PRACTICE EXAM 29: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

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

1. A taxpayer wants to authorize a representative to receive copies of IRS notices and discuss a specific tax matter, but not to sign the return or enter into agreements on the taxpayer's behalf. Which form grants this more limited authority?

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

2. A practitioner wants to request a taxpayer's account transcript showing payments, penalties, and adjustments for a prior year, rather than a literal copy of the filed return. Which IRS transcript type provides this information?

A. Return transcript
B. Account transcript
C. Record of account transcript combining both
D. Wage and income transcript only

3. Under the IRS's data security requirements, a paid preparer with electronic taxpayer data is generally required to maintain which type of formal document?

A. A signed engagement letter for every client
B. A published privacy policy on a public website

C. A Written Information Security Plan (WISP)
D. An annual data breach insurance certificate

4. A preparer must renew their Preparer Tax Identification Number (PTIN) on what general schedule to remain authorized to prepare returns for compensation?

A. Annually, before the start of each calendar year
B. Once, with no renewal required afterward
C. Every three years, aligned with the EA cycle
D. Every five years

5. An enrolled agent whose license has been suspended appeals the disciplinary decision. Before what body does this type of appeal generally proceed?

A. The United States Tax Court
B. A state board of accountancy
C. An administrative law judge, then the Treasury Appellate Authority
D. The taxpayer's local IRS Taxpayer Advocate office

6. A taxpayer wants to know how long a Form 2848 power of attorney remains effective. Absent revocation, when does the authorization generally end?

A. When the taxpayer revokes it, the representative withdraws, or the specified matter and years are resolved
B. Automatically after 90 days regardless of the matter
C. Automatically at the end of the calendar year it was signed
D. Only when the representative dies, never by taxpayer action

7. A taxpayer with a qualifying reservist call-up under military orders wants to know whether their continuing military obligations affect civilian income tax return deadlines. What general relief may apply?

A. No relief is ever available to military personnel
B. A permanent exemption from filing individual returns
C. A requirement to file quarterly instead of annually
D. An automatic filing and payment extension while in a combat zone or contingency operation

8. A practitioner discovers that a prior-year return they prepared for a client contains a mathematical error understating tax, discovered only after Circular 230's due-diligence review of current-year records. What is the practitioner's general obligation?

A. Immediately amend the prior return without the client's authorization
B. Advise the client promptly of the error and its consequences
C. Report the client directly to the IRS Criminal Investigation division
D. Take no action since only the original preparer of that error is responsible

9. A paid preparer is generally required to retain copies of returns they prepared, or a list of the taxpayers and forms prepared, for what minimum period?

A. Three years
B. One year
C. Ten years
D. Indefinitely

10. Which of the following is generally required before a paid preparer may electronically file an individual return on the taxpayer's behalf?

A. A separate power of attorney filed with the state
B. A notarized copy of the taxpayer's photo identification
C. Written pre-approval from the IRS Return Preparer Office for that specific return
D. The taxpayer's signed authorization via Form 8879 or an equivalent e-file signature method

11. A taxpayer asks their enrolled agent whether the agent may share the taxpayer's tax return information with an unrelated third-party financial planner for a cross-referral arrangement. What does Section 7216 generally require?

A. No consent is needed since both parties are financial professionals
B. Verbal consent is always sufficient
C. The taxpayer's knowing, written consent before the disclosure
D. Disclosure is entirely prohibited under all circumstances

12. An individual wants to become an enrolled agent without taking the Special Enrollment Examination. Under what general circumstance is this pathway available?

A. By holding any unrelated professional license
B. Through qualifying prior IRS technical experience applying tax law
C. By completing a single online course
D. This pathway does not exist under any circumstance

13. A CAF (Centralized Authorization File) number is generally assigned to a representative for what purpose?

A. To serve as the representative's personal taxpayer identification number
B. To identify the representative in IRS systems across multiple client authorizations
C. To replace the representative's PTIN entirely
D. To track the representative's continuing education credits

14. Under Circular 230, a practitioner who is presented with clearly frivolous legal positions by a client and asked to file a return based on them generally should do what?

A. Decline to sign or file the return in reliance on positions lacking a reasonable basis
B. File the return exactly as the client demands to preserve the relationship
C. File the return but add a personal disclaimer only to their own retained copy
D. Refer the matter only to another preparer without further comment

15. A taxpayer wants to designate a preparer as a Third Party Designee simply by checking a box on the filed return, without submitting a separate authorization form. What is the general scope and duration of this authority?

A. Full power of attorney authority lasting indefinitely
B. Authority to sign future returns on the taxpayer's behalf
C. Limited authority to discuss that specific return with the IRS, generally expiring after one year
D. No authority beyond receiving a copy of the notice of deficiency

16. A practitioner wants to confirm which state the enrolled agent examination testing centers are affiliated with in order to schedule the SEE. Which entity generally administers scheduling and delivery of the exam?

A. Each individual state's board of accountancy
B. The Treasury Inspector General for Tax Administration
C. The United States Tax Court
D. A third-party testing vendor under contract with the IRS

17. A taxpayer finalized a divorce in 2023 and pays court-ordered alimony under that decree. How is this alimony generally treated for federal income tax purposes?

A. Not deductible by the payer and not includible in the recipient's income
B. Deductible by the payer and includible in the recipient's income
C. Includible in the payer's income and deductible by the recipient
D. Excluded from income for both parties automatically

18. A taxpayer receives a Form 1099-C reporting $8,000 of canceled credit card debt. At the time of cancellation, the taxpayer's liabilities exceeded assets by $12,000. How does this generally affect taxable income?

A. The full $8,000 is always includible in gross income regardless of insolvency
B. The debt is automatically treated as a nontaxable gift from the creditor
C. The canceled debt may be excluded from gross income to the extent of the taxpayer's insolvency
D. Only debt canceled by a government agency can ever be excluded

19. A taxpayer redeems Series EE savings bonds and uses the proceeds to pay qualified higher education expenses in the same year. What tax treatment may apply to the bond interest under the Education Savings Bond Program?

A. The interest is always fully taxable regardless of use
B. The interest may be excluded from income, subject to income phase-out limits
C. The interest is excluded only if the bonds were purchased after age 24
D. The interest exclusion has no income limitation

20. A taxpayer wins $5,000 gambling at a casino and separately loses $3,000 at the same casino during the year. How are these amounts generally reported on the return, assuming the taxpayer itemizes?

A. The amounts are netted and only $2,000 of net winnings is reported
B. Neither amount is reportable unless a Form W-2G was issued
C. Losses may be deducted only if they exceed winnings for the year
D. The $5,000 winnings are included in gross income, and up to $3,000 of losses may be deducted as an itemized deduction

21. A taxpayer's rental property tenant pays the final month's rent in advance along with a refundable security deposit at lease signing. How is each amount generally treated for the landlord in the year received?

A. Both amounts are includible in income immediately
B. Neither amount is includible in income until the lease ends
C. The advance rent is includible in income; the refundable security deposit is generally not
D. The security deposit is includible but the advance rent is not

22. A taxpayer sells a rental building for a gain and takes back a note from the buyer, receiving payments over several years rather than a lump sum. Under what provision may the taxpayer generally recognize gain proportionally as payments are received?

A. The like-kind exchange rules under Section 1031
B. The installment sale method under Section 453
C. The wash sale rule
D. The original issue discount rules

23. A taxpayer sells stock at a loss and, within 30 days before or after the sale, purchases substantially identical stock. What does the wash sale rule generally require?

A. The loss is fully deductible in the year of sale regardless of the repurchase
B. The gain, not the loss, is deferred until the new shares are sold
C. The rule applies only to real estate transactions
D. The loss is generally disallowed and added to the basis of the newly acquired shares

24. A taxpayer receives a scholarship covering both tuition and a stipend for room and board at a degree-granting institution. How is each portion generally treated?

A. The tuition portion is generally excludable; the room and board stipend is generally taxable
B. Both portions are fully excludable from income
C. Both portions are fully taxable regardless of use
D. Only the room and board portion is excludable

25. A taxpayer receives Social Security retirement benefits and also has substantial other income during the year. How does additional other income generally affect the taxability of the Social Security benefits?

A. Social Security benefits are always entirely tax-free regardless of other income
B. It can cause a larger percentage of the benefits, up to 85%, to become taxable
C. Social Security benefits are always entirely taxable regardless of other income

D. Only benefits received after age 70 can ever be taxable

26. A taxpayer exchanges carpentry services with a neighbor who is a licensed electrician, receiving electrical work in return with no cash changing hands. How is this bartering transaction generally treated?

A. Bartering is never taxable since no cash is exchanged
B. Only the party who initiated the exchange must report income
C. Each party generally includes the fair market value of the services received as income
D. The transaction is taxable only if a written contract exists

27. A taxpayer's former employer pays the premiums for the taxpayer's short-term disability policy as a fringe benefit, with the employer's payments never included in the taxpayer's taxable wages. When the taxpayer later receives benefit payments under that policy, how are they generally treated?

A. The disability benefits are always entirely tax-free
B. Only 50% of the disability benefits are taxable
C. The benefits are taxable only if the taxpayer also receives Social Security disability
D. The disability benefits are generally fully taxable

28. A taxpayer receives a jury verdict award consisting of both compensatory damages for lost wages and separate punitive damages arising from the same lawsuit. How is each component generally treated?

A. The lost-wages compensatory damages and the punitive damages are both generally taxable
B. Both components are generally excludable from income
C. Only the punitive damages are excludable
D. Punitive damages are excludable only in physical injury cases

29. A taxpayer holds shares that pay distributions meeting the holding-period and other requirements to be treated as qualified dividends. What is the general tax advantage of this classification compared to an ordinary dividend?

A. Qualified dividends are entirely excluded from gross income

B. Qualified dividends are taxed at a flat 37% rate regardless of income

C. There is no difference in tax treatment between the two

D. Qualified dividends are generally taxed at the lower long-term capital gains rates

30. A taxpayer holds U.S. Treasury bond interest alongside interest from a corporate bond. How does the state income tax treatment of the two generally differ?

A. Both are generally exempt from state income tax

B. Both are generally subject to state income tax equally

C. Treasury bond interest is generally exempt from state income tax, while corporate bond interest generally is not

D. Corporate bond interest is exempt while Treasury interest is taxable

31. A taxpayer's hobby, which does not rise to the level of a trade or business engaged in for profit, generates $2,000 of income from occasional sales during the year. How is this hobby income generally treated?

A. The $2,000 is generally includible in gross income, and offsetting hobby expenses are generally not deductible

B. The income is excludable as long as expenses exceed it

C. The income and related expenses are netted to zero automatically

D. Hobby income is never reportable if it is below $5,000

32. A taxpayer's whole life insurance policy generates an increase in cash surrender value during the year, which the taxpayer does not withdraw or surrender. How is this internal buildup generally treated for income tax purposes?

A. The increase is fully taxable to the policyholder each year as it accrues

B. The increase is generally not currently taxable while the policy remains in force

C. The increase is taxable only if the policy is a variable life policy

D. The increase must be reported as investment income annually regardless of withdrawal

33. A taxpayer's employer awards a $500 cash prize for being named employee of the month, unrelated to any charitable, scientific, or similarly recognized achievement selection process. How is the award generally treated?

A. The award is fully excludable as a de minimis fringe benefit
B. The award is excludable up to $250 with the excess taxable
C. The full $500 is generally includible in the taxpayer's taxable wages
D. The award is taxable only if paid in a lump sum exceeding $1,000

34. A taxpayer purchases a corporate bond at a discount from its stated redemption price at original issuance, structured to pay no periodic stated interest until maturity. How is this original issue discount generally treated during the holding period?

A. No income is recognized until the bond is sold or matures
B. A portion is generally includible in income annually as it accrues, even though no cash interest is paid
C. The discount is treated entirely as a nontaxable return of capital
D. The discount is only taxable if the bond is later sold at a gain

35. A taxpayer who is a landlord receives property, rather than cash, from a tenant as payment of rent for the month. How is this in-kind rent payment generally treated?

A. In-kind rent payments are never taxable since no cash changed hands
B. The payment is taxable only when the landlord later sells the property received
C. Only half of the property's value is includible as rental income
D. The fair market value of the property received is generally includible in the landlord's gross income as rental income

36. A taxpayer receives state unemployment compensation during a period of job loss. How is this unemployment compensation generally treated for federal income tax purposes?

A. It is generally fully includible in gross income
B. It is entirely excluded from gross income under all circumstances

C. Only half of the compensation is includible in gross income
D. It is includible only if the taxpayer also had wage income that year

37. A taxpayer's home mortgage debt used to acquire their primary residence was taken out after the relevant threshold date under current law. Up to what general principal amount is the mortgage interest deduction generally limited?

A. $1,000,000 of acquisition debt with no change under current law
B. $100,000 of home equity debt regardless of use
C. $750,000 of acquisition debt
D. There is no dollar limitation under current law

38. A taxpayer's state and local income, sales, and property tax payments total $18,000 for the year. What is the general limitation on deducting these taxes as an itemized deduction under current law?

A. The full $18,000 is generally deductible with no cap
B. Only property taxes, capped at $5,000, are deductible
C. The cap applies only to taxpayers filing as single
D. The deduction is generally capped at $10,000 combined

39. A taxpayer has investment interest expense on a margin loan used to purchase taxable investments generating interest and dividend income. How is the deduction for this investment interest generally limited?

A. It is fully deductible regardless of investment income earned
B. It is generally limited to the taxpayer's net investment income for the year
C. It is limited to $10,000 regardless of investment income
D. It is deductible only if the loan is secured by real property

40. A member of the U.S. Armed Forces on active duty moves pursuant to a permanent change of station order. What is the general treatment of moving expense deductibility for this taxpayer under current law?

A. Qualifying unreimbursed moving expenses remain deductible for this specific military exception
B. Moving expenses are never deductible for any taxpayer under current law
C. The deduction applies to all civilian taxpayers who change jobs
D. Moving expenses are deductible only if reimbursed by the employer

41. A taxpayer's modified adjusted gross income exceeds the applicable phase-out range, and they are also an active participant in an employer's retirement plan. How is their traditional IRA contribution generally treated?

A. The contribution is always fully deductible regardless of income
B. The taxpayer is barred from contributing to the IRA at all
C. The deduction phase-out applies only to Roth IRA contributions
D. The contribution deduction is generally reduced or eliminated based on the phase-out

42. A high-income taxpayer wants to contribute to a Roth IRA but has modified AGI exceeding the direct contribution limit. What strategy is commonly used to indirectly achieve Roth savings under current law?

A. Contributing directly regardless of the income limit since none applies to Roth
B. Opening a Roth IRA in a family member's name instead
C. Making a nondeductible traditional IRA contribution and then converting it to a Roth IRA
D. This income group is permanently barred from ever using a Roth IRA

43. A self-employed taxpayer wants to establish a retirement plan allowing significant employer-side contributions with minimal ongoing administrative burden. Which type of plan is generally designed for this purpose?

A. A Simplified Employee Pension (SEP) IRA
B. A traditional 401(k) requiring full nondiscrimination testing
C. A defined benefit pension plan with actuarial certification
D. A Coverdell Education Savings Account

44. A taxpayer who is self-employed and regularly uses part of their home exclusively for business wants to simplify home office recordkeeping. What does the simplified method generally allow?

A. Deducting the entire home's utility bills regardless of business-use percentage
B. A standard deduction of a set dollar amount per square foot, up to a maximum footage limit
C. A flat deduction regardless of the office's square footage
D. Depreciating the entire home rather than only the business-use portion

45. A taxpayer pays for dependent care through a workplace dependent care flexible spending account and also wants to claim the Child and Dependent Care Credit for the same expenses. How does the credit generally interact with FSA reimbursements?

A. The full expenses may be used for both benefits without any reduction
B. The FSA reimbursement is added back as taxable income and the full credit is still allowed
C. Expenses reimbursed through the FSA generally cannot also be used to compute the credit
D. The credit is available only if no FSA is used at all

46. A taxpayer's income exceeds the applicable threshold for the Lifetime Learning Credit, but they were also considering the American Opportunity Tax Credit. Besides income limits, what is a key structural difference between the two credits?

A. The AOTC is generally available only for the first four years of postsecondary education, while the Lifetime Learning Credit has no such year limit
B. The Lifetime Learning Credit is generally fully refundable while the AOTC is not
C. The AOTC applies only to graduate-level coursework
D. The Lifetime Learning Credit requires at least half-time enrollment while the AOTC does not

47. A taxpayer finalizes the adoption of an eligible child during the year and incurs qualified adoption expenses. What type of tax benefit does the adoption credit generally provide?

A. A fully refundable credit with no dollar limitation

B. A generally nonrefundable credit for qualified adoption expenses, subject to an income phase-out and dollar limit

C. An above-the-line deduction rather than a credit

D. A credit available only for the adoption of a child with special needs

48. A lower-income taxpayer contributes to a traditional IRA and may also qualify for a separate credit designed to encourage retirement savings among lower- and middle-income taxpayers. What is this credit generally called?

A. The Earned Income Tax Credit

B. The Qualified Business Income deduction

C. The Foreign Tax Credit

D. The Retirement Savings Contributions Credit (Saver's Credit)

49. A taxpayer paid foreign income tax on income also subject to U.S. tax and wants to avoid double taxation. What general choice does the taxpayer generally have in claiming relief?

A. Only a deduction is ever available for foreign taxes paid

B. Only a credit is ever available for foreign taxes paid

C. The taxpayer must exclude the foreign income entirely with no other option

D. Electing either a foreign tax credit or an itemized deduction for the foreign taxes paid

50. A taxpayer purchases new energy-efficient windows and insulation for their primary residence. Which credit generally applies to this type of qualifying home improvement, as distinguished from a solar energy system installation?

A. The Energy Efficient Home Improvement Credit

B. The Residential Clean Energy Credit

C. The Earned Income Tax Credit

D. The Foreign Tax Credit

51. A taxpayer obtained health coverage through the Marketplace and received advance payments of the Premium Tax Credit during the year based on estimated income. What must generally happen when the taxpayer files their return?

A. No reconciliation is required once advance payments have been made

B. The taxpayer must repay the full advance amount regardless of actual income

C. The taxpayer must generally reconcile the advance payments against the actual credit computed from final income on Form 8962

D. Reconciliation applies only if the taxpayer's income decreased during the year

52. A taxpayer's medical expenses for the year exceed the applicable floor for the itemized medical expense deduction. What is this floor generally calculated as?

A. 10% of the taxpayer's gross income with no AGI adjustment

B. 7.5% of the taxpayer's adjusted gross income

C. A flat dollar amount regardless of income

D. There is no floor under current law

53. A taxpayer's student loan interest deduction is subject to a phase-out based on modified AGI. What is the general nature of this deduction before considering the phase-out?

A. An itemized deduction available only to taxpayers who itemize

B. An above-the-line deduction, not requiring the taxpayer to itemize

C. A fully refundable credit

D. A deduction available only for loans covering graduate education

54. A taxpayer maintains an Archer MSA in connection with a high-deductible health plan through a small employer. How do qualifying distributions from this account generally compare, in tax effect, to those from a Health Savings Account?

A. Archer MSA distributions are always fully taxable regardless of use

B. Only HSA distributions can ever be tax-free

C. Both generally allow tax-free distributions when used for qualified medical expenses
D. Archer MSA distributions are taxable but HSA distributions are not

55. A taxpayer wants to claim a QBI deduction and has taxable income comfortably below the applicable threshold for the year, from a qualifying sole proprietorship. What is generally true about the wage and UBIA limitations at this income level?

A. The wage and UBIA limitations always apply regardless of income level
B. The deduction is unavailable entirely below the threshold
C. The limitations apply only to service businesses below the threshold
D. The wage and UBIA limitations generally do not apply below the threshold

56. A taxpayer donates used clothing in good condition to a qualified charitable organization and wants to claim an itemized deduction. What documentation does the taxpayer generally need for a noncash donation of this type exceeding $500 in claimed value?

A. A completed Form 8283 in addition to a receipt from the organization
B. No documentation is required for clothing donations under any amount
C. Only a bank record showing the estimated value is needed
D. A qualified appraisal is required regardless of the donation's value

57. A high-income taxpayer's net investment income, including interest, dividends, and capital gains, exceeds the applicable modified AGI threshold for their filing status. What additional tax generally applies to the excess?

A. The Additional Medicare Tax
B. The 3.8% Net Investment Income Tax
C. The Alternative Minimum Tax exclusively
D. A 10% early withdrawal penalty

58. A taxpayer significantly underpays their estimated tax during the year and owes a large balance when filing. Under the general safe harbor, what payment level during the year generally avoids an underpayment penalty?

A. Paying at least 50% of the current year's tax regardless of the prior year

B. Making any payment at all before the filing deadline

C. Paying at least 90% of the current year's tax, or 100% (110% for higher-income taxpayers) of the prior year's tax, whichever is smaller

D. Paying exactly the same dollar amount paid in the prior two years combined

59. A married couple is considering filing separately rather than jointly due to one spouse's significant miscellaneous liability concerns. What is a common general drawback of filing separately compared to jointly?

A. Reduced or unavailable access to certain credits and higher phase-out thresholds

B. Filing separately always produces a strictly lower total tax liability

C. Filing separately eliminates any liability for the other spouse's past tax debts automatically

D. There is no meaningful difference between the two filing statuses

60. A taxpayer's dependent does not meet the qualifying child tests but may still qualify as a dependent under a different category due to living with the taxpayer and receiving majority support. What is this second dependent category generally called?

A. A qualifying widow(er)

B. A qualifying surviving spouse

C. An emancipated minor

D. A qualifying relative

61. Several siblings together provide more than half of their elderly parent's support during the year, but no single sibling individually provides more than half. Under what arrangement might one sibling still be able to claim the parent as a dependent?

A. This situation never permits any sibling to claim the parent

B. A multiple support agreement, where the siblings collectively meeting the support test designate one qualifying sibling

C. Each sibling automatically gets to claim a full dependent exemption

D. Only the oldest sibling is automatically entitled to claim the parent

62. A taxpayer sells business equipment at a loss after using it in a trade or business for several years, held longer than one year. Under what general Code section is this loss most likely categorized?

A. Section 1245 recapture only

B. Section 121

C. Section 483

D. Section 1231

63. A taxpayer sells business machinery for more than its adjusted basis, having claimed depreciation deductions on it over the holding period. To what extent is the gain generally recharacterized as ordinary income rather than capital gain under depreciation recapture rules?

A. Generally up to the amount of depreciation previously claimed on the property

B. The entire gain is always ordinary income regardless of depreciation claimed

C. Depreciation recapture never applies to personal property

D. Only gain exceeding the original purchase price is recaptured

64. A taxpayer actively participates in a rental real estate activity that generates a loss and has modified AGI below the applicable phase-out threshold. Up to what general dollar amount of the loss may be deducted against nonpassive income under the active participation exception?

A. $3,000

B. $100,000 with no phase-out

C. $25,000

D. No dollar limit applies

65. A taxpayer qualifies as a real estate professional under the tax law's specific hour and material participation requirements. What is the general effect of this classification on rental real estate losses?

A. The classification has no effect on the passive activity loss rules
B. It automatically converts all losses into capital losses
C. It eliminates the taxpayer's obligation to file Schedule E entirely
D. Rental losses may generally be treated as nonpassive rather than subject to the passive activity loss limitations

66. A taxpayer invests in a business activity but has limited amounts economically at risk due to nonrecourse financing not qualifying for an exception. How do the at-risk rules generally limit the taxpayer's loss deduction?

A. The at-risk rules only apply to real estate activities
B. Losses are limited to the amount economically at risk
C. At-risk limitations apply only to corporations, never individuals
D. Losses are unlimited once any amount is invested

67. A self-employed taxpayer computes self-employment tax on their net earnings from self-employment. At what general percentage of net earnings is the Social Security portion base generally calculated before applying the wage base limit?

A. 92.35% of net earnings from self-employment
B. 100% of gross receipts with no adjustment
C. 50% of net earnings from self-employment
D. Net earnings are not adjusted before computing self-employment tax

68. A taxpayer works two jobs during the year, and each employer separately withholds the maximum Social Security tax on wages up to the annual wage base. What relief is generally available for the resulting excess withholding?

A. No relief is available since each employer withheld correctly

B. The taxpayer must file a separate claim with each employer directly
C. A credit for excess Social Security tax withheld, claimed on the taxpayer's individual return
D. The excess is treated as a taxable fringe benefit

69. A payee fails to provide a correct taxpayer identification number to a payer required to report certain payments. What withholding requirement generally applies to the payer as a result?

A. No withholding requirement applies in this situation
B. The payer must withhold 100% of the payment
C. Backup withholding applies only to wage payments, never to other reportable payments
D. Backup withholding at the applicable statutory rate

70. A taxpayer takes a distribution from a traditional IRA before reaching the general early distribution age but qualifies under an exception for a first-time home purchase. What is the general effect of this exception on the 10% additional tax?

A. The 10% additional tax generally does not apply, up to a lifetime limit
B. The distribution is entirely tax-free under this exception
C. The exception eliminates both regular income tax and the additional tax
D. This exception applies only to Roth IRAs, never traditional IRAs

71. A taxpayer incurs a net operating loss from a sole proprietorship in the current year. Under current general law, how is this net operating loss generally treated?

A. It must always be carried back two years before any carryforward is allowed
B. It expires entirely if not used in the same year it arose
C. It is generally carried forward to future years, with the deduction limited to a percentage of taxable income in the year used
D. It may only offset capital gain income in future years

72. A taxpayer defaults on a loan taken from their qualified retirement plan account and does not repay it according to the plan's terms. How is the unpaid loan balance generally treated for tax purposes?

A. The default has no tax consequence since it was originally a loan

B. It is generally treated as a deemed taxable distribution, potentially also subject to the 10% early distribution penalty

C. The balance is treated as a nontaxable return of the participant's own contributions

D. The plan must simply extend the repayment period with no tax effect

73. A high-earning self-employed taxpayer's net self-employment income exceeds the Additional Medicare Tax threshold for their filing status, with no other wage income during the year. How does the Additional Medicare Tax generally apply?

A. The Additional Medicare Tax never applies to self-employment income

B. The rate for self-employment income is double the rate applied to wages

C. The tax applies only if the taxpayer also has wage income

D. A 0.9% additional tax generally applies to self-employment income above the threshold

74. A taxpayer's tax return reflects a substantial valuation misstatement that significantly overstates the value of donated property. What type of penalty exposure does this general type of overstatement most directly create for the taxpayer?

A. Only a criminal fraud charge, with no separate civil penalty available

B. A penalty imposed solely on the appraiser, never the taxpayer

C. A valuation misstatement penalty under the accuracy-related penalty provisions

D. No penalty applies if the taxpayer relied on any appraisal at all

75. A client with a large traditional IRA balance is approaching required minimum distribution age and expects to be in a lower tax bracket for a few years before Social Security begins. What strategy might an advisor generally raise regarding this window?

A. Considering partial Roth conversions during the lower-bracket years to reduce future RMDs

B. Immediately withdrawing the entire IRA balance in a single year regardless of bracket

C. Waiting until age 85 to make any withdrawals or conversions

D. Converting the account to a taxable brokerage account with no tax consequence

76. A client wants to fund a grandchild's future college education while also reducing the size of their taxable estate. What savings vehicle might an advisor generally highlight for its combination of tax-deferred growth and potential accelerated gifting?

A. A taxable brokerage account titled solely in the grandparent's name

B. A 529 college savings plan, which permits front-loading up to five years of annual exclusion gifts

C. A traditional IRA opened in the grandchild's name

D. A whole life insurance policy with no investment growth

77. A charitably inclined client wants to simplify annual giving to multiple charities while taking an immediate deduction and deciding on ultimate recipients later. What vehicle might an advisor generally raise for this purpose?

A. A donor-advised fund

B. A private nonoperating foundation exclusively

C. A charitable remainder annuity trust exclusively

D. A simple pledge letter with no funding

78. A client is self-employed with highly variable quarterly income and has historically struggled with estimated tax payment timing. What general approach might an advisor suggest to reduce penalty exposure?

A. Simply paying the same fixed amount every quarter regardless of income timing

B. Waiting until year-end to pay the entire liability in one lump sum

C. Using the annualized income installment method to align estimated payments with actual income earned each period

D. Switching to a fiscal year to avoid estimated payments entirely

79. A client is deciding between a traditional 401(k) and a Roth 401(k) for ongoing contributions. What general factor should an advisor emphasize as central to this decision?

A. Only the client's current age, with no consideration of future tax rates
B. The number of years remaining until required minimum distributions begin, exclusively
C. Whichever option has the lower annual contribution limit
D. Whether the client expects to be in a higher or lower tax bracket in retirement than currently

80. A client is going through a divorce expected to finalize near year-end and asks how the timing might affect their filing status options. What should an advisor generally explain?

A. Filing status is generally based on marital status as of January 1 of that year
B. Marital status as of December 31 generally determines the filing status options available for the full year
C. The couple may freely choose either status regardless of when the divorce is finalized
D. Divorce timing has no effect on filing status determination

81. A client with a high-deductible health plan wants to maximize a tax-advantaged way to pay for both current and future medical expenses. What feature makes a Health Savings Account particularly attractive compared to other medical savings vehicles?

A. Its triple tax advantage of deductible contributions, tax-deferred growth, and tax-free qualified withdrawals
B. It has no contribution limit whatsoever
C. Contributions are always made only by the employer, never the employee
D. Funds must be spent within the same plan year or forfeited

82. A client is relocating for work between two states with significantly different income tax regimes and asks an advisor what to consider before finalizing the move date. What issue should the advisor generally flag?

A. State tax residency rules are identical in every state
B. How each state defines residency and allocates income for the part-year in each jurisdiction
C. Only the destination state's tax rules matter, never the origin state's

D. Moving automatically eliminates any tax liability to the prior state

83. A client wants to make significant lifetime gifts to reduce a future estate tax exposure while minimizing gift tax paid currently. What basic gifting strategy should an advisor generally raise first?

A. Gifting the client's entire estate in a single year regardless of exclusion amounts
B. Waiting until death to transfer any assets, since lifetime gifting has no benefit
C. Using the annual gift tax exclusion to make gifts that do not require using any lifetime exemption
D. Gifting only appreciated assets with high built-in losses

84. A married couple with young children is comparing a dependent care FSA against the Child and Dependent Care Credit and asks an advisor which is generally more advantageous. What should the advisor generally explain drives this comparison?

A. The FSA is always more advantageous regardless of income or expenses
B. The credit is always more advantageous regardless of income or expenses
C. The two benefits can always be fully combined with no interaction
D. It generally depends on the household's marginal tax rate and care expenses

85. A client nearing retirement wants to know the tax advisor's general view on Social Security claiming age and its interaction with other income sources. What consideration should the advisor generally raise?

A. Claiming earlier while also working can trigger taxable benefits and, before full retirement age, benefit reductions from the earnings test
B. Social Security benefits are never affected by continued work at any age
C. The claiming age has no effect on how much of the benefit is taxable
D. Delaying benefits always eliminates any income tax on Social Security

86. A client owns a small business and wants advice on structuring succession to a family member in a tax-efficient way over several years rather than all at once. What technique might an advisor generally raise?

A. Transferring the entire business in one transaction with no planning considerations
B. A phased gifting or sale strategy using valuation discounts and the annual exclusion over multiple years
C. Simply dissolving the business rather than transferring it
D. Waiting until the owner's death with no lifetime planning at all

87. A client asks an advisor whether it is generally better to itemize deductions or take the standard deduction for the upcoming year, given a possible large one-time charitable gift. What general approach should the advisor recommend?

A. Always taking the standard deduction regardless of any large gift
B. Spreading the gift evenly and thinly across many future years instead
C. Bunching multiple years of charitable giving into a single year to exceed the standard deduction threshold
D. Itemizing is never advantageous regardless of the gift's size

88. A nonresident alien with U.S.-source income not connected to a U.S. trade or business generally must file which specific individual income tax return form?

A. Form 1040
B. Form 1040-SR
C. Form 1040-NR
D. Form 706-NA

89. A taxpayer changes residency status during the year, being a nonresident alien for part of the year and a resident alien for the remainder. What type of return does this taxpayer generally file?

A. A standard Form 1040 covering the full year with no special treatment
B. Two entirely separate returns filed with two different taxpayer identification numbers
C. Form 1040-NR only, regardless of the resident portion of the year
D. A dual-status return, reflecting different rules for each portion of the year

90. A U.S. citizen living and working abroad meets the requirements to exclude a portion of foreign earned income from U.S. taxation. What is this exclusion generally called?

A. The Foreign Earned Income Exclusion
B. The Foreign Tax Credit
C. The Additional Child Tax Credit
D. The Net Investment Income Tax exclusion

91. An estate generates income from investments held during the period of administration before final distribution to beneficiaries. On what form does the estate generally report this income?

A. Form 706, United States Estate Tax Return
B. Form 1040, filed under the decedent's Social Security number
C. Form 990, Return of Organization Exempt from Income Tax
D. Form 1041, U.S. Income Tax Return for Estates and Trusts

92. A trust is generally required to distribute all of its income currently to beneficiaries, and does not make any distributions of principal or provide for charitable purposes. What general type of trust classification does this describe?

A. A complex trust
B. A simple trust
C. A grantor trust exclusively
D. A qualified funeral trust

93. A wealthy grandparent wants to transfer significant assets directly to grandchildren, skipping the children's generation. What additional federal transfer tax generally applies to such a direct-skip transfer, on top of gift or estate tax?

A. The Net Investment Income Tax

B. The Section 2801 covered expatriate tax
C. The generation-skipping transfer tax
D. The Additional Medicare Tax

94. A married couple wants to make a large gift to their child and would like to treat the gift as though made half by each spouse, even though the funds came from only one spouse's separate account. What election generally allows this treatment?

A. Portability
B. Gift splitting
C. A qualified disclaimer
D. A Crummey election

95. A taxpayer dies partway through the year, having earned wages and other income before death. What return generally reports this income for the period before death?

A. The decedent's final Form 1040, covering the period from January 1 through the date of death
B. Form 1041 exclusively, with no final Form 1040 required
C. No return is required for a partial year of income
D. Form 706 reports this income instead of a Form 1040

96. A taxpayer receives income that was earned by a decedent before death but was not yet received or reportable by the decedent at that time, such as a final paycheck paid after death. How is this income generally classified and treated?

A. As fully tax-exempt income to whichever party receives it
B. As income reportable only on the decedent's final Form 1040
C. As a nontaxable inheritance regardless of the underlying income type
D. As income in respect of a decedent, generally taxable to the recipient when received

97. A surviving spouse wants to preserve any unused portion of a deceased spouse's federal estate tax exemption for later use. What election must generally be made, and on what form, to achieve this?

A. No election is needed since unused exemption automatically transfers
B. The portability election, made on a timely filed Form 706 for the deceased spouse's estate
C. The election is made on the surviving spouse's individual Form 1040
D. The election must be made on Form 709 by the surviving spouse

98. A long-term U.S. citizen relinquishes citizenship and, as a covered expatriate, is subject to a general mark-to-market exit tax regime. What does this exit tax generally treat the covered expatriate's property as having done, immediately before expatriation?

A. Gifted to a family member with no gain recognition
B. Donated to charity with a full deduction allowed
C. Sold at fair market value, generally recognizing any built-in gain above an exempted threshold
D. Transferred into a qualified funeral trust automatically

99. A trust document grants the trustee broad discretion to accumulate income or distribute principal to beneficiaries, and the trust may also make distributions for charitable purposes. What general type of trust classification does this describe?

A. A complex trust
B. A simple trust
C. A grantor trust exclusively
D. A Totten trust

100. A U.S. person establishes a foreign trust and is treated as the owner of that trust under the grantor trust rules. What general additional reporting obligation does this create, beyond the trust's own filings?

A. No additional reporting is required beyond the trust's own foreign filings
B. The U.S. owner must file Form 706-NA annually
C. Only a state filing is required, with no federal reporting obligation
D. The U.S. owner generally must file Form 3520-A related informational disclosures regarding the foreign trust

Answer Key and Explanations — Practice Exam 29

1. D — Form 8821 authorizes a designated party to receive and inspect confidential tax information but does not grant the authority to represent the taxpayer before the IRS or advocate on their behalf. Form 2848 is required for full representation authority. The representative also cannot receive refund checks under this limited form.

2. B — An account transcript shows basic data such as filing status, taxable income, payments, penalties, and later adjustments, but not most original line entries. A return transcript instead shows most line items as originally filed. A wage and income transcript instead shows amounts third parties reported. It also generally lists estimated tax payments applied during the year.

3. C — The FTC Safeguards Rule, as applied to paid preparers, generally requires a written information security plan describing the safeguards used to protect taxpayer data, appropriate to the size and complexity of the practice. The plan should identify specific administrative, technical, and physical safeguards, along with a designated employee responsible for maintaining and periodically updating it as the practice evolves.

4. A — PTINs must generally be renewed annually. An expired or unrenewed PTIN generally means the preparer is not authorized to prepare tax returns for compensation until it is renewed. A preparer who fails to renew on time, or who prepares returns for compensation with a lapsed PTIN, risks penalties and jeopardizes their standing to practice as a paid preparer.

5. C — Circular 230 disciplinary proceedings are generally heard by an administrative law judge, whose decision may be appealed to the Treasury Appellate Authority, a different process from ordinary Tax Court litigation over a deficiency. This distinct administrative track reflects Circular 230's separate disciplinary framework, which governs practitioner conduct rather than the substantive tax liability disputes handled by the Tax Court.

6. A — A Form 2848 remains in effect for the specific tax matters and periods listed until revoked by the taxpayer, withdrawn by the representative, or the matter is resolved; it does not expire on a fixed short timetable. Practitioners should periodically confirm outstanding authorizations remain current and needed. Both taxpayer and representative should retain a copy for their records.

7. D — Members of the military serving in a combat zone or qualified contingency operation are generally entitled to an automatic extension of time to file and pay, along with related deadline extensions, tied to their period of service. These extensions generally also cover filing claims for refund. This relief generally does not require a separate application to claim.

8. B — Circular 230 generally requires a practitioner who becomes aware of an error or omission on a previously filed return to advise the client promptly of the error and its consequences, regardless of who originally prepared the return. Amending the return without direction from the client is not required. This obligation exists regardless of any fee already collected for the engagement.

9. A — A paid preparer must generally retain either copies of the returns prepared or a list containing sufficient identifying information, for at least three years, to support compliance with recordkeeping and due-diligence requirements. This recordkeeping requirement supports the IRS's ability to verify preparer due diligence, especially for credits like the earned income credit that carry heightened compliance documentation standards.

10. D — Before transmitting an e-filed return, the preparer generally must obtain the taxpayer's signature authorizing the submission, most commonly through Form 8879, confirming the taxpayer has reviewed and approved the return. Retaining the signed authorization in the preparer's records is generally advisable, since it documents the taxpayer's consent to transmission and can be requested by the IRS during compliance review.

11. C — Section 7216 generally prohibits a tax return preparer from disclosing or using tax return information for purposes outside preparing the return without the taxpayer's knowing, specific, written consent that meets applicable regulatory requirements. Violating this consent requirement can expose the preparer to civil penalties and, in more serious circumstances, potential criminal liability under the same Code section.

12. B — Certain former IRS employees who had qualifying technical experience regularly applying tax law and its regulations may apply for enrollment without taking the SEE, subject to specific service and experience requirements. This experience-based pathway exists alongside the standard SEE route and the alternative available to certain former IRS employees who meet the technical experience and service length requirements.

13. B — A CAF number is a unique identifier the IRS assigns to a representative once they file their first third-party authorization, allowing the IRS to track and process that representative's authorizations across different clients. Future filings by that representative generally reference this same number. This number streamlines IRS processing of that representative's future authorizations.

14. A — A practitioner generally may not sign a return, or advise a position on a return, that lacks a reasonable basis, and Circular 230 does not permit yielding to client pressure to take a frivolous or unsupportable position. Doing so can expose the practitioner to separate preparer penalties too. The requirement applies to both signing and nonsigning preparers alike.

15. C — The Third Party Designee checkbox grants limited authority to discuss the processing of that specific return and respond to related notices, generally expiring one year from the return's original due date, without a separate Form 2848. A taxpayer wanting broader ongoing authority should generally use Form 2848 instead. The taxpayer may still separately revoke this limited authority at any time.

16. D — The Special Enrollment Examination is generally administered through a third-party testing vendor contracted by the IRS, which manages scheduling, testing center locations, and delivery of the three-part computer-based exam. Candidates generally schedule their preferred part and testing location through the vendor's system, and each of the three exam parts may be taken separately and in any order.

17. A — For divorce or separation instruments executed after December 31, 2018, alimony is generally neither deductible by the payer nor includible in the recipient's income, a change from the treatment of pre-2019 agreements. This treatment reversed the tax effect that applied under agreements executed before 2019, where the payer generally deducted alimony and the recipient generally included it in income.

18. C — Canceled debt is generally includible in gross income, but an exclusion applies to the extent the taxpayer was insolvent immediately before the cancellation, here allowing exclusion of the full amount since insolvency exceeded the debt. The taxpayer must still generally reduce certain tax attributes by the exclusion. Basis in certain remaining property may also require reduction under related rules.

19. B — Under the Education Savings Bond Program, interest on qualifying Series EE or I bonds may be excluded from income when redemption proceeds are used for qualified higher education expenses, subject to a phase-out based on modified AGI. The bond owner must generally have been at least 24 at purchase. Married taxpayers must generally file jointly to claim this exclusion.

20. D — Gambling winnings are generally included in full in gross income, while gambling losses may be deducted only as an itemized deduction and only up to the amount of winnings reported, without netting the two figures together. A gambler must generally track wins and losses separately by session. Professional gamblers may generally also deduct related ordinary business expenses.

21. C — Advance rent is generally included in gross income in the year received, regardless of the period it covers, while a security deposit intended to be refunded to the tenant is generally not included in income when received. A deposit later applied to unpaid rent generally becomes income then. State law can also govern how such deposits must be handled.

22. B — Under the installment method, a taxpayer who sells property and receives at least one payment after the year of sale may generally report gain proportionally as principal payments are received, rather than recognizing it all at once. This method generally does not apply to inventory sold in the ordinary course.

23. D — The wash sale rule generally disallows a loss deduction when substantially identical securities are purchased within the 61-day window surrounding the sale, instead adding the disallowed loss to the basis of the replacement shares. The rule applies whether repurchase occurs in the same or a different account. Options and short sales can also trigger this same disallowance rule.

24. A — A qualified scholarship used for tuition and required course fees is generally excludable from gross income, while amounts covering room, board, or other incidental living expenses are generally includible in taxable income. The scholarship must generally come from an eligible educational organization and the recipient must be a degree candidate for the tuition portion to qualify for the exclusion.

25. B — Depending on the taxpayer's combined income, up to 85% of Social Security benefits may become taxable under a two-tier formula, with higher other income generally pushing a larger share of the benefits into taxable status. No more than 85% of benefits is ever taxable under the formula. Filing status further affects exactly where each threshold in the formula falls.

26. C — Bartering transactions are taxable, and each party must include the fair market value of the goods or services received in gross income, even though the exchange did not involve any cash payment. Each party's basis in property received through a barter exchange is its fair market value at the time of the exchange, which becomes relevant on a later disposition.

27. D — When an employer pays disability insurance premiums without including them in the employee's taxable wages, benefits later received under that policy are generally fully taxable to the employee, unlike a policy paid with after-tax dollars. Premiums paid with after-tax dollars would instead yield tax-free benefits. The employer's premium payment record generally determines which treatment applies.

28. A — Compensatory damages for lost wages are generally taxable as they replace otherwise taxable income, and punitive damages are generally taxable regardless of the underlying claim, even when awarded alongside a physical injury claim. This contrasts with compensatory damages received specifically on account of a physical injury or physical sickness, which are excludable, unlike the lost-wages and punitive components described here.

29. D — A dividend meeting the holding-period and payer requirements to be a qualified dividend is generally taxed at the same preferential rates that apply to long-term capital gains, rather than at ordinary income tax rates. A dividend failing these requirements is instead taxed at ordinary rates. Foreign corporation dividends can also qualify if specific treaty conditions are met.

30. C — Interest on U.S. Treasury obligations is generally exempt from state and local income tax under federal law, while interest paid by a corporate bond issuer generally does not carry this state-level exemption. This distinction can matter significantly in states with high income tax rates, making Treasury obligations comparatively more attractive to residents of those states on an after-tax basis.

31. A — Income from a hobby activity is generally includible in gross income, while expenses associated with a not-for-profit hobby activity are generally not deductible under current law, unlike expenses of a genuine trade or business. Hobby losses cannot offset other income under current law. The IRS applies several factors in evaluating genuine profit motive.

32. B — The annual increase in a life insurance policy's cash value is generally not currently taxable to the policyholder as it accrues, deferring taxation until amounts are withdrawn, surrendered, or otherwise recognized under applicable rules. Tax is generally triggered only upon surrender or a qualifying withdrawal. A modified endowment contract can alter this general deferral treatment.

33. C — A cash award from an employer, even one framed as employee recognition, is fully includible in taxable wages, since cash and cash-equivalent awards do not qualify for the limited employee achievement award exclusion. A noncash achievement award recognizing length of service or safety, by contrast, may qualify for a limited exclusion if it meets separate specific requirements under the Code.

34. B — Original issue discount on a bond is generally treated as interest income that accrues and must generally be included in the holder's gross income annually over the bond's term, even though no cash interest payment is received. Basis generally increases each year by the OID amount included. A de minimis OID exception can apply to very small discounts.

35. D — Rent received in a form other than cash, such as services or property, is generally included in the landlord's gross income at its fair market value at the time received, the same as if cash rent had been paid. The landlord includes the property's actual fair market value at receipt.

36. A — Unemployment compensation paid under a state or federal program is generally fully includible in the recipient's gross income, and is generally reported to the taxpayer on Form 1099-G by the paying agency. Unemployment compensation is generally not subject to Social Security or Medicare tax, distinguishing it from ordinary wage income even though it is fully includible in gross income.

37. C — For acquisition debt incurred after December 15, 2017, the home mortgage interest deduction is generally limited to interest on the first $750,000 of qualifying acquisition debt, a reduction from the prior $1,000,000 threshold. Home equity debt not used to buy, build, or substantially improve the residence is generally not treated as qualifying acquisition debt for this deduction under current law.

38. D — The itemized deduction for the aggregate of state and local income, sales, and property taxes is generally capped at $10,000 under current law, regardless of the taxpayer's actual total state and local tax payments. This cap applies regardless of filing status for most taxpayers, meaning a married couple filing jointly generally faces the same $10,000 limit as a single filer.

39. B — Investment interest expense is generally deductible only up to the amount of the taxpayer's net investment income for the year, with any excess available to carry forward to offset investment income in future years. Net investment income for this purpose includes items such as taxable interest, dividends, and short-term capital gains, but excludes income already used to compute other limitations.

40. A — While the moving expense deduction was generally suspended for most taxpayers under current law, an exception remains for active-duty members of the Armed Forces moving under military orders due to a permanent change of station. This group must still meet the distance and other general requirements. Documentation of the qualifying military order is generally advisable to retain.

41. D — A taxpayer who actively participates in an employer retirement plan faces a deduction phase-out for traditional IRA contributions once modified AGI exceeds the applicable threshold, though a nondeductible contribution may still be made. A taxpayer whose spouse is an active participant, but who is not personally an active participant, faces a separate, higher phase-out range for their own IRA deduction.

42. C — A taxpayer who exceeds the Roth IRA income limit may make a nondeductible contribution to a traditional IRA and then convert those funds to a Roth IRA, a strategy commonly referred to as a backdoor Roth conversion. The taxpayer should generally consider the pro-rata rule for other IRA balances. This strategy is commonly known as a backdoor Roth IRA conversion.

43. A — A SEP IRA allows a self-employed individual to make relatively large employer-type contributions to a retirement account with simplified administration compared to a qualified plan, making it a common choice for sole proprietors. Contribution limits for a SEP IRA are based on a percentage of compensation up to an annual dollar cap, and contributions are fully employer-funded rather than employee-elective.

44. B — The simplified home office method generally allows a standard deduction computed as a set dollar amount per square foot of qualifying business use, up to a capped square footage, in place of tracking actual home expenses. The taxpayer may generally switch methods between years, with some limits. The cap generally limits the deduction regardless of the office's actual size.

45. C — The Child and Dependent Care Credit generally must be computed only on qualifying expenses not reimbursed through a dependent care FSA, preventing the taxpayer from claiming a double tax benefit on the same expenses. The taxpayer also must reduce the FSA's own exclusion, or the credit's expense base, so that qualifying expenses are not counted twice across the two benefits.

46. A — The American Opportunity Tax Credit is limited to a student's first four years of postsecondary education, while the Lifetime Learning Credit has no such limit and can apply to graduate coursework or ongoing education. Both credits phase out at higher modified AGI levels, and a taxpayer cannot claim both credits for the same student's expenses in the same tax year.

47. B — The adoption credit is generally a nonrefundable credit computed on qualified adoption expenses up to a set dollar limit per child, subject to phase-out at higher modified AGI levels, though any unused credit may generally carry forward. A special needs child generally qualifies for the maximum credit amount. The credit generally applies per child in the year expenses become final.

48. D — The Saver's Credit provides a nonrefundable credit, calculated as a percentage of qualifying retirement contributions based on income level, intended to encourage retirement savings by lower- and middle-income taxpayers. The credit percentage generally decreases as the taxpayer's income rises within the eligible range, and the credit is unavailable once income exceeds the applicable upper limit.

49. D — A taxpayer who pays qualifying foreign income tax generally may choose to either claim a credit for the foreign tax paid or deduct it as an itemized deduction, choosing whichever produces the more favorable result. Taxpayers with only modest foreign tax amounts sometimes find claiming the credit directly, without filing the more detailed Form 1116, available under a simplified election.

50. A — The Energy Efficient Home Improvement Credit generally applies to qualifying building envelope improvements such as insulation, windows, and doors, and carries its own annual dollar limits, distinct from the solar-focused Residential Clean Energy Credit. Both credits are generally nonrefundable, but the Energy Efficient Home Improvement Credit generally resets its annual dollar limit each year rather than applying one lifetime cap.

51. C — A taxpayer who received advance Premium Tax Credit payments must generally reconcile those advance payments against the credit actually allowed based on final household income, which can result in an additional credit or a repayment amount. This reconciliation generally occurs on Form 8962 filed with the return. Significant income changes during the year should be reported to the Marketplace promptly.

52. B — The itemized deduction for medical and dental expenses is generally limited to the amount by which qualifying unreimbursed expenses exceed 7.5% of the taxpayer's adjusted gross income for the year. Only unreimbursed expenses not compensated by insurance or another source, and not otherwise deducted elsewhere on the return, generally count toward this itemized deduction calculation.

53. B — The student loan interest deduction is generally an above-the-line adjustment to income, available to eligible taxpayers regardless of whether they itemize deductions, subject to a phase-out at higher levels of modified AGI. The deduction is generally capped at a maximum dollar amount per return each year, regardless of how much qualifying student loan interest was actually paid.

54. C — Like a Health Savings Account, an Archer MSA allows tax-free distributions for qualified medical expenses, though Archer MSAs are limited to employees of small employers or self-employed individuals and are less commonly used today. Unlike an HSA, an Archer MSA requires the taxpayer to be either self-employed or an employee of a qualifying small employer maintaining a high-deductible health plan.

55. D — Below the applicable taxable income threshold, the Section 199A qualified business income deduction is generally not limited by W-2 wages or UBIA of qualified property, and also is not restricted by the specified service trade or business rules. A specified service business also loses eligibility as income rises further. Rental activities can also qualify under this same threshold rule.

56. A — A taxpayer claiming a noncash charitable contribution deduction exceeding $500 generally must complete Form 8283 in addition to obtaining a receipt or acknowledgment from the donee organization, with a qualified appraisal required only above a higher threshold. A qualified appraisal is generally required above a separate higher threshold. Cash contributions generally require only a bank record or written receipt instead.

57. B — The Net Investment Income Tax generally imposes an additional 3.8% tax on the lesser of net investment income or the amount modified AGI exceeds the applicable threshold, layered on top of regular income tax. This tax applies only to taxpayers whose modified AGI exceeds the threshold for their filing status, and it does not apply to most retirement plan distributions.

58. C — The estimated tax underpayment penalty is generally avoided by paying, through withholding and estimates, at least 90% of the current year's tax liability or the applicable safe harbor percentage of the prior year's tax, whichever is less. Failing both safe harbors may still avoid penalty below a small threshold. Quarterly estimated payments help taxpayers avoid this penalty throughout the year.

59. A — Married filing separately generally results in reduced eligibility for certain credits, lower phase-out thresholds, and other restrictions compared to filing jointly, even though it can sometimes limit one spouse's exposure to the other's liabilities. Spouses filing separately generally must both choose the same treatment for the standard deduction, meaning if one itemizes, the other generally cannot claim the standard deduction.

60. D — A person who does not meet the qualifying child tests, such as the age or relationship test, may still be claimed as a dependent under the qualifying relative category if support, income, and relationship or household requirements are met. Gross income for the qualifying relative must also fall below a set limit.

61. B — Under a multiple support agreement, when no one person provides more than half of a dependent's support but the group collectively does, the group may designate one qualifying member, contributing over 10%, to claim the dependent. Only one contributing member may claim the dependent for that year. This written agreement should generally be retained with the group's tax records.

62. D — Gains and losses on the sale of depreciable business property held longer than one year are generally governed by Section 1231, which can allow a net loss to be treated as ordinary while a net gain may be treated as capital. Its ultimate character can vary from year to year based on overall results.

63. A — Under Section 1245 depreciation recapture rules, gain on the sale of depreciable personal property is generally treated as ordinary income to the extent of depreciation previously claimed, with any remaining gain generally eligible for capital gain treatment. Land is not subject to this recapture since it is not depreciable. A partial business-use asset can trigger a proportional recapture calculation.

64. C — A taxpayer who actively participates in rental real estate may generally deduct up to $25,000 of passive losses against nonpassive income, subject to phase-out beginning at a modified AGI threshold, phasing out completely at a higher level. This allowance is generally more generous than treatment for a limited partner. Suspended passive losses can generally carry forward to future tax years.

65. D — A taxpayer who qualifies as a real estate professional, generally by meeting material participation and more-than-half-of-personal-services hour tests, may treat qualifying rental real estate losses as nonpassive, avoiding the passive activity loss limitation. Meeting these tests generally also requires spending more than 750 hours during the year in real property trades or businesses in which the taxpayer materially participates.

66. B — The at-risk rules generally limit a taxpayer's deductible losses from an activity to the amount they have economically at risk, such as cash contributed and recourse debt, preventing deductions that exceed genuine economic exposure. Amounts financed through certain nonrecourse borrowing, or protected by a guarantee or other arrangement limiting the taxpayer's economic exposure, are generally excluded from the at-risk amount.

67. A — Self-employment tax is generally computed on 92.35% of net earnings from self-employment, an adjustment reflecting the employer-equivalent portion, before applying the Social Security wage base limit to the resulting amount. The 92.35% adjustment approximates the amount that would remain after an employer's matching share, since a self-employed person effectively pays both the employer and employee shares.

68. C — When combined Social Security tax withheld by multiple employers exceeds the annual maximum because each employer withheld up to the wage base independently, the taxpayer may generally claim a credit for the excess on their individual income tax return. This is separate from any Medicare tax adjustment, which has no wage cap.

69. D — When a payee fails to furnish a correct taxpayer identification number, or under certain other conditions, the payer is generally required to withhold backup withholding at the statutory rate and remit it to the IRS on the payee's behalf. The payer generally remits withheld amounts using standard deposit procedures. Certain payments, like most wages, are generally excluded from this rule.

70. A — The first-time homebuyer exception generally allows a taxpayer to avoid the 10% additional tax on an early IRA distribution up to a lifetime limit, though the distribution generally remains subject to regular income tax to the extent it represents earnings or deductible contributions. Other statutory exceptions include disability and certain higher education costs.

71. C — Under current general law, a net operating loss is generally carried forward indefinitely to future tax years, with the deduction in each carryforward year generally limited to a percentage of that year's taxable income, rather than an unlimited offset. Certain smaller taxpayers may qualify for transitional rules allowing fuller offset.

72. B — A defaulted retirement plan loan is generally treated as a deemed distribution, includible in the participant's gross income, and potentially subject to the 10% early distribution penalty if the participant has not reached the applicable exception age or condition. Separation from service can also accelerate repayment and default risk. Certain hardship or disability-related exceptions may reduce this default risk.

73. D — The Additional Medicare Tax generally imposes an extra 0.9% on self-employment income (as well as wages) above the applicable threshold for the taxpayer's filing status, applying to self-employment income even without any separate wage income. This tax is not matched by any employer-paid portion, unlike Medicare tax. No separate wage base cap limits this additional 0.9% tax.

74. C — A substantial or gross valuation misstatement that significantly overstates the value or basis of property, such as an inflated charitable donation valuation, can generally expose the taxpayer to an accuracy-related penalty under Section 6662, with a higher rate for larger overstatements. The rate is higher for a gross, rather than substantial, misstatement.

75. A — An advisor might generally raise the idea of executing partial Roth conversions during years of comparatively lower income, filling up lower tax brackets and potentially reducing the size of future required minimum distributions and their tax impact. Spreading conversions over years helps avoid pushing income into a higher bracket. Required minimum distributions do not apply to Roth account balances.

76. B — An advisor might generally highlight a 529 plan for its tax-deferred growth and tax-free qualified withdrawals, along with the special election allowing a lump-sum contribution to be treated as spread over five years for gift tax purposes. The plan also generally permits changing the beneficiary among family members. Excess funds may also roll into a Roth IRA under current rules.

77. A — An advisor might generally raise a donor-advised fund, which allows a client to contribute assets and claim an immediate deduction, while retaining advisory privileges to recommend grants to specific charities over time. Because the client cannot get the deduction back if grants are never made, the advisor should confirm the client's charitable intent is genuinely long-term before recommending this structure.

78. C — For a client with uneven income throughout the year, an advisor might generally suggest the annualized income installment method, which can reduce or eliminate estimated tax penalties by aligning required payments more closely with when income was actually earned. This requires more detailed income tracking but can reduce penalty exposure.

79. D — An advisor should generally emphasize comparing the client's current marginal tax rate against their expected tax rate in retirement, since a Roth 401(k) tends to favor a client expecting a similar or higher future rate, and vice versa for traditional. Expected filing status changes in retirement can further affect this comparison.

80. B — An advisor should generally explain that a taxpayer's marital status on the last day of the tax year, December 31, generally controls their filing status options for the entire year, making the exact finalization date potentially significant. The same rule lets a couple marrying late in the year file jointly.

81. A — An advisor might generally highlight the HSA's triple tax advantage: contributions are generally deductible or pre-tax, the account grows tax-deferred, and qualified medical withdrawals are generally tax-free, unlike a use-it-or-lose-it FSA. Unused HSA balances generally carry over indefinitely from year to year, unlike a standard health FSA, making the account useful for both current expenses and long-term savings.

82. B — An advisor should generally flag that states differ in how they define residency and allocate income for a part-year resident, meaning the specific move date and connections retained to the prior state can meaningfully affect the client's total state tax liability. The advisor should confirm whether a credit exists for the origin state's tax.

83. C — An advisor should generally raise using the annual gift tax exclusion first, allowing a set amount per recipient each year without using any of the client's lifetime gift and estate tax exemption, before considering larger, exemption-using gifts. A client with several beneficiaries can transfer a large amount yearly this way.

84. D — An advisor should generally explain that whether the FSA or the credit produces greater savings depends on the household's marginal tax rate and the amount of qualifying expenses, since higher earners often benefit more from the FSA's pre-tax treatment. Unused FSA funds are typically forfeited, unlike the credit's benefit. This comparison should be revisited whenever the household situation changes.

85. A — An advisor should generally raise that claiming Social Security while still working before full retirement age can trigger the earnings test, temporarily reducing benefits, and that continuing to work can also increase the taxable portion of benefits received. Reduced early benefits are later recalculated upward after full retirement age. This recalculation offsets the earlier reduction over time.

86. B — An advisor might generally raise a phased approach, gifting or selling interests over several years, potentially using minority or lack-of-marketability valuation discounts and the annual exclusion, to transfer the business gradually in a more tax-efficient manner. Gifted interests generally carry the donor's basis rather than a stepped-up basis. A formal business valuation is generally advisable before beginning this process.

87. C — An advisor might generally recommend a bunching strategy, concentrating several years' worth of intended charitable contributions into a single year, potentially using a donor-advised fund, to exceed the standard deduction threshold and maximize itemized benefit that year. The advisor should confirm cash flow needs before recommending this approach. A donor-advised fund can also simplify recordkeeping for the itemized deduction.

88. C — A nonresident alien with U.S.-source income generally files Form 1040-NR, which applies different rules than the standard Form 1040, including limitations on certain deductions and credits available to U.S. citizens and residents. A nonresident alien who is instead engaged in a U.S. trade or business generally reports that connected income on the same Form 1040-NR, but under different computational rules.

89. D — A taxpayer who is a nonresident alien for part of the year and a resident alien for the rest generally files a dual-status return, applying resident alien rules to the resident period and nonresident alien rules to the other period. Deductions are generally allocated between the two periods under separate rules.

90. A — A qualifying U.S. citizen or resident living abroad may generally elect the Foreign Earned Income Exclusion, excluding a set amount of foreign earned income from U.S. taxable income, subject to meeting either a bona fide residence or physical presence test. This exclusion generally bars also claiming the earned income credit on that income.

91. D — An estate generally reports income earned during administration on Form 1041, a separate income tax return from the estate tax return (Form 706), which instead reports the value of the decedent's gross estate for estate tax purposes. The estate generally needs its own EIN and may owe estimated tax. The estate's fiscal year can also differ from a calendar year.

92. B — A trust is generally classified as a simple trust for a tax year if it is required to distribute all its income currently, does not distribute principal, and makes no charitable distributions; any trust not meeting these conditions is a complex trust. Such a trust generally leaves little taxable income at the trust level.

93. C — A transfer that skips a generation, such as a direct gift or bequest from a grandparent to a grandchild while the grandchild's parent is still living, may generally trigger the generation-skipping transfer tax in addition to any applicable gift or estate tax. An exemption generally shelters part of the transfer from this additional tax.

94. B — Gift splitting generally allows married spouses to elect to treat a gift made by one spouse as though made one-half by each, effectively doubling the combined annual exclusion and lifetime exemption available for the gift, if both spouses consent. The election is generally made by filing a gift tax return.

95. A — A decedent's income earned from the beginning of the year through the date of death is generally reported on the decedent's final individual Form 1040, filed by the executor or surviving spouse, separate from any estate income tax return. Deductions allocable to the period before death are claimed in the ordinary manner.

96. D — Income in respect of a decedent (IRD) is income the decedent had a right to receive but had not yet received or reported before death; it is generally taxable to whoever receives it, retaining the same character it would have had to the decedent. The recipient reports it using that same character on their own return.

97. B — The portability election, generally made on a timely filed Form 706 for the deceased spouse's estate, allows the surviving spouse to add any unused portion of the deceased spouse's exemption (the DSUE amount) to their own for future gift and estate tax purposes. Without a timely election, the unused exclusion amount is generally lost.

98. C — Under the mark-to-market exit tax regime, a covered expatriate's worldwide property is generally treated as sold for its fair market value on the day before expatriation, generally recognizing built-in gain above an exempted dollar threshold, distinct from the separate Section 2801 recipient tax. A separate exemption generally shelters part of the built-in gain recognized.

99. A — A trust that may accumulate income, distribute principal, or make charitable distributions generally does not meet the simple trust requirements and is instead classified as a complex trust for federal income tax purposes. A complex trust may generally claim a deduction for amounts properly distributed to beneficiaries during the year, while accumulated income generally remains taxable to the trust itself.

100. D — A U.S. person treated as an owner of a foreign trust under the grantor trust rules generally has additional information reporting obligations, including ensuring the foreign trust's Form 3520-A related disclosures are furnished, separate from ordinary domestic trust reporting. Penalties for noncompliance are separate from income tax underpayment penalties. State-level reporting obligations may also apply separately from these federal rules.