PRACTICE EXAM 8: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

This simulation exam contains 100 multiple-choice questions covering all six domains of the IRS Special Enrollment Examination (SEE) Part 1: Individuals, weighted to mirror the official exam's domain distribution. Select the single best answer for each question. A complete answer key with explanations follows the exam. Recommended time: 3.5 hours.

1. A new client presents a Social Security card with a name that does not match the name on the client's driver's license due to a recent divorce and legal name change that has not yet been reported to the Social Security Administration. What should the preparer generally do?

A. Advise the client to update their name with the Social Security Administration and, in the meantime, file using the name currently on record with the SSA to avoid an e-file rejection
B. File the return using the new legal name from the driver's license regardless of what the SSA currently shows
C. Refuse to prepare the return at all until the SSA name change is fully completed and confirmed
D. Use whichever name the client personally prefers, since the discrepancy has no effect on IRS processing

2. A preparer is engaged by a new client who has not filed a tax return in three years. What is generally the preparer's first step in addressing this situation?

A. Immediately file only the most recent year's return and disregard the two older, delinquent years entirely
B. Advise the client that nothing can be done since returns more than one year late can no longer be filed
C. File all three years using only the client's verbal recollection of income with no supporting documentation gathered
D. Obtain IRS wage and income transcripts and account transcripts for the missing years to determine what income was reported to the IRS before preparing the delinquent returns

3. A married couple is considering filing status options after one spouse discovers the other spouse omitted significant income from a jointly filed return several years ago. What relief provision may allow the non-omitting spouse to avoid liability for the resulting deficiency?

A. Injured spouse relief, which applies only to situations involving a joint refund offset for the other spouse's separate debts

B. Innocent spouse relief, available when the requesting spouse did not know and had no reason to know of the understatement attributable to the other spouse

C. Head of household relief, which is unrelated to joint liability for an understatement of tax on a jointly filed return

D. No relief provision exists once a joint return has been filed and signed by both spouses

4. A preparer's client is due a joint refund, but the client's spouse owes past-due child support that would otherwise cause the entire joint refund to be offset. What form should the non-liable spouse generally file to claim their portion of the refund?

A. Form 8857, Request for Innocent Spouse Relief, which addresses liability for an understatement rather than a refund offset

B. Form 1040-X, since an amended return is required before any refund allocation can be requested

C. Form 8379, Injured Spouse Allocation, to claim the non-liable spouse's proper share of the joint refund

D. No form is available; the entire joint refund must be applied to the spouse's past-due obligation regardless of the other spouse's separate income

5. A taxpayer's Individual Taxpayer Identification Number (ITIN) has not been used on a filed federal tax return in the past three consecutive years. What is the general consequence for that specific ITIN?

A. The ITIN generally expires and must be renewed with the IRS before it can be used again on a subsequently filed return

B. The ITIN remains permanently valid regardless of the taxpayer's filing history over any period of time

C. The taxpayer must apply for a new Social Security number rather than renewing the existing ITIN

D. The ITIN automatically converts into a permanent Social Security number once three years elapse without any application required

6. A preparer is completing a return that claims the Earned Income Tax Credit for a client with two qualifying children. What due diligence documentation is the preparer generally required to complete and retain for this specific return?

A. No specific due diligence documentation is required beyond the client's verbal assurance that the children qualify

B. Only a copy of the client's Social Security card is required, with no separate due diligence checklist needed at all

C. Form 8867, Paid Preparer's Due Diligence Checklist, along with supporting worksheets and records substantiating eligibility for the credit

D. Form 2848 power of attorney, which is unrelated to due diligence requirements for refundable credit claims

7. A preparer discovers, while reviewing a new client's engagement, that the client's identity may have been used fraudulently to file a prior-year return the client never actually submitted. What should the preparer generally advise the client to do?

A. Simply ignore the issue since the IRS will automatically detect and correct any fraudulent filing without any action needed

B. File Form 14039, Identity Theft Affidavit, with the IRS to report the suspected identity theft and begin the resolution process

C. File a new original return for that year without taking any other action to report the suspected fraud

D. Contact only the credit bureaus, since the IRS has no separate process for addressing tax-related identity theft

8. A preparer is retained to represent a client in an IRS audit but was not the original preparer of the return under examination. What form must generally be completed and filed to allow the preparer to receive confidential information and act on the client's behalf before the IRS?

A. Form 8821, Tax Information Authorization, which allows information disclosure but not the broader authority to represent or negotiate

B. Form 1040-X, since an amended return must be filed before any representation can begin in an audit

C. No form is required as long as the preparer verbally states to the IRS that the client has authorized the representation

D. Form 2848, Power of Attorney and Declaration of Representative, executed by the client authorizing the practitioner's representation

9. A client asks how long they should generally retain copies of filed tax returns and supporting records. What is the general recommended minimum retention period tied to the standard assessment statute of limitations?

A. Generally at least three years from the filing date, though longer retention is often recommended given exceptions that extend the assessment period

B. Only until the return is accepted by the IRS, after which all records may generally be safely discarded

C. Exactly one year from the filing date, matching the standard extension period available for most returns

D. There is no general recommendation at all, since retention periods are governed exclusively by state law

10. A preparer's client provides a Form 1095-A reporting advance premium tax credit payments received through a Health Insurance Marketplace during the year. What is the general purpose of reconciling this form on the client's return?

A. To simply report the form for informational purposes only, since it has no effect on the client's actual tax liability

B. To automatically disqualify the client from claiming any premium tax credit for the year regardless of final income

C. To calculate an entirely unrelated credit that has no connection to the advance payments actually received during the year

D. To compare the advance payments received against the actual premium tax credit the client is entitled to based on final household income, resulting in either an additional credit or a repayment

11. A preparer is engaged by a client whose native language is not English and who has limited ability to read the return before signing it. What is generally the best practice for the preparer in this situation?

A. Simply have the client sign the return without further explanation, since literacy in English is not the preparer's concern

B. Refuse to prepare the return at all, since a language barrier automatically disqualifies a taxpayer from having a return prepared

C. Ensure the client understands the return's contents, using a qualified interpreter or translated materials if needed, before the client signs the completed return

D. Have a family member sign the return on the client's behalf instead of having the actual taxpayer sign it

12. A preparer's client wants to authorize a family member to discuss a specific, already-filed tax return with the IRS for a limited purpose, without granting that family member broader representation authority. What mechanism on Form 1040 generally accomplishes this limited purpose?

A. Form 2848, which grants full representation authority well beyond the limited purpose the client actually wants to authorize

B. The Third Party Designee checkbox and section, which authorizes a named individual to discuss that specific return with the IRS for limited purposes

C. There is no mechanism available at all for authorizing any third party to discuss a filed return with the IRS

D. The taxpayer must be physically present for any IRS discussion regardless of any authorization provided on the return

13. A preparer notices that a new client's prior-year return was filed using the Single filing status, but the client discloses having been legally married for the entire prior year with no qualifying separation. What should the preparer generally advise?

A. No correction is generally needed, since filing status has no real effect on the taxpayer's overall calculated tax liability

B. The prior-year return likely used an incorrect filing status and should generally be corrected by filing Form 1040-X, since filing status affects the standard deduction and tax computation

C. The client should simply continue using Single status going forward without addressing the prior-year error at all

D. The error can only be corrected by the IRS itself and can never be corrected through a taxpayer-initiated amended return

14. A preparer's client wants to know the general consequence of failing to timely file a tax return that shows a balance due, compared to filing on time but failing to pay the balance due. What is the general distinction between these two separate penalties?

A. Both penalties are always identical in amount, so there is no practical difference between filing late and paying late

B. The failure-to-pay penalty is always more severe than the failure-to-file penalty in every circumstance

C. Neither penalty applies at all as long as the taxpayer eventually pays the full balance within five years

D. The failure-to-file penalty is generally more severe than the failure-to-pay penalty, so a taxpayer unable to pay should still generally file the return on time to minimize the combined penalty

15. A preparer is asked by a client to backdate a signature on a return to make it appear the return was signed before the original filing deadline. What does Circular 230 generally require the preparer to do in this situation?

A. Decline the client's request, since knowingly assisting in a false or fraudulent statement on a document related to a federal tax matter violates the preparer's professional obligations

B. Comply with the client's request as a normal accommodation, since the actual filing date is unaffected by the signature date shown

C. Comply with the request only if the client provides a written explanation justifying the requested backdating

D. Report the client directly to state licensing authorities without first declining to backdate the signature

16. A preparer's client's e-filed return is rejected because a dependent claimed on the return was already claimed as a dependent on another taxpayer's already-accepted e-filed return for the same tax year. What is generally the preparer's recommended next step?

A. Simply remove the dependent entirely from the return without further investigation into why the rejection occurred

B. Resubmit the identical e-filed return repeatedly until the IRS system eventually accepts the duplicate dependent claim

C. Paper-file the client's return, since a duplicate dependent claim generally blocks a second e-filed return from being accepted for that same tax year

D. Advise the client that nothing further can be done and that the return can never be filed for that tax year

17. A taxpayer received a Form 1099-DIV reporting $2,000 in ordinary dividends, of which $1,500 is separately identified as qualified dividends. How should the taxpayer generally report and treat these two amounts?

A. Report the full $2,000 as taxable dividend income, with the $1,500 qualified portion eligible for preferential long-term capital gains tax rates rather than ordinary rates

B. Report only the $500 non-qualified portion as taxable, since qualified dividends are entirely excluded from income

C. Report the full $2,000 taxed entirely at ordinary income tax rates, since dividend income never receives preferential treatment

D. Report only the $1,500 qualified portion, disregarding the remaining $500 in ordinary, non-qualified dividends entirely

18. A taxpayer sold shares of publicly traded stock during the year for a $5,000 gain, reported on Form 1099-B with cost basis included. The shares were purchased eight months before the sale. How is this gain generally characterized?

A. Long-term capital gain, eligible for preferential rates, since any stock sale automatically qualifies for long-term treatment

B. Ordinary business income, since publicly traded securities are never treated as capital assets under current law

C. Short-term capital gain, taxed at the taxpayer's ordinary income tax rates, since the holding period was one year or less

D. Entirely tax-exempt income, since the broker already reported the cost basis directly to the IRS on Form 1099-B

19. A taxpayer received a Form 1099-R reporting a $20,000 distribution from a traditional 401(k) plan, coded as an early distribution with no known exception. The taxpayer is age 45. How is this distribution generally taxed?

A. Entirely tax-free, since the funds were already taxed once when originally contributed to the 401(k) plan

B. Includible in ordinary taxable income and subject to an additional 10% early distribution penalty, since no exception applies and the taxpayer is under age 59½

C. Subject only to the 10% penalty, with the underlying distribution itself excluded from ordinary taxable income

D. Taxed at a flat, separate 20% rate distinct from the taxpayer's regular ordinary income tax rate schedule

20. A taxpayer's Social Security benefits for the year total $18,000, and the taxpayer's other income plus one-half of Social Security benefits, combined with any tax-exempt interest, results in provisional income exceeding the applicable higher threshold. What is the general maximum percentage of benefits that can become taxable?

A. 100% of Social Security benefits always become fully taxable once any threshold at all is exceeded by any amount

B. Social Security benefits are always entirely tax-free regardless of the taxpayer's other income sources

C. Only 50% of benefits can ever become taxable under any combination of income levels under current law

D. Up to 85% of the taxpayer's total Social Security benefits can become includible in taxable income once provisional income exceeds the higher applicable threshold

21. A taxpayer received a Form 1099-G reporting $4,000 of unemployment compensation received during the year. How is this unemployment compensation generally treated for federal income tax purposes?

A. Fully includible in the taxpayer's taxable income for the year, reported as income on the federal return

B. Entirely excluded from taxable income under a permanent, ongoing federal exclusion for unemployment compensation

C. Taxable only to the extent the amount received exceeds a specific annual unemployment compensation exclusion threshold

D. Treated as a nontaxable gift from the state unemployment agency rather than as taxable income to the recipient

22. A divorced taxpayer receives $1,500 per month in payments under a divorce decree finalized after December 31, 2018, explicitly labeled as alimony in the agreement. How is this payment generally treated on the recipient's federal return?

A. Fully includible in the recipient's taxable income exactly as it would have been under a pre-2019 divorce agreement
B. Includible only to the extent the payment exceeds a specific statutory monthly alimony exclusion threshold
C. Not includible in the recipient's taxable income, since alimony under a post-2018 divorce agreement is neither deductible by the payer nor taxable to the recipient
D. Treated as a nontaxable property settlement rather than as a periodic support payment under current law

23. A taxpayer received a Form W-2G reporting $6,000 in gambling winnings from a single slot machine jackpot during the year. The taxpayer also incurred $2,000 in separately documented gambling losses during the same year. How are these amounts generally reported?

A. The taxpayer may simply net the winnings against the losses, reporting only the $4,000 difference as taxable income
B. The full $6,000 in winnings is includible in gross income, while the $2,000 in losses may only be deducted as an itemized deduction, and only up to the amount of winnings reported
C. Gambling winnings are entirely excluded from taxable income as long as documented losses exist for the same year
D. The $2,000 in losses may be deducted against ordinary wage income without regard to the amount of winnings reported

24. A taxpayer had a $10,000 personal credit card debt cancelled by the creditor during the year, and the taxpayer received a Form 1099-C reporting the cancelled amount. The taxpayer was not insolvent and did not file bankruptcy. How is this cancelled debt generally treated?

A. Entirely excluded from taxable income, since personal, non-business debt cancellation is never taxable under any circumstances
B. Generally includible in the taxpayer's taxable income as cancellation of debt income for the year the cancellation occurred

C. Includible only if the taxpayer later uses the credit card again with the same creditor within the same tax year

D. Treated as a nontaxable gift from the creditor rather than as income to the taxpayer whose debt was cancelled

25. A taxpayer sold cryptocurrency held as a capital asset for a $3,000 gain during the year, after holding it for four months before the sale. How should this transaction generally be reported on the taxpayer's return?

A. As ordinary miscellaneous income unrelated to capital gains reporting, since virtual currency is not treated as property

B. As entirely tax-exempt income, since cryptocurrency transactions are not yet subject to federal income tax reporting

C. As a long-term capital gain automatically, regardless of the actual four-month holding period involved

D. As a short-term capital gain on Form 8949 and Schedule D, taxed at the taxpayer's ordinary income tax rates, since the holding period was less than one year

26. A taxpayer rents out a spare bedroom in their primary residence for 10 days during the year, receiving $1,200 in total rental payments, and does not rent out any other part of the home for the remainder of the year. How is this rental income generally treated?

A. Fully includible in taxable income exactly as any other rental property income would be reported on Schedule E

B. Includible only to the extent the amount received exceeds the taxpayer's documented actual rental expenses for those 10 days

C. Treated as self-employment income subject to self-employment tax rather than as passive rental income

D. Excluded entirely from taxable income under the specific rule for a dwelling rented fewer than 15 days during the year, with associated rental expenses also not deductible

27. A taxpayer received a Schedule K-1 from an S corporation reporting $15,000 of ordinary business income allocated to the taxpayer as a shareholder, though no cash distribution was actually made during the year. How is this $15,000 generally treated on the taxpayer's individual return?

A. Excluded from taxable income entirely until the year the S corporation actually makes a cash distribution to the shareholder

B. Treated as a nontaxable return of the shareholder's own capital investment in the S corporation rather than as income

C. Generally includible in the taxpayer's taxable income for the year, regardless of whether any cash was actually distributed by the S corporation

D. Subject to self-employment tax in the same manner as a sole proprietor's net earnings from self-employment

28. A taxpayer received $3,000 in jury duty pay during the year from the local court system, and separately turned over $2,800 of that amount to their employer, who continued paying the taxpayer's regular salary during the jury service period. How is this generally reported?

A. The full $3,000 is includible in gross income, with the $2,800 turned over to the employer deductible as an adjustment to income

B. Only the $200 retained by the taxpayer is includible in gross income, with the remaining $2,800 excluded entirely

C. The full $3,000 is excluded from gross income entirely, since it was ultimately turned over to the employer

D. The jury duty pay is treated as a nontaxable reimbursement rather than as includible gross income to the taxpayer

29. A taxpayer received a $500 payment for providing consulting services to a neighbor's small business on an informal, one-time basis, with no ongoing pattern of similar activity. How is this payment generally treated for federal tax purposes?

A. Includible in gross income and generally reported as either hobby-type miscellaneous income or self-employment income depending on the facts, but taxable either way

B. Entirely excluded from gross income, since the payment was a one-time, informal arrangement rather than a formal business

C. Treated as a nontaxable gift from the neighbor rather than as compensation for services actually rendered

D. Taxable only if the taxpayer receives a Form 1099-NEC reporting the specific payment from the neighbor

30. A taxpayer received a lump-sum life insurance death benefit of $250,000 following the death of a spouse who was the named insured on the policy. How is this life insurance proceeds payment generally treated for federal income tax purposes?

A. Fully includible in gross income exactly as any other lump-sum payment received by an individual taxpayer would be
B. Includible only to the extent the payment exceeds the total premiums the deceased spouse paid into the policy over time
C. Subject to a specific flat 20% withholding tax applied directly by the insurance company before the proceeds are paid
D. Generally excluded entirely from the taxpayer's gross income, since life insurance proceeds paid by reason of the insured's death are generally not taxable

31. A taxpayer received $1,800 in taxable interest income during the year from a bank savings account, along with $600 in tax-exempt interest from municipal bonds held in a separate account. How should these two amounts generally be reported on the taxpayer's return?

A. Both amounts are combined and reported together as a single $2,400 figure fully includible in taxable income
B. The $1,800 in taxable interest is included in gross income, while the $600 in tax-exempt interest is separately reported for informational purposes but excluded from taxable income
C. Only the $600 in tax-exempt interest is reported at all, with the $1,800 in taxable interest disregarded entirely
D. Neither amount is reportable at all unless the combined total exceeds a specific minimum annual interest threshold

32. A taxpayer received a $10,000 scholarship from an accredited university, of which $7,000 was used for tuition and required fees and $3,000 was used for room and board. How is this scholarship generally treated for federal tax purposes?

A. The full $10,000 scholarship is entirely excluded from taxable income regardless of how any portion of it was actually used

B. The full $10,000 scholarship is entirely includible in taxable income regardless of how any portion of it was actually used
C. The $7,000 used for tuition and required fees is generally excluded from taxable income, while the $3,000 used for room and board is generally includible in taxable income
D. Only the room and board portion is excluded from income, while the tuition and fees portion is fully taxable

33. A taxpayer received $8,000 in long-term disability insurance benefits during the year under a policy the taxpayer's employer paid for entirely with employer funds, with no portion of the premium paid by the employee. How are these disability benefits generally taxed?

A. Entirely excluded from taxable income, since disability benefits are never taxable regardless of who paid the insurance premiums
B. Includible only to the extent the benefits received exceed the taxpayer's regular pre-disability salary for the same period
C. Generally fully includible in the taxpayer's taxable income, since the employer paid the entire premium and the employee included no amount as taxable income for the coverage itself
D. Taxable only if the taxpayer also continues working in some capacity while simultaneously receiving the disability benefits

34. A taxpayer bartered accounting services worth $2,500 in exchange for a neighbor's landscaping services of equal value, with no cash changing hands between the two parties. How is this bartering arrangement generally treated for federal tax purposes?

A. Neither party has any taxable income at all, since no actual cash payment was ever exchanged between the two parties
B. Only the party who initiated the bartering arrangement has taxable income, while the other party has no taxable income at all
C. The arrangement is treated as a nontaxable exchange of services similar to a like-kind exchange of real property
D. Both parties generally must include the fair market value of the services received, $2,500, as taxable income on their respective returns

35. A taxpayer's traditional IRA custodian reports a $12,000 required minimum distribution taken during the year on Form 1099-R, with no portion representing nondeductible basis. How is this required minimum distribution generally taxed?

A. Entirely excluded from taxable income, since a required minimum distribution is treated differently than any other IRA distribution

B. Fully includible in the taxpayer's ordinary taxable income for the year, since the entire IRA balance consisted of pretax, deductible contributions and earnings

C. Subject only to the 10% early distribution penalty without also being includible in the taxpayer's ordinary taxable income

D. Taxable only to the extent the distribution exceeds the taxpayer's original total contributions made over the life of the account

36. A taxpayer received a $5,000 payment from a class action lawsuit settlement, characterized in the settlement agreement as compensation for lost wages due to an employment dispute, rather than for physical injury or physical sickness. How is this settlement payment generally treated?

A. Generally includible in the taxpayer's taxable income, since it represents a substitute for taxable wages rather than compensation for a physical injury or physical sickness

B. Entirely excluded from taxable income, since all lawsuit settlement payments are automatically treated as nontaxable under current law

C. Includible only to the extent the payment exceeds the taxpayer's actual documented attorney fees paid in connection with the lawsuit

D. Treated as a nontaxable gift from the defendant rather than as compensation connected to the underlying employment dispute

37. A married couple filing jointly has $12,000 in state and local income taxes paid and $4,000 in state and local property taxes paid during the year, for a combined total of $16,000. What is the general maximum amount of this combined total deductible as an itemized deduction?

A. The full $16,000, since there is no cap at all on the combined state and local tax itemized deduction

B. $12,000, applying the cap only to the income tax portion while fully allowing the separate property tax amount

C. $10,000, since the combined state and local tax (SALT) itemized deduction is generally capped at $10,000 regardless of the actual total amount paid

D. $4,000, applying the cap only to the property tax portion while fully allowing the separate income tax amount

38. A taxpayer donates a used vehicle worth $4,500 in fair market value to a qualified charity, and the charity sells the vehicle for $3,200 shortly after receiving it rather than using it in its own charitable programs. What is the taxpayer's generally allowable charitable deduction?

A. $4,500, the vehicle's full fair market value, regardless of the amount the charity actually received from selling it

B. No deduction at all is allowed once the charity sells a donated vehicle rather than keeping it for its own use

C. $1,300, the difference between the vehicle's fair market value and the amount the charity received from the sale

D. $3,200, limited to the gross proceeds the charity actually received from selling the vehicle, since the charity sold rather than used or materially improved the vehicle

39. A taxpayer paid $2,800 in student loan interest during the year on a loan used solely to pay for the taxpayer's own qualified higher education expenses, and the taxpayer's modified AGI falls below the applicable phase-out threshold. What is the maximum student loan interest deduction generally available?

A. The full $2,800 actually paid, since there is no annual dollar cap on the student loan interest deduction

B. $2,500, since the student loan interest deduction is generally capped at $2,500 per year regardless of the actual amount of interest paid

C. $1,400, applying an incorrect 50% limitation rather than the applicable flat dollar cap

D. No deduction is available at all, since student loan interest was fully eliminated as a deduction under current law

40. A kindergarten teacher who works more than 900 hours during the school year at a qualifying elementary school purchased $400 in unreimbursed classroom supplies for use with students during the year. What is the maximum educator expense deduction generally available for this teacher?

A. The full $400 actually spent, since there is no annual dollar cap on the educator expense deduction available to teachers

B. $100, applying an incorrect 25% limitation rather than the applicable flat dollar cap for eligible educators

C. No deduction is available at all, since classroom supply purchases were fully eliminated as a deduction under current law

D. $300, since the educator expense deduction is generally capped at $300 per eligible educator, regardless of the actual amount spent

41. A self-employed taxpayer contributes $6,000 to a Health Savings Account (HSA) during the year, which is under the applicable annual HSA contribution limit for the taxpayer's coverage category. How is this HSA contribution generally treated on the taxpayer's return?

A. Generally deductible as an above-the-line adjustment to income, reducing the taxpayer's adjusted gross income for the year

B. Deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, similar to certain other unreimbursed expenses

C. Not deductible at all, since HSA contributions can never be deducted regardless of the taxpayer's coverage category

D. Deductible only if the taxpayer also itemizes deductions rather than claiming the standard deduction for the year

42. A married couple filing jointly claims the Child Tax Credit for their one qualifying child under age 17, and their modified AGI falls well below the applicable phase-out threshold for joint filers. What is the maximum Child Tax Credit generally available per qualifying child under current law?

A. $1,000 per qualifying child, matching the credit amount available under a now-expired prior version of the credit

B. $3,600 per qualifying child regardless of the child's specific age, matching a temporary pandemic-era expanded credit amount

C. $2,000 per qualifying child under age 17, before considering any applicable refundability limitations

D. There is no maximum dollar cap at all on the Child Tax Credit available per qualifying child under current law

43. A taxpayer's Earned Income Tax Credit eligibility depends partly on the taxpayer having investment income under a specific annual statutory limit. What type of income generally counts toward this specific investment income limitation?

A. Interest, dividends, net capital gain, and certain other passive income types, which together must fall under the applicable annual limit for EITC eligibility
B. Only wage income counts toward this limitation, with all other income types entirely excluded from the calculation
C. Only self-employment income counts toward this limitation, with passive investment income entirely excluded from the calculation
D. There is no investment income limitation at all that affects Earned Income Tax Credit eligibility under current law

44. A taxpayer paid $5,000 in qualified higher education expenses for their own graduate-level coursework during the year, coursework that does not qualify for the American Opportunity Credit due to the taxpayer already having a bachelor's degree. What education credit may generally still be available?

A. The American Opportunity Credit is still available in full, since graduate coursework automatically qualifies once undergraduate work is complete
B. The Lifetime Learning Credit, which is available for graduate-level and other coursework beyond the first four years of postsecondary education
C. No education credit is available at all once a taxpayer has already completed an undergraduate degree program
D. The Child and Dependent Care Credit, since it applies broadly to any education-related expense regardless of the taxpayer's age

45. A married couple adopts a child during the year and incurs $8,000 in qualified adoption expenses, including agency fees and legal costs, for a domestic adoption that becomes final during the same year. What is the general tax treatment of these adoption expenses?

A. The expenses are generally deductible as an itemized deduction on Schedule A rather than eligible for any tax credit
B. No tax benefit at all is available for adoption-related expenses under current federal tax law

C. The expenses are deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor limitation

D. The couple may generally claim the Adoption Credit, a nonrefundable credit for qualified adoption expenses up to the applicable annual dollar limit

46. A taxpayer installs a solar electric panel system on their primary residence during the year at a total cost of $20,000, qualifying for the Residential Clean Energy Credit at the applicable 30% rate. What is the general amount of this nonrefundable credit?

A. $20,000, the full cost of the system, since the credit fully offsets 100% of qualifying solar installation costs

B. $2,000, applying an incorrect flat dollar cap rather than the applicable percentage-based credit calculation

C. $6,000, calculated as 30% of the $20,000 in qualifying solar electric property costs

D. No credit at all is available for solar electric property installed on a taxpayer's primary personal residence

47. A taxpayer's total itemized deductions include $3,000 in unreimbursed employee business expenses incurred while working as a W-2 employee during the year. How are these unreimbursed employee expenses generally treated under current law?

A. Generally not deductible at all for most employees, since the miscellaneous itemized deduction subject to the 2% AGI floor was suspended for most taxpayers under current law

B. Fully deductible as a miscellaneous itemized deduction subject only to the applicable 2% AGI floor limitation

C. Fully deductible as an above-the-line adjustment to income, available regardless of whether the taxpayer itemizes deductions

D. Deductible dollar-for-dollar as a nonrefundable tax credit rather than as any form of itemized deduction

48. A taxpayer's total qualifying medical and dental expenses for the year are $9,000, and the taxpayer's AGI is $70,000. What amount of these medical expenses is generally deductible as an itemized deduction on Schedule A?

A. The full $9,000, since medical expenses are fully deductible without any AGI-based floor limitation applied at all

B. $3,750, calculated as $9,000 in total expenses minus $5,250 (7.5% of the $70,000 AGI floor)

C. $5,250, applying only the floor amount itself rather than subtracting it from the total qualifying expenses

D. $900, using an incorrect 10% AGI floor rather than the applicable 7.5% floor for medical and dental expenses

49. A taxpayer contributes $4,000 to a traditional IRA during the year and is not covered by any employer-sponsored retirement plan, while the taxpayer's spouse is covered by an employer plan. The couple's modified AGI falls under the applicable threshold for a spouse not covered by a plan. What is the general deduction result?

A. No deduction at all is available, since one spouse's employer plan coverage automatically eliminates the other spouse's deduction

B. The full $4,000 contribution is generally deductible, since a spouse not covered by an employer plan is subject to a separate, generally more generous phase-out threshold

C. Only half of the contribution, $2,000, is deductible when one spouse is covered by an employer plan and the other is not

D. The deduction is capped at a flat $1,000 regardless of the couple's actual combined modified AGI for the year

50. A taxpayer's Child and Dependent Care Credit calculation involves $6,000 in actual work-related care expenses for two qualifying children under age 13, under the $6,000 cap that applies for two or more qualifying persons. Applying a 20% credit rate based on the taxpayer's AGI, what is the resulting credit?

A. $1,200, calculated as 20% applied to the full $6,000 in actual qualifying expenses, since that amount equals the applicable two-child cap

B. $2,000, using an incorrect flat percentage rather than the applicable 20% rate based on the taxpayer's AGI level

C. $6,000, the full expense amount with no percentage credit rate applied at all to the qualifying expenses

D. $600, using an incorrect 10% rate rather than the applicable 20% rate that applies at this taxpayer's AGI level

51. A taxpayer's mortgage interest deduction includes interest paid on $850,000 of home acquisition debt used entirely to purchase the taxpayer's primary residence, incurred under a mortgage originated after the applicable current-law threshold date. What is the general acquisition debt limit for full interest deductibility?

A. The full $850,000 in acquisition debt, since there is no dollar limit at all on deductible home mortgage acquisition debt

B. $1,000,000, applying the higher limit that instead generally applies only to older mortgages originated before the current-law threshold date

C. $750,000, since mortgage interest is generally deductible only on acquisition debt up to $750,000 for loans originated after the applicable current-law threshold date

D. $500,000, applying an incorrect limit that instead generally applies specifically to married taxpayers filing separately

52. A taxpayer's Saver's Credit (Retirement Savings Contributions Credit) calculation is based on $2,500 of eligible retirement plan contributions made during the year, exceeding the maximum eligible contribution amount the credit can be calculated against. What is the maximum eligible contribution amount used in this calculation?

A. The full $2,500 actually contributed, since there is no cap at all on the eligible contribution amount used in the credit calculation

B. $1,000, applying an incorrect, lower cap rather than the applicable $2,000 eligible contribution limit per individual

C. $5,000, applying an incorrect, higher cap that instead generally applies only to married couples filing a joint return

D. $2,000, since the Saver's Credit is generally calculated only against the first $2,000 of eligible contributions per individual, regardless of a larger actual contribution

53. A taxpayer's total charitable contributions for the year include $500 in cash donated to a qualified public charity and a separately appraised $8,000 non-cash donation of appreciated stock held long-term, donated directly to that same charity. How are these two distinct types of contributions generally limited as itemized deductions?

A. Cash contributions to public charities are generally limited to 60% of AGI, while long-term appreciated stock contributions are generally limited to 30% of AGI, each subject to its own separate percentage limitation

B. Both types of contributions are subject to an identical single combined percentage-of-AGI limitation with no distinction between them

C. Only the cash contribution is subject to any AGI-based percentage limitation, while the stock donation has no percentage limitation

D. Neither contribution type is subject to any AGI-based percentage limitation at all under current federal tax law

54. A taxpayer's Qualified Business Income (QBI) deduction is calculated for a sole proprietor whose taxable income before the QBI deduction exceeds the applicable higher threshold, and whose trade or business is a specified service trade or business (SSTB), such as consulting. What is the general effect of SSTB classification at this income level?

A. SSTB classification has no effect at all on QBI deduction availability regardless of the taxpayer's income level

B. The QBI deduction is generally increased, rather than reduced, for SSTB businesses once income exceeds the applicable threshold

C. SSTB classification only affects corporate taxpayers and has no bearing at all on a sole proprietor's individual return

D. The QBI deduction is generally fully phased out and unavailable once taxable income exceeds the applicable higher SSTB threshold

55. A taxpayer's total gambling losses for the year are properly documented at $7,000, while total gambling winnings reported on various Forms W-2G total $5,000 for the same year. What is the maximum gambling loss deduction generally available as an itemized deduction?

A. The full $7,000 in documented losses, since gambling losses are always fully deductible regardless of the amount of winnings

B. $2,000, representing the excess of losses over winnings, deductible as a separate itemized deduction beyond the winnings amount

C. $5,000, since gambling losses are deductible only up to the total amount of gambling winnings reported for the same tax year

D. No deduction at all is available for gambling losses under current federal tax law regardless of documented winnings

56. A taxpayer paid $3,000 during the year to install a qualifying exterior door meeting current energy efficiency standards, eligible for the Energy Efficient Home Improvement Credit's specific per-item cap for exterior doors. What is the maximum credit generally available for this specific exterior door installation?

A. 30% of the full $3,000 cost with no separate per-door dollar cap applied to exterior door installations at all

B. $250 per door, up to an aggregate $500 annual limit for all qualifying exterior doors installed during the year

C. $1,200, applying the separate annual aggregate cap that instead generally applies to the credit's other qualifying property categories

D. The full $3,000 cost, since there is no dollar limitation at all on the exterior door portion of this credit

57. A taxpayer's rental real estate activity generates a $15,000 loss for the year, and the taxpayer actively participates in managing the property but is not a real estate professional. The taxpayer's modified AGI is $90,000, under the applicable phase-out threshold. How much of this loss is generally deductible against nonpassive income?

A. None of the loss is deductible against nonpassive income at all, since rental activities are always fully passive regardless of participation level

B. The full $15,000 loss is automatically deductible without regard to any passive activity loss limitation whatsoever

C. Up to $25,000 of the rental loss may generally be deducted against nonpassive income under the active participation exception, since the taxpayer's MAGI falls under the applicable phase-out threshold

D. Only $3,000 of the loss is deductible, matching the separate annual capital loss limitation rather than the passive loss rules

58. A taxpayer sells stock at a $4,000 loss on November 15 and repurchases substantially identical stock on December 10 of the same year, within the 30-day window before or after the sale. How is this loss generally treated under the wash sale rule?

A. The full $4,000 loss remains fully deductible in the current year, since the wash sale rule applies only to gains, not losses

B. The $4,000 loss is generally disallowed for current deduction, and the disallowed loss is instead added to the basis of the newly repurchased stock

C. The loss is permanently disallowed forever, with no adjustment at all to the basis of the newly repurchased replacement stock

D. Only half of the loss, $2,000, is disallowed, with the remaining $2,000 still deductible in the current tax year

59. A taxpayer sells investment real property in a properly structured Section 1031 like-kind exchange for other qualifying investment real property of equal value, receiving no cash or other non-like-kind property (boot) as part of the transaction. What is the general tax result of this exchange?

A. The full realized gain is currently recognized and taxable in the year of the exchange, exactly as it would be in an outright cash sale

B. Half of the realized gain is currently recognized, with the remaining half deferred until the replacement property is eventually sold

C. The exchange is entirely disregarded for tax purposes, with the original property's basis and holding period simply erased

D. The realized gain is generally deferred entirely, with no gain currently recognized, since the exchange involves only qualifying like-kind real property with no boot received

60. A taxpayer's net operating loss (NOL) carryforward from a prior year is $40,000, and the taxpayer's current-year taxable income before applying the NOL deduction is $45,000. Under the current-law 80% limitation, what is the maximum NOL deduction generally allowed this year?

A. $36,000, since 80% of the $45,000 pre-NOL taxable income is $36,000, which is less than the full $40,000 carryforward available

B. The full $40,000 carryforward, since the 80% limitation applies only to carryforwards exceeding $100,000 in total

C. $45,000, since the entire pre-NOL taxable income may generally be offset in full by any available NOL carryforward

D. $9,000, applying an incorrect 20% limitation rather than the applicable 80% limitation under current law

61. A taxpayer's total tax liability is calculated using the capital gains tax worksheet because the taxpayer has both ordinary taxable income and net long-term capital gain taxed at preferential rates for the year. What is the general purpose of using this specific worksheet rather than the standard tax tables alone?

A. To apply the taxpayer's single highest marginal rate to all income, including both ordinary income and capital gains, combined together

B. To exclude all capital gains from taxation entirely regardless of the taxpayer's total combined income for the year

C. To apply a single flat rate to the taxpayer's entire total income, replacing the standard progressive bracket structure entirely

D. To ensure the preferential long-term capital gains rates apply only to the capital gain portion of income, while ordinary income remains taxed under the regular progressive bracket structure

62. A single taxpayer's taxable income for the year is $220,000, all from ordinary wage income, exceeding the applicable single-filer Additional Medicare Tax threshold of $200,000 by $20,000. How is the 0.9% Additional Medicare Tax generally calculated in this situation?

A. 0.9% is applied to the $20,000 by which wages exceed the applicable $200,000 single-filer threshold, calculated on Form 8959

B. 0.9% is applied to the full $220,000 in wages regardless of the applicable single-filer threshold amount

C. 0.9% is applied to the $200,000 threshold amount itself rather than to any amount exceeding that threshold

D. The Additional Medicare Tax does not apply at all to wage income, only to self-employment income

63. A taxpayer's total tax liability calculation for the year includes income taxed under the Kiddie Tax rules for a dependent child, calculated using the parent's marginal tax rate for the portion of unearned income above the applicable threshold. Which form is generally used to calculate this specific tax?

A. Form 8814, which instead allows a parent to elect to report a child's investment income directly on the parent's own return

B. Form 2210, which instead calculates any underpayment of estimated tax penalty rather than the Kiddie Tax itself

C. Form 8615, Tax for Certain Children Who Have Unearned Income, generally used to calculate the Kiddie Tax on the child's own return
D. Schedule B, which instead simply reports interest and dividend income without calculating any separate Kiddie Tax amount

64. A taxpayer's total tax return reflects a $50,000 loss from a passive activity in which the taxpayer does not materially participate, while the taxpayer has no passive income from any other activity during the year. How is this passive activity loss generally treated?

A. Fully deductible in the current year against the taxpayer's ordinary wage income without any limitation at all
B. Generally suspended and carried forward to future years, deductible only against passive income in a future year or upon a fully taxable disposition of the activity
C. Permanently disallowed and never deductible under any circumstances, even in a future year or upon disposition
D. Deductible up to a flat $25,000 regardless of the taxpayer's participation level or the source of any other income

65. A taxpayer invests $30,000 cash in a business venture structured as a limited partnership interest, and the partnership agreement provides the taxpayer no personal liability beyond that initial $30,000 investment. How does the at-risk limitation generally affect the taxpayer's ability to deduct losses from this venture?

A. The at-risk rules have no effect at all on limited partnership losses, which are always fully deductible regardless of the amount invested
B. The at-risk rules permanently disallow all losses from any limited partnership interest, regardless of the amount actually invested
C. Losses are generally deductible only up to the taxpayer's amount at risk in the activity, here limited to the $30,000 cash investment, with any excess loss suspended and carried forward
D. The at-risk limitation applies only to real estate limited partnerships and never applies to any other type of business venture

66. A taxpayer's total tax liability calculation this year includes a general business credit that exceeds the taxpayer's current-year tax liability after other credits are applied. What is the general treatment of this excess, unused general business credit amount?

A. The excess amount is entirely forfeited in full with no carryback or carryforward available under any circumstances

B. The excess amount is automatically refunded in cash to the taxpayer regardless of the taxpayer's actual current-year tax liability

C. The excess amount must be used entirely in the following single year or it is permanently forfeited after that one year

D. The excess amount generally may be carried back one year and then carried forward up to twenty years, subject to the specific statutory carryback and carryforward rules

67. A taxpayer's installment sale of investment property, with a total gain of $60,000 to be recognized over a five-year payment period under the installment method, results in a portion of the total gain recognized in the current year based on payments actually received. What is the general purpose of installment sale reporting?

A. To spread recognition of the total gain proportionally over the years payments are actually received, rather than requiring the entire gain be recognized in the year of sale

B. To eliminate the total gain from taxation entirely as long as the sale is structured using deferred payments over multiple years

C. To require the entire total gain be recognized immediately in the year of sale despite payments being received over five years

D. To convert what would otherwise be capital gain into fully tax-exempt income solely because payments are spread over time

68. A taxpayer's total tax liability calculation includes backup withholding of 24% applied to certain interest income because the taxpayer failed to provide a correct taxpayer identification number to the payer. How is this backup withholding generally treated on the taxpayer's return?

A. Treated as a nondeductible penalty with no credit at all applied against the taxpayer's total tax liability for the year

B. Generally treated as a tax payment credited against the taxpayer's total tax liability, similar to federal income tax withheld from wages

C. Treated as additional taxable income to the taxpayer rather than as a payment credited against tax liability

D. Simply disregarded entirely and not reported anywhere on the taxpayer's individual income tax return for the year

69. A taxpayer's total tax liability includes tax calculated on a qualified small business stock (QSBS) sale that potentially qualifies for a partial or full gain exclusion under Section 1202, provided the stock was held for more than five years and other statutory requirements are met. What is the general purpose of this specific exclusion?

A. To eliminate self-employment tax on income earned by the owners of small businesses structured as C corporations

B. To encourage investment in certain qualifying small businesses by excluding some of the taxable gain from selling qualifying stock

C. To allow a full deduction, rather than an exclusion, for any loss realized on qualified small business stock

D. To convert what would otherwise be ordinary income into fully tax-exempt income for any corporate stock sale

70. A taxpayer's total tax liability calculation this year reflects a $2,000 foreign tax credit for income taxes paid to a foreign government on foreign-source income also subject to U.S. tax. What is the general purpose of this credit, compared to instead claiming the payment as an itemized deduction?

A. The credit and the deduction produce an identical dollar benefit in every case regardless of the taxpayer's marginal tax rate

B. The credit is only available to taxpayers who also itemize deductions rather than claiming the standard deduction

C. The credit eliminates the need to report the foreign income at all on the taxpayer's U.S. tax return

D. The credit generally provides a dollar-for-dollar reduction of U.S. tax liability, which is generally more beneficial than a deduction that only reduces taxable income before the applicable tax rate is applied

71. A taxpayer's total tax liability calculation includes a $1,500 excess Social Security tax withholding credit, resulting from the taxpayer having worked for two different employers during the year, with combined withholding exceeding the annual Social Security wage base maximum. How is this excess withholding generally treated?

A. Generally credited directly against the taxpayer's total tax liability for the year, since combined withholding from multiple employers exceeded the statutory annual maximum

B. Forfeited entirely, since each employer is treated as withholding correctly regardless of the taxpayer's other employment during the year

C. Refundable only by filing a separate claim directly with the Social Security Administration rather than through the tax return

D. Treated as additional taxable income to the taxpayer rather than as a credit against total tax liability

72. A taxpayer's total tax liability calculation includes an underpayment penalty calculated on Form 2210 because the taxpayer's withholding and estimated payments were both insufficient and unevenly distributed throughout the year, with most income earned in the fourth quarter. What method may generally reduce the calculated penalty in this situation?

A. There is no method available at all to reduce a Form 2210 underpayment penalty once withholding and payments are shown to be insufficient

B. Filing an extension automatically eliminates the underpayment penalty regardless of when income was actually earned during the year

C. The annualized income installment method, which generally calculates required estimated payments based on income actually earned in each specific period rather than assuming even distribution throughout the year

D. The taxpayer must simply accept the full standard penalty calculation with no annualization option available under current law

73. A taxpayer's total tax liability calculation includes gain from the sale of qualified opportunity zone fund investment property, held for more than ten years, potentially qualifying for a specific permanent exclusion of post-acquisition appreciation gain. What is the general purpose of this Qualified Opportunity Zone tax incentive?

A. To encourage long-term investment of capital gains into designated economically distressed communities by allowing deferral of the original gain and potential permanent exclusion of new appreciation after a ten-year holding period

B. To eliminate self-employment tax entirely for any taxpayer who invests in a Qualified Opportunity Zone fund regardless of the holding period

C. To allow an immediate, unlimited deduction for the full amount invested in a Qualified Opportunity Zone fund in the year of investment

D. To convert ordinary wage income into capital gain income for any taxpayer who resides within a designated Opportunity Zone

74. A taxpayer's total tax liability calculation reflects an accuracy-related penalty imposed under Section 6662 for a substantial understatement of income tax, calculated as a percentage of the underpayment amount attributable to the understatement. What is the general standard penalty rate applied under this specific accuracy-related penalty?

A. Generally 50% of the total underpayment amount, matching the higher penalty rate reserved specifically for civil tax fraud

B. Generally 20% of the portion of the underpayment attributable to the substantial understatement or other applicable accuracy-related grounds

C. Generally a flat $1,000 penalty regardless of the actual dollar amount of the underpayment involved

D. Generally 5% per month of the underpayment, calculated identically to the separate failure-to-pay penalty structure

75. A client asks a practitioner whether making a Qualified Charitable Distribution (QCD) directly from a traditional IRA to a qualified charity, rather than withdrawing the funds and then donating them personally, produces a meaningfully different tax result for a client who is at least age 70½. What should the practitioner generally explain?

A. Both approaches produce an identical tax result in every case, regardless of whether the client itemizes deductions

B. A QCD is always fully taxable to the client, exactly the same as any other ordinary traditional IRA distribution

C. A QCD is generally excluded from taxable income and can satisfy a required minimum distribution, unlike a withdrawal followed by a personal donation

D. A QCD is only available to clients who also itemize deductions rather than claiming the standard deduction

76. A client who is self-employed asks a practitioner whether establishing a SEP-IRA versus a Solo 401(k) plan would allow for greater retirement plan contributions given the client's relatively high net self-employment earnings for the year. What is a key general distinction a practitioner should explain?

A. Both plan types allow an identical maximum total contribution amount in every case regardless of the client's specific earnings

B. A SEP-IRA always allows a higher total contribution than a Solo 401(k) regardless of the client's specific earnings level

C. Neither plan type allows any contribution at all for a self-employed individual with no common-law employees

D. A Solo 401(k) generally allows both an employee elective deferral and an employer profit-sharing contribution, often permitting a higher total contribution than a SEP-IRA, which allows only an employer-type contribution

77. A practitioner learns that a client intends to claim a home office deduction for a room used partly for business and partly as a personal guest bedroom several nights per month. What should the practitioner generally advise regarding this specific situation?

A. The room generally does not qualify for the home office deduction, since the exclusive-use requirement is generally not met when the space is also regularly used for personal, non-business purposes

B. The deduction is still fully available in full, since occasional personal use of a home office space has no effect on eligibility

C. The deduction is available at a reduced, prorated amount based on the specific number of nights the room was used personally

D. The deduction is available only if the client can show the guest bedroom use occurred fewer than ten total nights annually

78. A client asks a practitioner for advice regarding a tax return position that is contrary to a specific, clearly applicable Treasury regulation, though the client believes the regulation is invalid and wants to challenge it by taking the contrary position without disclosure. What does Circular 230 generally require regarding disclosure of this specific type of position?

A. No disclosure is ever required at all for a position contrary to a regulation as long as the client sincerely believes the regulation is invalid

B. Disclosure is only required if the IRS specifically requests it after the return has already been filed and processed

C. A position contrary to a regulation generally requires disclosure on the return itself, since it does not meet the higher standard normally required to avoid disclosure for a regulation-contrary position

D. The practitioner must simply refuse to prepare the return at all whenever any regulation-contrary position is involved

79. A client nearing retirement asks a practitioner to explain the general tax planning advantage of maintaining a mix of pretax traditional retirement accounts and after-tax Roth retirement accounts, rather than holding funds in only one account type. What should the practitioner generally explain?

A. There is no meaningful planning advantage at all to holding a mix of both pretax and after-tax retirement account types

B. Roth account withdrawals are always taxable in retirement, eliminating any planning advantage over holding only traditional accounts

C. Traditional account withdrawals are always entirely tax-free in retirement, eliminating any planning advantage of holding Roth accounts

D. Having both account types generally provides flexibility to manage taxable income in retirement by choosing which account to draw from each year, potentially managing tax bracket exposure and other income-based thresholds

80. A client asks a practitioner whether increasing pretax contributions to a traditional 401(k) plan during a particularly high-income year could help reduce the client's exposure to the Net Investment Income Tax and Additional Medicare Tax thresholds for that specific year. What should the practitioner generally explain?

A. Pretax 401(k) contributions have no effect at all on the client's modified AGI or wages used for these threshold calculations

B. Increasing pretax 401(k) contributions reduces the client's modified AGI and wages for the year, which can help reduce or avoid crossing the applicable NIIT and Additional Medicare Tax thresholds

C. Only Roth 401(k) contributions, not pretax traditional contributions, can affect exposure to these specific additional taxes

D. These specific additional taxes are calculated without regard to the client's AGI or wage level under any circumstances

81. A client asks a practitioner whether paying off a mortgage early, using otherwise investable cash, is generally advisable purely from a tax planning perspective, given the client's mortgage interest is a relatively small itemized deduction compared to the client's now-standard deduction level. What should the practitioner generally explain?

A. The mortgage interest deduction always provides the same significant tax benefit regardless of the client's other itemized deductions
B. Paying off a mortgage always eliminates all future tax filing obligations entirely for the client going forward
C. Since the client already claims the standard deduction, the mortgage interest is generally providing little to no incremental tax benefit here
D. Mortgage interest is fully deductible as an above-the-line adjustment to income regardless of whether the client itemizes

82. A client asks a practitioner to prepare a return using a tax position specifically prohibited by a published IRS revenue ruling directly on point, without any disclosure and without a good faith challenge to the ruling's validity. What does Circular 230 generally require the practitioner to do?

A. Decline to take the undisclosed position, since a position lacking a realistic possibility of success on the merits generally may not be taken without disclosure and a reasonable basis
B. Take the position exactly as requested by the client, since client instructions always override professional standards under Circular 230
C. Take the position but include a personal disclaimer statement rather than either disclosing the position or declining to take it
D. File the return anyway and simply notify the IRS afterward that the client specifically requested the prohibited position

83. A client operating a small business asks a practitioner whether the client should reclassify a long-time worker from an independent contractor to a common-law employee, given the worker's actual day-to-day duties suggest significant employer control over how the work is performed. What should the practitioner generally advise?

A. Worker classification has no real tax consequence at all for the business owner regardless of the actual working relationship
B. The client should always classify every worker as an independent contractor whenever doing so reduces the business's current tax liability

C. Only the worker, not the business owner, bears any tax risk at all from an incorrect independent contractor classification

D. The practitioner should generally advise evaluating the worker's classification under the common-law control test, since misclassifying an employee as an independent contractor can expose the client to back payroll taxes and penalties

84. A client asks a practitioner whether contributing appreciated long-term stock directly to a donor-advised fund, rather than selling the stock and donating the resulting cash proceeds, produces a more favorable tax result. What should the practitioner generally explain?

A. Both approaches produce an identical tax result in every case, since the same dollar amount ultimately reaches the donor-advised fund

B. Donating the appreciated stock directly generally avoids recognizing the built-in capital gain while still allowing a charitable deduction for the stock's full fair market value, unlike selling first and donating the after-tax cash proceeds

C. Donating appreciated stock directly always triggers immediate capital gains tax exactly as an outright sale of the stock would

D. The donor-advised fund itself, rather than the donor, is responsible for paying any capital gains tax on the appreciated stock

85. A client asks a practitioner whether an amended return should be filed to correct a legitimate mathematical error the client discovered on a return the IRS has not yet flagged, where the error resulted in the client underpaying tax by a modest amount. What should the practitioner generally advise?

A. The practitioner should advise the client to simply wait and see whether the IRS ever discovers the error on its own

B. No correction is ever necessary once the original return has already been accepted and processed by the IRS

C. The practitioner should generally advise filing an amended return correcting the error, since a known error must be disclosed to the client

D. The practitioner should advise correcting the error only if the resulting additional tax owed exceeds a specific dollar threshold

86. A client asks a practitioner for general guidance on whether it is advisable to withdraw funds from a Roth IRA that has been open for only two years, before reaching age 59½, to cover an unexpected but non-emergency personal expense. What should the practitioner generally explain about the tax treatment of this specific withdrawal?

A. The entire withdrawal is completely tax-free and penalty-free regardless of the account's holding period or the client's age
B. Roth IRA withdrawals are always fully taxable as ordinary income regardless of whether they represent contributions or earnings
C. The five-year holding period requirement applies only to traditional IRAs and has no bearing at all on Roth IRA withdrawals
D. Because the five-year holding period is not met, the earnings portion of a non-qualified withdrawal is generally taxable and penalized

87. A client asks a practitioner whether it would be advantageous to shift some investment income-producing assets into a custodial account for the client's minor child, purely to reduce the family's overall tax burden, given the child is currently subject to the Kiddie Tax rules on unearned income above the applicable threshold. What should the practitioner generally explain?

A. Shifting assets to the child always eliminates all tax on the resulting investment income regardless of the amount involved
B. Because the Kiddie Tax generally taxes a child's unearned income above the applicable threshold at the parent's marginal rate, this specific income-shifting strategy generally provides limited tax benefit once that threshold is exceeded
C. The Kiddie Tax rules apply only to earned income the child receives from employment, not to unearned investment income
D. There is no limit at all on how much unearned income can be shifted to a child's account without any additional tax consequence

88. A U.S. citizen makes a $25,000 gift of cash to an adult child during the year, an amount exceeding the applicable annual gift tax exclusion amount per recipient. What is generally required as a result of this gift, and what is the general tax consequence to the recipient child?

A. The donor generally must file a gift tax return, Form 709, reporting the gift, while the recipient child generally has no taxable income at all from receiving the gift
B. The recipient child must report and pay income tax on the full $25,000 gift received during the year

C. No filing or reporting obligation at all arises for either party regardless of the size of the gift given
D. The donor must pay income tax on the gift amount, while the recipient must separately file a gift tax return

89. An estate's fiduciary income tax return, Form 1041, reports $30,000 of estate income for the year, of which $18,000 was actually distributed to the estate's beneficiaries during the year and $12,000 was retained by the estate itself. How is this income generally taxed?

A. The entire $30,000 is taxed to the estate itself regardless of how much was actually distributed to the beneficiaries
B. The entire $30,000 is taxed to the beneficiaries regardless of how much was actually retained by the estate itself
C. The $18,000 distributed to beneficiaries is generally taxed to the beneficiaries, while the $12,000 retained by the estate is generally taxed to the estate itself
D. None of the $30,000 is taxable to either the estate or the beneficiaries under the applicable fiduciary income tax rules

90. A U.S. citizen taxpayer who worked abroad for a full calendar year qualifies for the Foreign Earned Income Exclusion, excluding a substantial portion of foreign wages from U.S. taxable income. How does this exclusion generally affect the taxpayer's eligibility to also claim the Foreign Tax Credit on the same excluded income?

A. The Foreign Tax Credit generally cannot be claimed on the same income that was already excluded under the Foreign Earned Income Exclusion, since claiming both on the identical income would provide a double tax benefit
B. Both the exclusion and the credit may always be claimed in full on the identical income with no coordination required
C. The Foreign Earned Income Exclusion automatically disqualifies the taxpayer from ever claiming the Foreign Tax Credit on any income
D. The Foreign Tax Credit replaces the Foreign Earned Income Exclusion entirely once a taxpayer elects to claim the credit instead

91. A decedent's estate has a gross estate value, plus adjusted taxable gifts, that falls well under the applicable federal estate tax exclusion amount for the year of death. Is the estate's executor still ever required to file Form 706, even though no estate tax is actually owed?

A. No, Form 706 is never required or advisable to file once the gross estate falls under the applicable exclusion amount

B. Yes, filing may still be advisable or required if the executor wants to make the portability election, allowing a surviving spouse to use the decedent's unused exclusion amount

C. Yes, but only if the decedent's estate includes real property located in more than one different state

D. No filing is ever permitted once the estate falls under the exclusion amount, regardless of any other consideration

92. A resident of the U.S. Virgin Islands who is not a U.S. citizen and has no connection to the mainland United States earns income entirely from Virgin Islands sources during the year. How is this resident's income generally treated for U.S. federal income tax filing purposes?

A. The resident must file a standard U.S. Form 1040 exactly as a mainland U.S. resident would, reporting all Virgin Islands income

B. The resident is entirely exempt from any tax filing obligation anywhere, since Virgin Islands residents are not required to file

C. The resident must file Form 1040-NR reporting the income as U.S.-source income effectively connected with a U.S. trade or business

D. The resident generally files with the Virgin Islands tax authority under the territory's own mirror tax system rather than filing a separate U.S. federal individual income tax return

93. A taxpayer's revocable living trust, created during the taxpayer's lifetime and fully controllable and revocable by the taxpayer at any time, holds various investment assets. How is the trust's income generally taxed while the taxpayer-grantor remains alive?

A. The trust's income is taxed entirely at the trust's own separate, generally compressed fiduciary income tax rate schedule

B. The trust is entirely tax-exempt on all income for as long as it remains revocable by the grantor

C. The trust's income is generally taxed directly to the taxpayer-grantor on the grantor's own individual income tax return, since a revocable trust is generally treated as a grantor trust

D. The trust's income is automatically split evenly between the grantor and the trust's named successor beneficiaries

94. A married couple files a joint federal tax return, and one spouse dies during the tax year. What filing status is generally available to the couple for the tax year of death, assuming the surviving spouse does not remarry before year-end?

A. The couple must generally file as two separate Single returns for the year in which one spouse died during the year

B. Married Filing Jointly generally remains available for the year of death, with the surviving spouse signing on behalf of the deceased spouse along with their own signature

C. The surviving spouse must generally file as Head of Household for the specific tax year in which the other spouse died

D. No return at all can be filed for the deceased spouse for any portion of the year in which death occurred

95. A U.S. citizen who renounces citizenship during the year may become subject to a specific federal expatriation tax if the taxpayer meets certain net worth or average tax liability thresholds. What is the general purpose of this expatriation tax regime?

A. To permanently exempt the taxpayer from any further U.S. tax obligation immediately upon the act of renouncing citizenship

B. To impose a flat, one-time tax unrelated to the value of any of the taxpayer's actual worldwide property or assets

C. To apply only to taxpayers who continue to reside within the United States after formally renouncing their citizenship

D. To generally treat the expatriating taxpayer as having sold all worldwide property at fair market value the day before expatriation, triggering recognition of any built-in gain above an applicable exclusion amount

96. A taxpayer files jointly with a spouse, and the IRS later determines the couple owes an additional tax deficiency attributable entirely to erroneous deductions claimed by one spouse's separate sole proprietorship business, of which the other spouse had no knowledge or reason to know. What relief might generally be available to the unknowing spouse?

A. Innocent spouse relief under Section 6015, potentially relieving the unknowing spouse of liability for the portion of the deficiency attributable to the other spouse's erroneous business deductions

B. No relief at all is available once a joint return has been signed by both spouses, regardless of either spouse's actual knowledge

C. Injured spouse relief, which applies specifically to a refund offset situation rather than to an underlying tax deficiency itself

D. The unknowing spouse must simply pay the full deficiency and then separately sue the other spouse in civil court for reimbursement

97. A taxpayer's Schedule K-1 from a limited partnership reports a loss allocated to the taxpayer as a limited partner who does not materially participate in the partnership's business activities. How is this specific loss generally treated under the passive activity loss rules?

A. Generally treated as a fully deductible loss against the taxpayer's ordinary wage income with no limitation whatsoever applied

B. Generally disallowed entirely and permanently, with no carryforward or future deductibility available under any circumstances

C. Generally treated identically to a general partner's loss, since limited and general partnership interests are taxed the same way

D. Generally treated as a passive loss, deductible only against passive income from other activities, rather than against the taxpayer's active wage or portfolio income

98. A trust's governing instrument grants the trustee full discretion over whether to distribute income to the beneficiaries or to accumulate it within the trust for future years. Under this discretionary distribution structure, how is the trust generally classified for federal income tax purposes?

A. Generally classified as a simple trust, since discretionary distribution authority is the defining characteristic of a simple trust

B. Generally classified as a grantor trust, since discretionary distribution authority always indicates retained grantor control

C. Generally classified as a complex trust, since it is not required to distribute all income currently, unlike a simple trust, which must distribute all income currently each year

D. Generally exempt entirely from federal income tax classification rules, since discretionary trusts are treated as disregarded entities

99. A taxpayer files for personal bankruptcy protection during the year, and certain unsecured personal debts are discharged as part of the bankruptcy proceeding. How is this bankruptcy-related debt discharge generally treated for federal income tax purposes, compared to a similar debt cancellation outside of bankruptcy?

A. Debt discharged in bankruptcy is treated identically to any other debt cancellation and is generally fully taxable to the taxpayer

B. Debt discharged in bankruptcy is generally excluded entirely from the taxpayer's taxable income under a specific statutory exclusion for bankruptcy-related debt discharge

C. Debt discharged in bankruptcy is taxable only to the extent the discharged amount exceeds a specific flat statutory dollar threshold

D. Debt discharged in bankruptcy triggers an automatic, separate excise tax distinct from ordinary federal income tax on cancelled debt

100. A married couple's joint tax return reflects a substantial refund, and one spouse separately owes a defaulted federal student loan debt that is subject to the Treasury Offset Program. How does this offset program generally affect the couple's joint refund, and what remedy is generally available to the non-liable spouse?

A. The Treasury Offset Program may generally apply the entire joint refund against the liable spouse's defaulted debt, but the non-liable spouse may generally file Form 8379 to claim their proper share of the refund back

B. The Treasury Offset Program can never apply to a joint refund under any circumstances when only one spouse owes the underlying debt

C. The non-liable spouse has no remedy at all available once the joint refund has already been offset against the debt

D. The entire refund is automatically returned in full to both spouses regardless of the defaulted student loan debt involved

Answer Key and Explanations — Practice Exam 8

1. A — Because the IRS matches the name on an e-filed return against Social Security Administration records, a preparer should generally advise the client to file using the name currently on record with the SSA and separately update it, since filing under an unmatched name commonly causes an e-file rejection or processing delay.

2. D — When a client has unfiled prior-year returns, a preparer should generally first obtain IRS transcripts for the missing years to identify all income that was reported to the IRS by third parties, providing a reliable factual basis for preparing accurate delinquent returns before filing any of them with the IRS.

3. B — Innocent spouse relief under IRC Section 6015 may relieve a spouse of joint liability for a deficiency attributable to the other spouse's omitted income, when the requesting spouse establishes they did not know and had no reason to know of the understatement at the time the joint return was originally signed.

4. C — Form 8379, Injured Spouse Allocation, allows a spouse who is not legally responsible for a past-due debt, such as child support, to claim their proper share of a joint refund that would otherwise be entirely offset against the other spouse's separate outstanding obligation owed to a government agency or creditor.

5. A — An ITIN that has not been used on a federal tax return for three consecutive tax years generally expires and must be renewed by submitting a new Form W-7 with required identifying documentation before the taxpayer can use it again on a subsequently filed federal income tax return that year.

6. C — A paid preparer claiming the Earned Income Tax Credit, Child Tax Credit, American Opportunity Credit, or Head of Household filing status on a client's return is generally required to complete Form 8867 and retain supporting documentation and worksheets demonstrating the specific due diligence steps actually performed to verify the client's eligibility.

7. B — When a client's identity may have been used to file a fraudulent return, a preparer should generally advise the client to promptly file Form 14039, Identity Theft Affidavit, with the IRS, which formally reports the suspected identity theft and begins initiating the IRS's resolution process for the affected taxpayer's account.

8. D — Form 2848, Power of Attorney and Declaration of Representative, must generally be properly executed and filed to grant a qualified practitioner, such as an enrolled agent, the authority to receive confidential tax information and represent the client directly before the IRS in matters such as an audit or an examination.

9. A — The IRS generally has three years from the filing date to assess additional tax under the standard statute of limitations, so records should generally be retained at least that long, though longer retention is often prudent given exceptions, such as substantial income omissions, that can extend the assessment period significantly.

10. D — Form 1095-A reports advance premium tax credit payments made on the client's behalf during the year, and Form 8962 reconciles those advance payments against the actual premium tax credit the client is entitled to based on final household income, resulting in either an additional credit or a repayment obligation owed.

11. C — Best practice generally requires a preparer to take reasonable steps to ensure a client genuinely understands the full contents of their return, such as using a qualified interpreter or providing translated explanations, before the client signs, consistent with the preparer's professional obligation to ensure informed client consent to the filing.

12. B — The Third Party Designee section directly on Form 1040 allows a taxpayer to authorize a specific named individual to discuss that particular filed return with the IRS for limited purposes, without granting the broader, more formal representation authority that a separately executed Form 2848 power of attorney would otherwise provide.

13. B — A married taxpayer who incorrectly filed as Single, without qualifying for a specific statutory exception, likely misstated their return, since filing status directly affects the applicable standard deduction, tax brackets, and other calculations. The preparer should generally advise correcting the error by filing Form 1040-X for that prior tax year.

14. D — The failure-to-file penalty is generally significantly more severe on a monthly basis than the failure-to-pay penalty, so a taxpayer who cannot pay the full balance due should still generally file the return by the deadline, since doing so minimizes the combined penalty exposure compared to also filing the return late.

15. A — Circular 230 prohibits a practitioner from knowingly assisting in the preparation of a false or misleading document related to a federal tax matter. A preparer should decline a client's request to backdate a signature, since doing so would constitute assisting in a materially false statement submitted directly to the IRS.

16. C — When an e-filed return is rejected due to a dependent already claimed on another accepted return, the client's return generally cannot be e-filed a second time claiming that same dependent for the same year. The preparer should generally advise paper-filing the return, allowing the IRS to resolve the duplicate claim separately.

17. A — All $2,000 in ordinary dividends is taxable income, but the $1,500 identified as qualified dividends is eligible for preferential long-term capital gains tax rates, while the remaining $500 in non-qualified ordinary dividends is taxed at the taxpayer's own regular, higher ordinary income tax rates that apply for that particular year.

18. C — A capital asset held for one year or less before sale produces short-term capital gain or loss, taxed at the taxpayer's ordinary income tax rates rather than the preferential long-term capital gains rates. Since these shares were held only eight months before the sale, the resulting $5,000 gain is short-term.

19. B — A traditional 401(k) distribution taken before age 59½, without a qualifying exception, is generally includible in the recipient's ordinary taxable income for the year and is also subject to an additional 10% early distribution penalty under Section 72(t), since the funds were never previously taxed by the IRS at all.

20. D — Under the Social Security taxability formula, once a taxpayer's provisional income, combining other income, tax-exempt interest, and half of Social Security benefits, exceeds the higher applicable threshold for the taxpayer's filing status, up to 85% of the total benefits received can become includible in taxable income for that specific year.

21. A — Unemployment compensation is generally fully includible in a recipient's federal taxable income and must be reported for the year it was received. The temporary exclusion enacted for a single specific pandemic-related tax year was not made permanent, so unemployment benefits are generally fully taxable under ordinary federal tax rules going forward.

22. C — Under current law, for divorce or separation agreements executed after December 31, 2018, alimony payments are neither deductible by the paying spouse nor includible in the receiving spouse's own taxable income, a reversal of the prior treatment that had applied under divorce agreements executed before that specific statutory threshold date.

23. B — Gambling winnings are fully includible in gross income, while gambling losses are deductible only as an itemized deduction on Schedule A, and only up to the total amount of gambling winnings actually reported for the year, meaning losses can never create a net gambling loss deduction against other unrelated income.

24. B — Cancellation of debt is generally includible in a taxpayer's gross income under the general tax benefit principle that forgiven debt represents an economic gain to the debtor. Absent an applicable exclusion, such as insolvency or bankruptcy, the full $10,000 in cancelled credit card debt is generally taxable income for the year cancelled.

25. D — The IRS treats virtual currency as property for federal tax purposes, so a sale of cryptocurrency held as a capital asset generally produces capital gain or loss, reported on Form 8949 and Schedule D. Since this cryptocurrency was held only four months, the resulting gain is short-term, taxed at ordinary rates.

26. D — Under the specific short-term rental rule, a dwelling unit rented for fewer than 15 days during the tax year generates rental income that is entirely excluded from the taxpayer's gross income, and correspondingly, the associated rental expenses for those specific days are also not deductible against any other income earned.

27. C — An S corporation is generally treated as a pass-through entity, and each shareholder generally reports their allocated share of the corporation's ordinary business income on their individual return based on the Schedule K-1 received, regardless of whether the corporation actually made a matching cash distribution to that shareholder during the year.

28. A — Jury duty pay is generally includible in the recipient's gross income for the year received. When an employer continues paying regular salary and requires the employee to remit jury duty pay received, the amount turned over to the employer is generally deductible as an above-the-line adjustment, offsetting the amount originally included.

29. A — Payment received for services rendered is generally includible in gross income regardless of whether the activity is a regular business or a one-time arrangement, and regardless of whether a Form

1099-NEC is actually issued reporting the payment, since income is taxable when earned, not merely when formally reported by a payer.

30. D — Life insurance proceeds paid to a beneficiary by reason of the insured's death are generally excluded entirely from the beneficiary's gross income under a specific statutory exclusion, regardless of the total amount paid, distinguishing this treatment from the generally taxable treatment of most other lump-sum payments an individual might receive.

31. B — Taxable interest, such as bank savings account interest, is includible in gross income and reported accordingly, while tax-exempt interest, such as interest earned from most municipal bonds, is separately reported on the return for informational purposes but is nonetheless excluded entirely from the taxpayer's own taxable income for that year.

32. C — A qualified scholarship used for tuition and required fees at an eligible educational institution is generally excluded from the recipient's taxable income, while the portion used for non-qualified expenses, such as room and board, is generally includible in the recipient's own taxable income for the year it was actually received.

33. C — When an employer pays the entire premium for a disability policy and the value of that coverage was not included in the employee's taxable income, benefits received under that policy are generally fully includible in the recipient's taxable income, unlike benefits from a policy the employee paid for personally with after-tax dollars.

34. D — Bartering is generally treated as a taxable exchange, and each party to a bartering arrangement must generally include the fair market value of the goods or services received as taxable income, regardless of the fact that no actual cash payment changed hands between the two parties involved in the exchange.

35. B — A required minimum distribution from a traditional IRA funded entirely with deductible, pretax contributions and accumulated earnings over time is generally fully includible in the recipient's ordinary taxable income for the year it was received, since no portion of it represents a nontaxable return of previously taxed, nondeductible IRA basis contributions.

36. A — A settlement payment that compensates for lost wages is generally taxable, since it stands in place of income, such as wages, that would itself have been taxable. This differs from settlement amounts specifically attributable to a physical injury or physical sickness, which generally receive a distinct statutory exclusion from gross income.

37. C — The itemized deduction for combined state and local taxes, including both income taxes and property taxes, is generally capped at $10,000 per return under current law, regardless of the taxpayer's filing status or the actual combined total amount of state and local taxes actually paid during that particular tax year.

38. D — When a charity sells a donated vehicle without materially improving or significantly using it for charitable purposes, the donor's deduction is generally limited to the gross proceeds the charity actually received from the sale, here $3,200, rather than the vehicle's higher fair market value at the time it was donated.

39. B — The student loan interest deduction is generally capped at $2,500 per year, taken as an above-the-line adjustment to income, for a taxpayer whose modified AGI falls below the applicable phase-out threshold, regardless of whether the taxpayer's actual interest paid during the year exceeds that specific statutory annual dollar cap amount.

40. D — The educator expense deduction, an above-the-line adjustment to income, is generally capped at $300 per eligible educator per year for unreimbursed classroom supplies and instructional materials purchased, regardless of whether the educator's actual out-of-pocket spending during the year exceeded that specific statutory dollar cap amount for that particular teaching position.

41. A — Contributions made directly by an eligible individual to a Health Savings Account are generally deductible as an above-the-line adjustment to gross income, available regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction, up to the applicable annual contribution limit for that individual's own HDHP coverage category.

42. C — Under current law, the Child Tax Credit generally provides up to $2,000 per qualifying child under age 17, before considering the separate refundability limitations that apply to the Additional Child Tax Credit portion, and before applying any phase-out reduction based on the taxpayer's modified AGI relative to the applicable threshold.

43. A — The Earned Income Tax Credit is generally unavailable to a taxpayer whose investment income, including interest, dividends, net capital gain, and certain other passive income types, exceeds a specific annual statutory limit, regardless of how low the taxpayer's actual earned income might otherwise be for that particular tax filing year.

44. B — The Lifetime Learning Credit is generally available for qualified education expenses paid at an eligible institution, including graduate-level coursework taken later, without the American Opportunity Credit's stricter four-year limitation, making it a common fallback option once a taxpayer's coursework or academic standing no longer qualifies for that other, more restrictive credit.

45. D — The Adoption Credit is a nonrefundable federal tax credit available for qualified adoption expenses, such as agency fees, legal costs, and other adoption-related expenses, up to the applicable annual dollar limit, subject to phase-out at higher income levels and to the specific rules governing when a domestic adoption is treated as final.

46. C — The Residential Clean Energy Credit generally allows a nonrefundable credit equal to 30% of qualifying costs for solar electric property and other eligible renewable energy property installed at a taxpayer's residence, without a specific dollar cap for solar systems, so 30% of the $20,000 installation cost yields a $6,000 credit.

47. A — Under current law, the miscellaneous itemized deduction for unreimbursed employee business expenses, which was previously subject to a 2% AGI floor limitation, has generally been suspended for most employees, meaning these otherwise ordinary and necessary work-related expenses are generally no longer deductible at all on an individual's income tax return.

48. B — Unreimbursed medical and dental expenses are deductible only to the extent they exceed 7.5% of AGI. Here, 7.5% of $70,000 equals $5,250, and total qualifying expenses of $9,000 minus that $5,250 floor leaves $3,750 as the deductible amount reported on Schedule A, assuming the taxpayer itemizes deductions for the year.

49. B — A taxpayer who is not personally covered by an employer retirement plan, but whose spouse is covered, is subject to a separate, generally higher modified AGI phase-out threshold for traditional IRA deduction purposes. Since the couple's income falls under that separate threshold, the full $4,000 contribution is generally fully deductible.

50. A — The Child and Dependent Care Credit equals the applicable percentage rate, here 20% based on the taxpayer's AGI, multiplied by the lesser of actual qualifying expenses or the applicable expense cap. Since the $6,000 in actual expenses equals the two-or-more-child cap, 20% of $6,000 yields a $1,200 credit for the year.

51. C — Under current law, mortgage interest is generally deductible only on acquisition debt up to $750,000 ($375,000 if married filing separately) for loans originated after the applicable threshold date, meaning interest on the portion of this $850,000 loan balance exceeding that $750,000 limit is generally not deductible at all this year.

52. D — The Saver's Credit is generally calculated against a maximum of $2,000 in eligible retirement plan contributions per individual taxpayer, regardless of whether the taxpayer's actual contribution for the year exceeds that amount, with the applicable credit percentage then applied to that capped $2,000 contribution figure based on the taxpayer's AGI.

53. A — Charitable contribution deductions are generally subject to different AGI-based percentage limitations depending on the type of property donated: cash contributions to public charities are generally limited to 60% of AGI, while contributions of long-term appreciated capital gain property, such as stock, are generally limited to a lower 30% of AGI.

54. D — A specified service trade or business, such as consulting, law, or accounting, generally has its QBI deduction fully phased out once the owner's taxable income before the QBI deduction exceeds the applicable higher statutory threshold, unlike a non-SSTB business, which instead becomes subject to separate wage and property limitations at that income level.

55. C — Gambling losses are deductible as an itemized deduction only up to the total amount of gambling winnings reported as income for the same tax year. Since winnings here total $5,000, the taxpayer's otherwise well-documented $7,000 in losses is generally limited to a $5,000 deduction, with the remaining excess not deductible.

56. B — The Energy Efficient Home Improvement Credit generally caps the credit for qualifying exterior doors at $250 per door, up to an aggregate $500 annual limit for all doors installed during the year, a narrower specific cap that applies in addition to, and separately from, the credit's broader annual aggregate limit.

57. C — Under the passive activity loss rules, a taxpayer who actively participates in a rental real estate activity may generally deduct up to $25,000 of the resulting loss against nonpassive income, subject to phase-out at higher MAGI levels. Since this taxpayer's $90,000 MAGI is under the threshold, the full $15,000 loss is deductible.

58. B — The wash sale rule disallows a current deduction for a loss when substantially identical securities are purchased within 30 days before or after the sale. The disallowed $4,000 loss is not permanently lost, however; it is added to the basis of the newly acquired replacement shares, deferring the tax benefit.

59. D — A properly structured Section 1031 like-kind exchange, which under current law is limited to real property held for investment or business use, generally allows deferral of the entire realized gain when no boot is received, with the deferred gain instead built into the substituted basis of the replacement property received.

60. A — The current-law 80% limitation caps the NOL deduction at 80% of taxable income computed before that deduction. Here, 80% of $45,000 is $36,000, which is less than the full $40,000 carryforward available, so only $36,000 may be deducted this year, with the remaining $4,000 carried forward to a future year.

61. D — The capital gains tax worksheet separates ordinary taxable income, taxed under the regular progressive bracket structure, from net long-term capital gain and qualified dividends, taxed at the separate preferential 0%, 15%, or 20% rates, ensuring each portion of the taxpayer's total income is taxed under its own correct, applicable rate structure.

62. A — The Additional Medicare Tax imposes an extra 0.9% on wages, self-employment income, and certain other forms of compensation exceeding the applicable filing-status threshold, calculated on Form 8959. For this particular single taxpayer, only the $20,000 of wages exceeding the $200,000 threshold is actually subject to the additional 0.9% Medicare tax.

63. C — Form 8615, Tax for Certain Children Who Have Unearned Income, is generally used to calculate the Kiddie Tax on a dependent child's own separate return, applying the parent's marginal tax rate to unearned income above the applicable threshold, as an alternative to a parent instead electing to file Form 8814.

64. B — Under the passive activity loss rules, a loss from an activity in which the taxpayer does not materially participate is generally suspended when there is no offsetting passive income, and the suspended loss is carried forward, deductible against future passive income or fully deductible upon a taxable disposition of the entire activity.

65. C — The at-risk rules generally limit a taxpayer's deductible loss from an activity to the amount the taxpayer actually has at risk, meaning the amount that could actually be lost, in that activity. Here, the taxpayer's at-risk amount is capped at the $30,000 cash investment, with any loss beyond that amount suspended.

66. D — An unused general business credit amount that exceeds the taxpayer's current-year tax liability is generally not simply forfeited; it may be carried back one year and, if not fully used, carried forward for up to twenty years, subject to the specific statutory ordering and limitation rules that apply to the credit.

67. A — The installment method generally allows a seller to recognize gain proportionally as payments are actually received over the payment period, rather than recognizing the entire gain in the year of sale, based on the gross profit percentage applied to each payment received, spreading the resulting tax liability over the collection period.

68. B — Backup withholding, generally imposed at a flat 24% rate when a payee fails to furnish a correct taxpayer identification number, is treated as a tax payment and is credited against the taxpayer's total tax liability for the year, in the same general manner as federal income tax withheld from wage income.

69. B — Section 1202 generally provides an incentive for investing in certain qualifying small businesses by allowing exclusion of some or all of the gain recognized on the sale of qualified small business stock, provided the stock is held for more than five years and other specific statutory eligibility requirements are satisfied.

70. D — The Foreign Tax Credit generally provides a dollar-for-dollar reduction of U.S. tax liability for foreign income taxes paid, which is generally more beneficial to the taxpayer than instead claiming the payment as an itemized deduction, since a deduction only reduces taxable income before the taxpayer's marginal tax rate is applied.

71. A — When a taxpayer works for more than one employer during the year and combined Social Security tax withholding exceeds the statutory annual maximum, since each employer withholds independently up to the wage base, the excess amount is generally credited directly against the taxpayer's total federal income tax liability for the year.

72. C — The annualized income installment method on Form 2210 generally allows a taxpayer whose income was unevenly distributed throughout the year, such as income concentrated in the fourth quarter, to calculate required estimated payments based on income actually earned in each period, which can reduce or eliminate a penalty otherwise calculated assuming even distribution.

73. A — Qualified Opportunity Zone funds generally encourage long-term investment of capital gains into designated economically distressed communities by allowing deferral of the original invested gain, and, if the QOZ fund investment itself is held for more than ten years, potential permanent exclusion of any new post-acquisition appreciation gain from tax altogether.

74. B — The Section 6662 accuracy-related penalty generally applies at a 20% rate to the portion of an underpayment attributable to a substantial understatement of income tax or certain other specified grounds, such as negligence, distinct from the significantly higher 75% penalty rate that applies specifically to civil fraud under Section 6663.

75. C — A practitioner should explain that a Qualified Charitable Distribution is excluded entirely from the client's taxable income and can satisfy some or all of a required minimum distribution, which can be more advantageous than withdrawing funds and separately donating them, since that approach includes the distribution in income and provides only a limited itemized deduction offset.

76. D — A practitioner should explain that a Solo 401(k) plan generally allows both an employee elective deferral, up to the applicable annual limit, and a separate employer-type profit-sharing contribution, often permitting a higher total combined contribution than a SEP-IRA plan, which allows only the employer-type contribution based on net self-employment earnings.

77. A — A practitioner should generally advise that the home office deduction requires the space be used regularly and exclusively for business purposes. A room also regularly used as a personal guest bedroom generally fails the exclusive-use test, meaning the deduction would generally not be available for that particular space under the facts described.

78. C — Circular 230 and related standards generally require a heightened level of support, and typically disclosure, for a position taken contrary to a Treasury regulation, since simply disagreeing with a regulation's validity does not eliminate the practitioner's obligation to advise the client of the disclosure generally required for this specific type of position.

79. D — A practitioner should explain that maintaining both pretax and after-tax retirement accounts generally provides greater flexibility in retirement, allowing a client to strategically choose which account to draw from in a given year to help manage taxable income, marginal tax bracket exposure, and other income-based thresholds, such as Medicare premium surcharges.

80. B — A practitioner should explain that increasing pretax traditional 401(k) contributions reduces the client's current-year taxable wages and modified AGI, which can help reduce or avoid crossing the applicable Net Investment Income Tax and Additional Medicare Tax thresholds, both of which are based on the client's modified AGI or wage level for the year.

81. C — A practitioner should explain that when a client's total itemized deductions, including mortgage interest, fall under the applicable standard deduction, the client is already claiming the larger standard deduction, meaning the mortgage interest itself is generally providing little to no additional tax benefit, which is a relevant, purely tax-focused consideration in the client's decision.

82. A — Circular 230 generally requires that an undisclosed tax return position have a realistic possibility of being sustained on its merits. A position squarely prohibited by directly-on-point published IRS guidance, taken without disclosure or a good faith challenge, generally fails this standard, and the practitioner should decline to take it as instructed.

83. D — A practitioner should generally advise evaluating a worker's classification under the common-law control test, focusing on the degree of behavioral and financial control the business exercises, since misclassifying an employee as an independent contractor can expose the business to significant back payroll tax liability, penalties, and interest if identified later.

84. B — A practitioner should generally explain that contributing appreciated long-term stock directly to a donor-advised fund avoids the donor recognizing the built-in capital gain on the stock, while still generally allowing a charitable deduction based on the stock's full fair market value, a more tax-efficient result than selling the stock first and donating the smaller after-tax proceeds.

85. C — Consistent with Circular 230's requirement that a practitioner promptly advise a client of a known error and its consequences, the practitioner should generally advise the client to file an amended return correcting the legitimate mathematical error and pay any resulting additional tax owed, rather than waiting to see whether the IRS discovers it independently.

86. D — A practitioner should explain that because this Roth IRA has not met the required five-year holding period, a non-qualified withdrawal of earnings is generally taxable and may also be subject to the 10% early distribution penalty, even though the client's own original contributions can still generally be withdrawn tax-free and penalty-free at any time.

87. B — A practitioner should explain that because the Kiddie Tax rules generally tax a dependent child's unearned income above the applicable annual threshold at the parent's own marginal tax rate rather than the child's typically lower rate, shifting income-producing assets to the child generally provides limited tax benefit once that threshold is exceeded for the year.

88. A — A gift exceeding the annual per-recipient exclusion amount generally requires the donor to file Form 709, a gift tax return, reporting the gift and applying it against the donor's lifetime gift and estate tax exemption, while the recipient of a gift generally has no taxable income at all from simply receiving it.

89. C — An estate generally receives a distribution deduction for income actually distributed to beneficiaries during the year, shifting the tax burden for that portion to the beneficiaries, while income the estate retains rather than distributes is generally taxed directly to the estate itself, using the estate's own separate income tax rate schedule.

90. A — A taxpayer generally cannot claim the Foreign Tax Credit for foreign taxes paid on income that was already excluded from U.S. taxable income under the Foreign Earned Income Exclusion, since doing so would provide an improper double tax benefit on the same excluded income; the credit remains available for foreign taxes on non-excluded income.

91. B — Even when an estate's value falls under the applicable federal estate tax exclusion amount, meaning no estate tax is actually owed, the executor may still choose to timely file Form 706 specifically to make the portability election, allowing a surviving spouse to use any of the decedent's unused federal estate tax exclusion amount.

92. D — Residents of the U.S. Virgin Islands are generally subject to a mirror tax system, filing their return with the Virgin Islands Bureau of Internal Revenue rather than the U.S. Internal Revenue Service directly, based on income sourced within the territory, a distinct filing arrangement from the standard U.S. federal individual income tax filing system.

93. C — A revocable living trust is generally treated as a grantor trust for income tax purposes, since the grantor retains the power to revoke or amend the trust and control its assets. As a result, the trust's income, deductions, and credits are generally reported directly on the individual grantor's own income tax return.

94. B — A surviving spouse generally may still file a joint return, Married Filing Jointly, for the tax year in which the other spouse died, assuming no remarriage occurred before year-end, with the surviving spouse signing the return and generally noting the deceased spouse's date of death in the appropriate filing information.

95. D — The expatriation tax regime generally applies a mark-to-market rule to a covered expatriate meeting specific net worth or average tax liability thresholds, treating the taxpayer as having sold all worldwide property for fair market value the day before expatriation, triggering recognition of built-in gain exceeding a specific statutory exclusion amount.

96. A — Innocent spouse relief under Section 6015 may generally relieve a spouse of joint liability for a tax deficiency attributable to erroneous items, such as improper deductions, claimed by the other spouse, when the requesting spouse establishes they did not know and had no reason to know of the resulting understatement.

97. D — A limited partner who does not materially participate in the partnership's underlying business activities generally has losses from that partnership treated as passive losses under the passive activity loss rules, deductible only against passive income from other passive activities, rather than freely deductible against the taxpayer's active wage income or portfolio income.

98. C — A trust granting the trustee discretion over whether to distribute or accumulate income is generally classified as a complex trust for federal income tax purposes, distinguishing it from a simple trust, which is specifically required to distribute all of its income currently to beneficiaries each year under the terms of its governing instrument.

99. B — Unlike cancellation of debt income generally arising outside of bankruptcy, which is generally taxable absent an applicable exclusion such as insolvency, debt discharged specifically through a bankruptcy proceeding is generally excluded entirely from the taxpayer's own gross income under its own separate specific statutory exclusion for bankruptcy-related debt discharge cases.

100. A — The Treasury Offset Program may generally apply a joint refund against one spouse's separately owed defaulted federal debt, such as a student loan, but the non-liable spouse generally retains the ability to file Form 8379, Injured Spouse Allocation, to claim their proper share of the joint refund back from the IRS.