and the exercise price is a preference item that can trigger alternative minimum tax liability, making AMT planning important around ISO exercises.

18. A — A taxpayer normally reports Series EE or Series I savings bond interest in the year the bonds are redeemed or mature, using the cash method. A taxpayer may instead elect to report the interest as it accrues each year, an election that, once made, must generally be applied consistently to all similar bonds the taxpayer owns.

19. D — Dividends automatically reinvested through a dividend reinvestment plan remain fully taxable in the year received, exactly as if the taxpayer had received the cash directly and then chosen to purchase additional shares. The reinvested amount also becomes the taxpayer's basis in the newly acquired shares for future gain or loss purposes.

20. D — A dividend generally qualifies for the preferential long-term capital gain rates only if the taxpayer held the underlying stock for more than 60 days during the 121-day period beginning 60 days before the stock's ex-dividend date. A dividend that fails this holding period test is instead taxed as ordinary income at the taxpayer's regular rate.

21. B — Capital gain distributions from a mutual fund are reported as long-term capital gain on Schedule D, regardless of how long the individual taxpayer actually held the fund shares, because the holding period is determined at the fund level based on how long the fund held the underlying securities that were sold.

22. C — A security that becomes completely worthless during the year is generally treated as if it were sold for zero on the last day of that tax year, producing a capital loss subject to the usual capital loss limitations. The taxpayer must be able to show the security had no remaining value by year-end to support the loss.

23. B — Section 1244 allows an individual taxpayer to treat a loss on qualifying small business stock as an ordinary loss up to an annual limit, rather than as a capital loss subject to the usual capital loss limitations, providing more favorable tax treatment for investors in certain small corporations whose stock later becomes worthless or is sold at a loss.

24. A — A qualified transportation fringe benefit, such as employer-provided transit passes or parking, is generally excluded from an employee's taxable wages up to a monthly dollar limit set separately for transit and parking benefits. Any value provided above the applicable monthly limit is generally includible in the employee's taxable wages for that month.

25. C — Property or services of small value that would be administratively impractical for an employer to account for individually, such as occasional small holiday gifts, generally qualify as a de minimis fringe benefit excluded from the employee's taxable income. Cash and cash equivalents, such as gift cards, generally do not qualify for this exclusion regardless of the amount.

26. D — Qualifying benefits an employer provides under a written Section 137 adoption assistance program are generally excluded from the employee's gross income up to an annually adjusted dollar limit, subject to phase-out at higher income levels. This exclusion is separate from, though similarly limited to, the individual adoption credit available for qualifying adoption expenses.

27. A — A settlement for emotional distress damages is generally taxable as ordinary income unless the emotional distress originated from a physical injury or physical sickness, in which case the related damages may be excluded. Damages for emotional distress alone, without an underlying physical injury or sickness, do not qualify for the exclusion available to physical injury settlements.

28. B — Under the net unrealized appreciation rules, a taxpayer taking a qualifying lump-sum distribution of employer stock from a retirement plan may defer tax on the stock's appreciation while held in the plan, with that appreciation taxed at capital gain rates when the stock is later sold, rather than as ordinary income at the time of distribution.

29. C — When a vacation home's personal use exceeds the threshold that limits it to full vacation-home treatment, expenses are generally allocated between rental and personal use based on the ratio of actual rental days to total days the property was used, with only the rental-allocated portion deductible against the rental income reported for the year.

30. B — Royalty income, such as payments received from a mineral lease or from intellectual property, is generally reported on Schedule E, Supplemental Income and Loss, along with any associated depletion or other allowable expenses. This differs from royalties received in the ordinary course of an active trade or business, which are instead reported on Schedule C.

31. D — A prize or award, including a non-cash prize such as a vacation package won in a sweepstakes, is generally includible in the recipient's gross income at its fair market value, regardless of whether it was received in cash or in kind. Certain narrow exceptions exist for specific employee achievement awards meeting particular requirements.

32. A — A taxpayer who inherits property generally receives a basis equal to the property's fair market value on the date of the decedent's death, or on the alternate valuation date if the estate elects it, rather than the decedent's original cost. This step-up in basis can significantly reduce the taxable gain when the heir later sells the inherited property.

33. C — For gifted property that has declined in value, a special dual basis rule applies: the donor's carryover basis is used to determine gain, but the lower fair market value at the time of the gift is used to determine a loss, and no gain or loss is recognized at all if the sale price falls between the two figures.

34. A — An employer's direct contribution to an eligible employee's Health Savings Account is generally excluded from the employee's gross income, similar to the employee's own pretax contributions through a cafeteria plan, but the employer's contribution still counts toward the employee's overall annual HSA contribution limit for the year, potentially reducing how much the employee may contribute.

35. B — Under Section 631, a taxpayer who cuts or disposes of standing timber held for investment or business use for the required long-term holding period may treat the resulting gain as capital gain rather than ordinary income, even though the timber was ultimately harvested and sold, provided the applicable election and holding period requirements are satisfied.

36. D — A taxpayer engaged in a farming (or fishing) business may elect farm income averaging using Schedule J, spreading a portion of the current year's elected farm income across the three prior tax years, which can reduce overall tax liability in an unusually high-income year by taking advantage of lower brackets in the prior years.

37. C — Unlike the American Opportunity Tax Credit, which requires the student to be pursuing a degree and enrolled at least half-time, the Lifetime Learning Credit is available for a single course taken to acquire or improve job skills, with no degree or minimum enrollment requirement, though it remains nonrefundable and is claimed per tax return rather than per student.

38. D — For the Child and Dependent Care Credit, qualifying expenses are generally limited to $3,000 for one qualifying person or $6,000 for two or more qualifying persons, with the applicable credit percentage then applied to whichever of these amounts, earned income, or actual expenses paid is smallest for that particular tax year.

39. B — A taxpayer who received advance payments of the Premium Tax Credit toward marketplace health insurance must reconcile those advance payments against the actual allowable credit, computed based on final household income, using Form 8962. Depending on the result, the taxpayer may owe a repayment or be entitled to an additional credit amount.

40. A — Under current law, the deduction for job-related moving expenses is suspended for most civilian taxpayers, meaning these costs generally provide no federal tax benefit during that same year. A narrow exception remains available for active-duty members of the Armed Forces who move due to a military order and permanent change of station.

41. C — Under the tax benefit rule, a state income tax refund is includible in the taxpayer's current-year gross income only to the extent the prior year's deduction actually reduced the taxpayer's tax liability. A taxpayer who claimed the standard deduction in the prior year, or whose itemized deductions were unaffected by the state tax, generally excludes the refund entirely.

42. B — Points paid to obtain a mortgage used to buy or build a taxpayer's main home are generally fully deductible in the year paid, provided specific IRS requirements are met, such as the points being an established business practice in the area and separately stated on the settlement statement. This differs from refinancing points, which are generally amortized instead.

43. D — Under current law, the itemized deduction for private mortgage insurance premiums is not available, meaning a taxpayer paying these premiums generally receives no federal income tax benefit for that cost, even though the premiums may be a significant ongoing expense of homeownership until enough equity is built to eliminate the requirement.

44. A — A traditional or Roth IRA contribution for a given tax year must generally be made by the unextended due date of that year's tax return, typically April 15 of the following year, even if the taxpayer requests a filing extension. Filing an extension does not extend the deadline for making a prior-year IRA contribution.

45. C — An HSA owner who is age 55 or older by the end of the tax year may generally make an additional catch-up contribution beyond the standard annual HSA contribution limit, whether covered under self-only or family high-deductible health plan coverage, similar in concept to the catch-up contributions allowed for IRAs and employer retirement plans.

46. B — An excess IRA contribution that is not withdrawn, along with any related earnings, before the filing deadline generally triggers a 6% excise tax on the excess amount for each year it remains in the account. Correcting the excess promptly, through a timely corrective distribution, is the most direct way to avoid this recurring penalty.

47. A — Cash contributions to public charities are generally deductible up to 60% of a taxpayer's adjusted gross income for the year, while contributions of appreciated capital gain property to public charities are generally limited to 30% of adjusted gross income. Contributions exceeding the applicable limit may generally be carried forward for up to five subsequent years.

48. D — A taxpayer who grants a qualified conservation easement permanently restricting the future use or development of real property may claim a charitable contribution deduction for the easement's appraised value, subject to special, generally more favorable, percentage-of-AGI limitations and carryforward rules for the donor than a typical gift of appreciated property would receive under the usual rules.

49. B — A taxpayer who pays foreign income tax on foreign-source income generally may elect, for each tax year, to either claim a foreign tax credit or deduct the foreign tax as an itemized deduction, though a credit is usually more valuable since it reduces tax liability dollar-for-dollar rather than merely reducing taxable income.

50. A — Because the American Opportunity Tax Credit is limited to the first four years of postsecondary education leading toward a degree, a graduate student who already claimed it for four prior years is generally limited instead to the Lifetime Learning Credit, a smaller, nonrefundable credit with no limit on the number of years it may be claimed.

51. D — A self-employed taxpayer using a personal vehicle for business generally chooses between the standard mileage rate method, applying an IRS-set rate per business mile driven, and the actual expense method, deducting a business-use percentage of actual costs such as gas, insurance, and depreciation, with specific rules governing when a taxpayer may switch between the two.

52. C — A business bad debt, such as an amount a sole proprietor's customer fails to pay for services already included in income, is generally deductible as an ordinary loss in the year it becomes wholly or partially worthless, unlike a nonbusiness bad debt, which instead receives short-term capital loss treatment only once it becomes completely worthless.

53. B — A nonbusiness bad debt, such as a personal loan a taxpayer made outside any trade or business, is treated as a short-term capital loss, deductible only in the year the debt becomes completely worthless, not merely partially worthless. This differs from a business bad debt, which allows a deduction for partial worthlessness and is treated as an ordinary loss.

54. C — For purposes of the mortgage interest deduction, a taxpayer's qualified residence generally includes their main home plus one additional home the taxpayer chooses to treat as a second residence, such as a vacation home, subject to certain personal-use requirements. Interest on a mortgage secured by any additional properties beyond these two generally does not qualify.

55. D — Under the constructive receipt doctrine, a cash-basis taxpayer must generally include income in the year it becomes available without substantial restriction, even if not yet physically collected. Because the bonus check was made available for pickup in the prior year, it is generally taxable in that year, regardless of when the taxpayer actually retrieved it.

56. A — A taxpayer who was a full-time student for any part of five or more months during the year is generally disqualified from claiming the Retirement Savings Contributions Credit, regardless of otherwise meeting the income and contribution requirements. This exclusion also applies to taxpayers claimed as a dependent or under age 18.

57. C — An unmarried taxpayer who does not meet the requirements for Head of Household status, generally because no qualifying person lived with them for more than half the year, or because they did not pay more than half the cost of maintaining the home, generally must use the Single filing status instead, absent another applicable status.

58. D — To claim a person as a qualifying relative, such as a dependent parent, the potential dependent's gross income for the year generally must be below an annually adjusted threshold amount, in addition to the taxpayer providing more than half of that person's total support for the year and the person not being another taxpayer's qualifying child.

59. B — A qualifying child generally must meet age, relationship, residency, and support tests; a child who is not a full-time student generally must be under age 19 at year-end to meet the age test. A 19-year-old non-student who otherwise meets the other tests would instead need to qualify as a qualifying relative, subject to the separate income limitation.

60. A — When multiple people together provide more than half of a person's support, but no single person provides more than half individually, a multiple support agreement filed using Form 2120 allows one qualifying contributor, who provided more than 10% of the support, to claim the dependent, provided the other qualifying contributors agree in writing not to claim that year.

61. D — A taxpayer who can be claimed as a dependent generally has a standard deduction equal to the greater of a set minimum dollar amount or the dependent's earned income plus a set additional amount, but this figure can never exceed the regular standard deduction otherwise available for the dependent's filing status.

62. A — The Qualified Dividends and Capital Gain Tax Worksheet generally treats ordinary income as filling the taxpayer's lower tax brackets first, with the long-term capital gain and qualified dividends stacked on top of that ordinary income and taxed at the separate, generally lower, preferential capital gain rates based on where that stacked income falls within the overall bracket structure.

63. B — A taxpayer who earns at least two-thirds of total gross income from farming or fishing may generally qualify for a special estimated tax rule, allowing a single required estimated payment by a specified date, or alternatively filing the return and paying the full tax due by an earlier date, instead of following the standard quarterly estimated payment schedule.

64. C — A taxpayer who had no tax liability at all for the prior full 12-month tax year, and who was a U.S. citizen or resident for that entire prior year, generally avoids the current year's estimated tax underpayment penalty entirely, regardless of how much tax is ultimately owed for the current year when the return is filed.

65. C — Under the general tax benefit rule, a taxpayer who unexpectedly recovers an amount previously deducted, such as part of a bad debt written off in an earlier year, must include the recovered amount in current-year income, but only to the extent the earlier deduction actually reduced the taxpayer's tax liability in the year it was originally claimed.

66. B — Although most net operating losses arising under current law may only be carried forward, a special election remains available allowing certain farming losses to be carried back two years, potentially generating a refund of tax paid in those earlier years, an option that generally is not available for a non-farming taxpayer's ordinary net operating loss.

67. A — In a community property state, the rules governing how income, deductions, and withholding are split between spouses can affect the computation of an injured spouse's allocated share of a joint refund, since community income and community property tax payments are generally treated as belonging equally to both spouses rather than solely to the spouse who earned or paid them.

68. D — A taxpayer whose gross income for the year falls below the applicable filing threshold, which varies by filing status and age, is generally not required to file a federal income tax return. However, filing may still be beneficial to claim a refund of withheld tax or to claim certain refundable credits the taxpayer may be eligible for.

69. A — A taxpayer who receives a lump-sum Social Security payment covering benefits attributable to prior years may elect a special computation method, recalculating the taxable portion as if the benefits had been received in those earlier years, which can result in a lower overall tax than including the entire lump sum as current-year income.

70. B — Rental income a taxpayer receives from property rented to a business in which the taxpayer materially participates, commonly called self-rental income, is generally excluded from net investment income for Net Investment Income Tax purposes, since it is treated as derived from an active trade or business rather than as passive investment-type income.

71. C — A married couple who originally filed separate returns may generally amend those returns to file jointly instead, within the applicable statute of limitations for filing an amended return. This differs from switching in the opposite direction, from a jointly filed return to separate returns, which generally is not permitted after the original filing deadline has passed.

72. D — Under the constructive receipt doctrine, a cash-basis taxpayer must generally include income in the year it is credited to an account and made available for withdrawal without substantial restriction, even if the taxpayer chooses not to withdraw it until a later year. The actual timing of withdrawal generally does not change when the income becomes taxable.

73. D — The general tax benefit rule requires a taxpayer to include a later recovery of a previously deducted item in gross income, but only to the extent the earlier deduction actually reduced the taxpayer's tax liability in the year it was claimed; a deduction that provided no tax benefit produces a recovery that remains excluded from income.

74. B — A U.S. citizen or resident married to a nonresident alien may make a Section 6013(g) election to treat the nonresident spouse as a U.S. resident for tax purposes, allowing the couple to file a joint return. This election generally requires the couple to report the nonresident spouse's worldwide income, not just U.S.-source income, on the joint return.

75. A — Because a taxpayer's itemized deductions and the standard deduction amount can both change from year to year, an advisor should compare the two each year rather than assuming the prior year's approach still applies, ensuring the client claims whichever amount produces the lower overall tax liability for that specific year.

76. C — An advisor should confirm that a prior-year IRA contribution can still be made up until the unextended filing deadline for that year's return, generally April 15 of the following year, giving the client a window of several additional months to fund the account and potentially still claim a deduction on the prior-year return.

77. A — Before required minimum distributions begin, a client may benefit from discussing partial Roth conversions, since converting a portion of a traditional retirement account before the required beginning date reduces the account balance used to calculate future RMD amounts, potentially lowering future taxable income even though the conversion itself is taxable in the year it occurs.

78. D — An advisor should caution an S corporation shareholder-employee that the IRS generally requires reasonable compensation for services actually performed before profits are distributed, since underpaying salary in favor of distributions is a common strategy to avoid payroll taxes and can result in reclassification of distributions as wages, along with related penalties, upon examination.

79. B — An advisor should point out that the Section 121 exclusion still requires the home to have been owned and used as the taxpayer's principal residence for at least two of the five years preceding the sale, so a client who converts the home to a rental and waits too long before selling risks losing eligibility for the exclusion entirely.

80. C — Because exercising incentive stock options can create a significant AMT preference item equal to the spread between fair market value and the exercise price, an advisor should discuss spreading option exercises across multiple tax years where practical, helping the client manage and potentially reduce the AMT exposure that a single large exercise in one year could otherwise trigger.

81. C — An advisor should point out that while delaying Social Security benefits generally increases the future monthly benefit amount, it can also increase provisional income and the resulting taxable portion of benefits in later years, so the claiming-age decision has tax planning implications beyond the purely actuarial tradeoff between claiming early and claiming later.

82. D — A donor-advised fund allows a client to claim an immediate charitable contribution deduction in the year assets are contributed to the fund, while retaining the ability to recommend grants to specific qualified charities at a later time, offering flexibility for a client who wants the current-year deduction but has not finalized which charities to support.

83. B — An advisor should recommend that a client who experiences a major life event, such as marriage or a new, higher-paying job, review and update their Form W-4 withholding promptly, since these changes can significantly affect the appropriate amount to withhold and help the client avoid an unexpected balance due or underpayment penalty when filing.

84. A — An advisor guiding a client through a Section 1031 like-kind exchange should emphasize the two strict deadlines: replacement property must generally be identified within 45 days of transferring the relinquished property, and the exchange must generally be completed within 180 days, with missing either deadline generally disqualifying the transaction from tax-deferred exchange treatment.

85. D — An advisor should explain that employers often withhold federal tax on supplemental wages such as bonuses using a flat statutory rate rather than the graduated withholding tables used for regular wages, which can result in either too much or too little being withheld relative to the client's actual marginal tax rate, potentially creating a surprise at filing time.

86. A — An advisor should discuss the annualized income installment method, reported on Form 2210, which allows a taxpayer whose income was not received evenly throughout the year, such as a large late-year capital gain, to calculate required estimated payments based on income actually earned in each period, reducing an underpayment penalty a flat quarterly calculation would otherwise impose.

87. B — An advisor should explain that assets transferred by lifetime gift generally carry over the donor's original basis to the recipient, while assets transferred through a bequest at death generally receive a stepped-up basis equal to fair market value, meaning heirs who inherit appreciated assets rather than receiving lifetime gifts can often avoid significant built-in gain.

88. C — A Grantor Retained Annuity Trust, or GRAT, allows a taxpayer to transfer appreciating assets into an irrevocable trust while retaining the right to fixed annuity payments for a specified term, with any remaining trust value passing to the designated heirs at the end of that term, potentially transferring future appreciation with reduced gift tax consequences.

89. D — A Qualified Personal Residence Trust, or QPRT, allows a taxpayer to transfer a personal residence into an irrevocable trust while retaining the right to live in the home for a specified term of years, after which the residence passes to the designated beneficiaries, generally valuing the transfer, for gift tax purposes, below the home's full market value.

90. C — Form 706, the federal estate tax return, is generally due nine months after the decedent's date of death, though a six-month extension of time to file is generally available upon request. This extension applies only to the filing deadline; any estate tax owed is still due within the original nine-month period unless a separate extension to pay is granted.

91. A — A portability election, made on a timely filed Form 706 even if not otherwise required, allows a decedent's unused federal estate tax basic exclusion amount, known as the deceased spousal unused exclusion or DSUE, to transfer to the surviving spouse, who can then apply that additional exclusion amount against their own future taxable gifts or estate.

92. B — Unlike an individual taxpayer, who is generally required to use the calendar year, the executor of an estate may elect either a calendar year or a fiscal year for the estate's Form 1041 filings, choosing an end date within twelve months of death, offering some flexibility in timing income and distributions between tax years.

93. D — Under the Section 663(b) election, commonly called the 65-day rule, a trustee who makes a distribution to beneficiaries within the first 65 days of a new tax year may elect to treat that distribution as made on the last day of the immediately preceding tax year, offering flexibility in managing distributable net income.

94. B — The special use valuation election under Section 2032A allows an estate to value qualifying farmland or other business real property based on its actual use, such as continued farming, rather than its highest and best potential commercial use, generally reducing the property's value for federal estate tax purposes, subject to specific qualification and recapture requirements if the use later changes.

95. C — The alternate valuation date election under Section 2032 allows an estate's executor to value all estate assets six months after the date of death, rather than on the date of death itself, but only if this election both reduces the value of the gross estate and reduces the estate tax liability; it cannot be used selectively for individual assets.

96. A — A U.S. person who is treated as the owner of a foreign trust, transfers property to one, or receives a distribution from one, generally must report this activity using Form 3520, and the foreign trust itself, or its U.S. owner on its behalf, generally must file Form 3520-A, separate from any FBAR or Form 8938 reporting.

97. B — The substantial presence test uses a weighted formula counting days physically present in the United States during the current year and the two preceding years to determine whether a foreign individual is treated as a U.S. resident alien for federal tax purposes, separate from the green card test, which instead depends on lawful permanent resident immigration status.

98. D — An individual who is a nonresident alien for part of the year and a resident alien for the remainder generally files a single dual-status return for that year, applying nonresident rules to the portion of the year before residency began and resident rules to the portion after, with restrictions on certain deductions and filing statuses.

99. A — A taxpayer who takes a return position relying on a specific provision of a U.S. income tax treaty to override or modify an otherwise applicable provision of U.S. tax law generally must disclose that position using Form 8833, Treaty-Based Return Position Disclosure, alerting the IRS to the treaty basis for the position taken on the return.

100. C — An executor or other fiduciary who distributes estate assets to beneficiaries without first ensuring the estate's known tax liabilities are paid can face potential personal liability for those unpaid taxes, generally up to the value of the assets improperly distributed, under the federal priority statute governing claims against a decedent's estate.