PRACTICE EXAM 31: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

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

1. Circular 230 describes a set of aspirational Best Practices standards for tax advisors under Section 10.33, encouraging the highest quality representation. What is the general nature of these Best Practices standards compared to Circular 230's other mandatory duties?

A. They are generally the single most heavily enforced provision in all of Circular 230

B. They generally carry criminal penalties distinct from any other Circular 230 provision

C. They are generally aspirational rather than separately enforceable through direct disciplinary sanction on their own

D. They generally apply only to attorneys, never to enrolled agents or CPAs

2. A practitioner wants to charge a client a fee that is contingent on the outcome of the matter for an original tax return being prepared. What is the general rule under Circular 230 regarding contingent fees for this type of engagement?

A. Contingent fees are always fully permitted for any type of engagement without restriction

B. Contingent fees are generally prohibited for an original return, with limited exceptions like IRS exams

C. Contingent fees are permitted only for corporate clients, never for individuals

D. Contingent fees are permitted as long as the client signs a general waiver

3. Under Circular 230's diligence requirements, what general standard must a practitioner meet when preparing a tax return, filing a document, or making representations to the IRS?

A. No diligence standard applies once a client has signed the return
B. Diligence is required only when the practitioner personally disagrees with the client's position
C. Diligence obligations apply only to attorneys admitted to practice before a federal court
D. The practitioner must exercise due diligence in preparing, approving, and filing returns and other documents relating to IRS matters

4. A practitioner is representing a client in an ongoing matter before the IRS and receives repeated correspondence and deadlines from the agency. What does Circular 230 generally require regarding the general pace of handling this pending matter?

A. The practitioner must generally act with reasonable promptness in disposing of matters properly pending before the IRS
B. No timeliness obligation exists as long as the client is not prejudiced
C. The practitioner may set their own indefinite timeline without regard to IRS deadlines
D. Promptness obligations apply only during the first thirty days after engagement begins

5. A tax preparation firm wants to electronically file returns on behalf of its clients. What general credential must the firm obtain from the IRS before it may transmit returns electronically as an Authorized IRS e-file Provider?

A. A separate state-issued electronic filing license
B. A CAF number
C. An Electronic Filing Identification Number (EFIN)
D. A Form 2848 filed for each client in advance

6. A practitioner charges a client a fee for a routine individual tax return that is dramatically higher than what is customary for comparable services in the area, with no unusual complexity justifying the amount. What does Circular 230 generally prohibit in this situation?

A. Nothing, since practitioners may generally charge any fee amount they choose
B. Charging an unconscionable fee for services rendered in connection with a matter before the IRS
C. Only fees charged to government employees are restricted under Circular 230
D. Only flat fees are restricted; hourly fees are never subject to any limitation

7. A paid preparer completes a client's return claiming the Earned Income Tax Credit. What additional due diligence documentation form does the preparer generally need to complete and retain for this type of return?

A. Form 8867, Paid Preparer's Due Diligence Checklist
B. Form 2848, Power of Attorney
C. Form 8821, Tax Information Authorization
D. Form 4506, Request for Copy of Tax Return

8. A preparer signs a client's return taking a tax position for which there was no reasonable basis, resulting in an understatement of tax. Under what general Code section might this preparer face a civil penalty?

A. Section 6695
B. Section 6662
C. Section 7216
D. Section 6694

9. A paid preparer completes and files numerous individual tax returns for compensation throughout the filing season. What general identifying information must generally appear on each return the preparer signs?

A. The preparer's home address
B. The preparer's personal Social Security number
C. The preparer's PTIN
D. The preparer's bank routing number

10. An individual's enrollment as an enrolled agent has been formally suspended following a Circular 230 disciplinary proceeding. What is generally prohibited during the period of this suspension?

A. The individual may continue representing clients as long as they disclose the suspension
B. The individual may continue practicing only in matters involving individual, not business, taxpayers
C. The suspension applies only to new clients, not to representation already in progress
D. The individual may not practice before the IRS in any capacity during the suspension period

11. A small business owner wants to know how long employment tax records, such as documentation supporting wages paid and taxes withheld, must generally be retained. What is the general minimum retention period for these records?

A. Generally at least one year
B. Generally at least four years
C. Generally at least ten years
D. Records need not be retained once deposits are made

12. A firm applying to become an Authorized IRS e-file Provider may take on different roles within the e-file system, such as originating electronic submissions or transmitting them directly to the IRS. What is the general term for a provider that originates the electronic submission of a return?

A. An Electronic Return Originator (ERO)
B. A Transmitter only, with no other possible provider role
C. A Software Developer exclusively
D. A Reporting Agent exclusively

13. A preparer's PTIN was properly obtained in a prior year. What must the preparer generally do each year to continue preparing returns for compensation using that PTIN?

A. Generally renew the PTIN annually and pay the applicable renewal fee
B. Nothing further is required once the PTIN is initially issued
C. Retake the full suitability check every single year regardless of prior compliance
D. Reapply using a brand-new PTIN application each year rather than renewing

14. An enrolled agent licensed and enrolled with the IRS wants to practice in a state other than where they reside. What is generally true about the enrolled agent's ability to represent clients in that other state?

A. The enrolled agent must generally obtain a separate license in every state where they wish to practice

B. Enrolled agents may generally only represent clients in the state where they are physically located

C. Enrolled agent status generally does not permit any representation outside the practitioner's home state

D. The enrolled agent generally may represent clients nationwide without needing separate state-by-state licensing, since enrollment is a federal credential

15. A client requests the return of original documents, such as receipts and W-2 forms, that they provided to their preparer to complete a return. What does Circular 230 generally require regarding this type of client record?

A. The practitioner may generally withhold all records indefinitely until any outstanding fee is paid in full

B. The practitioner must generally return the client's original records upon request, even if a fee dispute is unresolved

C. Original client records generally become the permanent property of the preparer once submitted

D. The practitioner is never required to return any records under any circumstance

16. A taxpayer is confused about the difference between the IRS Return Preparer Office and the Office of Professional Responsibility. What is generally true about how these two offices' functions differ?

A. The two offices are generally identical with no meaningful functional distinction

B. OPR generally handles PTIN issuance, while the Return Preparer Office generally handles discipline

C. The Return Preparer Office oversees broader preparer compliance, while OPR handles Circular 230 discipline

D. Only the Return Preparer Office has any authority over enrolled agents

17. A former spouse's pre-2019 divorce decree required declining annual alimony payments that dropped sharply in the second and third years compared to the first year. What general rule may recharacterize part of the first year's payments as something other than alimony?

A. No such rule exists for pre-2019 alimony arrangements under any circumstance

B. The recapture rule applies only if payments increase rather than decrease over time

C. The recapture rule can require including deducted alimony back in income if payments decline sharply

D. Recapture applies only when the recipient spouse remarries within the first year

18. A taxpayer rents a vacation home to a relative at below fair market rental value, using the property personally as well during the year. How is this general arrangement generally treated for tax purposes regarding the rental use?

A. Generally treated as not-for-profit rental use, meaning rental expenses may be deducted only up to the amount of rental income, similar to personal-use property

B. Always treated as a fully deductible rental activity regardless of the reduced rent charged

C. The below-market rent automatically converts the arrangement into a taxable gift

D. The relative's use is entirely disregarded and treated as though no rental occurred

19. A taxpayer holds a short-term debt obligation maturing in less than one year that was issued at a discount. How is the resulting original issue discount generally treated compared to OID on a longer-term bond?

A. Short-term OID must always be included in income annually exactly like long-term bond OID

B. A general de minimis exception can apply to short-term obligations, potentially deferring recognition until disposition rather than requiring current annual inclusion

C. Short-term obligations are entirely exempt from any OID rules under all circumstances

D. OID applies only to obligations with an original term exceeding ten years

20. A taxpayer's mortgage lender cancels a portion of qualified debt secured by the taxpayer's principal residence following a loan modification. Under a special exclusion available for this type of debt, how might the canceled amount generally be treated?

A. Always fully includible in gross income with no exclusion ever available for mortgage debt
B. Excludable only if the taxpayer is also insolvent at the time of cancellation
C. Excludable only if the residence was a rental property rather than the taxpayer's home
D. Potentially excludable from gross income under the qualified principal residence indebtedness exclusion, subject to applicable dollar limits and basis reduction

21. An employee is granted a nonstatutory stock option that has a readily ascertainable fair market value at the time of grant, such as being actively traded on an established market. When is income generally recognized with respect to this type of option?

A. Always at exercise, regardless of whether the option has a readily ascertainable value at grant
B. Never taxable at either grant or exercise under any circumstance
C. Only when the underlying stock is eventually sold by the employee
D. Generally at the time of grant, based on the option's readily ascertainable fair market value

22. A cash-method taxpayer holds Series I savings bonds and could either report the interest annually as it accrues or defer reporting until the bonds are redeemed or mature. What is generally true about this reporting election?

A. Interest on these bonds must always be reported annually with no deferral option ever available
B. The taxpayer may switch between the two reporting methods freely each and every year
C. The taxpayer may elect to report interest annually as it accrues, applying to future years too
D. Series I bond interest is entirely tax-exempt regardless of the reporting method chosen

23. A taxpayer holds a municipal bond issued to finance a private business use project, sometimes called a private activity bond, rather than a bond financing traditional government functions. How does interest on this type of bond generally differ in tax treatment from interest on a typical general obligation municipal bond?

A. It may be a tax preference item for AMT, though exempt from regular federal income tax
B. It is always fully taxable for both regular tax and AMT purposes

C. It is entirely tax-exempt for AMT purposes exactly like a general obligation bond
D. It loses its tax-exempt status entirely once classified as a private activity bond

24. A single taxpayer sells their principal residence, which they owned and used as a main home for at least two of the five years before the sale, realizing a substantial gain. Up to what general amount of gain may this taxpayer generally exclude from income?

A. Generally up to $500,000
B. Generally up to $250,000
C. Generally up to $100,000
D. The full gain regardless of amount

25. A taxpayer exchanges real property held for investment for other like-kind real property but also receives a small amount of cash in addition to the replacement property. How is this cash, generally referred to as boot, generally treated?

A. Generally recognized as taxable gain to the extent of the boot received, up to the taxpayer's total realized gain on the exchange
B. Always entirely tax-free since the underlying properties are of like kind
C. Always taxed as ordinary income regardless of the taxpayer's total realized gain
D. Excluded entirely as long as the replacement property's value exceeds the original property's value

26. A taxpayer sells depreciable real property held for many years at a gain, having claimed straight-line depreciation on the building over the holding period. What general rate applies to the portion of gain attributable to that straight-line depreciation, known as unrecaptured Section 1250 gain?

A. Generally the taxpayer's ordinary income tax rate with no cap
B. Generally a maximum rate of 25%
C. Generally a flat 15% rate identical to standard long-term capital gain
D. Generally exempt from tax entirely as a return of depreciation

27. A taxpayer sells shares of an exchange-traded fund at a loss and, within the 61-day window surrounding the sale, purchases shares of a substantially identical ETF tracking the same underlying index. How does the wash sale rule generally apply to this transaction?

A. The wash sale rule never applies to ETFs, only to individual company stock

B. The loss remains fully deductible since the two ETFs have different ticker symbols

C. The rule applies only if both ETFs are issued by the exact same fund company

D. The wash sale rule generally applies, disallowing the loss and adding it to the basis of the newly purchased substantially identical shares

28. A taxpayer purchases a nonqualified annuity with after-tax dollars and later begins receiving periodic annuity payments. How is each payment generally divided for tax purposes between taxable and nontaxable portions?

A. Each payment is always entirely taxable regardless of the taxpayer's original after-tax investment

B. Each payment is always entirely nontaxable as a return of the original investment

C. Generally divided under an exclusion ratio, treating part of each payment as a nontaxable return of the taxpayer's investment and part as taxable earnings

D. The entire nontaxable portion must be recovered in the very first year of payments

29. A small business owner receives a court award of damages for lost profits caused by a competitor's breach of contract, unrelated to any personal physical injury. How is this award generally treated for tax purposes?

A. Always entirely excludable from gross income regardless of what the damages replace

B. Generally includible in gross income as ordinary income, since it replaces income that would otherwise have been taxable

C. Always treated as capital gain rather than ordinary income

D. Excludable only if the competitor admits fault as part of a settlement

30. An employer occasionally provides employees a small amount of money for a late-night dinner when working overtime, along with occasional local transportation fare home under similar circumstances. How are these occasional, small-value benefits generally treated?

A. Always fully includible in the employee's taxable wages regardless of frequency or amount
B. Excludable only if provided through a formal written expense reimbursement policy
C. Generally excludable from the employee's income as de minimis fringe benefits
D. Taxable unless the employee works more than sixty overtime hours that month

31. An employer provides an employee tuition assistance for undergraduate coursework under a qualifying educational assistance program. Up to what general annual dollar amount may this type of assistance generally be excluded from the employee's income?

A. Generally up to $5,250
B. Generally up to $50,000
C. Generally up to $1,000
D. There is no dollar limit on this exclusion

32. A taxpayer earns income from an illegal activity during the year. How is this income generally treated for federal income tax purposes, separate from any criminal law consequences the activity may carry?

A. Always excludable from gross income since it was never legally earned
B. Includible only if the taxpayer is ultimately convicted of a crime related to the activity
C. Taxable only if the activity also generates a Form 1099 from a third party
D. Generally includible in gross income regardless of the income's illegal source

33. An employer sells company property to an employee at a price significantly below the property's fair market value, outside the scope of any qualified employee discount program. How is the difference between fair market value and the price paid generally treated?

A. Generally includible in the employee's taxable wages as additional compensation
B. Always entirely excludable as a nontaxable employee gift
C. Taxable only if the property is real estate rather than personal property
D. Excludable up to the employer's cost basis in the property

34. A landowner grants a conservation easement over a portion of their land to a qualified organization, permanently restricting certain development rights while retaining ownership. How does granting this easement generally affect the landowner's basis in the property?

A. The landowner's basis in the property is entirely unaffected by granting the easement

B. The landowner's basis in the property is generally increased by the value of the easement

C. Basis allocation rules apply only if the easement is sold rather than donated

D. The landowner's basis in the retained property is generally reduced by the portion of basis allocable to the easement granted

35. A bank account is legally frozen due to the bank's insolvency, preventing the account holder from withdrawing accrued interest that was credited to the account during the year. How is this frozen interest generally treated for the account holder in that year?

A. Always fully includible in income regardless of the account holder's inability to withdraw it

B. Includible only in the following year once the freeze is lifted, with no other exception

C. Generally excludable from gross income for that year under the frozen deposits exception to constructive receipt

D. Excludable permanently even after the account holder eventually gains access to the funds

36. An employer provides a below-market interest rate loan to an employee as part of the employee's compensation arrangement, with the arrangement not falling within any exception. How is the foregone interest on this type of below-market loan generally treated?

A. Entirely disregarded for tax purposes as long as the loan is eventually repaid in full

B. Generally treated as imputed compensation income to the employee and imputed interest income to the employer

C. Treated only as a reduction to the employer's deductible business expenses with no employee income

D. Taxable only if the loan amount exceeds $1 million

37. A homeowner takes out a home equity loan secured by their main home and uses the entire proceeds to substantially remodel the kitchen and add a bathroom. How is the interest on this home equity loan generally treated under current law?

A. Never deductible since it is technically classified as a home equity loan

B. Deductible only if the loan amount is under $10,000

C. Deductible only if the homeowner also refinances the original first mortgage simultaneously

D. Generally deductible as qualified residence interest, since the loan proceeds were used to substantially improve the home securing the debt

38. A taxpayer's home is significantly damaged in a storm that is later declared a federal disaster. What special treatment might apply to this net disaster loss regarding the taxpayer's standard deduction, if the taxpayer does not otherwise itemize?

A. The net disaster loss may generally be added to the standard deduction rather than requiring the taxpayer to itemize to claim any benefit

B. No benefit is ever available to a taxpayer who does not itemize deductions

C. The loss must always be carried forward five years before any deduction is allowed

D. The standard deduction addition applies only if the taxpayer also lost their primary vehicle

39. A taxpayer claims the American Opportunity Tax Credit for a dependent's qualifying college expenses, and the calculated credit exceeds the taxpayer's total tax liability for the year. What is generally true about a portion of this excess credit amount?

A. The entire credit is always fully refundable regardless of tax liability

B. Up to 40% of the allowable credit may be refundable even beyond the tax liability owed

C. None of the credit is ever refundable under any circumstance

D. The refundable portion applies only to graduate-level coursework

40. A U.S. citizen living and working abroad incurs substantial housing costs beyond a base amount, in addition to excluding a portion of foreign earned income under Section 911. What additional general benefit might this taxpayer claim regarding those excess housing costs?

A. No additional benefit exists beyond the foreign earned income exclusion itself

B. A full deduction for all housing costs with no base amount reduction

C. A foreign housing exclusion or deduction for qualifying housing expenses exceeding a base amount

D. The housing benefit is available only to self-employed taxpayers living abroad

41. A taxpayer serves on a jury and receives jury duty pay from the court, but is required under their employment agreement to remit that pay to their employer since the employer continued paying the taxpayer's regular salary during the absence. How is this arrangement generally handled on the taxpayer's return?

A. The jury duty pay is entirely excluded from income and no offsetting deduction is needed

B. The jury duty pay is generally included in income, with an offsetting above-the-line deduction generally available for the amount remitted to the employer

C. The taxpayer must include the pay in income with no offsetting deduction available at all

D. The employer, not the taxpayer, generally reports the jury duty pay on its own return

42. A generous taxpayer donates cash to a public charity and separately donates long-term appreciated stock to the same charity in the same year. What are the general AGI percentage limitations applicable to each type of donation for the itemized charitable deduction?

A. Generally up to 60% of AGI for cash contributions and generally up to 30% of AGI for appreciated property contributions to a public charity

B. Both types of donations are always subject to an identical 50% of AGI limitation

C. Cash donations are always fully unlimited with no percentage cap whatsoever

D. Appreciated property donations are always limited to a flat $10,000 regardless of AGI

43. A landowner permanently donates a conservation easement restricting development on a scenic parcel of land to a qualified land trust organization, receiving no payment in return. What type of deduction might this landowner generally claim for this donation?

A. An ordinary business expense deduction

B. A casualty loss deduction

C. A qualified conservation easement charitable contribution deduction

D. A Section 179 expensing election

44. A taxpayer pays for qualified long-term care services received by themselves during the year, distinct from long-term care insurance premiums. How are these actual long-term care service costs generally treated for the medical expense itemized deduction?

A. Never deductible under any circumstance regardless of the taxpayer's medical condition
B. Deductible only if paid for through a long-term care insurance policy
C. Deductible without regard to the general medical expense AGI floor
D. Generally includible as deductible medical expenses, subject to the same overall AGI floor that applies to other medical expenses

45. A taxpayer wants to make a traditional IRA contribution for the prior tax year to reduce that year's taxable income. By what general deadline must this contribution generally be made?

A. Generally by the extended due date if the taxpayer files for an extension
B. Generally by December 31 of the tax year itself, with no later deadline
C. There is no deadline as long as the contribution is made within the same decade
D. Generally by the unextended due date of the tax return for that year, without regard to any filing extension

46. A parent contributes to a Coverdell Education Savings Account for a child's future education expenses. Up to what general annual dollar amount may generally be contributed per beneficiary, and what general limitation applies based on the contributor's income?

A. Generally up to $50,000 per beneficiary annually with no income phase-out
B. Generally up to $2,000 per beneficiary annually, subject to a phase-out based on the contributor's modified AGI
C. Generally up to $500 per beneficiary annually with no income phase-out
D. There is no annual dollar limit on Coverdell contributions

47. A taxpayer pays for the care of a spouse who is physically or mentally incapable of self-care, allowing the taxpayer to work, rather than paying for the care of a qualifying child. How does the Child and Dependent Care Credit generally apply to this arrangement?

A. The credit applies only to the care of a qualifying child, never a spouse

B. No credit is available since the care recipient is an adult rather than a child

C. The credit generally may still apply, since it covers care for a spouse or other qualifying individual incapable of self-care, not solely a qualifying child

D. The credit is available only if the incapacitated spouse also has earned income

48. A taxpayer owns a duplex, living in one unit as their primary residence and renting the other unit to a tenant at fair market value. How is the mortgage interest on the loan securing this property generally treated?

A. Generally allocated between the personal-use unit and the rental unit, with each portion deducted under the rules applicable to that use

B. The entire mortgage interest is always deductible as rental expense regardless of personal use

C. The entire mortgage interest is always deductible as qualified residence interest regardless of rental use

D. Mixed-use mortgage interest is never deductible under any allocation method

49. A taxpayer owns rental real estate and wants to qualify that activity for the QBI deduction under a specific safe harbor, rather than relying on a general facts-and-circumstances determination of whether it rises to a trade or business. What is a general key requirement of this rental real estate safe harbor?

A. No minimum hours are required as long as the taxpayer owns the property directly

B. Generally at least 250 hours of rental services must be performed for the enterprise during the year, along with contemporaneous records of that time

C. The safe harbor generally requires at least 750 hours of material participation instead

D. The safe harbor is available only for commercial, never residential, rental property

50. A homeowner hires a qualified professional to conduct a home energy audit identifying cost-effective energy efficiency improvements for the residence. Under the Energy Efficient Home Improvement Credit, how is the cost of this audit itself generally treated?

A. Never eligible for any credit since only completed improvements, not audits, qualify
B. Eligible only if the audit results in at least $10,000 of subsequent improvements
C. Eligible for its own credit, up to a set limit, within the broader home improvement credit
D. Eligible for an unlimited dollar credit regardless of the audit's actual cost

51. An IRA owner who has reached the applicable qualified charitable distribution age wants to know the maximum annual amount that can be transferred directly to charity under this provision. What is generally true about this annual limitation?

A. There is no dollar limit whatsoever on the annual QCD amount
B. The limit is always identical to the taxpayer's total traditional IRA balance
C. The limit applies only in years when the taxpayer's RMD exceeds $100,000
D. The annual QCD limit is a specific indexed amount, separate from the taxpayer's RMD amount

52. A taxpayer has a dependent who does not qualify for the Child Tax Credit because the dependent is too old, such as a college-age child or an elderly dependent parent. What general credit might still be available for this type of dependent?

A. The Credit for Other Dependents, a generally nonrefundable credit of up to $500 per qualifying dependent
B. The full Child Tax Credit still applies regardless of the dependent's age
C. No credit of any kind is available for a dependent who does not qualify for the CTC
D. Only the Earned Income Tax Credit may apply to this type of dependent

53. A self-employed taxpayer claims the self-employed health insurance deduction for premiums paid during the year. What general limitation applies to the amount of this above-the-line deduction relative to the taxpayer's business?

A. The deduction is generally unlimited regardless of the taxpayer's net self-employment earnings

B. The deduction generally cannot exceed the taxpayer's net earned income from the specific trade or business under which the insurance plan is established

C. The deduction is capped at a flat $5,000 regardless of actual premiums paid

D. The deduction applies only if the taxpayer has no other source of income

54. A taxpayer's business property is destroyed in a casualty, and the insurance reimbursement received exceeds the property's adjusted basis, resulting in a realized gain. What provision might generally allow the taxpayer to defer recognizing this gain if qualifying replacement property is acquired within the applicable period?

A. Section 1033, the involuntary conversion gain deferral provision

B. Section 1031, the like-kind exchange provision exclusively

C. Section 121, the home sale exclusion

D. Section 179, the immediate expensing election

55. A taxpayer claims a foreign tax credit and must apply the general limitation formula that caps the credit at the U.S. tax attributable to foreign source income. What is the general structure of this limitation formula?

A. A flat dollar cap applies regardless of the taxpayer's income or foreign taxes paid

B. The limitation is generally equal to 100% of all foreign taxes paid with no cap

C. The limitation applies only to taxpayers using the itemized deduction option instead of the credit

D. Generally the taxpayer's total U.S. tax liability multiplied by the ratio of foreign source taxable income to total taxable income

56. An employee participates in an employer-sponsored dependent care flexible spending account to pay for a qualifying dependent's care so the employee can work. Up to what general annual dollar amount may generally be excluded from the employee's income through this arrangement?

A. Generally up to $50,000 for most taxpayers

B. Generally up to $500 for most taxpayers

C. Generally up to $5,000 for most taxpayers

D. There is no dollar limit on this exclusion

57. A taxpayer engaged in a farming business generates a net operating loss for the year attributable to that farming activity. What general carryback period may generally apply to this farming loss, distinct from the general current-law NOL treatment?

A. No carryback is ever available for any type of net operating loss under current law
B. A generally available two-year carryback specifically for the farming loss portion of the NOL
C. A generally available twenty-year carryback identical to pre-2018 law for all NOLs
D. The carryback applies only if the farm is organized as a C corporation

58. A taxpayer sells their principal residence after owning and living in it for only fourteen months, short of the general two-year ownership and use requirement, due to an unforeseen job relocation more than 50 miles away. What general relief might allow a partial Section 121 exclusion despite not meeting the full test?

A. No exclusion of any kind is available if the full two-year test is not met
B. The full $250,000 or $500,000 exclusion still applies in full despite the shortened period
C. A reduced exclusion generally prorated based on the portion of the two-year period actually met, available for qualifying unforeseen circumstances such as a work-related move
D. The reduced exclusion is available only if the taxpayer is under age 55

59. A partner in a partnership receives a guaranteed payment for services rendered to the partnership, determined without regard to partnership income. How is this guaranteed payment generally treated for self-employment tax purposes?

A. Generally includible in the partner's net earnings from self-employment, subject to self-employment tax
B. Never subject to self-employment tax since it is a fixed guaranteed amount
C. Subject to self-employment tax only if the partner is also a limited partner
D. Treated exactly like a corporate employee's W-2 wages, with no self-employment tax

60. A taxpayer's amount economically at risk in a business activity increases during the year after the taxpayer contributes additional personal cash to the venture. How does this additional contribution generally affect the taxpayer's at-risk amount for purposes of the at-risk loss limitation rules?

A. The additional contribution has no effect on the taxpayer's at-risk amount

B. The at-risk amount generally decreases whenever additional cash is contributed to the activity

C. Only borrowed funds, never a taxpayer's own cash, can ever increase the at-risk amount

D. The at-risk amount increases by the cash contributed, allowing more losses up to that new amount

61. A taxpayer has accumulated suspended passive losses from a rental activity over several years because passive income was insufficient to absorb them. The taxpayer then completely disposes of the entire activity in a fully taxable transaction to an unrelated party. What generally happens to the suspended losses at that point?

A. The suspended passive losses generally become fully deductible against the taxpayer's other income, including nonpassive income, in the year of the complete disposition

B. The suspended losses are generally permanently forfeited upon disposition of the activity

C. The suspended losses may only offset the specific gain recognized on that same disposition

D. The suspended losses convert automatically into a capital loss carryforward instead

62. A taxpayer significantly underpaid estimated tax during the year and is computing the resulting penalty using the applicable IRS form. On what general form is this underpayment penalty computation generally performed?

A. Form 8615

B. Form 8582

C. Form 1310

D. Form 2210, Underpayment of Estimated Tax

63. A taxpayer actively participates in a trade or business that generates a large loss for the year, well beyond what the passive activity loss rules alone would limit given the taxpayer's material participation. What separate general limitation might still cap the amount of this business loss the taxpayer can currently deduct?

A. The at-risk limitation exclusively, with no other applicable limitation
B. The kiddie tax limitation
C. The excess business loss limitation under Section 461(l)
D. The wash sale limitation

64. A taxpayer sells appreciated stock and reinvests the resulting capital gain into a Qualified Opportunity Zone Fund within the applicable statutory window following the sale. What general tax benefit might this investment provide regarding the originally realized gain?

A. The original gain is always permanently and entirely eliminated immediately upon reinvestment
B. Recognition of the gain may be deferred, with further benefits depending on the QOF holding period
C. No deferral benefit exists unless the entire sale proceeds, not just the gain, are reinvested
D. The deferral benefit applies only to gains from the sale of real estate

65. A seller finances the sale of property to a buyer through an installment note that charges little or no stated interest. What general provision may impute a minimum interest rate on this note for tax purposes, even though the parties did not actually agree to charge that rate?

A. The wash sale rule
B. The at-risk rules
C. The kiddie tax rules
D. The imputed interest rules under Section 1274

66. A single taxpayer wants to qualify for head of household filing status and must generally show they paid more than half the cost of maintaining their household for the year. What general types of costs are generally included in this household maintenance cost test?

A. Only mortgage principal payments count, with all other household costs excluded
B. Every conceivable household-related expense counts, with no distinction between categories
C. Costs like rent, utilities, property taxes, and food in the home count, but not clothing or medical care
D. Only costs directly tied to a qualifying child's care and education count

67. A lower-income taxpayer who received advance Premium Tax Credit payments during the year must repay some amount upon reconciliation because their actual household income came in higher than originally estimated. What general limitation may cap the amount this lower-income taxpayer is required to repay?

A. A repayment limitation cap that generally applies based on the taxpayer's household income relative to the federal poverty line, generally reducing the amount lower-income taxpayers must repay

B. No repayment cap exists, and the full excess advance amount must always be repaid

C. The repayment cap applies only to taxpayers with household income above 400% of the federal poverty line

D. The cap eliminates the repayment obligation entirely, regardless of income level

68. A taxpayer engaged in farming has relatively low net farm profit for the year, which would otherwise result in a very small self-employment tax liability and correspondingly reduced future Social Security benefit credit. What optional method might this farmer generally elect to increase reported self-employment earnings for benefit purposes?

A. The nonfarm optional method exclusively

B. The farm optional method for computing self-employment tax

C. The nonqualified deferred compensation election

D. The kiddie tax parental election

69. A business places a substantial amount of depreciable property in service during the last three months of its tax year, exceeding 40% of the year's total qualifying property additions. What general depreciation convention is generally triggered by this concentration of late-year purchases?

A. The mid-quarter convention

B. The half-year convention exclusively, regardless of purchase timing

C. The mid-month convention, which applies only to residential property

D. No special convention applies since all conventions are identical for personal property

70. A municipal bond that finances a private business use project generally causes interest on that bond to become a preference item for alternative minimum tax purposes. How does this AMT preference item generally interact with the taxpayer's regular tax computation?

A. The interest becomes fully taxable for both regular tax and AMT purposes once identified as a preference item

B. The interest is generally excluded from both regular tax and AMT computations entirely

C. The AMT preference addback applies only to corporate taxpayers, never to individuals

D. The interest generally remains exempt from regular federal income tax while still generally being added back when computing alternative minimum taxable income

71. A taxpayer's child turns 19 during the tax year and is not a full-time student. What is generally true about this child's continued eligibility as a qualifying child for dependency purposes based on the general age test?

A. The age test generally has no upper limit at all for a qualifying child

B. The child automatically fails the qualifying child test at exactly age 18 regardless of student status

C. The child no longer meets the age test at 19, unless a full-time student, extending it to 24

D. Full-time student status generally has no effect on the applicable age limit

72. A taxpayer computes the Additional Child Tax Credit, the refundable portion of the Child Tax Credit, for several qualifying children. What is generally true about the maximum refundable amount available per qualifying child under this computation?

A. The refundable amount is generally unlimited and equals the full Child Tax Credit for every child

B. The refundable amount is generally capped at a specific per-child dollar limit, separate from the larger total Child Tax Credit amount available per child

C. No portion of the Child Tax Credit is ever refundable under any circumstance

D. The refundable cap applies only to the taxpayer's first qualifying child, not later children

73. A taxpayer's return reflects an underpayment of tax subject to the Section 6662 accuracy-related penalty, but the taxpayer argues they acted with reasonable cause and in good faith based on a genuine, well-documented effort to comply. What general effect might this argument have on the penalty?

A. Reasonable cause and good faith are never a valid defense to any accuracy-related penalty

B. It may generally provide a defense avoiding the accuracy-related penalty, if the taxpayer can substantiate reasonable cause and good faith under the applicable facts and circumstances

C. The defense automatically applies with no need for any supporting documentation

D. The defense is available only if the taxpayer used a paid preparer for the return

74. A self-employed taxpayer with variable income throughout the year wants to understand the general due dates for making quarterly estimated tax payments during the year. What is generally true about the length of the four estimated tax payment periods?

A. The four periods are generally of unequal length, with due dates generally falling in April, June, September, and January of the following year

B. All four periods are always exactly three calendar months long with identical due dates each quarter

C. There are generally only two estimated tax payment due dates each year, not four

D. Estimated tax payments are generally due on the first day of each calendar quarter

75. A client sells appreciated stock and wants to defer and potentially reduce the resulting capital gain by investing in a Qualified Opportunity Zone Fund. What general timing deadline should an advisor emphasize for making this qualifying reinvestment?

A. There is generally no deadline as long as the investment occurs eventually

B. Generally within 180 days, but only if the original sale involved real estate

C. Generally within one full calendar year, aligned with the tax filing deadline

D. Generally investing the eligible gain within 180 days of the sale that generated it

76. A client holds significantly appreciated stock and is deciding between gifting it to an adult child now versus leaving it to that child through their estate at death. What general basis consideration should an advisor raise regarding this comparison?

A. Both methods always result in an identical basis for the recipient regardless of timing

B. A lifetime gift always produces a better basis outcome than an inheritance

C. Death generally gives a stepped-up basis to fair value, while a gift carries over the donor's basis

D. Basis considerations are irrelevant since only the immediate gift tax cost matters

77. A client wants to add Series I savings bonds to their portfolio as an inflation hedge but is unsure how much can realistically be purchased in a given year. What general limitation should an advisor raise regarding this strategy?

A. There is generally no limit on the annual amount of Series I bonds a person may purchase

B. Series I bonds are generally only available to taxpayers over age 65

C. The purchase limit generally applies only to bonds purchased through a tax refund

D. A relatively modest annual per-person purchase limit generally applies to Series I bonds, meaning the strategy works best as a supplement rather than a primary holding

78. A client is approaching the two-year ownership and use requirement for the Section 121 home sale exclusion, currently at twenty-two months of qualifying use, and has received an attractive purchase offer. What general timing advice might an advisor raise?

A. Advise the client that timing is irrelevant since the exclusion amount never depends on the holding period

B. Advise the client to close immediately since delaying could never provide any tax benefit

C. Delaying the closing by a few months to reach two years could allow the full exclusion instead

D. Advise the client that only a five-year holding period, not two years, is ever relevant

79. A self-employed client with strong, variable-year profits wants to maximize retirement plan contribution flexibility, sometimes contributing a large percentage of profits and other years contributing little. Between a SEP IRA and a Solo 401(k), what general advantage might an advisor raise for the Solo 401(k) in this situation?

A. A SEP IRA generally allows a larger contribution at every income level than a Solo 401(k)

B. A Solo 401(k) allows both a salary deferral and an employer contribution, often exceeding a SEP alone

C. The two plan types are generally functionally identical with no meaningful contribution differences

D. Only a SEP IRA generally permits any employer-type profit-sharing contribution at all

80. A client wants to execute a backdoor Roth IRA conversion but already holds a substantial balance in a separate pretax traditional IRA from a prior employer rollover. What general trap should an advisor flag regarding this planned conversion?

A. The pro-rata rule, which generally requires all the client's traditional IRA balances to be considered together, potentially making a large portion of the conversion unexpectedly taxable
B. No trap exists since the backdoor Roth strategy always converts income tax-free regardless of other IRA balances
C. The pro-rata rule applies only if the client has more than five separate IRA accounts
D. The existing pretax IRA balance must generally be closed entirely before any conversion is possible

81. A client is considering purchasing a new qualifying electric vehicle and asks an advisor about the general option to receive the associated federal tax credit's value immediately at the point of sale rather than waiting to claim it on the following year's tax return. What general mechanism might the advisor raise?

A. No such immediate-benefit option exists; the credit must always be claimed only on the following year's return
B. The immediate transfer option is available only for used vehicles, never new ones
C. Transferring the credit to the dealer generally permanently forfeits any credit eligibility
D. An option to transfer the credit to the dealer at purchase, as an immediate price reduction

82. A married couple is deciding between filing jointly and filing separately for a year in which one spouse has unusually large unreimbursed medical expenses. What general reason might an advisor raise for at least modeling both filing status options in this specific situation?

A. Filing separately could lower the AGI used for the medical floor, increasing the deductible amount
B. Filing status never affects the medical expense deduction calculation in any way
C. Married taxpayers are generally never permitted to file separately under any circumstance
D. Filing separately would automatically disqualify both spouses from any medical expense deduction

83. A grandparent wants to make substantial gifts to several grandchildren this year while minimizing use of their lifetime gift and estate tax exemption. What general coordination should an advisor raise regarding the annual gift tax exclusion across multiple recipients?

A. The annual exclusion generally applies only once per year regardless of how many recipients receive gifts

B. Each recipient has a separate annual exclusion, so gifting to several grandchildren increases the exclusion-free total

C. Gift splitting with a spouse is never permitted for gifts to grandchildren specifically

D. Only a single grandchild per family may generally benefit from the annual exclusion each year

84. A retired client subject to required minimum distributions wants to satisfy part of the current year's RMD through a qualified charitable distribution but is unsure of the general timing relative to the RMD deadline. What general timing advice should an advisor raise?

A. QCDs may generally be made at any time during the following year and still count toward the prior year's RMD

B. The RMD and QCD are entirely unrelated, and satisfying one never affects the other

C. The QCD must be made before the RMD deadline, and timing it carefully can satisfy the RMD

D. A QCD can never be used to satisfy any portion of a required minimum distribution

85. A client starting a new consulting business asks an advisor whether to organize as a sole proprietorship, S corporation, or partnership, specifically considering the QBI deduction. What general consideration should the advisor raise regarding entity choice and this deduction?

A. The QBI deduction is generally available only to a business organized as a C corporation

B. The QBI deduction is available across sole proprietorships, partnerships, and S corporations, though mechanics can differ

C. Entity choice generally has no effect whatsoever on QBI deduction eligibility or amount

D. Only an S corporation can generally ever qualify for any portion of the QBI deduction

86. A client holds significantly appreciated employer stock within their 401(k) plan and is retiring soon. What general strategy involving Net Unrealized Appreciation might an advisor raise as worth exploring before rolling the entire balance into an IRA?

A. Rolling the entire 401(k) balance into an IRA always produces an identical or better tax result

B. NUA strategies generally apply only to non-employer stock held within the 401(k)

C. Distributing employer stock in-kind and paying tax only on its basis, taxing appreciation later at capital gains rates

D. The NUA strategy generally requires the client to sell the stock immediately upon distribution

87. A client's itemized deductions fall just below the standard deduction threshold most years, meaning they generally receive no incremental tax benefit from charitable giving or state tax payments in a typical year. What general multi-year strategy might an advisor raise to address this?

A. A bunching strategy, concentrating several years of giving into one year to exceed the standard deduction

B. There is generally no strategy available to address this recurring situation

C. The client should generally stop making charitable contributions entirely going forward

D. Spreading deductions even more thinly across additional future years would generally solve this issue

88. An executor is trying to determine whether an estate is required to file a federal estate tax return, Form 706. What general factor primarily determines whether this filing requirement applies?

A. Whether the estate includes any real property located outside the decedent's home state

B. Whether the decedent left a valid will at the time of death

C. Whether the estate has more than one named beneficiary

D. Whether the gross estate plus certain taxable gifts exceeds the applicable exemption for the year of death

89. A grantor trust generates income during the year that is entirely taxed to the grantor individually under the grantor trust rules, rather than being taxed to the trust itself. What general simplified reporting option is often available instead of filing a full separate Form 1041 for this type of trust?

A. A full, separate Form 1041 must always be filed for every grantor trust with no exception

B. An optional simplified method reporting items under the grantor's own ID, rather than a full Form 1041

C. Grantor trusts are generally entirely exempt from any income tax reporting obligation whatsoever

D. The trust must always file Form 706 instead of any income tax return

90. A U.S. citizen decedent is survived by a spouse who is not a U.S. citizen. What special type of trust might generally be used to preserve the marital deduction for property passing to this noncitizen surviving spouse, which would otherwise generally be unavailable for an outright bequest?

A. A Grantor Retained Annuity Trust (GRAT)

B. A Qualified Personal Residence Trust (QPRT)

C. A Qualified Domestic Trust (QDOT)

D. A Section 2503(c) minor's trust

91. An executor has filed the estate tax return and wants official written confirmation from the IRS that the return has been reviewed and the matter closed, generally used to help finalize distributions and close the estate's administration. What is this general confirming document generally called?

A. An estate tax closing letter

B. A qualified disclaimer

C. A DSUE certificate

D. A Form 1310 acknowledgment

92. A grandparent wants to make a substantial gift to a young grandchild but wants the funds professionally managed and shielded from the grandchild's direct control until at least age 21, while still qualifying the transfer for the annual gift tax exclusion. What type of trust structure is generally designed for this purpose?

A. A Grantor Retained Annuity Trust (GRAT)

B. A Section 2503(c) minor's trust

C. A Qualified Domestic Trust (QDOT)

D. A Totten trust

93. An attorney is drafting a trust for a client and must decide whether the trust will be created and funded during the client's lifetime, or instead created under the terms of the client's will and funded only after death. What is this general lifetime-versus-death-funded distinction generally called?

A. The distinction between a simple trust and a complex trust
B. The distinction between a grantor trust and a nongrantor trust
C. The distinction between a revocable trust and an irrevocable trust exclusively
D. The distinction between an inter vivos trust and a testamentary trust

94. A trustee administering a complex trust needs additional time beyond the normal filing deadline to prepare and file the trust's Form 1041. What form does the trustee generally file to request this filing extension?

A. Form 7004
B. Form 4868
C. Form 2210
D. Form 8868

95. A complex trust's trustee makes a distribution to beneficiaries during the first 65 days of the following tax year and wants that distribution treated as though it had been made in the prior tax year for income tax purposes. What general election allows this treatment?

A. The alternate valuation date election
B. The portability election
C. The qualified disclaimer election
D. The 65-day rule election

96. A taxpayer makes a substantial lifetime gift that fully falls within their remaining lifetime gift and estate tax exemption, resulting in no actual gift tax owed. Is the taxpayer generally still required to file a gift tax return, Form 709, for that gift?

A. Generally no, since a filing requirement generally only exists when actual gift tax is currently owed

B. Generally no, gift tax returns are generally required only for gifts to a nonrelative

C. Generally yes, if the gift exceeds the annual exclusion amount, even though no actual gift tax is currently due because the lifetime exemption absorbs it

D. Generally yes, but only if the gift consists of real property rather than cash

97. A surviving spouse remarries a second spouse after the death of their first spouse, having previously elected portability to claim the first deceased spouse's unused exclusion amount. If the second spouse also later dies, what general rule governs which deceased spouse's unused exclusion amount, or DSUE, the surviving spouse may still use?

A. Only the most recently deceased spouse's DSUE may generally be used after a later remarriage and death

B. The surviving spouse may generally combine and use both deceased spouses' DSUE amounts together

C. The original DSUE amount from the first spouse always remains permanently available regardless of remarriage

D. Remarriage generally has no effect whatsoever on a previously elected DSUE amount

98. A U.S. beneficiary receives a distribution from a foreign trust during the year. What general reporting obligation does this U.S. beneficiary generally have with respect to this distribution, separate from any obligation of the foreign trust itself?

A. No separate reporting obligation exists for a beneficiary who is not also the trust's owner

B. The beneficiary must generally file Form 706-NA instead of any income-related form

C. Reporting is required only if the distribution exceeds $1 million

D. The U.S. beneficiary generally must report the distribution on Form 3520

99. A family owns real property used in a family farm or closely held business, and the property's fair market value for estate tax purposes significantly exceeds its value based on its actual current use. What special election might generally allow the estate to value this property based on its actual use rather than its highest and best use?

A. The alternate valuation date election under Section 2032
B. A qualified disclaimer election
C. A Section 2032A special use valuation election
D. The portability election

100. A taxpayer dies before receiving a tax refund they were otherwise entitled to for a prior year's return. What form does the person entitled to claim that refund on the decedent's behalf generally need to file along with the decedent's return?

A. Form 706-NA
B. Form 1310, Refund Due a Deceased Taxpayer
C. Form 8854
D. Form 2848

Answer Key and Explanations — Practice Exam 31

1. C — Circular 230's Best Practices provisions set out aspirational goals, such as communicating clearly with clients and ensuring engagement terms are understood, rather than establishing a freestanding basis for discipline on their own, distinguishing them from the mandatory duties found elsewhere in Circular 230 that can directly trigger sanctions. Those separate mandatory duties remain the actual basis for discipline.

2. B — Circular 230 generally prohibits a practitioner from charging a contingent fee for preparing an original tax return, though limited exceptions generally exist, such as representing a client in connection with an IRS examination of, or challenge to, that original return, or in connection with certain refund claims and judicial proceedings.

3. D — Circular 230 generally requires a practitioner to exercise due diligence in preparing, approving, and filing tax returns and other documents, and in determining the correctness of representations made to clients and to the IRS, rather than passively relying on client-supplied information without any independent reasonableness check. Failing this diligence standard can itself expose the practitioner to discipline.

4. A — Circular 230 generally requires a practitioner to act with reasonable promptness in disposing of matters properly pending before the IRS, and prohibits unreasonably delaying the prompt disposition of any matter, reflecting the practitioner's obligation to move client matters forward rather than allowing them to stagnate without justification. Chronic delay across multiple matters can itself become a basis for discipline.

5. C — A firm wanting to participate in IRS e-file generally must apply for and receive an Electronic Filing Identification Number, or EFIN, after passing a suitability check, before it may transmit returns electronically as an Authorized IRS e-file Provider, a credential separate from an individual preparer's PTIN. The application process includes fingerprinting and a background suitability review.

6. B — Circular 230 prohibits a practitioner from charging an unconscionable fee for representing a client in a matter before the IRS, meaning a fee so excessive relative to the services rendered that it becomes unreasonable, a distinct concept from the narrower contingent fee restriction that applies to original returns. This restriction applies regardless of whether the fee is flat or hourly.

7. A — A paid preparer claiming certain credits, including the Earned Income Tax Credit, Child Tax Credit, American Opportunity Tax Credit, or head of household filing status, generally must complete and retain Form 8867 documenting the due diligence performed, with failure to do so generally exposing the preparer to a separate penalty.

8. D — Section 6694 generally imposes a civil penalty on a preparer who signs a return reflecting an understatement of tax due to an unreasonable position, with the penalty amount generally increasing where the preparer's conduct involved willful or reckless disregard of the rules, separate from the taxpayer's own accuracy-related penalty exposure.

9. C — A paid preparer is generally required to include their PTIN, rather than their Social Security number, on every return they prepare for compensation and sign, allowing the IRS to identify and track the preparer's return volume and compliance without exposing the preparer's personal identifying information. Using an SSN instead of a PTIN on a prepared return can itself trigger penalties.

10. D — A practitioner whose enrollment has been suspended following Circular 230 discipline is generally prohibited from practicing before the IRS in any capacity for the duration of the suspension, including preparing documents for submission or representing any client, until the suspension period ends or is otherwise lifted. Reinstatement generally requires a separate application once the suspension period ends.

11. B — Employment tax records, including documentation of wages paid, taxes withheld and deposited, and related information, must generally be retained for at least four years after the tax becomes due or is paid, whichever is later, supporting the employer's ability to substantiate employment tax filings if examined. Related income tax withholding records are often retained for a similar period.

12. A — An Electronic Return Originator, or ERO, is generally the Authorized IRS e-file Provider role for a firm or individual that originates the electronic submission of a return, a role distinct from a Transmitter, which sends the data directly to the IRS, and a Software Developer, which writes the origination or transmission software.

13. A — A PTIN holder must generally renew their PTIN annually, including paying the applicable renewal fee, to remain authorized to prepare tax returns for compensation using that number, since an expired or unrenewed PTIN generally means the individual may not lawfully prepare returns for compensation until it is renewed. A lapsed PTIN can also jeopardize the preparer's ability to e-file returns.

14. D — Because enrollment as an enrolled agent is a federal credential granted by the IRS rather than a state license, an enrolled agent generally may represent taxpayers before the IRS in any state without needing separate state-by-state licensing, unlike a state-licensed CPA or attorney whose practice rights may be more state-specific.

15. B — Circular 230 generally requires a practitioner to promptly return a client's original records upon request, even if there is a fee dispute, though the practitioner may generally retain copies and, depending on state law, may in some cases retain certain records the practitioner themselves independently generated, such as work papers.

16. C — The Return Preparer Office generally administers broader paid preparer compliance matters, including PTIN issuance and certain preparer program oversight, while the Office of Professional Responsibility generally has jurisdiction over Circular 230 disciplinary matters specifically involving enrolled agents, CPAs, attorneys, and other credentialed practitioners subject to that regulatory framework. A taxpayer should generally direct compliance questions to the correct office accordingly.

17. C — Under pre-2019 alimony rules, the recapture rule generally requires the payer to include previously deducted alimony back in income, and allows the recipient a corresponding deduction, if payments decline substantially during the first three years, a rule generally designed to prevent disguising nondeductible property settlements as deductible alimony. This rule generally applies whether the decline is scheduled or occurs unexpectedly.

18. A — Renting a dwelling unit to a relative below fair market value is treated as not-for-profit rental use, meaning the days rented at below-market value are also treated as personal-use days by the owner, limiting deductible rental expenses to the amount of rental income actually received. Personal use exceeding the general threshold can trigger this treatment even without full-time use.

19. B — Original issue discount on certain short-term obligations may qualify for special treatment, including a de minimis exception when the discount is small relative to the obligation's term, potentially allowing deferral of recognition until maturity or disposition rather than the current annual inclusion required for longer-term OID bonds. The specific computation depends on the obligation's stated redemption price at maturity.

20. D — Cancellation of qualified principal residence indebtedness may generally be excluded from gross income up to applicable dollar limits under a special provision distinct from the general insolvency exclusion, though the taxpayer must generally reduce the basis of the residence by the excluded amount rather than avoiding all tax consequence entirely.

21. D — A nonstatutory stock option with a readily ascertainable fair market value at grant is generally taxed to the employee at the time of grant based on that value, an exception to the more common rule under which a nonstatutory option lacking a readily ascertainable value is instead generally taxed at exercise.

22. C — A cash-method taxpayer holding Series I or EE savings bonds generally may elect to report the annually accruing interest currently each year rather than deferring it until redemption or maturity, though this election generally applies consistently going forward to all such bonds the taxpayer owns, requiring IRS consent to later revoke.

23. A — While interest on most municipal bonds, including private activity bonds, remains generally exempt from regular federal income tax, interest on certain private activity bonds may generally be treated as a tax preference item includible in alternative minimum taxable income, unlike interest on a typical general obligation municipal bond. Taxpayers holding significant amounts of these bonds should model potential AMT exposure.

24. B — A single taxpayer meeting the ownership and use tests may exclude up to $250,000 of gain from the sale of a principal residence under Section 121, while a married couple filing jointly who both meet the use test may exclude up to $500,000 of combined gain. Meeting the ownership and use tests requires two of the preceding five years.

25. A — Cash or other non-like-kind property, known as boot, received in an otherwise qualifying like-kind exchange generally triggers recognition of gain to the extent of the boot received, up to the amount of the taxpayer's total realized gain on the exchange, even though the exchange as a whole remains substantially tax-deferred.

26. B — Unrecaptured Section 1250 gain, representing the portion of gain on depreciable real property attributable to straight-line depreciation previously claimed, is generally subject to a maximum federal tax rate of 25%, distinct from both ordinary income rates and the standard 15% or 20% long-term capital gains rates that may apply to any remaining gain.

27. D — The wash sale rule applies to substantially identical securities, which can include ETFs or mutual funds tracking the same underlying index closely enough to be considered substantially identical, disallowing the loss deduction and instead adding the disallowed amount to the basis of the newly acquired replacement shares. Two ETFs from different issuers can still qualify as substantially identical.

28. C — Payments from a nonqualified annuity purchased with after-tax dollars are generally divided under an exclusion ratio, which allocates a consistent portion of each payment to a nontaxable return of the taxpayer's investment in the contract, with the remaining portion taxable as ordinary income representing the annuity's earnings. The exclusion ratio percentage is fixed for the life of the contract.

29. B — Damages awarded for lost business profits are generally includible in gross income as ordinary income, since such damages are generally treated as replacing the taxable income the business would otherwise have earned, in contrast to damages received on account of a personal physical injury, which are generally excludable. This distinction can matter significantly when structuring a settlement agreement's allocation.

30. C — Occasional supper money and local transportation fare provided because of overtime work are generally excludable from an employee's income as de minimis fringe benefits, provided they are provided infrequently enough that accounting for them individually would be administratively impractical, distinguishing them from a routine, regularly provided benefit. Regularly providing identical meal money as routine compensation would generally fail this exception.

31. A — Employer-provided educational assistance under a qualifying Section 127 program may generally be excluded from an employee's income up to $5,250 per year, covering tuition, fees, and books regardless of whether the coursework is job-related, with amounts beyond that limit generally includible as taxable wages. This exclusion is separate from, and can be combined with, certain other education-related tax benefits.

32. D — Income from illegal activities is generally includible in gross income under the broad definition of income for federal tax purposes, regardless of its illegal source, meaning a taxpayer engaged in unlawful activity generally still has a tax reporting obligation with respect to income earned from that activity. This obligation exists independently of any separate criminal prosecution for the activity itself.

33. A — When an employer sells property to an employee at a bargain price outside any qualifying discount program, the difference between the property's fair market value and the price the employee actually paid is generally treated as additional compensation includible in the employee's taxable wages for the year of the sale.

34. D — When a landowner grants an easement over a portion of their property, the landowner's basis in the retained property is generally reduced by the portion of the total basis allocable to the rights transferred through the easement, an allocation relevant both for a sale of an easement and for computing a later gain.

35. C — Interest credited to a frozen deposit that the account holder cannot withdraw due to the bank's insolvency or bankruptcy is generally excludable from gross income for the year credited under a specific exception to the constructive receipt doctrine, with the interest instead generally becoming taxable once it becomes available for withdrawal.

36. B — A below-market compensation-related loan generally results in the foregone interest being treated as imputed additional compensation paid to the employee, which the employee must include in income, while the employer is treated as receiving that same amount back as imputed interest income under the below-market loan rules. This treatment applies regardless of whether the loan is ever formally repaid.

37. D — Interest on a home equity loan is generally deductible as qualified residence interest under current law when the loan proceeds are used to buy, build, or substantially improve the home securing the debt, in contrast to a home equity loan used for unrelated purposes such as paying off credit cards, which generally is not deductible.

38. A — A qualified taxpayer suffering a net disaster loss from a federally declared disaster may add the net disaster loss amount to their standard deduction, allowing a benefit even without itemizing, an exception to the general rule that a casualty loss deduction otherwise requires itemizing deductions on Schedule A. This benefit applies only to losses tied to that disaster.

39. B — The American Opportunity Tax Credit is generally partially refundable, meaning up to 40% of the otherwise allowable credit may generally be refunded to the taxpayer even if it exceeds their total tax liability for the year, unlike the Lifetime Learning Credit, which is generally entirely nonrefundable. The nonrefundable portion of the credit may still offset the taxpayer's remaining tax liability.

40. C — In addition to the Foreign Earned Income Exclusion, a qualifying taxpayer living abroad may claim a foreign housing exclusion, if the housing costs were paid with employer-provided amounts, or a foreign housing deduction if self-employed, for qualifying housing expenses exceeding a base amount, subject to an applicable limitation. Both benefits are subject to their own separate applicable dollar limitations.

41. B — A taxpayer who receives jury duty pay but must remit it to an employer that continued paying regular wages generally must include the jury duty pay in gross income, but may generally claim an offsetting above-the-line deduction for the amount turned over, preventing the pay from being taxed twice in substance.

42. A — Cash contributions to a public charity are generally deductible up to 60% of the taxpayer's AGI, while contributions of long-term appreciated capital gain property to a public charity are generally limited to 30% of AGI, with any amount exceeding the applicable limit generally available to carry forward for up to five years.

43. C — A landowner who donates a qualified conservation easement to a qualified organization, permanently restricting the land's use for conservation purposes, may generally claim a charitable contribution deduction for the value of the easement donated, subject to specific substantiation requirements and generally more generous AGI percentage limitations than typical property donations.

44. D — Unreimbursed costs of qualified long-term care services, provided the individual is chronically ill and the services are provided under a plan of care, are generally treated as deductible medical expenses subject to the same 7.5%-of-AGI floor that applies to other itemized medical expenses, separate from the related long-term care insurance premium deduction.

45. D — A prior-year traditional or Roth IRA contribution must generally be made by the unextended due date of the tax return for that year, typically in mid-April of the following year, and this deadline generally is not extended even if the taxpayer separately obtains a filing extension for the return itself.

46. B — Total contributions to a Coverdell Education Savings Account for a single beneficiary are generally limited to $2,000 per year across all contributors combined, with the ability to contribute generally phased out for contributors whose modified AGI exceeds an applicable threshold, distinguishing it from the generally more flexible 529 plan contribution structure.

47. C — The Child and Dependent Care Credit generally is not limited to the care of a qualifying child, and generally may also apply to care expenses enabling the taxpayer to work when the care is for a spouse or other qualifying individual who is physically or mentally incapable of self-care and shares the taxpayer's household.

48. A — Mortgage interest on a mixed-use property such as a duplex is generally allocated between the personal-use and rental-use portions, typically based on square footage or a similar reasonable method, with the personal-use portion generally deductible as qualified residence interest and the rental-use portion generally deductible as a rental expense on Schedule E.

49. B — The IRS rental real estate safe harbor for the QBI deduction generally requires at least 250 hours of rental services be performed annually for the rental enterprise, along with maintaining contemporaneous records of those services, offering a more objective path to QBI eligibility than a general facts-and-circumstances trade or business analysis.

50. C — A qualifying home energy audit is generally itself eligible for a credit up to a specific dollar limit as part of the broader Energy Efficient Home Improvement Credit, encouraging homeowners to identify the most cost-effective improvements before undertaking the physical upgrades that separately qualify for their own credit amounts under the same provision.

51. D — The qualified charitable distribution provision generally caps the annual amount that can be transferred directly from an IRA to charity at a specific indexed dollar figure per taxpayer for the year, a limit that exists independently of, and is not capped by, the taxpayer's separate required minimum distribution amount for that same year.

52. A — A dependent who does not meet the Child Tax Credit's age requirement, or otherwise does not qualify for that credit, may generally still qualify the taxpayer for the Credit for Other Dependents, a generally nonrefundable credit of up to $500 per qualifying dependent, subject to the same general phase-out thresholds as the Child Tax Credit.

53. B — The self-employed health insurance deduction is generally limited to the taxpayer's net earned income from the specific trade or business under which the health plan is established, meaning a taxpayer with a business loss for the year generally cannot claim this above-the-line deduction for that business's associated health insurance premiums.

54. A — Section 1033 generally allows a taxpayer to defer recognizing gain realized when insurance or other reimbursement proceeds from an involuntary conversion, such as a casualty, condemnation, or theft, exceed the property's adjusted basis, provided qualifying replacement property is acquired within the applicable statutory replacement period following the conversion. The replacement period generally varies depending on the type of property involved.

55. D — The foreign tax credit limitation generally caps the allowable credit at the taxpayer's total U.S. tax liability multiplied by the ratio of foreign source taxable income to total taxable income, preventing the credit from offsetting U.S. tax attributable to U.S. source income rather than only the income actually taxed abroad.

56. C — Amounts an employee sets aside through an employer's dependent care flexible spending account are generally excludable from income up to $5,000 per year for most taxpayers, generally reduced to $2,500 for a married taxpayer filing separately, with any qualifying expenses reimbursed through the FSA generally unavailable to also be used toward the separate dependent care credit.

57. B — While net operating losses may no longer be carried back under current general law, a specific exception preserves a two-year carryback for the farming loss portion of an NOL, reflecting the historically volatile nature of farm income and the recognition that farm losses often warrant different treatment. Other NOL portions follow the standard current-law rules.

58. C — A taxpayer who fails to meet the full two-year ownership and use requirement due to specific qualifying circumstances, such as a change in place of employment, health reasons, or other unforeseen circumstances defined by regulation, may generally still claim a reduced exclusion prorated based on the portion of the two-year period actually satisfied.

59. A — A guaranteed payment received by a general partner for services rendered to the partnership is generally included in the partner's net earnings from self-employment and is generally subject to self-employment tax, reflecting the partner's status as self-employed with respect to the partnership rather than as a common-law employee receiving wages.

60. D — A taxpayer's amount at risk in an activity generally increases when the taxpayer contributes additional cash or other property with real economic exposure, generally allowing the taxpayer to deduct a correspondingly larger amount of losses from that activity up to the new at-risk amount, subject to the separate passive activity loss rules.

61. A — Upon a taxpayer's complete disposition of an entire passive activity in a fully taxable transaction to an unrelated party, previously suspended passive losses from that activity generally become fully deductible in that year against any type of income, including nonpassive income, rather than remaining limited to offsetting only passive income.

62. D — A taxpayer who underpaid estimated tax during the year uses Form 2210 to compute the amount of any underpayment penalty owed, applying the applicable safe harbor tests and, where income varied significantly throughout the year, potentially the annualized income installment method to reduce or eliminate the computed penalty. Farmers and fishermen use a different, simplified version of this same form.

63. C — Even for a taxpayer who materially participates in a trade or business, avoiding the passive activity loss limitation, the separate excess business loss limitation under Section 461(l) may still generally cap the amount of aggregate business losses deductible against nonbusiness income in a given year, with any disallowed excess generally carried forward as part of an NOL.

64. B — A taxpayer who reinvests eligible capital gain into a Qualified Opportunity Zone Fund within the applicable statutory window may generally defer recognition of that original gain, with the deferred gain generally recognized on an earlier statutory date or upon disposition of the QOF investment, and potential further benefits tied to the holding period.

65. D — Section 1274 generally imputes a minimum interest rate, based on the applicable federal rate, on certain seller-financed installment sales that charge inadequate or no stated interest, recharacterizing a portion of what the parties may have intended as principal payments into taxable imputed interest income for the seller and imputed interest expense for the buyer.

66. C — The cost of maintaining a household for head of household purposes generally includes costs such as rent, mortgage interest, property taxes, utilities, home insurance, repairs, and food consumed within the home, but generally excludes costs like clothing, education, medical treatment, and vacations, which are not considered household maintenance costs for this specific test.

67. A — A taxpayer who must repay excess advance Premium Tax Credit payments upon reconciliation is generally subject to an applicable repayment limitation that caps the required repayment amount based on household income as a percentage of the federal poverty line, with lower-income taxpayers generally facing a lower repayment cap than higher-income taxpayers.

68. B — A farmer with low net farm profit or a net farm loss for the year may generally elect the farm optional method to compute self-employment tax based on a specified percentage of gross farm income instead of actual low or negative net earnings, generally helping preserve Social Security benefit credit accumulation despite the low-profit year.

69. A — When more than 40% of a business's qualifying depreciable property is placed in service during the final quarter of the tax year, the mid-quarter convention generally applies instead of the more common half-year convention, generally resulting in a smaller first-year depreciation deduction for property placed in service late in the year.

70. D — Interest on certain private activity municipal bonds generally remains exempt from regular federal income tax, but is generally added back as a tax preference item when computing alternative minimum taxable income, meaning a taxpayer holding a significant amount of these bonds may generally face AMT exposure they would not have from ordinary municipal bond interest.

71. C — A qualifying child generally must be under age 19 at year-end, or under age 24 if a full-time student for at least five months of the year, meaning a 19-year-old who is not a full-time student generally no longer meets this specific age test, though the child might still separately qualify as a qualifying relative.

72. B — The Additional Child Tax Credit, representing the refundable portion of the Child Tax Credit available when the credit exceeds the taxpayer's tax liability, is generally capped at a specific dollar amount per qualifying child, a cap that is generally lower than the full nonrefundable Child Tax Credit amount otherwise available per child.

73. B — The reasonable cause and good faith exception generally may relieve a taxpayer from the Section 6662 accuracy-related penalty if the taxpayer can demonstrate, based on all the facts and circumstances, that they acted reasonably and in good faith, such as through reliance on competent professional advice given complete and accurate information.

74. A — The general estimated tax payment schedule for individuals generally consists of four unequal periods, with payments generally due in mid-April, mid-June, mid-September, and mid-January of the following year, a schedule that does not divide the year into four equal three-month calendar quarters despite commonly being referred to as quarterly payments.

75. D — An advisor should generally emphasize that a client wanting to defer capital gain through a Qualified Opportunity Zone Fund investment must generally reinvest the eligible gain within 180 days of the transaction that generated it, a strict statutory window that, if missed, generally forecloses the deferral opportunity for that specific gain.

76. C — An advisor should generally raise that property passing through an estate at death generally receives a stepped-up basis to its fair market value on the date of death, potentially eliminating built-in gain entirely, while the same asset gifted during life generally carries over the donor's original, often lower, basis to the recipient.

77. D — An advisor should generally raise that Series I savings bonds are generally subject to a relatively modest annual purchase limit per individual, which can be modestly supplemented through the tax-refund paper bond option, meaning the strategy is generally better suited as a smaller inflation-hedging component of a broader portfolio rather than a primary savings vehicle.

78. C — An advisor might generally raise that delaying the closing by a relatively short period to reach the full two-year ownership and use requirement could allow the client to claim the full Section 121 exclusion amount, rather than potentially being limited to a smaller, prorated exclusion if the sale were to close just before that threshold is met.

79. B — An advisor might generally raise that a Solo 401(k) generally allows the business owner to make both an employee salary deferral contribution and a separate employer profit-sharing contribution, potentially allowing a larger total contribution than a SEP IRA alone at certain moderate income levels, in addition to potentially allowing Roth-designated employee deferrals.

80. A — An advisor should generally flag the pro-rata rule, under which the IRS generally treats all of a taxpayer's traditional IRA balances in aggregate when determining the taxable portion of a Roth conversion, meaning a client with a substantial existing pretax IRA balance may find a much larger portion of the intended backdoor conversion is unexpectedly taxable.

81. D — An advisor might generally raise that the client can generally elect to transfer the Clean Vehicle Credit to the dealer at the time of purchase, receiving the benefit as an immediate reduction in the purchase price or a cash payment, rather than waiting to claim the nonrefundable credit when filing the following year's tax return.

82. A — An advisor should generally raise modeling both options, since filing separately could lower the AGI used to compute the 7.5% medical expense floor for the spouse with large expenses, potentially allowing a larger deductible amount, even though filing separately generally also results in reduced eligibility for various other credits and more restrictive phase-out thresholds.

83. B — An advisor should generally raise that the annual gift tax exclusion generally applies separately to each individual recipient, meaning a grandparent gifting to several grandchildren, and potentially electing gift splitting with a spouse to double each recipient's exclusion, can transfer a substantial combined amount each year entirely exclusion-free without using any lifetime exemption.

84. C — An advisor should generally raise that a qualified charitable distribution must generally be completed before the applicable RMD deadline for the year to count toward satisfying that year's required minimum distribution, and that coordinating the timing and dollar amount carefully allows the client to meet the RMD requirement while excluding that transferred amount from taxable income.

85. B — An advisor should generally raise that the QBI deduction is generally available to a qualifying trade or business regardless of whether it operates as a sole proprietorship, partnership, or S corporation, though the specific computation, including the W-2 wage and UBIA limitations that can apply at higher income levels, can generally differ meaningfully depending on the chosen entity structure.

86. C — An advisor might generally raise the Net Unrealized Appreciation strategy, under which a client distributes appreciated employer stock directly from the 401(k), pays ordinary income tax only on the stock's original cost basis at distribution, and generally defers tax on the built-in appreciation until a later sale, taxed then at more favorable long-term capital gains rates.

87. A — An advisor might generally raise a bunching strategy, concentrating two or more years' worth of intended charitable contributions, often through a donor-advised fund, and other discretionary deductible payments into a single tax year to exceed the standard deduction threshold that year, while taking the standard deduction in the alternating lower-itemization years, maximizing the total tax benefit over time.

88. D — A federal estate tax return is generally required to be filed when the decedent's gross estate, combined with certain adjusted taxable lifetime gifts, exceeds the applicable estate tax exemption amount in effect for the year of death, though an estate below this threshold may still elect to file solely to claim portability of any unused exemption.

89. B — For a trust treated entirely as a grantor trust, the regulations allow a simplified optional reporting method, under which the trustee furnishes the grantor's information to payers so income is reported directly under the grantor's own taxpayer identification number, or reports the trust's items on an attached statement to the grantor's individual return, avoiding a full separate Form 1041 filing.

90. C — Because the unlimited marital deduction generally is not available for property passing outright to a noncitizen surviving spouse, a Qualified Domestic Trust, or QDOT, is used to preserve marital deduction treatment for that transfer, with the trust structured to ensure eventual U.S. estate tax is collected on the trust principal as distributions are made or upon the spouse's death.

91. A — An estate tax closing letter generally serves as the IRS's written confirmation that an estate tax return has been accepted as filed or has been examined and the matter closed, and executors generally use this letter, or alternatively an account transcript showing a similar closing code, to help finalize distributions and formally close out the estate's administration.

92. B — A Section 2503(c) minor's trust allows a gift to a trust for a minor beneficiary to qualify for the annual gift tax exclusion, even though the minor lacks an immediate right to withdraw the funds, provided the trust distributes principal and income to the beneficiary by age 21, or allows a limited withdrawal right at that age.

93. D — A trust created and funded during the grantor's lifetime is generally referred to as an inter vivos trust, while a trust created under the terms of a will and funded only after the grantor's death is generally referred to as a testamentary trust, a distinction separate from, though sometimes related to, whether a trust is revocable or irrevocable.

94. A — A trustee needing additional time to file a trust's Form 1041 generally files Form 7004 to request an automatic extension of the filing deadline, similar in function to the extension request a corporation or partnership would generally use, rather than the Form 4868 extension request typically used for an individual's Form 1040.

95. D — Under the 65-day rule, a trustee may elect to treat a distribution made within the first 65 days of a new tax year as though made on the last day of the prior tax year, providing flexibility to manage the trust's distributable net income and the resulting tax allocation between the trust and its beneficiaries after year-end figures become clearer.

96. C — A taxpayer generally must file Form 709 for a gift exceeding the annual exclusion amount even when no gift tax is actually due because the lifetime exemption absorbs the taxable gift, since filing the return is generally what formally applies the exemption amount against the gift and creates the IRS record needed for later transfer tax reconciliation.

97. A — Under the general "last deceased spouse" rule governing portability, a surviving spouse who remarries and is later widowed again generally may only use the DSUE amount from the most recently deceased spouse, meaning any unused DSUE amount from an earlier deceased spouse generally becomes unavailable once claimed from the most recent spouse, an important planning consideration before remarriage.

98. D — A U.S. person who receives a distribution from a foreign trust generally has a separate reporting obligation to file Form 3520, reporting the distribution received, regardless of whether the U.S. person is also treated as an owner of the trust under the grantor trust rules, which would generally trigger its own additional reporting requirements.

99. C — Section 2032A allows an estate to elect special use valuation for qualifying family farm or closely held business real property, valuing the property based on its actual current use, such as farming, rather than its potentially much higher fair market value under its highest and best possible use, subject to a maximum permitted valuation reduction and specific post-election use requirements.

100. B — A person claiming a refund due to a deceased taxpayer generally must file Form 1310 along with the decedent's final return, unless the claimant is a surviving spouse filing a joint return or a court-appointed personal representative filing the decedent's return, in which case this additional form is generally not required.