# PRACTICE EXAM 30: 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.** An applicant who is not eligible for a Social Security number wants to obtain a PTIN to prepare returns for compensation. What number must generally be used to complete the PTIN application in place of an SSN?

A. An Employer Identification Number (EIN) issued to the applicant personally
B. An Individual Taxpayer Identification Number (ITIN)
C. A state-issued driver's license number
D. No PTIN can ever be issued without an SSN

**2.** Circular 230 generally requires a practitioner to obtain a client's informed written consent before representing that client in a matter that creates a conflict of interest with another current client. What condition must also generally be met for representation to continue?

A. No such belief is required as long as consent is obtained
B. The conflict must be disclosed only if a formal complaint is later filed
C. The practitioner must reasonably believe they can provide competent and diligent representation to each affected client
D. Only the newer client's consent is required, not the existing client's

**3.** Under Circular 230, what general competency standard must a practitioner meet when providing tax advice or representing a client before the IRS?

A. The practitioner must possess the necessary knowledge, skill, thoroughness, and preparation reasonably needed for the matter

B. No minimum competency standard is imposed under Circular 230

C. Competency is measured solely by years licensed, regardless of subject matter

D. Competency requirements apply only to representation, never to advice

**4.** An enrolled agent wants to know how the scope of their practice rights before the IRS generally compares to that of a CPA or attorney. What is generally true about this comparison?

A. Enrolled agents may only represent taxpayers in audits, never in appeals or collections

B. CPAs and attorneys have unlimited rights, but enrolled agents have limited rights

C. Only attorneys may represent a client in any IRS proceeding

D. All three generally hold unlimited representation rights before the IRS regarding any tax matter

**5.** A tax return preparer who is not a CPA, attorney, or enrolled agent completes the IRS Annual Filing Season Program requirements for the year. What is the general scope of representation rights this program confers?

A. The same unlimited representation rights as an enrolled agent

B. No representation rights of any kind

C. Unlimited rights, but only during an audit, never during an appeal

D. Limited representation rights before the IRS solely regarding returns the preparer actually prepared and signed

**6.** An enrolled agent candidate passes all three parts of the Special Enrollment Examination but delays applying for enrollment. Within what general period after passing must the candidate apply before the passing scores expire?

A. There is no time limit on applying after passing

B. The scores expire immediately at the end of the testing day

C. Generally within one year, and each individual part's passing score is valid for two years from the date passed

D. The candidate must reapply and retake the exam every 90 days

**7.** A practitioner sends a general mass-mailed advertisement soliciting new clients for tax preparation services. What does Circular 230 generally require regarding the content and format of this type of solicitation?

A. No content restrictions apply to mailed solicitations under Circular 230

B. It must not be false, fraudulent, coercive, or misleading, and must generally comply with applicable disclosure requirements

C. Only in-person solicitations are regulated, never mailed advertisements

D. Mailed solicitations must be pre-approved by the IRS before sending

**8.** A taxpayer under IRS examination discovers that an IRS employee has contacted the taxpayer's bank to verify account information without prior notice to the taxpayer. What does Section 7602(c) generally require regarding this type of third-party contact?

A. Reasonable advance notice to the taxpayer that the IRS may contact third parties

B. No notice is ever required for any third-party contact

C. The IRS must obtain the taxpayer's written consent before any contact

D. Notice is required only if the third party is a family member

**9.** A taxpayer never received a Form W-2 from a former employer and the filing deadline is approaching. What form does the taxpayer generally use to substitute for the missing wage statement when filing the return?

A. Form 1040-X, Amended U.S. Individual Income Tax Return

B. Form 8822, Change of Address

C. Form 2848, Power of Attorney

D. Form 4852, Substitute for Form W-2

**10.** A practitioner is deciding whether an IRS audit will proceed as a correspondence examination or an office/field examination. What generally distinguishes a correspondence examination from the other types?

A. It always requires an in-person interview at an IRS office
B. It is generally conducted entirely by mail, typically for simpler issues involving specific line items
C. It is reserved exclusively for large corporate taxpayers
D. It never results in any proposed adjustment to the return

**11.** A taxpayer sells a capital asset and needs to establish their basis to compute gain or loss. Under general recordkeeping guidance, how long should the taxpayer generally retain records substantiating that basis?

A. Only for the single calendar year in which the asset was purchased
B. Basis records are never required to be retained
C. For as long as needed to establish the basis, including the holding period plus time after disposition
D. Only three years from the original purchase date, regardless of when sold

**12.** Under Circular 230, an enrolled agent's authority to practice before the IRS depends on the status of their enrollment remaining active. What is the general effect if the agent fails to renew as required and enrollment becomes inactive?

A. The individual generally may not practice before the IRS, including representing clients, until enrollment is restored
B. The agent may continue full representation as long as they still hold a valid PTIN
C. Inactive status has no effect on the ability to represent clients
D. The agent may represent clients but only in Tax Court proceedings

**13.** A practitioner is preparing a return and identifies that a client's prior-year return, prepared by a different firm, appears to contain a significant unresolved error. What does Circular 230 generally require of the current practitioner in this situation?

A. No obligation exists since the current practitioner did not prepare the original return
B. Advise the client promptly of the error and its consequences, even though a different preparer originally caused it

C. The current practitioner must report the other preparer to the IRS directly
D. The current practitioner must decline to prepare the current-year return entirely

**14.** A representative wants to withdraw from representing a client mid-engagement due to a breakdown in the working relationship. What does Circular 230 generally require regarding this withdrawal?

A. The representative may withdraw at any time with no further obligation to the client
B. Withdrawal is prohibited under Circular 230 once representation has begun
C. The representative must obtain IRS approval before withdrawing from any engagement
D. The withdrawal must generally be handled in a manner that avoids foreseeable prejudice to the client's rights

**15.** A practitioner is subject to a Circular 230 disciplinary proceeding alleging a pattern of willful failure to file the practitioner's own personal tax returns for several years. What type of general conduct category does this allegation generally fall under?

A. Disreputable conduct
B. A purely civil accuracy-related penalty matter with no disciplinary exposure
C. A matter handled exclusively by the state licensing board
D. Conduct that is never subject to any Circular 230 sanction

**16.** A practitioner learns that a former employee retained copies of client files after leaving the firm without authorization. Under the firm's data security obligations, what general type of response does this incident generally require?

A. No response is required since the employee is no longer with the firm
B. The firm must dissolve and cease practicing immediately
C. An assessment of the incident as a potential data breach, with appropriate notification and remediation steps under the firm's security plan
D. Only the affected clients whose files were accessed most recently must be notified

**17.** A taxpayer inherits stock from a parent who died during the year. How is the taxpayer's basis in the inherited stock generally determined?

A. Generally the fair market value of the stock on the date of the decedent's death
B. The decedent's original purchase price, carried over unchanged
C. Always zero, requiring the full sale proceeds to be recognized as gain
D. The average of the decedent's purchase price and the current market value

**18.** A taxpayer receives stock as a gift when its fair market value is lower than the donor's adjusted basis. The taxpayer later sells the stock at a price between the donor's basis and the value at the time of the gift. What is the general result?

A. A loss must always be recognized using the donor's original basis
B. No gain or loss is generally recognized under this dual-basis rule
C. A gain must always be recognized using the fair market value at the gift date
D. The transaction is disregarded entirely for tax purposes

**19.** A taxpayer receives a jury award for emotional distress damages that did not originate from any physical injury or physical sickness. How is this award generally treated for federal income tax purposes?

A. The award is always fully excludable regardless of its origin
B. The award is excludable if the distress caused any physical symptoms at all
C. Only half of the award is includible in gross income
D. The award is generally includible in gross income

**20.** An employer provides employees with occasional small-value items such as holiday gifts or coffee, too minor to reasonably account for individually. How is this general category of benefit generally treated?

A. Always fully includible in the employee's taxable wages
B. Excludable only if the item is worth less than $5

C. Generally excludable from the employee's income as a de minimis fringe benefit
D. Taxable only if provided more than once per year

**21.** An employer provides group-term life insurance coverage to an employee with a face amount exceeding $50,000. How is the cost of coverage above this threshold generally treated for the employee?

A. The cost of coverage above $50,000 is generally includible in the employee's taxable wages
B. The entire policy's cost is always excludable regardless of the face amount
C. Coverage is excludable up to $100,000 rather than $50,000
D. The excess is taxable only if the employee is a majority owner

**22.** An employer provides an employee a cell phone primarily for business use, with the employee also making some personal calls. How is the value of this phone generally treated for the employee?

A. The full value must always be included as taxable wages
B. Generally excludable from income as a working condition fringe benefit when provided primarily for business reasons
C. Only phones provided to executives qualify for this exclusion
D. The exclusion applies only if the employee never uses it personally

**23.** An employer provides retail employees a discount on merchandise the company sells to the public. Within what general limitation is this employee discount generally excludable from the employee's income?

A. Any discount amount is fully excludable with no limitation
B. The discount is excludable only up to a flat $500 annual cap
C. Generally up to the employer's gross profit percentage on the merchandise
D. Discounts are never excludable and must always be included in wages

**24.** A dependent child has both earned income from a part-time job and unearned investment income during the year. How does this combination generally affect whether the dependent must file their own tax return?

A. Only earned income is ever considered for a dependent's filing requirement

B. Only unearned income is ever considered for a dependent's filing requirement

C. A dependent with any income at all must always file a return

D. The filing threshold is generally computed differently, considering both earned and unearned income together under specific dependent filing rules

**25.** A taxpayer holds shares in a mutual fund that passes through a capital gain distribution during the year, even though the taxpayer did not sell any shares. How is this distribution generally treated?

A. Generally includible in the taxpayer's income as a capital gain in the year distributed

B. Not taxable until the taxpayer eventually sells the mutual fund shares

C. Always treated as ordinary dividend income rather than capital gain

D. Excludable entirely if the shares are held in a taxable brokerage account

**26.** A taxpayer sells standing timber grown on land the taxpayer owns and has held for investment for many years. How is the gain on this sale generally treated?

A. Always treated as fully ordinary income regardless of the holding period

B. Generally eligible for capital gain treatment under a specific timber election or disposal provision

C. Excludable entirely from gross income as an agricultural exemption

D. Taxable only if the timber is sold to a related party

**27.** A farmer's income fluctuates significantly from year to year due to weather and commodity price swings. What special computation may generally help reduce the tax impact of an unusually high-income year for this farmer?

A. There is no special averaging provision available to farmers

B. The farmer must amend the prior three years' returns instead

C. Farm income averaging, generally allowing current-year farm income to be spread across the prior three years

D. Averaging is available only if the farmer incorporates the farming business

**28.** A taxpayer owns a vacation home that is rented out for part of the year and also used personally by the taxpayer for a portion of the year. If personal use exceeds the general greater-of-14-days-or-10%-of-rental-days threshold, how is the property generally treated?

A. As a personal residence, generally limiting deductible rental losses regardless of the passive activity rules

B. As a purely rental property with no personal-use limitations at all

C. As a property ineligible for any deduction of rental expenses

D. As inventory property held for sale in the ordinary course of business

**29.** A taxpayer exchanges a rental apartment building for another rental apartment building of like kind, intending to defer recognition of gain under Section 1031. What type of property generally still qualifies for this deferral under current law?

A. Both real and personal business property still qualify equally

B. Only property located outside the United States qualifies

C. Any type of investment property, including securities, still qualifies

D. Generally only real property held for investment or business use, not personal property

**30.** A taxpayer holding cryptocurrency receives new units of a different cryptocurrency as a result of a hard fork followed by an airdrop. How is the fair market value of the newly received units generally treated?

A. Never taxable since the taxpayer did not purchase the new units

B. Taxable only when the new units are eventually sold, and never before

C. Generally includible in the taxpayer's gross income as ordinary income at the time of receipt

D. Treated as a nontaxable stock split under current guidance

**31.** An executive participates in a nonqualified deferred compensation plan governed by Section 409A, electing to defer a portion of current salary to a future year. What is a key general requirement this type of plan must satisfy to avoid immediate taxation?

A. The plan may allow distributions at the participant's discretion at any time

B. The deferral election must generally be made timely and distributions must generally follow specific permissible payment events and timing rules

C. No formal election or distribution timing rules apply to this type of plan

D. The plan must be funded entirely through a qualified trust like a 401(k)

**32.** A taxpayer personally pays the premiums for a private disability insurance policy using after-tax dollars, with no employer involvement. How are benefit payments received under this policy generally treated?

A. Always fully includible in gross income regardless of who paid the premiums

B. Includible only if the disability is permanent rather than temporary

C. Taxable at a reduced rate rather than fully excluded

D. Generally excludable from the taxpayer's gross income

**33.** A taxpayer's employer provides an achievement award consisting of a tangible item, such as a piece of jewelry, in recognition of the employee's 25 years of service. How is this type of length-of-service award generally treated, assuming applicable dollar limits and a written plan are met?

A. Always fully includible in taxable wages regardless of the type of award

B. Excludable only if the award is provided in cash

C. Excludable without any dollar limitation whatsoever

D. Generally excludable from the employee's income up to the applicable dollar limitation

**34.** A taxpayer owns a rental property and also materially participates in a separate, unrelated active trade or business, wanting to know whether rental losses can offset business income. Absent a qualifying real estate professional or active participation exception, how are rental losses generally treated?

A. Generally treated as passive losses, deductible only against passive income from other sources

B. Always fully deductible against any type of income without limitation

C. Never deductible under any circumstance, even against future rental income

D. Deductible only if the material participation threshold is met for the rental itself

**35.** A taxpayer's income includes both wages and self-rental income earned by renting a building the taxpayer owns to their own closely held business at fair rental value. How does the self-rental rule generally affect the classification of this rental income for passive activity purposes?

A. The rental income is always treated as passive income like other rentals
B. The rental income is excluded from gross income entirely
C. The rental income is generally recharacterized as nonpassive income under the self-rental rule
D. The self-rental rule applies only if the tenant business is a corporation

**36.** A taxpayer wins a prize in a local raffle unrelated to any employment or trade or business, receiving a television set rather than cash. How is this prize generally treated for income tax purposes?

A. Excludable entirely since the prize was not received in cash
B. Generally includible in gross income at the fair market value of the prize received
C. Taxable only if the taxpayer later sells the television
D. Includible only if the raffle ticket itself was purchased for a fee

**37.** A taxpayer pays private mortgage insurance premiums in connection with a home acquisition loan. What is the general current-law status of a separate itemized deduction specifically for these mortgage insurance premiums?

A. The premiums are always fully deductible as qualified residence interest
B. The premiums are deductible only for loans exceeding $750,000
C. This separate deduction is generally not available under current law
D. The premiums are deductible at a flat 50% regardless of income

**38.** A taxpayer pays points at closing to obtain a mortgage used to purchase their main home. How are these points generally treated for the year of purchase, assuming the standard requirements for current deduction are met?

A. Never deductible under any circumstance
B. Deductible only over the life of the loan through amortization
C. Deductible only if the taxpayer refinances within the same year
D. Generally deductible in full in the year paid as prepaid interest

**39.** A taxpayer's home is damaged in a storm that the taxpayer's state governor declares a disaster area under current federal law. What is generally required for the taxpayer's casualty loss to be deductible?

A. Any casualty loss is deductible regardless of a formal disaster declaration
B. The loss must generally arise from a federally declared disaster
C. Only losses to business property qualify, never a personal residence
D. The loss is deductible only if insurance proceeds are declined

**40.** A taxpayer with a doctor-documented medical condition installs a home elevator that also somewhat increases the home's resale value. How is the cost of this capital improvement generally treated for the medical expense deduction?

A. Generally deductible only to the extent the cost exceeds the resulting increase in the home's value
B. Fully deductible regardless of any increase in the home's value
C. Never deductible since it is a permanent home improvement
D. Deductible only if the taxpayer sells the home within one year

**41.** A self-employed taxpayer uses a personal vehicle for business purposes and must choose a method for deducting vehicle expenses in the first year the vehicle is placed in service for business use. What is generally true about this initial choice?

A. The taxpayer may switch freely between methods every single year with no restriction
B. Only the actual expense method is ever available to a self-employed taxpayer
C. The taxpayer generally must choose between the standard mileage rate and actual expense method in this first year, affecting future flexibility
D. The choice is irrelevant since both methods always yield an identical deduction

**42.** A taxpayer donates a used vehicle worth more than $500 to a qualified charity, which then sells the vehicle rather than using it directly for charitable purposes. How is the taxpayer's deduction generally determined?

A. Generally limited to the gross proceeds the charity actually receives from selling the vehicle
B. Always equal to the vehicle's full fair market value regardless of the sale price
C. Limited to the vehicle's original purchase price
D. Available only if the charity retains and uses the vehicle itself

**43.** A taxpayer who is age 71 wants to make a qualified charitable distribution directly from a traditional IRA to a qualified charity. What is the general minimum age requirement to make this type of distribution?

A. Generally age 59½
B. Generally age 73
C. There is no minimum age requirement
D. Generally age 70½

**44.** A working spouse wants to contribute to a traditional IRA on behalf of a nonworking spouse who has no compensation of their own for the year. Under what provision does this general contribution arrangement remain permissible?

A. This type of contribution is never permitted under any circumstance
B. The spousal IRA rules, which generally allow a contribution based on the couple's combined compensation
C. Only the working spouse's own IRA may ever receive a contribution
D. The nonworking spouse must first earn at least $1,000 for the year

**45.** A taxpayer who is age 57 wants to make an additional catch-up contribution to a Health Savings Account beyond the standard annual limit. At what general minimum age does this HSA catch-up contribution become available?

A. Generally age 50
B. Generally age 59½
C. Generally age 65
D. Generally age 55

**46.** A married couple's adjusted gross income determines the applicable percentage used to compute their Child and Dependent Care Credit for qualifying expenses. What is generally true about this percentage as AGI increases?

A. The percentage generally increases as AGI rises
B. The applicable percentage generally decreases as AGI rises, down to a set minimum percentage
C. The percentage remains fixed regardless of AGI
D. The credit becomes fully refundable once AGI exceeds a set threshold

**47.** A taxpayer's qualifying child for purposes of the Earned Income Tax Credit must generally satisfy a residency test. What does this residency test generally require?

A. The child must generally have lived with the taxpayer for the entire year with no exception
B. Residency outside the United States for the full year still qualifies
C. The child must generally have lived with the taxpayer in the United States for more than half of the year
D. There is no residency requirement for the EITC's qualifying child test

**48.** A taxpayer who is age 66 and not blind is preparing to compute their standard deduction. What general additional benefit applies to the standard deduction due to reaching this age?

A. An additional standard deduction amount generally applies for a taxpayer who is age 65 or older
B. No additional standard deduction amount is available based on age alone
C. The additional amount applies only if the taxpayer is also legally blind
D. Reaching age 65 eliminates the standard deduction option entirely

**49.** A taxpayer operates a business that provides services in a field such as law, accounting, or consulting, and asks whether QBI deduction limitations apply differently to this type of business at higher income levels. What general category does this type of business generally fall under?

A. A qualified trade or business with no special limitation category
B. An excepted trade or business under Section 1231
C. A specified service trade or business
D. A publicly traded partnership exempt from QBI limitations

**50.** A self-employed taxpayer with modest net earnings wants a retirement plan option requiring both employer and employee-type contributions with relatively simple administration compared to a full 401(k). Which plan generally fits this general description?

A. A defined benefit pension plan
B. A SIMPLE IRA
C. A nonqualified deferred compensation plan
D. A Coverdell Education Savings Account

**51.** A taxpayer purchases a new qualifying electric vehicle for personal use and wants to claim a federal tax credit for the purchase. What general type of credit applies to this type of purchase under current law?

A. The Residential Clean Energy Credit
B. The Energy Efficient Home Improvement Credit
C. The Foreign Tax Credit
D. The Clean Vehicle Credit

**52.** A taxpayer's property is stolen during the year, and the taxpayer discovers the theft in a later tax year after searching for the missing items. In which year is this theft loss generally deductible?

A. Generally in the year the taxpayer discovers the theft, rather than the year it actually occurred
B. Always in the year the theft actually occurred, regardless of discovery

C. In whichever year produces the larger overall tax benefit for the taxpayer
D. Theft losses are never deductible under current law

**53.** A taxpayer pays foreign income tax in one year but cannot use the full foreign tax credit due to the applicable limitation for that year. What generally happens to the unused portion of the credit?

A. It may generally be carried back one year and carried forward up to ten years
B. The unused credit is permanently lost with no carryback or carryforward
C. It may only be carried forward, never carried back
D. The unused credit converts automatically into a deduction instead

**54.** A taxpayer who is a W-2 employee incurs unreimbursed job-related expenses, such as union dues and required uniforms, but is not an eligible educator, performing artist, or another specifically excepted category. What is the general current-law treatment of this type of miscellaneous unreimbursed employee expense?

A. Fully deductible as an itemized deduction with no limitation
B. Deductible above the line regardless of employment status
C. Deductible only if the employer specifically declines to reimburse the expense in writing
D. Generally not deductible under current law for most employees

**55.** A taxpayer deducted a state income tax overpayment refund's related expense in a prior year and later receives a state tax refund attributable to that same deduction. How is the refund generally treated in the year received?

A. Always fully excludable from income regardless of any prior tax benefit received
B. Always fully includible in income regardless of any prior tax benefit
C. Generally includible in income to the extent the prior deduction produced a tax benefit
D. Includible only if the taxpayer used the standard deduction in the prior year

**56.** An eligible K-12 educator personally purchases classroom supplies during the year without reimbursement from the school. Up to what general dollar amount may this educator deduct above the line for these qualifying expenses?

A. Generally up to $3,000
B. Generally up to $300
C. Generally up to $50
D. There is no dollar limit on this above-the-line deduction

**57.** A taxpayer's capital losses for the year exceed capital gains by a substantial amount. Up to what general annual amount may the excess capital loss offset ordinary income, with any remainder generally carried forward?

A. The full excess amount, with no annual limitation
B. Generally $10,000 regardless of filing status
C. Generally $3,000 ($1,500 if married filing separately)
D. Capital losses can never offset ordinary income under any circumstance

**58.** A taxpayer sells stock in a qualifying small business that meets the requirements of Section 1244 and recognizes a loss on the sale. What is the general tax advantage of Section 1244 stock treatment compared to an ordinary capital loss?

A. A portion of the loss, up to an annual limit, may be treated as an ordinary rather than capital loss
B. The entire loss is always fully excluded from income regardless of amount
C. Section 1244 converts the loss into a nonrefundable tax credit instead
D. Section 1244 applies only to gains, never to losses on the stock

**59.** A member of a recognized religious sect with established tenets opposing participation in public or private insurance applies for an exemption from self-employment tax. Which form is generally used to apply for this exemption?

A. Form 8919

B. Form 2210

C. Form 8867

D. Form 4029

**60.** A taxpayer engaged in farming has income that varies significantly by season, with most income received in the latter part of the year. What general exception to the standard estimated tax deadlines may apply to this taxpayer as a qualifying farmer or fisherman?

A. No exception applies, and farmers must follow the identical general quarterly schedule

B. A generally later single required payment date, along with a reduced required annual payment percentage

C. Farmers and fishermen are entirely exempt from estimated tax under all circumstances

D. The exception applies only if the farmer also owns rental real estate

**61.** A spouse did not know, and had no reason to know, about an understatement of tax caused by the other spouse's omitted income on a jointly filed return. What relief provision might generally allow this spouse to avoid liability for the resulting tax?

A. Injured spouse allocation

B. Married filing separately relief

C. The qualifying surviving spouse election

D. Innocent spouse relief

**62.** A spouse seeking relief from a joint tax liability does not qualify for traditional innocent spouse relief but argues it would be unfair, given all the facts and circumstances, to hold them liable. What broader relief category might generally still apply?

A. Injured spouse allocation

B. Equitable relief

C. The multiple support agreement

D. Form 2848 representation authority

**63.** A married couple files a joint return, but one spouse's portion of the joint refund is intercepted to satisfy the other spouse's separately owed past-due child support obligation. What relief might the non-obligated spouse generally seek to recover their share of the refund?

A. Injured spouse allocation, generally filed using Form 8379

B. Innocent spouse relief, generally filed using Form 8857

C. Equitable relief under general facts-and-circumstances review

D. There is no available relief once a joint refund has been offset

**64.** Two single taxpayers with identical individual incomes marry and begin filing jointly, and their combined tax liability turns out to be higher than the sum of what each would have owed filing individually as single taxpayers. What is this general phenomenon commonly called?

A. The marriage bonus

B. Bracket compression

C. The marriage penalty

D. The kiddie tax effect

**65.** A taxpayer takes a nonqualified distribution from a Roth IRA before meeting both the five-year holding period and a qualifying distribution event. In what general order are amounts generally deemed withdrawn from the account for tax purposes?

A. Generally contributions first, then conversion amounts, and finally earnings, under Roth IRA ordering rules

B. Earnings are always deemed withdrawn first, before any contributions

C. All amounts are deemed withdrawn proportionally regardless of source

D. Conversion amounts are always deemed withdrawn last, after earnings

**66.** A taxpayer contributes more than the annual limit to a traditional IRA and does not withdraw the excess by the applicable deadline. What penalty generally applies to this excess contribution for each year it remains in the account?

A. A flat $1,000 penalty regardless of the excess amount
B. A 50% excise tax identical to the missed RMD penalty
C. A 6% excise tax on the excess contribution amount
D. No penalty applies as long as the taxpayer eventually withdraws it

**67.** A taxpayer wants to know the general age by which required minimum distributions must begin from a traditional IRA under current law. What is this general required beginning age?

A. Generally age 65
B. Generally age 70½
C. Generally age 59½
D. Generally age 73

**68.** A taxpayer's alternative minimum taxable income exceeds the applicable AMT exemption amount for their filing status by a substantial margin. What generally happens to the AMT exemption as alternative minimum taxable income continues to rise above this level?

A. The exemption remains completely fixed regardless of how high income rises
B. The exemption generally phases out gradually as alternative minimum taxable income exceeds a separate, higher threshold
C. The exemption generally increases as income rises above the threshold
D. The exemption is eliminated entirely the moment any AMT liability arises

**69.** A dependent child has unearned income exceeding the applicable kiddie tax threshold for the year. On what general IRS form is the kiddie tax computation generally reported for the child?

A. Form 8814
B. Form 2210
C. Form 8615
D. Form 8582

**70.** A single taxpayer's net capital gain and qualified dividend income fall within the taxpayer's overall lower ordinary income tax brackets for the year. What is the general lowest applicable rate that may apply to this portion of income under the long-term capital gains rate structure?

A. 10%
B. 0%
C. 15%
D. 20%

**71.** A small business places qualifying equipment in service during the year and wants to expense the full cost immediately rather than depreciating it over several years. Under what general election, subject to an annual dollar cap and phase-out, may this generally be accomplished?

A. Straight-line depreciation only, with no immediate expensing available
B. The Section 121 home sale exclusion
C. The alternative minimum tax exemption
D. A Section 179 election

**72.** A business places qualifying new or used property in service and wants to claim an immediate first-year depreciation deduction beyond what Section 179 alone would allow. What general provision, subject to a declining applicable percentage under current law, may generally apply?

A. Bonus depreciation
B. The alternative depreciation system exclusively
C. The mid-quarter convention exclusively
D. The home office simplified method

**73.** A taxpayer receives an early distribution from a qualified retirement plan and does not qualify for any statutory exception to the additional tax on early distributions. What is the general rate of this additional tax imposed on top of regular income tax?

A. Generally 25% of the taxable portion of the distribution

B. Generally 6% of the taxable portion of the distribution
C. Generally 10% of the taxable portion of the distribution
D. Generally 50% of the taxable portion of the distribution

**74.** An employer pays a single employee wages exceeding $200,000 during the year. What is the employer generally required to do regarding Additional Medicare Tax withholding once wages cross this threshold, regardless of the employee's actual filing status or spouse's income?

A. Withhold nothing extra, since Additional Medicare Tax is never withheld by an employer
B. Withhold an additional 3.8% once wages exceed the threshold
C. Withhold the additional amount only if the employee submits a special request
D. Generally begin withholding an additional 0.9% on wages above $200,000, regardless of the employee's filing status

**75.** A high-income client has maxed out regular 401(k) contributions but wants additional tax-advantaged retirement savings through the plan. What advanced strategy might an advisor generally raise if the plan permits after-tax contributions and in-plan conversions?

A. A mega backdoor Roth strategy, converting after-tax 401(k) contributions to Roth status
B. Simply increasing the regular pre-tax deferral above the statutory limit
C. Opening a second employer-sponsored 401(k) with a different employer
D. Requesting the employer suspend all matching contributions for the year

**76.** A client expects a large year-end bonus that would push a meaningful portion of income into a higher tax bracket. What general timing strategy might an advisor raise if the employer is willing to cooperate?

A. Immediately spending the bonus to avoid any tax consequence
B. Deferring receipt of the bonus into the following tax year, if structured properly in advance
C. Asking the employer to reclassify the bonus as a nontaxable gift
D. Filing the current year's return early to lock in the current bracket

**77.** A client is granted incentive stock options and is considering exercising and holding the shares to eventually qualify for favorable long-term capital gain treatment on sale. What general tax consideration should the advisor raise regarding the exercise itself?

A. Exercising ISOs never has any tax consequence under any tax system

B. Regular income tax is always immediately due on the full spread at exercise

C. The exercise may create an AMT adjustment on the bargain element, though no regular tax is due yet

D. AMT never applies to any transaction involving incentive stock options

**78.** A client plans to sell investment real estate and reinvest the proceeds into a similar property, wanting to defer gain recognition through a like-kind exchange. What two general deadlines should the advisor emphasize as critical to this strategy?

A. Identifying replacement property within 45 days and closing on it within 180 days of the original sale

B. A single combined 90-day deadline covering both identification and closing

C. There are no deadlines as long as the exchange eventually closes

D. A one-year deadline applies uniformly to both identification and closing

**79.** A client is beginning a new business and asks an advisor for guidance on selecting a vehicle expense method before the vehicle is first used for business. What general advice should the advisor give regarding this initial decision?

A. Advise that the choice made in the first year has no bearing on later years

B. Advise carefully choosing between the standard mileage rate and actual expense method in the first year, since the choice can limit future flexibility

C. Advise using only the actual expense method, since mileage tracking is never required

D. Advise that switching methods is prohibited entirely once any method is chosen

**80.** A retired client in a temporarily low-income year is considering realizing a substantial long-term capital gain. What general planning opportunity might an advisor raise regarding the applicable capital gains rate this year?

A. Capital gains are always taxed at the same flat rate regardless of income
B. The client should always wait until a higher-income year to realize any gain
C. The 0% rate is available only to taxpayers under age 30
D. The possibility that some or all of the gain could be taxed at the 0% long-term capital gains rate given the low-income year

**81.** A client owns several rental properties, some profitable and some generating losses, and wants to know whether grouping them together could improve the tax treatment of participation-related tests. What general election might an advisor raise for this purpose?

A. A grouping election to treat multiple rental activities as a single activity for material participation purposes
B. An election to convert all rental activities into a single corporation automatically
C. There is no election available to group separate rental activities together
D. A request that the IRS audit the properties individually to clarify status

**82.** A client wants to gift appreciated stock to a lower-bracket adult family member who will then sell the shares. What general caution should an advisor raise if the recipient is instead a minor child subject to the kiddie tax?

A. The kiddie tax never applies to gains from gifted stock
B. Gifting to a minor always eliminates any tax on the eventual sale
C. A minor's unearned income, including gain on the gifted stock, may still be taxed at the parent's rate
D. The kiddie tax applies only to earned income, never to capital gains

**83.** A client is engaging in a series of closely timed, prearranged transactions specifically designed to achieve a particular tax result that would not be respected if viewed as a single overall transaction. What general judicial doctrine should an advisor flag as a risk?

A. The innocent spouse doctrine
B. The step transaction doctrine
C. The claim of right doctrine
D. The constructive receipt doctrine

**84.** A client plans to retire at age 60, well before Medicare eligibility, and asks an advisor about maintaining Marketplace health coverage. What general subsidy consideration should the advisor raise regarding managing taxable income during this gap period?

A. Premium Tax Credit eligibility is unaffected by the client's reported income
B. The client should maximize taxable income during this period to qualify for subsidies
C. Marketplace coverage is unavailable to any taxpayer who has retired early
D. Managing modified AGI carefully to maximize the Premium Tax Credit and avoid an unexpected subsidy cliff

**85.** A client with limited funds available for savings asks an advisor whether to prioritize maximizing HSA contributions or 401(k) contributions first, assuming the employer offers a 401(k) match. What general prioritization should the advisor generally raise?

A. Generally contribute enough to the 401(k) to capture the full employer match before prioritizing additional HSA contributions
B. Always fully fund the HSA first before contributing anything to the 401(k)
C. The order of contributions never has any effect on total tax savings
D. Employer matching contributions are irrelevant to this general prioritization decision

**86.** A client anticipates a large one-time liquidity event, such as a business sale, and is considering relocating to a state with no income tax before the transaction closes. What general timing caution should an advisor raise about this residency change?

A. Any move made even after the transaction closes will still avoid the prior state's tax
B. The change in residency must generally be genuine and well-documented before the transaction, since a late or superficial move risks challenge by the original state
C. State residency rules are identical everywhere and cannot be challenged
D. Simply renting a mailbox in the new state is generally sufficient to establish residency

**87.** A client holds multiple traditional IRAs at different custodians and must take required minimum distributions from each. What general flexibility does the client generally have in satisfying these combined RMD obligations?

A. Each individual IRA account must have its own RMD withdrawn from that same account only

B. RMDs from multiple IRAs cannot be aggregated under any circumstance

C. The total RMD amount may generally be calculated across all IRAs combined and withdrawn from any one or a combination of those IRA accounts

D. Only the largest IRA account may be used to satisfy the combined RMD

**88.** A U.S. taxpayer holds specified foreign financial assets exceeding the applicable reporting threshold for their filing status. On what form is this FATCA-related reporting generally required, separate from any FBAR filing?

A. FinCEN Form 114 only

B. Form 706-NA, U.S. Estate Tax Return

C. Form 3520-A, Foreign Trust Return

D. Form 8938, Foreign Asset Statement

**89.** A U.S. person holds foreign bank accounts with an aggregate value exceeding $10,000 at any point during the year. What is this general threshold used for under the FBAR filing requirement?

A. It generally triggers a requirement to close the foreign accounts

B. It generally triggers the requirement to file FinCEN Form 114 (FBAR) reporting the foreign accounts

C. It generally exempts the accounts from any further reporting

D. It applies only to accounts located in specific named countries

**90.** An executor is administering an estate in which asset values have declined significantly in the months following the decedent's death. What election might the executor generally consider to value the estate's assets as of a later date instead of the date of death?

A. The alternate valuation date election under Section 2032

B. The portability election
C. A qualified disclaimer election
D. The installment payment election under Section 6166

**91.** A beneficiary wants to refuse an inheritance so that it passes to the next beneficiary in line, without the refusal itself being treated as a taxable gift from the original beneficiary. What must the beneficiary generally do to achieve this?

A. Simply tell the executor verbally that they do not want the inheritance
B. Sell the inherited property immediately and donate the proceeds to charity
C. Execute a qualified disclaimer meeting requirements, including a writing within nine months and no benefit accepted
D. Wait until the following tax year to formally decline the property

**92.** A client wants to transfer future appreciation of an asset out of their estate while retaining an annuity payment stream from the trust for a set term of years. What type of estate planning trust generally accomplishes this general structure?

A. A Qualified Personal Residence Trust (QPRT)
B. A Totten trust
C. A Qualified Funeral Trust
D. A Grantor Retained Annuity Trust (GRAT)

**93.** A charitably inclined client wants to receive an income stream from an asset during their lifetime, defer capital gains recognition on its sale, and ultimately benefit a charity with what remains. What type of trust generally accomplishes this combination of goals?

A. A Grantor Retained Annuity Trust (GRAT)
B. A Qualified Personal Residence Trust (QPRT)
C. A Charitable Remainder Trust (CRT)
D. A first-party special needs trust

**94.** A client wants to transfer their personal residence out of their taxable estate at a discounted gift tax value while continuing to live in the home for a set number of years. What type of trust generally accomplishes this specific goal?

A. A Charitable Remainder Trust (CRT)
B. A Qualified Personal Residence Trust (QPRT)
C. A Grantor Retained Annuity Trust (GRAT)
D. An Electing Small Business Trust (ESBT)

**95.** A decedent leaves their entire estate outright to their surviving U.S. citizen spouse. What is the general estate tax effect of this type of bequest, regardless of the estate's total value?

A. Estate tax is always fully due despite the spousal bequest
B. Only the first $1 million of the bequest is generally exempt
C. The marital deduction applies only if the spouse is also a U.S. citizen at birth
D. The bequest generally qualifies for the unlimited marital deduction, generally eliminating estate tax on that transferred amount

**96.** A complex trust generates income during the year, some of which is distributed to beneficiaries and some of which is retained by the trust. What general concept determines the maximum amount the trust may deduct for its distributions, and correspondingly what is taxable to the beneficiaries?

A. Distributable Net Income (DNI)
B. Unadjusted Basis Immediately After Acquisition (UBIA)
C. Net Investment Income (NII)
D. Adjusted Gross Estate (AGE)

**97.** A decedent held an outstanding installment sale obligation, with remaining payments still due, at the time of death. How is this remaining obligation generally treated for the decedent's estate and the recipient of the payments?

A. The remaining gain is fully forgiven and never taxed to anyone

B. It is treated as income in respect of a decedent, taxed to the recipient using the installment method
C. The full remaining gain must be recognized entirely on the decedent's final return
D. The obligation converts automatically into a tax-exempt annuity

**98.** A long-term U.S. citizen relinquishes citizenship and meets the definition of a covered expatriate under the applicable net worth and tax liability tests. On what general form is the expatriation generally reported to the IRS?

A. Form 706-NA
B. Form 1040-NR
C. Form 8854, Initial and Annual Expatriation Statement
D. Form 8938

**99.** A taxpayer is considered a tax resident of two different countries under each country's own domestic law, creating a potential dual-residency conflict. What general mechanism, often found in an applicable bilateral agreement, may resolve which country is treated as the taxpayer's residence for treaty purposes?

A. The alternate valuation date election
B. The qualified disclaimer rule
C. The multiple support agreement
D. A tax treaty tie-breaker rule

**100.** A foreign individual becomes a U.S. resident partway through the year and did not meet the substantial presence test in the immediately preceding year. What general election might allow this individual to be treated as a U.S. resident for part of that first year rather than filing as a nonresident for the entire year?

A. The first-year choice election
B. The portability election
C. A qualified disclaimer election
D. The alternate valuation date election

## Answer Key and Explanations — Practice Exam 30

**1. B —** An applicant without an SSN, such as certain foreign preparers, may generally apply for a PTIN using an ITIN instead, along with additional supporting documentation the IRS requires to verify identity for this alternative application pathway. This alternative pathway generally still requires passing the standard suitability check applicable to all PTIN applicants.

**2. C —** Beyond obtaining informed written consent from each affected client, Circular 230 generally requires the practitioner to reasonably believe competent and diligent representation remains possible for both clients before proceeding, since consent alone does not cure an otherwise unmanageable conflict. Written consent must generally be retained by the practitioner for a specified period after the representation ends.

**3. A —** Circular 230 generally requires a practitioner to provide services with the competence reasonably necessary for the specific matter, which may require the practitioner to research unfamiliar areas, consult with another qualified practitioner, or decline the engagement if adequate competence cannot be attained. A practitioner who cannot reasonably attain the needed competence should generally decline or refer the engagement elsewhere.

**4. D —** Enrolled agents, CPAs, and attorneys are generally the three categories of practitioners with unlimited representation rights before the IRS, meaning each may represent any taxpayer on any tax matter, unlike a non-credentialed preparer whose representation rights are generally limited. This scope generally covers examinations, appeals, and collection matters alike, regardless of who originally prepared the return.

**5. D —** A preparer who completes the Annual Filing Season Program record of completion generally receives limited representation rights, allowing them to represent clients only regarding returns they personally prepared and signed, unlike the unlimited rights held by enrolled agents, CPAs, and attorneys. This annual program generally requires completing continuing education and a filing season refresher course each year.

**6. C —** A candidate must generally apply for enrollment within one year of passing all three parts of the exam, and each part's passing score is generally valid for carryover purposes for up to two years from the date that specific part was passed. Reapplying after this window generally requires retaking the applicable expired parts of the examination again.

**7. B —** Circular 230 generally requires that a practitioner's advertisements and solicitations, including mass mailings, not be false, fraudulent, coercive, or misleading, and generally requires retention of a copy along with information about the intended recipients for a set period. Failing to meet these requirements can generally expose the practitioner to separate Circular 230 discipline.

**8. A —** Section 7602(c) generally requires the IRS to provide the taxpayer reasonable advance notice that third parties may be contacted regarding the determination or collection of tax liability, along with a later record of contacts made, subject to certain limited exceptions. This notice requirement generally helps the taxpayer understand and potentially participate in the examination process.

**9. D** — A taxpayer who cannot obtain a Form W-2 by the filing deadline, after attempting to secure it from the employer and the IRS, generally may file Form 4852 as a substitute, estimating wages and withholding based on available records such as pay stubs. The substitute filing generally should be based on the most accurate estimate the taxpayer can reasonably determine.

**10. B** — A correspondence examination is generally conducted by mail and typically addresses narrower, more easily documented issues, such as a specific deduction or credit, while office and field examinations generally involve in-person meetings and address broader or more complex issues. A taxpayer who disagrees with proposed changes in a correspondence exam generally may still request an appeal.

**11. C** — Because basis records are needed to compute gain or loss whenever the asset is eventually sold, a taxpayer should retain them for as long as they are relevant to establishing basis, which can span many years beyond the standard three-year return retention period. This is especially important for assets like real estate or securities held for many years before sale.

**12. A** — An enrolled agent whose enrollment lapses into inactive status generally loses the ability to practice before the IRS, including representing clients in examinations or collection matters, until the enrollment is restored, generally requiring a renewal application and any applicable continuing education makeup. Reinstatement generally also requires the individual to demonstrate they meet the general standards for enrollment again.

**13. B** — Circular 230's duty to advise a client of an error or omission generally applies regardless of who originally prepared the return containing the error, meaning the current practitioner must generally advise the client promptly of the issue and its consequences upon discovering it. Failing to do so can generally itself expose the current practitioner to separate Circular 230 discipline.

**14. D** — Circular 230 generally requires that when a practitioner withdraws from representation, they take reasonable steps to avoid foreseeable prejudice to the client's rights, such as providing adequate notice, returning client records, and cooperating with any successor representative to the extent appropriate. Failing to take these reasonable steps can generally itself expose the withdrawing practitioner to discipline.

**15. A** — A practitioner's own willful failure to file required tax returns is generally treated as disreputable conduct under Circular 230, which can subject the practitioner to censure, suspension, or disbarment from practice before the IRS, separate from any personal civil or criminal tax exposure. This distinguishes personal noncompliance from more technical errors in judgment made while serving clients.

**16. C** — An unauthorized retention or disclosure of client files by a former employee generally should be evaluated as a potential data security incident under the firm's written information security plan, generally triggering an assessment of the scope, applicable notification obligations, and remediation steps needed. Delayed or inadequate response to such an incident can itself create additional regulatory exposure for the firm.

**17. A —** Inherited property generally receives a stepped-up (or stepped-down) basis equal to its fair market value on the decedent's date of death, or the alternate valuation date if elected, rather than carrying over the decedent's original cost basis as with a lifetime gift. This adjustment generally can significantly reduce the built-in gain the heir would otherwise recognize on a later sale.

**18. B —** Under the dual-basis rule for gifted property that has declined in value, using the donor's basis for gain and the lower fair market value for loss, a sale price falling between those two figures generally results in neither gain nor loss being recognized. This is often referred to as the no-gain, no-loss zone created by the dual-basis approach.

**19. D —** Damages for emotional distress not attributable to an underlying physical injury or physical sickness are generally includible in gross income, in contrast to damages received on account of a physical injury or physical sickness, which are generally excludable from income. This distinction reflects the narrower scope of the physical injury and sickness exclusion under current law.

**20. C —** Property or services of small value provided so infrequently that accounting for them would be administratively impractical are generally excludable from an employee's income as a de minimis fringe benefit, distinguishing them from more substantial or regularly provided employer benefits. Examples generally include occasional snacks, coffee, or small holiday items provided to the workforce generally.

**21. A —** The cost of employer-provided group-term life insurance coverage exceeding $50,000 of face amount is generally includible in the employee's income, computed under IRS uniform premium tables, while coverage up to that threshold is generally excludable as a fringe benefit. The taxable amount generally increases with the employee's age under the applicable IRS premium tables.

**22. B —** An employer-provided cell phone furnished primarily for noncompensatory business reasons is generally excludable from the employee's income as a working condition fringe benefit, even though the employee may also use the phone for some incidental personal calls. Employers should generally document the primary business purpose to support this exclusion if questioned.

**23. C —** A qualified employee discount on merchandise is generally excludable from income up to the employer's average gross profit percentage on that property, meaning a discount exceeding that percentage generally results in the excess being includible in the employee's taxable wages. This limitation generally prevents an employer from effectively providing tax-free compensation disguised as a discount.

**24. D —** A dependent's filing requirement generally depends on a combination of earned and unearned income thresholds specific to dependents, which differ from the filing thresholds that apply to a taxpayer who cannot be claimed as another person's dependent. A dependent with only earned income generally faces a different, often higher, threshold than one with only unearned income.

**25. A —** A capital gain distribution from a mutual fund is generally includible in the shareholder's income in the year received, regardless of whether the shareholder actually sold any shares, and is generally taxed at the applicable long-term capital gains rate. This treatment applies even if the shareholder chose to automatically reinvest the distribution in additional shares.

**26. B** — Gain from the sale of standing timber held for the required period may generally qualify for capital gain treatment under specific Code provisions governing timber, rather than being automatically treated as ordinary income, provided applicable election and holding period requirements are met. Ordinary cut-timber elections and outright sale contracts are generally each treated somewhat differently under these provisions.

**27. C** — Farm income averaging allows an individual engaged in a farming business to elect to treat a portion of the current year's farm income as if it had been earned evenly over the prior three years, potentially reducing the current year's marginal tax rate impact. This election can be particularly valuable for a farmer who had one unusually profitable year.

**28. A** — When personal use of a vacation home exceeds the greater of 14 days or 10% of the days it is rented at fair value, the property is generally treated as a personal residence, which generally limits deductible rental expenses to the amount of rental income. Expenses beyond that limited amount generally may be carried forward rather than deducted currently.

**29. D** — Following current-law changes, the like-kind exchange deferral under Section 1031 applies only to real property held for investment or use in a trade or business, while personal property, such as equipment or vehicles, no longer qualifies for this type of deferred exchange treatment. Prior law had allowed both types of property to qualify for deferral.

**30. C** — Under current IRS guidance, a taxpayer who receives new cryptocurrency units through a hard fork followed by an airdrop has ordinary income equal to the fair market value of the new units at the time they are received and the taxpayer gains control over them. This income establishes the taxpayer's basis in the new units for any later disposition.

**31. B** — Section 409A generally imposes strict requirements on the timing of deferral elections and the permissible events and schedule for distributions from a nonqualified deferred compensation plan; failure to comply can generally result in immediate taxation of the deferred amount plus additional penalty taxes. Certain short-term deferral and other narrow exceptions can generally allow limited flexibility outside these strict rules.

**32. D** — Disability insurance benefits received under a policy for which the taxpayer personally paid the premiums with after-tax dollars are generally excludable from gross income, in contrast to benefits received under an employer-paid policy where premiums were not included in the employee's taxable wages. This distinction generally makes personally funded disability coverage attractive despite receiving no deduction for the premiums paid.

**33. D** — A qualified length-of-service or safety achievement award consisting of tangible personal property, rather than cash or a cash equivalent, is generally excludable from an employee's income up to specified dollar limits, provided the award is given under a written, nondiscriminatory plan. Cash, gift cards, and other cash-equivalent awards generally never qualify for this limited exclusion.

**34. A —** Rental real estate activity is treated as a passive activity regardless of the taxpayer's participation level, meaning resulting losses are deductible only against passive income from other sources, unless the taxpayer separately qualifies for the active participation or real estate professional exceptions. This blanket passive characterization applies even to a taxpayer who spends substantial time managing the property.

**35. C —** Under the self-rental rule, rental income from property leased to a business in which the taxpayer materially participates is generally recharacterized as nonpassive income, even though rental activities are otherwise generally treated as passive, preventing the income from offsetting unrelated passive losses. This rule generally prevents converting otherwise passive losses into usable offsets through a self-rental arrangement.

**36. B —** A prize won in a raffle or similar drawing is includible in the winner's gross income at its fair market value at the time received, regardless of whether the prize is cash or property, and regardless of whether the winner purchased an entry ticket. This rule applies broadly to nearly all prizes and contest winnings a taxpayer receives.

**37. C —** A separate itemized deduction specifically for private mortgage insurance premiums has generally expired and is not available under current law, distinguishing it from the mortgage interest deduction itself, which remains available subject to the applicable acquisition debt limitations. Taxpayers should generally verify current-year rules before assuming any deduction for these premiums is unavailable.

**38. D —** Points paid to obtain a mortgage to purchase or improve a main home are generally deductible in full in the year paid, provided they meet specific requirements such as being a customary charge and computed as a percentage of the loan amount. Points paid on a refinance, by contrast, generally must be amortized over the life of the loan instead.

**39. B —** Under current law, a personal casualty loss is generally deductible only if it arises from a federally declared disaster, a significant limitation compared to the broader casualty loss deduction that was available for personal losses generally under prior law. A casualty not arising from such a declared disaster generally produces no personal casualty loss deduction currently.

**40. A —** A capital improvement made for medical reasons is deductible as a medical expense only to the extent its cost exceeds the resulting increase in the value of the home, since the portion adding real property value is not treated as a medical cost. An independent appraisal is often advisable to substantiate the increase in home value for this computation.

**41. C —** The method selected in the first year a vehicle is used for business affects the taxpayer's ability to switch methods in later years, since using the standard mileage rate in that first year preserves the option to switch, while the actual expense method may not. Taxpayers should consult current guidance before assuming full flexibility exists to switch methods freely.

**42. A —** When a donated vehicle is sold by the charity rather than used or materially improved by it, the taxpayer's deduction is limited to the gross proceeds from that sale, rather than the vehicle's fair market value, with the charity required to provide written acknowledgment. An exception applies if the charity uses or significantly improves the vehicle itself.

**43. D** — A qualified charitable distribution generally must be made by an IRA owner who has reached age 70½, a threshold distinct from the separate, generally later age at which required minimum distributions must begin under current law. IRA owners approaching this age should generally plan qualified charitable distributions carefully around both thresholds.

**44. B —** Under the spousal IRA rules, a contribution may generally be made to the IRA of a spouse with little or no compensation, based on the couple's combined compensation for the year, as long as they file a joint return and other general limits are met. This spousal contribution generally still counts against each spouse's own separate individual contribution limit.

**45. D** — An HSA account holder who has reached age 55 by year-end generally becomes eligible to make an additional catch-up contribution beyond the standard annual HSA contribution limit, a lower threshold than the age generally applicable to retirement plan catch-up contributions. This additional amount generally must be contributed to an account in the older spouse's own name.

**46. B —** The percentage used to compute the Child and Dependent Care Credit generally decreases on a sliding scale as the taxpayer's adjusted gross income increases, eventually leveling off at a set minimum percentage for higher-income taxpayers, rather than remaining constant across all income levels. Higher-income taxpayers should generally still compute the credit, since even the minimum percentage still provides some benefit.

**47. C** — The EITC qualifying child residency test generally requires the child to have lived with the taxpayer in the United States for more than half of the tax year, subject to certain exceptions such as temporary absences for school, illness, or military service. A qualifying child born or who died during the year is generally treated as meeting this requirement automatically.

**48. A** — A taxpayer who is age 65 or older by the end of the tax year generally qualifies for an additional standard deduction amount on top of the regular standard deduction, with a further additional amount available if the taxpayer is also legally blind. This additional amount generally applies per qualifying condition, so a taxpayer meeting both criteria receives two additions.

**49. C —** A business in a field such as law, accounting, consulting, health, or similar personal-service fields is generally classified as a specified service trade or business, which generally loses eligibility for the QBI deduction entirely once the owner's taxable income exceeds the applicable upper threshold. Certain narrow exceptions and phase-in ranges generally apply as the owner's taxable income approaches the threshold.

**50. B** — A SIMPLE IRA generally allows a small self-employed business to make relatively straightforward salary-reduction and matching or nonelective contributions, offering simpler administration than a traditional 401(k) plan while still providing meaningful retirement savings for a self-employed owner. Employers must generally either match employee contributions or make a smaller fixed nonelective contribution each year.

**51. D** — A taxpayer purchasing a new qualifying electric or plug-in hybrid vehicle may generally claim the Clean Vehicle Credit, subject to requirements regarding the vehicle's assembly location, battery components, and the purchaser's modified AGI, distinct from the home-energy-focused residential credits. Used qualifying vehicles may generally also be eligible for a separate, smaller version of this credit.

**52. A** — A theft loss is deductible in the year the taxpayer discovers the property is missing due to theft, which may be a later year than when the theft actually took place, since a taxpayer cannot know a theft occurred until it is noticed. This discovery-year rule differs from most other casualty losses, deductible in the event's own year.

**53. A** — An unused foreign tax credit that exceeds the applicable limitation for the current year may be carried back one year and, to the extent still unused, carried forward for up to ten years, helping the taxpayer eventually use the full credit against U.S. tax. Careful planning of the election to credit versus deduct foreign taxes maximizes use of this carryover.

**54. D** — Miscellaneous unreimbursed employee business expenses reported on Form 2106 are generally not deductible under current law for most employees, since the itemized deduction for these expenses, formerly subject to a 2% AGI floor, was generally suspended, except for specific excepted categories of employees. Reimbursed expenses generally remain excludable from income regardless of this broader suspension of the itemized deduction.

**55. C** — Under the tax benefit rule, a state tax refund is includible in income in the year received only to the extent the taxpayer received an actual tax benefit from deducting that amount in the earlier year, such as when itemizing rather than using the standard deduction. This rule prevents claiming a duplicate benefit from the same deducted amount.

**56. B** — An eligible educator may deduct up to $300 of unreimbursed qualifying classroom expenses as an above-the-line deduction, available regardless of whether the educator itemizes, with the limit subject to periodic inflation adjustment and doubling if both spouses are eligible educators filing jointly. Expenses beyond this limit may sometimes still qualify as a separate miscellaneous itemized deduction in limited circumstances.

**57. C** — A taxpayer may deduct up to $3,000 of net capital losses against ordinary income each year ($1,500 if married filing separately), with any remaining unused capital loss carried forward indefinitely to offset capital gains and ordinary income in future years. This annual limitation applies regardless of how large the taxpayer's total net capital loss for the year was.

**58. A** — Section 1244 allows a shareholder who suffers a loss on qualifying small business stock to treat a portion of that loss, up to an annual dollar limit, as an ordinary loss rather than a capital loss, which can offset ordinary income without the $3,000 capital loss limitation. Stock issued under a modest paid-in capital ceiling generally qualifies for this treatment.

**59. D** — A member of a qualifying religious sect conscientiously opposed to insurance benefits, including Social Security, may generally apply for exemption from self-employment tax by filing Form

4029, which if approved also generally waives the member's future rights to related Social Security benefits. Members electing this exemption generally forgo eligibility for related government benefits tied to the waived program.

**60. B** — A qualifying farmer or fisherman benefits from a special estimated tax exception, allowing a single required payment by a later date instead of the standard quarterly schedule, and requiring only a lower percentage of the current year's tax to avoid the underpayment penalty. Missing even this later single deadline can still result in an underpayment penalty for the full year.

**61. D** — Innocent spouse relief allows a spouse to be relieved of liability for tax, interest, and penalties attributable to an understatement caused by the other spouse's erroneous items, provided the requesting spouse establishes they did not know and had no reason to know of the understatement. A request for this relief is made using Form 8857, filed with the IRS directly.

**62. B** — Equitable relief provides a broader, facts-and-circumstances-based avenue for relief from joint liability when a spouse does not meet the more specific requirements for innocent spouse or separation-of-liability relief, considering factors such as economic hardship, knowledge, and whether the requesting spouse benefited from the unpaid liability. The IRS weighs numerous nonexclusive factors under published guidance when evaluating an equitable relief request.

**63. A** — A spouse whose share of a joint refund was applied against the other spouse's separate past-due debt, such as child support, may seek injured spouse allocation using Form 8379, which is distinct from innocent spouse relief that addresses liability for a joint tax understatement itself. This allocation reflects only the requesting spouse's own share of that refund.

**64. C** — The marriage penalty describes the situation where a couple with relatively similar individual incomes pays more combined tax filing jointly than they would have paid filing as two single taxpayers, a result of how certain bracket structures and phase-outs are set for married filers. A marriage bonus can instead occur when spousal incomes are quite disparate.

**65. A** — Under the Roth IRA ordering rules, a nonqualified distribution is generally deemed to come first from regular contributions, which are always tax- and penalty-free to withdraw, then from conversion amounts, and finally from earnings, which are generally the only portion subject to tax and penalty if the distribution is nonqualified.

**66. C** — An excess IRA contribution that is not timely withdrawn generally triggers a 6% excise tax on the excess amount for each year it remains in the account, continuing to apply annually until the excess, along with any attributable earnings, is properly corrected or absorbed by a future year's contribution limit.

**67. D** — Under current law, a traditional IRA owner must begin taking required minimum distributions by April 1 of the year following the year they reach age 73, a threshold that has increased over time from the earlier age 70½ requirement under prior law. Failing to take a required distribution timely triggers a separate excise tax penalty on the shortfall.

**68. B —** The AMT exemption amount is reduced, or phased out, once a taxpayer's alternative minimum taxable income exceeds a separate, higher phase-out threshold, with the exemption reduced by a set percentage of the excess until it is fully eliminated at very high income levels. This phase-out mechanism helps ensure the AMT exemption's benefit is targeted toward lower- and middle-income taxpayers.

**69. C —** A dependent child whose unearned income exceeds the applicable kiddie tax threshold must file Form 8615 with their own return to compute the tax on that unearned income under the kiddie tax rules, rather than having the parent report it directly using the separate parental election form. Certain narrow income limits govern whether the parental election form applies instead.

**70. B —** The long-term capital gains and qualified dividend rate structure includes a 0% rate for taxpayers whose taxable income, including that gain, falls within the lowest applicable income bracket, with the 15% and 20% rates applying as taxable income rises into higher brackets. Taxpayers should coordinate ordinary income and capital gain recognition carefully to make full use of this lower rate.

**71. D —** A Section 179 election allows a business to immediately expense the cost of qualifying property placed in service during the year, up to an annual dollar limit, with the available deduction phased out dollar-for-dollar once total qualifying purchases exceed a separate higher threshold for the year. Most types of real property generally do not qualify for this election.

**72. A —** Bonus depreciation allows a business to immediately deduct a percentage of the cost of qualifying new or used property in the year it is placed in service, with the applicable percentage under current law scheduled to decline over a series of years unless legislation changes that schedule. Businesses often coordinate this deduction together with Section 179 expensing for maximum benefit.

**73. C —** A taxable early distribution from a qualified retirement plan that does not meet any statutory exception is subject to an additional 10% tax on top of regular income tax, intended to discourage early withdrawal of funds intended for retirement savings before the applicable exception age. Several statutory exceptions, such as disability or higher education costs, can eliminate this tax.

**74. D —** An employer is required to withhold an additional 0.9% Medicare tax on wages it pays an individual employee above $200,000 for the year, regardless of the employee's filing status or a spouse's income, which can create a mismatch later reconciled on the employee's own return. The employee reconciles any resulting over- or under-withholding when filing their own return.

**75. A —** An advisor might raise a mega backdoor Roth strategy for a client whose plan allows after-tax contributions beyond the standard deferral limit and permits in-plan conversion or in-service withdrawal, allowing significantly more money to reach Roth status than ordinary Roth 401(k) limits alone would allow. The plan document must specifically permit this in-plan conversion feature.

**76. B —** An advisor might raise deferring bonus income into a lower-income future year through a properly structured arrangement made before the compensation is earned or becomes available, since deferring receipt after the amount is already earned and available would not avoid current-year taxation under constructive receipt principles. Timing this arrangement correctly is essential to its success.

**77. C** — An advisor should raise that exercising and holding incentive stock options, rather than immediately selling, can trigger an alternative minimum tax adjustment equal to the bargain element at exercise, even though no regular income tax is due at that time, requiring careful AMT exposure planning. Selling the shares in the same year as exercise avoids this AMT preference item entirely.

**78. A** — An advisor should generally emphasize the strict 45-day window to identify replacement property and the overall 180-day window to close on that replacement property, both measured from the date the original property was transferred, since missing either deadline generally disqualifies the exchange from deferral treatment. A qualified intermediary is generally also required to hold sale proceeds during this exchange period.

**79. B** — An advisor should explain that selecting the standard mileage rate in the first year a vehicle is used for business preserves the option to switch methods later, while starting with the actual expense method may restrict the ability to use the standard mileage rate afterward. This distinction can meaningfully affect deductions available in later years of ownership.

**80. D** — An advisor might raise that a client with unusually low taxable income in a given year could realize long-term capital gains that fall partly or entirely within the 0% capital gains bracket, making that particular year an attractive window for tax-efficient gain recognition. Coordinating this recognition with other income sources maximizes the amount that falls within the 0% bracket.

**81. A** — An advisor might raise a grouping election allowing a taxpayer to combine multiple rental real estate interests into a single activity for purposes of meeting material participation or real estate professional hour requirements, which can be more achievable in combination than property by property. Once made, this election is generally difficult to later revoke or change.

**82. C** — An advisor should generally caution that if the recipient of gifted appreciated stock is a minor subject to the kiddie tax, a meaningful portion of the resulting capital gain may still be taxed at the parent's higher marginal rate rather than the child's own lower bracket, limiting the anticipated benefit.

**83. B** — An advisor should flag the step transaction doctrine, under which the IRS or a court may collapse a series of formally separate but interdependent steps into a single transaction for tax purposes, potentially disregarding the intended tax benefit of the individually structured steps. This doctrine applies most often when the individual steps lack independent economic significance.

**84. D** — An advisor should raise that a client retiring before Medicare eligibility should carefully manage modified AGI, for example through Roth withdrawals or careful timing of IRA distributions, since higher reported income during this gap period can reduce or eliminate the Premium Tax Credit available for Marketplace coverage. Coordinating withdrawal sources carefully helps preserve subsidy eligibility.

**85. A** — An advisor should generally raise that capturing the full available employer 401(k) match first is usually prioritized, since it represents an immediate, guaranteed return, before directing additional savings toward the HSA's triple tax advantage or further 401(k) contributions beyond the match. This prioritization generally assumes the match itself is not conditioned on an unreasonably long vesting schedule.

**86. B —** An advisor should caution that a state tax authority may challenge a residency change made shortly before a major liquidity event if it is not well-documented and genuine, meaning the client should establish domicile, physical presence, and other residency factors well in advance of the transaction closing. New voter registration and banking relationships help substantiate the change.

**87. C —** An advisor should explain that while each traditional IRA's required minimum distribution is calculated separately, the total combined RMD amount may be aggregated and withdrawn from any one or a combination of the client's traditional IRA accounts, offering flexibility not available for employer plan RMDs. Employer plan RMDs, by contrast, must each be withdrawn separately from that specific plan account.

**88. D —** A U.S. taxpayer holding specified foreign financial assets exceeding the applicable threshold must file Form 8938 with their income tax return under FATCA, a separate and distinct requirement from the FBAR (FinCEN Form 114), which has its own different threshold and filing process. Overlapping ownership of the same accounts can trigger both Form 8938 and FBAR filing obligations simultaneously.

**89. B —** A U.S. person with a financial interest in, or signature authority over, foreign financial accounts whose aggregate value exceeds $10,000 at any time during the calendar year must file an FBAR, a Treasury filing separate from the income tax return with its own filing deadline and penalty regime. Signature authority alone can trigger this filing requirement.

**90. A —** The alternate valuation date election allows an executor to value the entire gross estate as of six months after the date of death instead of the date of death itself, but only if doing so both reduces the gross estate's value and reduces the resulting estate tax liability. This election generally applies uniformly to the entire estate.

**91. C —** A qualified disclaimer must be an irrevocable, unqualified written refusal made within nine months of the transfer, must be received by the appropriate party, and the disclaiming beneficiary must not have accepted any benefits from the property, in order to avoid being treated as a taxable gift. A partial disclaimer may also qualify if properly structured.

**92. D —** A GRAT generally allows a grantor to transfer an asset into an irrevocable trust while retaining a fixed annuity payment for a set term, with any appreciation above the applicable IRS interest rate generally passing to the remainder beneficiaries free of additional gift tax if the grantor survives the term.

**93. C —** A charitable remainder trust allows a grantor to contribute appreciated property to an irrevocable trust, receive an income stream for life or a term of years, defer immediate capital gains recognition on the contributed property's sale within the trust, and ultimately pass the remainder to a named charity. The remainder must meet a minimum present-value requirement at creation.

**94. B —** A QPRT allows a grantor to transfer a personal residence into an irrevocable trust while retaining the right to live in the home rent-free for a set term, with the gift's value discounted for gift tax purposes, provided the grantor survives the retained term. Surviving the term keeps the home outside the taxable estate.

**95. D —** A bequest passing outright to a surviving spouse who is a U.S. citizen qualifies for the unlimited marital deduction, eliminating estate tax on that portion of the estate, though a similar noncitizen-spouse transfer requires a special trust structure to achieve comparable deferral. Estate planners recommend a qualified domestic trust structure to preserve deferral for a noncitizen surviving spouse.

**96. A —** Distributable net income represents the trust's taxable income computed with certain modifications, and it serves as the ceiling on both the trust's distribution deduction and the amount beneficiaries must report as taxable, with retained income beyond DNI taxed to the trust itself. Trustees must carefully track DNI each year to correctly report the character of amounts distributed to beneficiaries.

**97. B —** An installment obligation outstanding at a decedent's death is treated as income in respect of a decedent, meaning the remaining deferred gain is taxed to whoever receives the future payments, using the same installment method the decedent would have applied had they lived to receive them. The recipient succeeds to the decedent's remaining basis in the obligation.

**98. C —** A covered expatriate must file Form 8854 to report the expatriation, certify five years of federal tax compliance, and compute the mark-to-market exit tax on the deemed sale of worldwide assets, with the form required for the year of expatriation and potentially in later years. Failing the compliance certification can cause covered status regardless of other tests.

**99. D —** A tax treaty tie-breaker rule generally provides a sequential set of tests, such as permanent home, center of vital interests, habitual abode, and nationality, used to resolve which of two treaty countries is treated as the individual's residence when both countries' domestic law would otherwise treat the person as a resident.

**100. A —** The first-year choice election allows an individual who does not otherwise meet the residency tests for the current year, but who meets specific presence requirements and expects to meet the substantial presence test in the following year, to elect resident treatment for part of the current year. This election generally cannot be revoked without IRS consent.