PRACTICE EXAM 9: 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 preparer's new client provides a driver's license as the sole form of photo identification, but has no Social Security card available and states they have never had one issued. What should the preparer generally do to verify the client's taxpayer identification for return preparation purposes?

A. Ask whether the client has an ITIN, or advise applying for a Social Security number or ITIN before the return can be filed
B. Prepare the return without any taxpayer identification number at all, since a driver's license alone is sufficient
C. Assign the client a temporary identification number generated by the preparer's own tax software for filing purposes
D. Refuse to ever prepare a return for this client under any circumstances regardless of future documentation provided

2. A preparer's client separated from a spouse mid-year and has lived apart from the spouse for the final six months of the tax year, maintaining a household for a qualifying child for more than half the year. What filing status might the client generally qualify for despite still being legally married?

A. Single, since living apart from a spouse automatically converts the taxpayer's legal marital status for tax purposes
B. Head of Household, since a taxpayer considered unmarried under the specific statutory rules may qualify even while still legally married to a spouse
C. Married Filing Jointly only, since legal marital status alone always controls the taxpayer's available filing status options

D. Qualifying Surviving Spouse, since living apart from a spouse for over six months qualifies for that specific status

3. A preparer is engaged by a client who received an IRS notice proposing additional tax based on income the IRS believes was not reported. The client insists the income was actually reported but cannot locate their own copy of the filed return. What should the preparer generally do first?

A. Immediately agree with the IRS notice and advise the client to simply pay the proposed additional amount in full

B. Advise the client to ignore the notice entirely, since IRS notices are frequently issued in error and can be disregarded

C. File an entirely new original return for the same year without first reviewing what was actually previously filed

D. Request a copy of the filed return, or an account transcript and return transcript, directly from the IRS to compare against the notice before responding

4. A preparer's client wants to know the general difference between an IRS return transcript and an IRS account transcript when requesting records to reconstruct a prior-year filing. What is the general distinction between these two types of transcripts?

A. Both transcript types show identical information with no meaningful distinction between the two available transcript types

B. A return transcript shows only payment history, while an account transcript shows only the original return's line items

C. A return transcript shows most line items from the original filed return, while an account transcript shows the account's payment, penalty, and adjustment history

D. Only a return transcript is available to individual taxpayers, while an account transcript is available only to businesses

5. A preparer discovers during intake that a client's prior-year return claimed a dependent who does not actually meet any dependency test for that year, based on facts the client now discloses. What is the preparer's general obligation regarding this discovered error on the already-filed prior return?

A. Immediately notify the IRS directly of the error without first discussing the matter with the client at all

B. Ignore the issue entirely, since a preparer has no obligation regarding errors discovered on a different preparer's prior return

C. Promptly advise the client of the error and the potential consequences of not correcting it, without disclosing the error to the IRS without the client's consent

D. Automatically amend the prior return without first advising the client of the error or obtaining their consent to proceed

6. A preparer's client wants to designate a family member to receive copies of IRS notices and have access to certain tax account information, without granting that family member authority to sign documents or negotiate on the client's behalf. What form generally accomplishes this more limited authorization?

A. Form 8821, Tax Information Authorization, which permits disclosure of confidential information without granting broader representation authority

B. Form 2848, Power of Attorney, which grants full representation authority beyond the more limited disclosure the client actually wants

C. Form 1040-X, since an amended return must generally be filed before any information authorization can be granted

D. No form is available for this more limited purpose; only full representation authority can be granted to any third party

7. A preparer's client's PTIN-related question concerns whether a preparer must renew their Preparer Tax Identification Number on an annual basis to legally prepare federal tax returns for compensation. What is the general requirement regarding PTIN renewal?

A. A PTIN, once issued, is generally valid permanently with no renewal requirement of any kind at any point

B. PTIN renewal is generally required only once every five years rather than annually before each filing season

C. PTIN renewal is generally required only for enrolled agents and never for other types of paid preparers

D. A paid preparer's PTIN must generally be renewed annually before the start of each new filing season to remain valid

8. A preparer's client is unsure whether a same-day, same-name deposit shown on a bank statement several weeks before the return is being prepared represents a duplicate of income already reported by the client's employer on a Form W-2, or a separate item of unreported income. What should the preparer generally do?

A. Simply assume the deposit is a duplicate and exclude it from the return without any further investigation into its actual source

B. Investigate the source of the deposit with the client, comparing it against the Form W-2 and other income documents, before determining how to report it

C. Report the deposit twice, once as wages and once as additional unreported income, to avoid any risk of underreporting income

D. Ignore the deposit entirely, since bank statements are never relevant to the accurate preparation of a client's tax return

9. A preparer's engagement letter with a new client specifies the scope of services to be provided, the fee arrangement, and each party's responsibilities. What is the general purpose of using a written engagement letter for a tax preparation engagement?

A. To eliminate the preparer's own professional responsibility for the technical accuracy of the return being prepared for the client

B. To satisfy a specific IRS filing requirement that must be separately submitted along with the client's actual tax return

C. To grant the preparer automatic power of attorney authority to represent the client before the IRS without any separate filing

D. To clearly document the agreed scope of services, responsibilities, and fees, reducing the potential for future misunderstandings or disputes between the preparer and the client

10. A preparer's client wants to know the general filing requirement for a single, non-dependent taxpayer under age 65 whose gross income for the year is below the applicable filing threshold for their filing status. Is this taxpayer generally required to file a federal income tax return?

A. Always required to file regardless of gross income, since every U.S. citizen must file a federal return every single year

B. Never permitted to file at all once gross income falls under the applicable filing threshold for the taxpayer's status

C. Generally not required to file, since gross income falls under the applicable filing threshold for the taxpayer's filing status and age, though filing may still be advantageous to claim a refund

D. Required to file only if the taxpayer also owes self-employment tax, regardless of the taxpayer's total gross income level

11. A preparer's client wants to authorize the preparer to receive copies of IRS correspondence about the current-year return specifically, without a lengthy, formal power of attorney process, understanding this authorization automatically expires after a specific period. What is the general duration of the Third Party Designee authorization?

A. The Third Party Designee authorization generally expires automatically one year from the due date of the return, unless the taxpayer revokes it earlier

B. The authorization generally never expires at all once granted, remaining valid indefinitely for all future tax years

C. The authorization generally expires immediately upon the return being accepted by the IRS, lasting only a single day

D. The authorization generally lasts for a full five years, matching the standard IRS audit statute of limitations period

12. A preparer's client's e-filed return was rejected because the prior-year adjusted gross income entered for identity verification purposes did not match IRS records, even though the client is confident the figure entered is correct. What is generally the recommended troubleshooting step?

A. Assume the e-file system itself is malfunctioning and simply resubmit the identical return repeatedly without further investigation

B. Obtain the client's actual prior-year AGI directly from an IRS transcript, since a late-filed or amended prior-year return can cause the AGI on file to differ from what the client recalls

C. Advise the client that electronic filing is no longer available and that only paper filing will ever be possible going forward

D. Change the client's identity information entirely rather than investigating the specific AGI figure causing the rejection

13. A preparer's client asks whether providing false information to a preparer, which the preparer then unknowingly relies upon to prepare an inaccurate return, exposes the preparer to any penalty once the inaccuracy is later discovered by the IRS. What is the general standard applied to the preparer in this situation?

A. A preparer who reasonably and in good faith relied on information provided by the client, without reason to know it was incorrect, is generally not penalized for the resulting inaccuracy

B. The preparer is always penalized for any inaccuracy on a return regardless of the source of the incorrect information relied upon

C. Only the client is ever held responsible for any inaccuracy, and the preparer's own reliance standard is entirely irrelevant

D. The preparer must independently verify every single item of information a client provides before relying on any of it at all

14. A preparer's client wants copies of tax records kept by the preparer's firm to be securely destroyed after a period of time has passed, consistent with the firm's data retention policy. What is a key professional consideration a preparer should generally weigh before destroying any client tax records?

A. Whether the client has specifically requested destruction in writing, since that alone is always sufficient regardless of any other consideration

B. Whether the applicable statute of limitations for the specific tax years involved has fully expired, since records may still be needed to support a return during an open assessment or refund claim period

C. Whether destroying the records would reduce the preparer's own physical storage costs, since that is generally the primary consideration

D. Whether the records are stored electronically rather than on paper, since only paper records carry any retention consideration at all

15. A preparer's client wants to know whether a paid preparer is generally required to sign a return the preparer completed for compensation, and to include the preparer's PTIN on that return. What is the general requirement in this situation?

A. No, signing and including a PTIN is generally entirely optional and left to each individual preparer's own personal discretion

B. Yes, but only if the return results in a balance due, with no signature or PTIN required on a refund return

C. Yes, a paid preparer is generally required to sign the return and include a valid PTIN, as part of the preparer's basic professional responsibilities

D. No, only enrolled agents are ever required to sign a return, while other paid preparers are exempt from that requirement

16. A preparer's client asks about the general difference between an IRS Notice CP2000 and a formal Notice of Deficiency (a '90-day letter') received in connection with a proposed adjustment to a filed return. What is a key general distinction between these two types of IRS correspondence?

A. Both notices are functionally identical in every respect, with no meaningful legal distinction between the two types of correspondence

B. A CP2000 is always the final, unappealable step, while a Notice of Deficiency is always the very first notice a taxpayer receives

C. Only a Notice of Deficiency requires any response at all, while a CP2000 may always be safely ignored without consequence

D. A CP2000 is generally a proposed adjustment allowing the taxpayer to respond and dispute it informally, while a Notice of Deficiency generally starts the formal 90-day period to petition Tax Court before assessment

17. A taxpayer received a Form W-2 reporting $65,000 in Box 1 wages, along with a separate $3,000 employer contribution to the taxpayer's traditional 401(k) plan shown in Box 12. How is this employer 401(k) contribution generally treated on the taxpayer's individual return?

A. Fully includible in the taxpayer's Box 1 wages exactly as the employee's own regular salary would be reported

B. Includible only to the extent the employer contribution exceeds the employee's own separate elective deferral for the year

C. Not includible in the taxpayer's taxable income for the year, since employer contributions to a qualified retirement plan are generally not currently taxable to the employee

D. Subject to immediate income tax withholding at the time the employer actually makes the contribution to the plan

18. A taxpayer sold an antique painting held as a personal collectible for 12 years, recognizing a $15,000 long-term gain on the sale. How is this specific long-term gain generally taxed under current federal law?

A. At the standard preferential 0%, 15%, or 20% long-term capital gains rates identical to a long-term stock sale

B. At a special maximum federal rate of 28%, higher than the standard preferential long-term capital gains rates that apply to most other capital assets

C. Entirely tax-free, since personal-use collectibles held more than five years are excluded from capital gains taxation

D. At the taxpayer's full ordinary income tax rate, identical to how a short-term capital gain would be taxed

19. A taxpayer received a Form 1099-R reporting a $40,000 distribution from a traditional pension plan, taken at age 62 with no early distribution code shown. How is this distribution generally taxed, assuming the pension was funded entirely with pretax employer and employee contributions?

A. Fully includible in the taxpayer's ordinary taxable income for the year, with no early distribution penalty applicable given the taxpayer's age at the time of distribution

B. Entirely tax-free, since pension distributions taken after age 60 are generally excluded from taxable income under current law

C. Subject to the 10% early distribution penalty in addition to ordinary income tax, regardless of the taxpayer's age

D. Taxable only to the extent the distribution exceeds the taxpayer's original total contributions made into the pension plan

20. A taxpayer's total combined income for Social Security taxability purposes, calculated as one-half of Social Security benefits plus all other income including tax-exempt interest, falls between the lower and higher thresholds for the taxpayer's filing status. What is the general result for this specific income range?

A. None of the benefits become taxable at all as long as combined income falls anywhere under the higher threshold amount

B. The full 85% maximum taxable percentage automatically applies once combined income exceeds even the lower applicable threshold

C. Exactly 100% of the benefits become taxable once combined income exceeds the lower threshold for the taxpayer's filing status

D. Up to 50% of the taxpayer's Social Security benefits may become includible in taxable income once combined income falls between the lower and higher applicable thresholds

21. A taxpayer received a $2,000 state income tax refund during the year, related to a prior-year return on which the taxpayer claimed the standard deduction rather than itemizing deductions. How is this state tax refund generally treated on the current-year federal return?

A. Fully includible in taxable income exactly as it would be if the taxpayer had itemized deductions in the prior year

B. Includible only to the extent the refund exceeds a specific flat statutory state refund exclusion threshold amount

C. Subject to a separate flat 10% withholding tax applied directly to the refund before it was issued to the taxpayer

D. Generally excluded entirely from taxable income, since the taxpayer received no federal tax benefit from the state tax payment in the prior year under the tax benefit rule

22. A taxpayer received a Form 1099-MISC reporting $3,000 in royalty income from a book the taxpayer authored, received passively without the taxpayer being regularly engaged in the trade or business of writing. How is this royalty income generally reported on the taxpayer's return?

A. Generally reported on Schedule C as self-employment income, automatically subject to self-employment tax regardless of the taxpayer's level of activity

B. Generally reported on Schedule E as royalty income, rather than as self-employment income subject to self-employment tax

C. Entirely excluded from taxable income, since royalty income from a single book is generally treated as a nontaxable gift

D. Reported as wage income on Form 1040, exactly as it would be if the taxpayer were a traditional employee

23. A taxpayer received a $5,000 payment as an inheritance from a deceased relative's estate, distributed as cash from the estate's residual assets. How is this inherited cash amount generally treated for federal income tax purposes to the recipient?

A. Fully includible in the recipient's taxable income exactly as any other cash payment received from any other source would be
B. Includible only to the extent the inherited amount exceeds a specific flat statutory individual inheritance exclusion threshold
C. Generally excluded entirely from the recipient's gross income, since property or cash received by inheritance is generally not treated as taxable income to the recipient
D. Subject to a separate flat withholding tax applied directly by the estate before the cash is distributed to the recipient

24. A taxpayer received $1,200 in taxable interest from a certificate of deposit that matured during the year, along with $50 in interest that was actually credited to a savings account in December but not available for withdrawal by the taxpayer until early January of the following year. How should this $50 be reported?

A. Generally not includible in the current year's income, since a cash-method taxpayer reports interest income only when actually or constructively received, and this amount was not yet available for withdrawal
B. Includible in the current year's income regardless of when the funds were actually made available for the taxpayer's withdrawal
C. Includible in whichever year produces the lower overall tax liability for the taxpayer, at the taxpayer's own discretion
D. Excluded from income entirely regardless of which year the funds eventually became available for the taxpayer to withdraw

25. A taxpayer received a Form SSA-1099 reporting Social Security disability benefits for the year, along with a lump-sum retroactive payment covering several prior years of disability determination delay. How may this lump-sum retroactive portion generally be treated for tax computation purposes?

A. The lump-sum payment must always be treated as entirely taxable in the current year with no election available to spread it back

B. The lump-sum payment is always entirely tax-free regardless of when it is treated as having been received by the taxpayer

C. The lump-sum payment must be divided evenly across exactly five future tax years rather than any prior years at all

D. The taxpayer may generally elect to treat the lump-sum payment as if received in the earlier years to which it relates, potentially reducing the overall taxable portion

26. A taxpayer's traditional IRA custodian reports a $6,000 distribution taken during the year, coded as a normal distribution because the taxpayer is age 65. The taxpayer's IRA basis from prior nondeductible contributions, tracked on Form 8606, is $2,000 out of a $30,000 total account balance. How is this distribution generally taxed?

A. The full $6,000 distribution is entirely tax-free, since the account includes some amount of nondeductible basis from prior contributions

B. The full $6,000 distribution is entirely taxable, since any nondeductible basis is disregarded once the taxpayer reaches age 59½

C. A pro-rata portion of the distribution, calculated based on the ratio of nondeductible basis to total account balance, is generally excluded from taxable income, with the remainder taxable

D. Only the first $2,000 of the distribution is taxable, with the remaining $4,000 excluded as a return of basis

27. A taxpayer received $4,000 in qualified dividends and $8,000 in net long-term capital gain during the year, with total taxable income placing the taxpayer in the 0% preferential rate bracket for this specific category of income. How is this preferential-rate income generally taxed?

A. Taxed at the taxpayer's full ordinary marginal tax rate, since qualified dividends and long-term capital gains never receive any preferential rate treatment

B. Taxed at a 0% federal rate, since the taxpayer's total taxable income places this qualified dividend and long-term capital gain income within the applicable 0% preferential rate bracket

C. Taxed at a flat 15% rate regardless of the taxpayer's total taxable income or which specific preferential rate bracket applies

D. Entirely excluded from the tax return altogether, since income falling within a 0% rate bracket need not be reported at all

28. A taxpayer received a $2,500 payment as reimbursement from their employer for actual, substantiated business travel expenses incurred while traveling for work, submitted and reimbursed under a properly structured accountable plan. How is this reimbursement generally treated on the taxpayer's Form W-2 and tax return?

A. Generally excluded entirely from Box 1 wages and from the taxpayer's taxable income, since the reimbursement was made under a properly substantiated accountable plan

B. Fully includible in Box 1 wages and the taxpayer's taxable income exactly as regular salary compensation would be reported

C. Includible only to the extent the reimbursement exceeds the employee's own actual documented out-of-pocket expenses for the trip

D. Subject to backup withholding at a flat 24% rate applied directly to the reimbursement before it is paid to the employee

29. A taxpayer's traditional 401(k) plan loan of $15,000, taken during the year and generally repaid through payroll deduction, defaults after the taxpayer separates from employment without repaying the outstanding balance. How is this defaulted plan loan balance generally treated for tax purposes?

A. Entirely excluded from taxable income, since a plan loan is treated as debt rather than as a distribution, even upon default

B. Treated as a nontaxable rollover automatically, requiring no further reporting on the taxpayer's individual income tax return at all

C. Subject only to a separate loan default fee imposed by the plan administrator, with no federal income tax consequence at all

D. Generally treated as a taxable distribution, includible in the taxpayer's taxable income, and potentially subject to the 10% early distribution penalty if the taxpayer is under age 59½

30. A taxpayer received $500 in taxable interest income from a U.S. Treasury bond during the year. Separately, the taxpayer's state of residence imposes a state income tax on most types of interest income. How is this specific Treasury bond interest generally treated for state income tax purposes?

A. Fully taxable at the state level exactly as interest from an ordinary bank savings account would be taxed by the state

B. Generally exempt from state income taxation, since interest on U.S. Treasury obligations is generally exempt from state and local income tax under federal law

C. Exempt from federal income tax entirely, though this specific exemption question concerns state, not federal, tax treatment

D. Subject to a specific reduced state tax rate rather than a full exemption from state income taxation entirely

31. A taxpayer received a $10,000 payment from an employer as a signing bonus for accepting a new job offer, paid in a lump sum before the taxpayer's first day of actual work. How is this signing bonus generally treated for federal tax purposes?

A. Generally treated as fully taxable wage income, includible in the taxpayer's Box 1 wages and subject to standard payroll tax withholding

B. Entirely excluded from taxable income, since a signing bonus paid before employment begins is treated as a nontaxable gift

C. Includible only to the extent the bonus exceeds the taxpayer's first full year of regular salary at the new position

D. Treated as a nontaxable loan from the employer rather than as taxable compensation, since no work was yet performed

32. A taxpayer received a $3,000 payment from a hobby activity involving selling handmade crafts, an activity the taxpayer does not engage in with a genuine profit motive and has never turned a profit on. How is the income from this specific hobby activity generally treated?

A. Both the income and any related expenses are entirely excluded from the taxpayer's return, since hobby activities are disregarded entirely for tax purposes

B. The income is excluded from gross income entirely, while related hobby expenses remain fully deductible as an itemized deduction

C. The $3,000 in hobby income is generally includible in the taxpayer's gross income, while expenses related to the hobby are generally not deductible under current law

D. The income is taxable only to the extent it exceeds the taxpayer's total documented hobby-related expenses for the year

33. A taxpayer received a $7,000 payment from a former employer as severance pay following a workforce reduction layoff, paid as a lump sum in connection with the taxpayer's termination of employment. How is this severance payment generally treated for federal tax purposes?

A. Entirely excluded from taxable income, since severance pay connected to an involuntary layoff is treated as a nontaxable benefit

B. Includible only to the extent the severance exceeds the taxpayer's final month of regular salary at the former position

C. Treated as capital gain income rather than as ordinary wage income, since it represents a termination of the employment relationship

D. Generally treated as fully taxable wage income, subject to standard federal income tax withholding and payroll taxes, in the same manner as regular compensation

34. A taxpayer's traditional IRA held shares of stock that increased significantly in value over several years, and the taxpayer eventually sold those shares within the IRA and later withdrew the resulting cash proceeds as a normal distribution. How is the appreciation on those shares generally taxed?

A. The appreciation is generally not taxed at the preferential long-term capital gains rate; instead, the entire distribution, including any appreciation, is generally taxed as ordinary income upon withdrawal

B. The appreciation retains its character as long-term capital gain and is taxed at the preferential capital gains rate upon distribution

C. The appreciation is entirely tax-free upon distribution, since capital gains earned within a tax-deferred retirement account are permanently excluded

D. The appreciation is taxed at a flat 20% rate regardless of the taxpayer's overall ordinary income tax bracket for the year

35. A taxpayer received a $1,500 rebate directly from a manufacturer for purchasing a specific appliance during the year, structured as a standard point-of-sale price reduction rather than as compensation for any service performed. How is this manufacturer's rebate generally treated for federal tax purposes?

A. Fully includible in the taxpayer's gross income exactly as any other cash payment received from any other source would be

B. Includible only to the extent the rebate exceeds a specific flat statutory annual manufacturer rebate exclusion threshold amount

C. Generally treated as a reduction in the purchase price of the appliance rather than as taxable income to the purchasing taxpayer
D. Subject to a separate flat withholding tax applied directly by the manufacturer before the rebate is paid to the purchaser

36. A taxpayer received $9,000 in short-term capital gain and a separate $9,000 long-term capital loss during the same tax year, from unrelated investment transactions. How are these two amounts generally netted for tax purposes?

A. The two amounts cannot be netted against each other at all, since one is short-term and the other is long-term
B. The $9,000 long-term capital loss is netted against the $9,000 short-term capital gain across categories, resulting in a net $0 capital gain or loss for the year
C. Only the short-term gain is reported, with the long-term loss entirely disregarded and unavailable to offset any other income
D. The full $9,000 gain is taxable, while the $9,000 loss can only be carried forward and never used in the current year

37. A taxpayer's total itemized deductions include $8,000 in mortgage interest, $6,000 in state and local taxes (capped at $10,000), and $3,000 in charitable cash contributions, for a total of $17,000 in itemized deductions. The applicable standard deduction for the taxpayer's filing status is $14,600. Which should the taxpayer generally claim?

A. The $14,600 standard deduction, since it is always the more conservative and therefore preferable choice regardless of the itemized total
B. An average of the two amounts, since a taxpayer may generally split the deduction evenly between standard and itemized methods
C. Neither deduction may be claimed at all once itemized deductions exceed the applicable standard deduction amount for the year
D. The $17,000 in itemized deductions, since that amount exceeds the $14,600 standard deduction and produces a lower taxable income

38. A taxpayer donates $500 cash directly to a qualified public charity during the year and separately volunteers 40 hours of personal time at that same charity, time the taxpayer would normally bill clients at $75 per hour in their regular consulting business. What is the taxpayer's total generally allowable charitable deduction?

A. $500, since the value of personally donated time or services is never deductible as a charitable contribution, regardless of the taxpayer's normal professional hourly billing rate
B. $3,500, combining the $500 cash donation with the $3,000 value of the volunteered professional time at the taxpayer's normal rate
C. $3,000, representing only the value of the volunteered professional time, with the separate $500 cash donation excluded entirely
D. $0, since combining a cash donation with volunteered time disqualifies the entire contribution from any charitable deduction at all

39. A taxpayer's Child Tax Credit calculation involves one qualifying child under age 17, and the couple's modified AGI exceeds the applicable phase-out threshold by $10,000. Under the standard $50 reduction per $1,000 (or fraction thereof) over the threshold, what is the general credit reduction?

A. $1,000, applying an incorrect flat reduction rather than the applicable $50-per-$1,000-increment phase-out calculation
B. $500, calculated as ten $1,000 increments over the threshold multiplied by the $50 reduction per increment
C. $50, applying the reduction only once regardless of how many total increments the excess income actually represents
D. $5,000, applying an incorrect 50% reduction rate directly to the full $10,000 excess amount over the threshold

40. A taxpayer's American Opportunity Credit calculation includes $2,200 of qualified tuition and required course material expenses for the taxpayer's dependent's first year of college. Applying the 100%-of-first-$2,000-plus-25%-of-next-$2,000 formula, what is the maximum available credit?

A. $2,200, the full expense amount with no formula-based limitation applied at all to the qualifying expenses
B. $2,000, using only the first tier of the formula and disregarding the remaining $200 in qualifying expenses entirely
C. $2,050, calculated as 100% of the first $2,000 plus 25% of the remaining $200 in qualifying expenses

D. $550, using an incorrect flat 25% rate applied to the entire $2,200 in qualifying expenses

41. A taxpayer's total qualifying long-term care insurance premiums, an eligible medical expense, are combined with other unreimbursed medical expenses on Schedule A, subject to the applicable 7.5% AGI floor. What is the general treatment of eligible long-term care insurance premiums for this specific purpose?

A. Entirely excluded from the medical expense deduction category, since long-term care insurance premiums are never treated as a qualifying medical expense
B. Fully deductible without any limitation at all, regardless of the taxpayer's age or the actual amount of premium paid during the year
C. Generally includible with other qualifying medical expenses on Schedule A, subject to an age-based annual dollar limit on the premium amount that counts as a medical expense
D. Deductible only as a separate nonrefundable tax credit, rather than as an itemized medical expense deduction on Schedule A

42. A taxpayer's mortgage interest deduction includes points paid at closing to obtain a new mortgage used to purchase the taxpayer's primary residence, where the points meet the specific requirements to be treated as prepaid interest. How are these points generally treated for the year paid?

A. Generally not deductible at all in any year, since points are treated as a fee for the lender's services rather than as interest
B. Generally fully deductible in the year paid, since points paid to purchase a primary residence, meeting specific requirements, are treated as prepaid interest deductible in the year of payment
C. Generally deductible ratably over the full term of the mortgage loan, rather than fully deductible in the year the points were paid
D. Generally deductible only in the final year of the mortgage, when the loan is either paid off or refinanced by the taxpayer

43. A taxpayer's total Qualified Business Income (QBI) deduction calculation includes $40,000 of QBI from a sole proprietorship, with taxable income before the QBI deduction well under the applicable lower threshold, and no net capital gain for the year. What is the general QBI deduction available in this situation?

A. $8,000, calculated as 20% of the $40,000 in qualified business income, since taxable income falls under the applicable lower threshold

B. $40,000, the full amount of qualified business income deductible with no percentage limitation applied at all

C. $4,000, using an incorrect 10% rate rather than the applicable 20% rate that applies at this income level

D. $0, since no QBI deduction at all is available for a sole proprietorship regardless of the taxpayer's income level

44. A taxpayer's total charitable contributions for the year include a $15,000 non-cash donation of appreciated long-term stock to a qualified public charity, an amount exceeding the applicable 30%-of-AGI limitation for that specific type of contribution given the taxpayer's AGI. What happens to the portion of the contribution exceeding this limitation?

A. The excess contribution amount is entirely forfeited in full, with no carryforward or future deductibility available under any circumstances

B. The excess contribution amount is automatically converted into a fully refundable tax credit rather than remaining a carryforward deduction

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

D. The excess contribution amount generally may be carried forward and deducted in up to five subsequent tax years, subject to the same applicable percentage limitation each year

45. A taxpayer's Retirement Savings Contributions Credit (Saver's Credit) eligibility is being evaluated for a taxpayer who was claimed as a dependent on another taxpayer's return during the year. What is the general effect of being claimed as a dependent on Saver's Credit eligibility?

A. Dependent status has no effect at all on Saver's Credit eligibility, and the dependent may still claim the full credit

B. A dependent is eligible for the Saver's Credit, but only at a reduced 50% of the credit amount a non-dependent would receive

C. A dependent becomes eligible for the Saver's Credit only once the dependent turns age 21, regardless of other eligibility factors

D. A taxpayer claimed as a dependent on another return is generally ineligible for the Saver's Credit, regardless of the dependent's own retirement contributions made during the year

46. A taxpayer's Child and Dependent Care Credit calculation involves care expenses paid to the taxpayer's own 17-year-old child, who provided care for the taxpayer's younger, qualifying child during the year while the taxpayer worked. How are payments to this specific care provider generally treated?

A. Fully qualified for the credit exactly as payments to any unrelated, independent care provider would be treated

B. Qualified for the credit, but only at a reduced 50% rate compared to payments made to an unrelated care provider

C. Generally disqualified for purposes of the credit, since payments to the taxpayer's own child under age 19 do not qualify as care expenses eligible for the credit

D. Disqualified only if the 17-year-old child is also claimed as the taxpayer's own dependent on the same tax return

47. A taxpayer's total energy-efficient home improvement expenses for the year include a $1,500 qualifying heat pump water heater installation, eligible for the Energy Efficient Home Improvement Credit's specific higher category limit for heat pump technology, separate from the credit's general annual aggregate limit. What is the general credit available for this specific item?

A. 30% of the cost, subject only to the credit's lower general $1,200 annual aggregate limit shared with most other qualifying property

B. 30% of the cost, up to a separate $2,000 annual limit specifically for heat pumps and heat pump water heaters, which does not count against the credit's other general annual aggregate limit

C. A flat $500 credit regardless of the actual cost of the qualifying heat pump water heater installation

D. No credit at all is available for a heat pump water heater under the Energy Efficient Home Improvement Credit

48. A taxpayer's traditional IRA deduction is being calculated for a taxpayer who is covered by an employer retirement plan and whose modified AGI falls exactly within the middle of the applicable phase-out range for their filing status. What is the general result for a taxpayer within this specific range?

A. A partial IRA deduction is generally allowed, calculated proportionally based on where the taxpayer's modified AGI falls within the applicable phase-out range

B. The full IRA contribution is entirely deductible, since being within the phase-out range, rather than above it, has no effect at all

C. No deduction at all is allowed once a taxpayer's modified AGI enters any part of the applicable phase-out range

D. The deduction is calculated as a flat 50% of the full deduction amount for any taxpayer within the applicable phase-out range

49. A taxpayer's total educator expense deduction and separate above-the-line student loan interest deduction are both being claimed on the same return for the same tax year. How are these two distinct above-the-line deductions generally treated in relation to each other?

A. Only one of the two above-the-line deductions may generally be claimed in any given tax year, requiring the taxpayer to choose

B. Claiming the educator expense deduction automatically disqualifies the taxpayer from also claiming the student loan interest deduction

C. The two deductions must generally be combined into a single, capped total amount rather than each being separately deductible

D. Both deductions may generally be claimed independently and simultaneously on the same return, since each is a separate above-the-line adjustment to income with its own distinct eligibility requirements

50. A taxpayer's total itemized deductions include a casualty loss from a fire that damaged the taxpayer's personal residence, occurring in an area the President did not declare a federal disaster area. How is this specific personal casualty loss generally treated under current law?

A. Fully deductible as an itemized deduction, subject only to the standard casualty loss AGI floor and per-event reduction, regardless of any disaster declaration

B. Deductible at a reduced 50% rate compared to a casualty loss that does occur within a federally declared disaster area

C. Generally not deductible at all, since the personal casualty loss deduction is currently limited to losses attributable to a federally declared disaster area

D. Deductible only as a nonrefundable tax credit rather than as any form of itemized deduction on Schedule A

51. A taxpayer's total foreign tax credit calculation involves $1,800 of foreign income tax paid on foreign-source income, with the taxpayer's total foreign tax credit limitation for the year calculated at $1,500 based on the applicable Form 1116 limitation formula. What happens to the $300 excess foreign tax credit?

A. The excess $300 amount generally may be carried back one year and carried forward up to ten years, subject to the applicable statutory carryback and carryforward rules

B. The excess $300 amount is entirely forfeited in full with no carryback or carryforward available under any circumstances

C. The excess $300 amount is automatically refunded in cash to the taxpayer regardless of the taxpayer's actual current-year tax liability

D. The excess $300 amount must be used entirely in the following single year or it is permanently forfeited after that one year

52. A taxpayer's Lifetime Learning Credit calculation includes $12,000 of qualified education expenses paid during the year for coursework at an eligible institution, an amount exceeding the credit's applicable annual expense cap. What is the maximum Lifetime Learning Credit generally available in this situation?

A. $2,400, calculated as 20% applied to the full $12,000 in actual qualifying expenses with no annual expense cap applied at all

B. $2,000, calculated as 20% of the $10,000 annual expense cap, since the credit is generally limited to 20% of qualifying expenses up to that specific cap

C. $12,000, the full expense amount with no percentage-based limitation applied at all to the qualifying education expenses

D. $3,000, using an incorrect 25% rate rather than the applicable 20% rate that applies under the Lifetime Learning Credit

53. A taxpayer's Adoption Credit calculation involves $18,000 of qualified adoption expenses for a special needs child, where the adoption became final during the year, and the applicable annual dollar limit for the credit exceeds this amount. What is the general credit result for a special needs adoption meeting this specific condition?

A. The full applicable annual dollar limit is generally allowed as the credit for a final adoption of a child determined to have special needs, regardless of the taxpayer's actual documented qualified adoption expenses

B. Only the $18,000 in actual documented expenses is allowed as the credit, identical to the treatment of a non-special-needs adoption

C. No credit at all is available for a special needs adoption, since this specific category is entirely excluded from Adoption Credit eligibility

D. The credit is reduced by half compared to a non-special-needs adoption, regardless of the taxpayer's actual documented expenses

54. A taxpayer's total mortgage interest deduction includes interest on a home equity loan of $40,000, where the loan proceeds were used entirely to finance a family vacation rather than to buy, build, or substantially improve the taxpayer's home. How is this specific home equity loan interest generally treated under current law?

A. Fully deductible as home mortgage interest, since any loan secured by the taxpayer's home qualifies for the deduction regardless of how the proceeds were actually used

B. Deductible at a reduced rate compared to acquisition debt interest, rather than being entirely nondeductible regardless of how the loan proceeds were used

C. Generally not deductible at all as home mortgage interest, since current law limits the mortgage interest deduction to acquisition debt used to buy, build, or substantially improve the home securing the loan

D. Deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as home mortgage interest on Schedule A

55. A taxpayer's total Earned Income Tax Credit calculation is affected by the taxpayer's qualifying child failing to meet the required residency test, having lived with the taxpayer for only four months of the tax year due to a custody dispute with the other parent. How does this specific residency shortfall generally affect EITC eligibility for this child?

A. The four-month residency period fully satisfies the EITC residency requirement, since any documented residency at all is generally sufficient

B. The child generally does not meet the more-than-half-year residency requirement, so the child generally cannot be used to claim the Earned Income Tax Credit for this specific tax year

C. The residency requirement is prorated, allowing the taxpayer to claim four-twelfths of the full EITC amount for this specific child
D. Residency has no bearing at all on EITC eligibility, since only the relationship and age tests are actually relevant for this credit

56. A taxpayer's total student loan interest deduction is being evaluated for a loan the taxpayer took out to pay for a dependent child's qualified higher education expenses, where the taxpayer, rather than the child, is legally obligated to repay the loan. How is interest paid on this specific loan generally treated for the parent-taxpayer?

A. Only the dependent child, not the parent, may ever claim the student loan interest deduction, regardless of which party is legally obligated on the loan
B. Neither the parent nor the dependent child may claim any deduction at all, since the loan was used for the dependent's, rather than the taxpayer's own, education
C. The deduction must be evenly split between the parent and the dependent child regardless of which party is actually legally obligated on the loan
D. The parent-taxpayer may generally claim the student loan interest deduction, since the parent is legally obligated on the loan and the loan proceeds were used for a dependent's qualified education expenses

57. A single taxpayer's total taxable income for the year is $50,000, entirely from wage income, taxed under the standard progressive marginal bracket structure. If the taxpayer receives an additional $1,000 raise next year, how does the progressive system generally treat this additional income?

A. The additional $1,000 is generally taxed only at the marginal rate applicable to that specific top slice of income, not at a higher rate applied retroactively to all of the taxpayer's income
B. The entire $51,000 in total income becomes taxed at the new, higher marginal rate reached by the additional $1,000
C. The additional $1,000 is entirely tax-free, since marginal rate brackets only apply to a taxpayer's original base income level
D. The additional $1,000 is taxed at the taxpayer's very lowest bracket rate rather than at the applicable top marginal rate

58. A married couple filing jointly has $500 of net short-term capital loss and $2,000 of net long-term capital gain for the year, from unrelated investment transactions after separate internal netting within each category. How is the resulting net capital gain generally characterized and taxed?

A. The full $2,000 long-term gain is taxed at ordinary income tax rates, since the presence of any short-term loss disqualifies preferential treatment

B. The two amounts cannot be netted against each other at all, since one is short-term and the other is long-term in character

C. The $500 short-term loss offsets the $2,000 long-term gain, leaving a $1,500 net long-term capital gain, taxed at the preferential long-term capital gains rates

D. The $500 loss is entirely disregarded, and the full $2,000 gain is taxed at the preferential long-term capital gains rate

59. A taxpayer's total tax liability calculation includes tax on unrecaptured Section 1250 gain, along with separate ordinary income and other preferentially taxed long-term capital gain, all reported on the same Schedule D. What is the general purpose of the Schedule D Tax Worksheet in this specific situation?

A. To apply a single blended average rate across all categories of income combined together into one uniform calculation

B. To exclude the unrecaptured Section 1250 gain from taxation entirely, treating it identically to a tax-exempt item of income

C. To apply the taxpayer's single highest marginal rate to the entire combined total of all income reported on the return

D. To apply the correct applicable rate to each separate category of income, ensuring ordinary income, standard preferential-rate gain, and the specially rated unrecaptured Section 1250 gain are each taxed at their own correct rate

60. A taxpayer's total tax liability calculation includes the Net Investment Income Tax, applied to $12,000 of net investment income, where the taxpayer's modified AGI exceeds the applicable single-filer $200,000 threshold by $8,000. How is the 3.8% NIIT generally calculated in this specific situation?

A. 3.8% is applied to the full $12,000 of net investment income regardless of how much MAGI actually exceeds the applicable threshold

B. 3.8% is applied to the lesser of net investment income or the amount MAGI exceeds the threshold, here the smaller $8,000 excess amount

C. 3.8% is applied to the full $200,000 threshold amount itself rather than to any amount actually exceeding that threshold

D. The NIIT does not apply at all in this situation, since the taxpayer's MAGI excess is smaller than the total net investment income

61. A taxpayer's total tax liability calculation includes Additional Medicare Tax withheld by an employer once the taxpayer's wages from that single employer exceeded $200,000 during the year, even though the taxpayer's combined household income with a spouse, filing jointly, remains under the applicable $250,000 joint threshold. What is the general result on the couple's joint return?

A. The withheld amount is automatically forfeited in full, with no reconciliation or potential refund available on the couple's joint return

B. The withheld amount permanently increases the couple's total tax liability with no possibility of reconciliation against the joint threshold

C. No reconciliation is ever necessary, since employer withholding for the Additional Medicare Tax is always automatically correct as withheld

D. The withheld Additional Medicare Tax is generally reconciled on Form 8959, and since the couple's actual combined liability is calculated against the joint threshold, some or all of the withheld amount may generally be refunded

62. A taxpayer's total tax liability calculation includes a distribution from a nonqualified deferred compensation plan that fails to comply with the specific timing and election requirements under Section 409A. What is the general tax consequence of this type of noncompliant deferred compensation arrangement?

A. The deferred amount remains entirely tax-deferred indefinitely, with no consequence at all resulting from noncompliance with Section 409A requirements

B. The deferred amount is permanently and entirely excluded from taxation altogether once any Section 409A noncompliance is identified

C. The deferred amount generally becomes immediately taxable, along with a 20% additional tax and potential interest charges, once the arrangement fails to comply with the applicable Section 409A requirements

D. Only the employer, never the employee, bears any tax consequence at all from a plan's noncompliance with Section 409A

63. A taxpayer's total tax liability calculation includes a $2,000 general business credit, a $1,500 foreign tax credit, and a $3,000 nonrefundable education credit, all nonrefundable credits applied against the taxpayer's tax liability in a specific statutory ordering sequence. What is the general purpose of this statutory credit ordering rule?

A. To determine which credits are applied first against tax liability and which credits, if limited by liability, are eligible for carryback or carryforward treatment when liability is insufficient to absorb all available credits

B. To ensure the taxpayer receives a full cash refund of all nonrefundable credits regardless of the taxpayer's actual total tax liability

C. To automatically convert every nonrefundable credit into a fully refundable credit once more than one credit is claimed on the same return

D. To eliminate the need to calculate the taxpayer's actual tax liability at all once multiple different credits are being claimed together

64. A taxpayer's total tax liability calculation reflects tax computed on qualified dividends and net capital gain using the Qualified Dividends and Capital Gain Tax Worksheet, rather than simply looking up the taxpayer's total taxable income directly in the standard tax tables. What is the general reason this specific worksheet is required?

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

B. To ensure qualified dividends and net capital gain are taxed at the separate preferential 0%, 15%, or 20% rates, rather than being taxed at the taxpayer's regular ordinary marginal tax rate

C. To eliminate qualified dividends and net capital gain from taxation entirely, treating both categories as fully tax-exempt income

D. To apply the taxpayer's highest marginal ordinary rate to the qualified dividends and capital gain portion of taxable income

65. A taxpayer's total tax liability calculation includes an underpayment penalty for failing to make sufficient estimated tax payments during the year, despite the taxpayer's total withholding alone equaling exactly 92% of the current year's total tax liability. Does the taxpayer generally still owe an underpayment penalty in this situation?

A. Yes, a penalty always applies whenever a taxpayer fails to make any separate quarterly estimated payments during the year at all
B. Generally no penalty applies, since withholding alone equal to at least 90% of the current year's tax liability generally satisfies the safe harbor, regardless of whether any separate estimated payments were also made
C. Yes, but only because the taxpayer's withholding fell under the full 100% required threshold rather than the lower 90% threshold
D. No penalty analysis is ever necessary once a taxpayer's total withholding exceeds even a token nominal percentage of tax liability

66. A taxpayer's total tax liability calculation includes recognition of gain from a related-party sale of property between the taxpayer and the taxpayer's own sibling, where the sale price was set below the property's actual fair market value. What is a general tax concern the IRS may raise regarding this specific related-party transaction?

A. Related-party sales between siblings are generally entirely disregarded for federal tax purposes, with no gain or loss ever recognized
B. The IRS has no authority at all to examine or question the specific price used in a sale between family members
C. The IRS may generally scrutinize whether the transaction reflects an arm's-length sale price, potentially recharacterizing part of the below-market transfer as a taxable gift rather than solely as a sale
D. The transaction automatically converts into a fully tax-exempt exchange simply because it occurred between related family members

67. A taxpayer's total tax liability calculation includes the alternative minimum tax exemption amount, which is subject to its own separate phase-out once the taxpayer's alternative minimum taxable income (AMTI) exceeds an applicable higher threshold. What is the general effect of this specific AMT exemption phase-out?

A. As AMTI rises above the applicable threshold, the AMT exemption amount is generally reduced, increasing the taxpayer's exposure to a higher effective AMT liability at higher income levels

B. The AMT exemption amount generally increases, rather than decreases, as a taxpayer's AMTI rises above the applicable threshold

C. The AMT exemption phase-out has no real effect at all on a taxpayer's ultimate AMT liability once AMTI exceeds the threshold

D. The AMT exemption is entirely eliminated immediately and completely the moment AMTI exceeds the applicable threshold by even one dollar

68. A taxpayer's total tax liability calculation includes gain recognized on the sale of a taxpayer's primary residence, where the taxpayer owned and used the home as a principal residence for at least two of the five years preceding the sale, and the total gain is under the applicable Section 121 exclusion amount. What is the general tax result?

A. The gain is fully taxable at ordinary income tax rates, since home sale gain never qualifies for any exclusion under current federal tax law

B. Only half of the gain is excluded, with the remaining half fully taxable regardless of the applicable Section 121 exclusion amount

C. The gain is excluded only if the taxpayer immediately reinvests the full sale proceeds into a new replacement principal residence

D. The gain is generally excluded entirely from the taxpayer's taxable income under the Section 121 home sale exclusion, since the ownership and use tests, and the applicable exclusion amount, are all satisfied

69. A taxpayer's total tax liability calculation includes tax on a distribution from a nonqualified annuity contract purchased with after-tax dollars, where the distribution exceeds the taxpayer's remaining investment in the contract. How is this specific type of annuity distribution generally taxed under the exclusion ratio or last-in-first-out ordering rules?

A. Entirely tax-free, since the annuity was originally purchased using the taxpayer's own after-tax dollars rather than pretax contributions

B. Generally taxed as ordinary income to the extent the distribution represents earnings, using the applicable ordering rules that determine how much of each distribution represents taxable earnings versus nontaxable return of the taxpayer's own investment

C. Taxed at the preferential long-term capital gains rate rather than at the taxpayer's ordinary income tax rate for the year

D. Subject to a flat 10% withholding tax with no further income tax consequence at all regardless of the taxpayer's ordinary tax bracket

70. A taxpayer's total tax liability calculation includes tax on a $5,000 excess Roth IRA contribution made during the year, exceeding the taxpayer's applicable contribution limit due to the taxpayer's modified AGI unexpectedly exceeding the Roth contribution phase-out threshold. What is the general tax consequence if this excess contribution is not timely corrected?

A. No consequence at all applies as long as the taxpayer eventually withdraws the excess amount at any point in the future

B. The excess amount automatically converts into a fully deductible traditional IRA contribution with no further tax consequence at all

C. The entire Roth IRA account, not just the specific excess contribution amount, becomes permanently disqualified from any future tax-free treatment

D. Generally subject to a 6% excise tax on the excess contribution amount for each year the excess remains in the account and is not corrected

71. A taxpayer's total tax liability calculation includes tax on a distribution from a Coverdell Education Savings Account that was not used for the beneficiary's qualified education expenses during the year. How is the earnings portion of this specific non-qualified Coverdell distribution generally treated?

A. Entirely tax-free regardless of how the Coverdell distribution was actually used, since all such account distributions are permanently tax-exempt

B. Subject only to the 10% additional penalty without the earnings portion also being includible in the recipient's taxable income

C. Generally includible in taxable income and subject to an additional 10% penalty on the earnings portion, similar in concept to a non-qualified 529 plan distribution

D. Taxed at a flat, separate 37% rate distinct from both the recipient's ordinary income tax rate and any additional penalty

72. A taxpayer's total tax liability calculation includes a $4,000 recapture of a previously claimed First-Time Homebuyer Credit, from an original credit claimed under a now-expired program that required repayment over a period of years after the home was purchased. How is this specific type of credit recapture generally treated?

A. Generally reported as an addition to the taxpayer's total tax liability for the year, repaying the required installment portion of the original credit under the applicable recapture schedule
B. Treated as a reduction to the taxpayer's regular income tax liability rather than as an addition to total tax owed for the year
C. Treated as fully forgiven and no longer owed at all once a certain number of years have passed since the credit was claimed
D. Reported as additional taxable income to the taxpayer rather than as a direct addition to the taxpayer's total tax liability

73. A taxpayer's total tax liability calculation includes the tax treatment of a $10,000 legal settlement received for punitive damages in a personal injury lawsuit, separate from a related $15,000 payment received specifically for the taxpayer's physical injuries in that same lawsuit. How are these two distinct settlement components generally treated?

A. Both amounts are entirely excluded from taxable income, since they both arose from the same underlying personal injury lawsuit settlement
B. Both amounts are entirely includible in taxable income, since no personal injury settlement of any kind receives any exclusion under current law
C. The $15,000 for physical injuries is generally excluded from taxable income, while the $10,000 in punitive damages is generally fully includible in taxable income, since punitive damages do not qualify for the physical injury exclusion
D. Only the punitive damages are excluded from taxable income, while the physical injury portion is fully includible in taxable income

74. A taxpayer's total tax liability calculation includes tax on a $3,000 distribution from a traditional IRA used entirely to pay for qualified first-time homebuyer expenses, up to the applicable lifetime limit for this specific early distribution penalty exception. How is this specific distribution generally treated?

A. Entirely excluded from both ordinary income tax and the 10% early distribution penalty, since it is used for a first-time home purchase
B. Generally excluded from the 10% early distribution penalty, up to the applicable $10,000 lifetime limit for qualified first-time homebuyer expenses, though the distribution remains includible in the taxpayer's ordinary taxable income

C. Subject to the full 10% early distribution penalty in addition to ordinary income tax, since no exception applies to first-time homebuyer expenses
D. Excluded from ordinary income tax but still subject to the 10% early distribution penalty, the reverse of the correct general treatment

75. A client asks a practitioner whether it makes sense to accelerate a large itemized deduction, such as a planned charitable contribution, into the current tax year rather than waiting until January of next year, given the client expects to be in a meaningfully lower tax bracket next year. What should the practitioner generally explain?

A. Accelerating the deduction into the current, higher-bracket year generally produces a greater tax benefit, since the deduction offsets income taxed at the client's current higher marginal rate rather than the lower rate expected next year
B. The timing of the deduction has no effect at all on its tax benefit, regardless of which year the client's marginal rate is higher
C. The deduction should always be deferred to the following year regardless of the client's expected marginal tax rate in either year
D. Only the dollar amount of the deduction matters, and the client's marginal tax rate in the year claimed is entirely irrelevant

76. A client asks a practitioner whether it is generally advisable to take a full standard deduction versus itemizing in alternating years by strategically timing discretionary deductible payments, given the client's itemized deductions hover just under the standard deduction amount most years. What should the practitioner generally explain about this approach?

A. This approach has no effect at all on the client's total deductions claimed over any multi-year period regardless of the timing used
B. The client must itemize every single year once any itemizing has occurred in a prior year, with no ability to alternate
C. Bunching deductions is only available for medical expenses and cannot be applied to any other category of itemized deduction
D. This bunching strategy can generally increase the client's total deductions claimed over a multi-year period by concentrating deductible payments into alternating years to exceed the standard deduction, while claiming the standard deduction in the other years

77. A client who recently became self-employed asks a practitioner whether it would be advantageous to make quarterly estimated tax payments throughout the year rather than making a single large payment when filing the following year's return. What should the practitioner generally explain about this specific timing decision?

A. There is no meaningful difference at all between the two approaches, since the total amount ultimately paid to the IRS is identical either way

B. A single large payment made at filing time always results in a larger total tax liability than four smaller quarterly payments would

C. Making timely quarterly estimated payments throughout the year generally helps the client avoid or reduce an underpayment penalty, compared to waiting and paying the full amount only when the return is eventually filed

D. Estimated tax payments are entirely optional for a self-employed individual and have no bearing on any penalty calculation whatsoever

78. A client asks a practitioner whether converting a rental property, previously used as the client's primary residence for several years before being converted to a rental, back into the client's primary residence again would restore full eligibility for the Section 121 home sale gain exclusion upon a future sale. What should the practitioner generally explain?

A. Converting the property back to a primary residence always fully restores 100% eligibility for the exclusion with no reduction of any kind

B. The client may still qualify for the exclusion if the tests are met again, but gain from nonqualified rental use after 2008 is not eligible

C. Once a home has ever been used as a rental property, the Section 121 exclusion becomes permanently and entirely unavailable going forward

D. The exclusion becomes available only if the client rents the property again for at least two additional years before any future sale

79. A client asks a practitioner for general guidance comparing the tax treatment of contributing to a traditional 401(k) plan versus simply investing the same amount in a regular, non-retirement brokerage account, given the client is deciding where to direct additional monthly savings. What is a key general distinction the practitioner should explain?

A. Both options produce an identical tax result in every respect, since the same dollar amount is being invested either way
B. A regular brokerage account always produces a better after-tax outcome than a traditional 401(k) regardless of the client's specific tax situation
C. Traditional 401(k) contributions are always entirely tax-free upon withdrawal, identical to how a Roth 401(k) contribution would be treated
D. Traditional 401(k) contributions generally reduce current taxable income and grow tax-deferred until withdrawal, while a regular brokerage account offers no current deduction and generally generates currently taxable dividends, interest, and realized capital gains along the way

80. A practitioner is preparing a client's return and identifies a tax position with substantial authority but no disclosure has been made on the return. Does Circular 230 generally require disclosure of a position meeting the substantial authority standard?

A. No, a position meeting the substantial authority standard generally does not require disclosure on the return, unlike a position meeting only the lower reasonable basis standard
B. Yes, every single tax position taken on any return, regardless of the level of supporting authority, generally requires separate disclosure
C. Disclosure is required only if the position results in a refund, rather than a balance due, on the taxpayer's return
D. Disclosure requirements apply only to positions involving business income and never apply to any purely individual tax position

81. A client asks a practitioner whether gifting appreciated stock to a family member in a lower tax bracket, who will then sell the stock and pay tax on the resulting gain at their own lower rate, is a viable general tax planning strategy. What should the practitioner generally explain about this approach?

A. This strategy never provides any tax benefit at all, since the original donor's higher tax bracket always applies regardless of who ultimately sells the stock
B. This strategy can generally reduce the family's combined tax burden, since the recipient's lower rate applies, though Kiddie Tax rules may limit the benefit
C. Gifting appreciated stock always triggers immediate capital gains tax to the original donor at the moment of the gift itself
D. The recipient of gifted stock must always use the stock's value on the original purchase date, entirely disregarding the donor's own original cost basis

82. A client asks a practitioner whether contributing to a 529 college savings plan for a grandchild, rather than gifting cash directly to the grandchild's parents for the same educational purpose, provides any additional tax planning advantage. What should the practitioner generally explain?

A. Both approaches produce an identical tax result in every respect, since the same dollar amount ultimately benefits the grandchild's education either way

B. A 529 plan contribution is always fully taxable to the grandchild upon any withdrawal, regardless of whether it is used for education

C. Direct cash gifts to the parents always provide a larger tax benefit than a 529 plan contribution would provide in any situation

D. A 529 plan contribution generally allows the contributed funds to grow tax-deferred, with qualified education withdrawals generally tax-free, while also potentially removing the contributed amount from the grandparent's own taxable estate

83. A client asks a practitioner whether taking Social Security retirement benefits at the earliest eligible age of 62, rather than waiting until full retirement age or later, has any general tax planning implications beyond the well-known reduction in the client's monthly benefit amount itself. What should the practitioner generally explain?

A. There are no tax planning implications at all beyond the reduced monthly benefit amount itself, regardless of when benefits are actually claimed

B. Claiming benefits early always results in 100% of the client's Social Security benefits becoming taxable regardless of the client's other income

C. Claiming benefits earlier generally results in a smaller monthly benefit for life, which can also affect how much of total benefits become taxable under the formula

D. The age at which Social Security benefits are first claimed has no bearing at all on the applicable Social Security taxability formula

84. A client asks a practitioner whether making direct payments for a grandchild's tuition, paid directly to the educational institution rather than given to the grandchild or the grandchild's parents, has any specific gift tax planning advantage compared to simply gifting the equivalent cash amount. What should the practitioner generally explain?

A. A payment made directly to an educational institution for tuition generally qualifies for an unlimited gift tax exclusion, separate from and in addition to the standard annual per-recipient gift tax exclusion amount
B. Both approaches are treated identically for gift tax purposes, since the same dollar amount ultimately benefits the grandchild's education either way
C. Direct tuition payments are always fully taxable gifts, unlike a cash gift given directly to the grandchild or the grandchild's parents
D. The direct tuition payment exclusion applies only to payments made for room and board expenses, not to tuition payments themselves

85. A client asks a practitioner whether requesting a filing extension using Form 4868 also extends the deadline for paying any tax actually owed for the year, or only extends the deadline for filing the return itself. What should the practitioner generally explain about the scope of this specific extension?

A. Form 4868 generally extends both the filing deadline and the payment deadline equally, with no tax owed until the extended filing deadline
B. Form 4868 eliminates the client's tax liability entirely for the year, rather than merely extending either the filing or payment deadline
C. Form 4868 generally extends only the deadline for filing the return itself; any tax actually owed is still generally due by the original filing deadline, regardless of the extension
D. Form 4868 extends only the payment deadline, while the original filing deadline itself remains completely unaffected by the extension request

86. A client asks a practitioner whether establishing a health savings account, rather than continuing to use a general-purpose flexible spending account, could provide a meaningful triple tax benefit given the client is switching to a qualifying high-deductible health plan. What should the practitioner generally explain about this specific triple tax benefit?

A. HSA contributions are generally deductible when made, the account generally grows tax-free, and qualified medical withdrawals are generally entirely tax-free, a combination of three distinct tax advantages not available through a standard FSA
B. An HSA provides only a single tax benefit, identical in scope to what a standard flexible spending account already provides to the client
C. HSA contributions are never deductible, though the account does still grow tax-free and permit tax-free qualified medical withdrawals eventually

D. The described triple tax benefit applies only to employer HSA contributions and never applies at all to the client's own personal contributions

87. A client asks a practitioner whether an S corporation election is generally advisable for the client's growing sole proprietorship, given the client's net business profit has grown to a level where self-employment tax has become a significant, ongoing annual cost. What should the practitioner generally advise the client to weigh before making this decision?

A. There is no meaningful trade-off at all to weigh, since an S corporation election is always advantageous regardless of the business's actual profit level
B. An S corporation election always eliminates all federal tax liability entirely for the business owner regardless of the business's actual profit
C. The S corporation election has no effect at all on self-employment tax and is relevant only to the business's separate income tax rate
D. The potential self-employment tax savings from paying a reasonable salary and taking the remainder as a distribution, weighed against the added complexity, payroll administration costs, and other requirements of operating as an S corporation

88. A trust's governing instrument specifically directs the trustee to allocate all capital gains realized by the trust to trust principal, rather than to income distributable to the trust's beneficiaries, consistent with applicable state trust accounting law. How are these specific capital gains generally taxed?

A. The capital gains are generally taxed entirely to the beneficiaries, exactly as the trust's ordinary distributable income would be taxed to them
B. The capital gains are generally taxed to the trust itself, using the trust's own separate, notably compressed income tax rate schedule, rather than being passed through and taxed to the beneficiaries
C. The capital gains are entirely tax-exempt, since capital gains allocated to trust principal are excluded from taxation at either the trust or beneficiary level
D. The capital gains are taxed equally split between the trust and the beneficiaries, regardless of the governing instrument's specific allocation directive

89. A decedent's estate includes a traditional IRA with a named individual beneficiary, separate from the decedent's other probate assets passing through the estate. How does this specific named-beneficiary designation generally affect how the IRA passes to the beneficiary?

A. The IRA automatically becomes part of the decedent's probate estate and passes according to the terms of the decedent's will instead

B. The IRA generally passes directly to the named beneficiary outside of the probate estate, governed by the beneficiary designation on file with the IRA custodian rather than by the decedent's will

C. The named beneficiary designation is generally overridden entirely by any contrary instructions later included in the decedent's will

D. The IRA can only pass to the named beneficiary if the decedent's will separately and specifically also names that same beneficiary

90. A U.S. citizen taxpayer receives a gift of $50,000 in cash from a foreign relative who is a nonresident alien living entirely outside the United States. How is this specific gift generally treated for the U.S. citizen recipient's federal tax purposes?

A. The gift is generally fully includible in the recipient's taxable income, exactly as it would be if it were compensation for services rendered

B. The recipient must pay U.S. gift tax directly on the amount received, since gift tax generally falls on the recipient rather than the donor

C. No reporting obligation of any kind ever arises for a U.S. recipient of a gift from a foreign person, regardless of the amount involved

D. The gift itself is generally not includible in the recipient's taxable income, though the recipient may be required to report the gift on Form 3520 if it exceeds the applicable annual reporting threshold for gifts from foreign persons

91. A taxpayer's estate is administered by an executor who chooses a fiscal year, rather than a calendar year, as the estate's tax year for filing Form 1041. What is a general reason an executor might choose a fiscal year for the estate's fiduciary income tax return?

A. A fiscal year is generally required by law for every estate, and a calendar year is never actually a permitted option for an estate

B. Choosing a fiscal year automatically eliminates the estate's filing obligation entirely, regardless of the estate's actual gross income

C. A fiscal year can generally provide additional flexibility in timing income and deduction recognition between the estate and its beneficiaries across the administration period

D. A fiscal year is available only to a trust, never to an estate, which must always use a calendar year under current law

92. A married couple's joint tax return reflects a significant balance due, attributable in substantial part to income earned solely by one spouse's separate wage employment, while the other spouse had no independent income of their own during the year. If the couple later divorces, how is joint and several liability for this original joint return generally treated?

A. Both spouses generally remain jointly and severally liable for the entire balance due on the originally filed joint return, regardless of which spouse's income the balance is attributable to or any later divorce
B. Only the spouse whose income generated the balance due remains liable, with the other, non-earning spouse automatically released from any liability
C. The divorce decree itself automatically and entirely eliminates federal joint and several liability for the IRS regardless of what the decree states
D. Liability is automatically split exactly 50/50 between the two spouses once a divorce occurs, regardless of the original income attribution

93. A U.S. citizen who has lived and worked in a foreign country for several consecutive years wants to know whether foreign real property owned personally, and used as the taxpayer's personal foreign residence, must be reported on the FBAR or Form 8938 foreign asset reporting forms. What is the general answer?

A. Foreign real property must always be reported on both the FBAR and Form 8938 regardless of how the property is actually used
B. Foreign real property must be reported only on the FBAR, while Form 8938 generally excludes all types of foreign property entirely
C. Directly held foreign real property used as a personal residence is generally not reportable on either form, since both apply to financial accounts and assets
D. Foreign real property must be reported only on Form 8938, while the FBAR generally excludes all types of foreign property entirely

94. A taxpayer's trust is structured as a qualified disability trust for the sole benefit of the taxpayer's adult disabled child, receiving a more favorable specific income tax exemption amount than an ordinary complex trust would generally receive. What is the general purpose of this specific favorable trust classification?

A. To eliminate the trust's federal income tax filing obligation entirely, regardless of the trust's actual annual income for the year

B. To automatically convert the trust into a grantor trust, taxed directly to the disabled beneficiary rather than to the trust itself

C. To eliminate any distinction at all between this trust and an ordinary complex trust for federal income tax purposes

D. To provide the trust a substantially larger income tax exemption amount, comparable to an individual's personal exemption concept, recognizing the trust's specific purpose of supporting a beneficiary with a qualifying disability

95. A nonresident alien individual receives U.S.-source dividend income from stock held in a U.S. brokerage account, without being engaged in a U.S. trade or business. How is this specific U.S.-source dividend income generally taxed for this nonresident alien?

A. Generally entirely tax-exempt, since a nonresident alien is never subject to any U.S. tax on U.S.-source investment income of any kind

B. Generally subject to a flat 30% withholding tax on the gross U.S.-source dividend amount, unless a lower treaty rate applies under an applicable U.S. income tax treaty

C. Generally taxed under the same standard progressive bracket structure that applies to a U.S. citizen's own dividend income

D. Generally subject to self-employment tax, since dividend income is treated identically to self-employment income for a nonresident alien

96. A taxpayer's estate includes both probate assets, passing under the decedent's will, and non-probate assets, such as jointly held property and assets with named beneficiary designations, passing outside of probate. For federal estate tax purposes, how are these two categories of assets generally treated?

A. Both probate and non-probate assets are generally includible in the decedent's gross estate for federal estate tax purposes, regardless of whether they pass through probate or directly to a named beneficiary

B. Only probate assets passing under the decedent's will are includible in the gross estate, with non-probate assets entirely excluded from estate tax purposes

C. Only non-probate assets are includible in the gross estate, with assets passing under the decedent's will entirely excluded from estate tax purposes

D. Neither category of asset is ever includible in the gross estate unless the combined total value exceeds a specific separate reporting threshold

97. A taxpayer who is a resident of Guam, a U.S. territory, earns income entirely from Guam sources during the year. How is this taxpayer's income generally treated for U.S. federal income tax filing purposes under the applicable mirror tax system?

A. The resident must file a standard U.S. Form 1040 with the IRS exactly as a mainland U.S. resident would, reporting all Guam income
B. The resident is entirely exempt from any tax filing obligation anywhere, since Guam residents are not required to file any tax return
C. The resident must file Form 1040-NR, reporting the Guam income as U.S.-source income effectively connected with a U.S. trade or business
D. The resident generally files with Guam's own tax authority under a mirror code system, rather than filing a separate U.S. federal individual income tax return with the IRS

98. A taxpayer's revocable living trust becomes irrevocable upon the taxpayer-grantor's death, continuing to hold assets for the benefit of named successor beneficiaries under the trust's terms. How does the trust's federal income tax treatment generally change at this specific point?

A. The trust's tax treatment remains completely unchanged upon the grantor's death, continuing to be reported entirely on the deceased grantor's own return
B. The trust automatically terminates entirely upon the grantor's death, with no further tax filing obligation of any kind ever required
C. The trust generally ceases to be a grantor trust upon the grantor's death and becomes a separate taxable entity, generally required to obtain its own employer identification number and file its own Form 1041
D. The trust automatically converts into a qualified disability trust upon the grantor's death, regardless of any beneficiary's actual disability status

99. A taxpayer's estate's executor discovers that the decedent had unfiled federal income tax returns for two prior years before death, in addition to needing to file the decedent's final return for the year of death itself. What is the executor's general responsibility regarding these specific unfiled prior-year returns?

A. The executor has no responsibility at all for any prior-year returns, and is responsible only for the specific final return covering the year of death

B. The executor is generally responsible for filing the decedent's unfiled prior-year returns, in addition to the separate final return covering the period from the start of the year of death through the date of death

C. The unfiled prior-year returns are automatically forgiven entirely and need never be filed once the taxpayer has died before filing them

D. The executor may file only one single combined return covering all of the prior unfiled years together with the final year of death

100. A U.S. citizen taxpayer who is a bona fide resident of American Samoa for the entire tax year earns income entirely from American Samoa sources. How is this specific income generally treated for U.S. federal income tax purposes, under the specific possession exclusion available to bona fide residents of American Samoa?

A. The taxpayer may generally exclude income from American Samoa sources from U.S. federal taxable income under a specific statutory possession income exclusion available to bona fide residents of American Samoa

B. The taxpayer must fully report and pay U.S. federal tax on all American Samoa-source income, exactly as a mainland U.S. resident would report similar income

C. The taxpayer is entirely exempt from any U.S. federal tax filing obligation whatsoever, regardless of any income earned from sources outside American Samoa

D. The exclusion applies only to unearned investment income and never applies at all to wages earned by a bona fide American Samoa resident

Answer Key and Explanations — Practice Exam 9

1. A — Every individual taxpayer generally needs a valid Social Security number or Individual Taxpayer Identification Number to file a federal return. A preparer should determine whether the client has an ITIN, and if not, advise the client to apply for the appropriate number before the return can be properly completed and filed.

2. B — A married taxpayer who lived apart from their spouse for the last six months of the year, paid more than half the cost of maintaining a home that was the main home of a qualifying child, and files a separate return may be considered unmarried and qualify for Head of Household status.

3. D — Before responding to an IRS notice proposing additional tax, a preparer should generally obtain the taxpayer's actual filed return, or an IRS transcript reflecting what was filed and processed, to accurately compare against the specific items the IRS notice identifies, rather than assuming the notice is correct or simply ignoring it.

4. C — A return transcript generally shows most line items from the taxpayer's originally filed return as it was submitted, while an account transcript generally shows the taxpayer's account activity, including payments, penalties, interest, and any subsequent adjustments, providing different but complementary information for reconstructing a taxpayer's overall filing history over time.

5. C — Circular 230 generally requires a practitioner who becomes aware of an error or omission on a client's previously filed return to promptly advise the client of the error and its potential consequences, while the practitioner may not disclose the error to the IRS without the client's consent to do so.

6. A — Form 8821, Tax Information Authorization, allows a taxpayer to authorize a designated individual to receive confidential tax information and copies of IRS notices, without granting the broader representation authority, such as negotiating with the IRS or signing documents, that a Form 2848 power of attorney would separately and more formally provide.

7. D — A Preparer Tax Identification Number must generally be renewed annually, before the start of each new filing season, for a paid preparer to remain legally authorized to prepare federal tax returns for compensation, distinct from the separate renewal cycles that apply to an enrolled agent's own separate enrollment credential status.

8. B — A preparer should generally investigate an ambiguous deposit's actual source with the client, comparing it against the Form W-2 and other available income documentation, before determining the correct treatment, since simply assuming it is either a duplicate or genuinely separate unreported income without any verification risks a materially inaccurate return.

9. D — A written engagement letter generally documents the specific scope of services, fee arrangement, and respective responsibilities agreed to by the preparer and client at the outset of the engagement, serving as a professional best practice that helps reduce the potential for later misunderstandings or disputes about what was actually agreed to.

10. C — A taxpayer whose gross income falls under the applicable filing threshold for their filing status and age is generally not required to file a federal income tax return, though filing may still be advantageous if the taxpayer is entitled to a refund of withheld tax or refundable credits for the year.

11. A — The Third Party Designee authorization on Form 1040 generally expires automatically one year from the original due date of the return, regardless of any extensions, unless the taxpayer revokes the authorization earlier, providing a limited-duration alternative to the broader and more formal Form 2848 power of attorney authorization process itself.

12. B — When an e-file rejection is based on a prior-year AGI mismatch, a preparer should generally obtain the client's actual prior-year AGI from an IRS transcript, since a late-filed, amended, or IRS-adjusted prior-year return can cause the figure on file with the IRS to differ from what the client independently recalls or has on hand.

13. A — A preparer is generally not penalized for an inaccuracy resulting from good-faith reliance on client-provided information, when the preparer had no reason to know the information was incorrect and made reasonable inquiries where appropriate, distinguishing this good-faith reliance standard from a preparer who knew or should have known the information was inaccurate.

14. B — Before destroying client tax records, a preparer should generally consider whether the applicable statute of limitations for assessment or a refund claim has fully expired for the specific tax years involved, since records may still be needed to support a filed return, defend a position, or file an amended return during an open period.

15. C — A paid preparer is generally required to sign any return prepared for compensation and to include a valid Preparer Tax Identification Number on that return, a basic professional responsibility applicable to any compensated preparer regardless of whether that specific preparer holds an enrolled agent, CPA, attorney, or other professional credential.

16. D — A CP2000 notice generally proposes an adjustment based on a discrepancy, such as unmatched third-party income, and allows the taxpayer to respond and dispute it informally, while a formal Notice of Deficiency generally follows unresolved disputes and starts the specific 90-day statutory period during which the taxpayer may petition Tax Court before assessment.

17. C — An employer's contribution to a qualified retirement plan, such as a traditional 401(k) plan, is generally not currently includible in the employee's taxable income, since taxation of both the employer contribution and its earnings is generally deferred until the funds are eventually distributed from the plan to that particular employee.

18. B — Long-term gain on collectibles, such as antiques, art, coins, and precious metals, is subject to a special maximum federal tax rate of 28%, which is higher than the standard 0%, 15%, or 20% preferential long-term capital gains rate schedule that generally applies to most other types of long-term capital gain property.

19. A — A pension distribution taken at age 62, well after the age 59½ threshold, is generally fully includible in the recipient's ordinary taxable income, without an early distribution penalty, since the pension was funded with pretax contributions and the taxpayer has already passed the age at which the early distribution penalty would apply.

20. D — When a taxpayer's combined income falls between the lower and higher applicable thresholds for their filing status, up to 50%, rather than the maximum 85%, of Social Security benefits may become includible in taxable income, with the higher 85% ceiling applying only once combined income exceeds the separate, higher threshold amount.

21. D — Under the tax benefit rule, a state income tax refund is generally taxable in the year received only to the extent the taxpayer received a federal tax benefit from deducting that state tax in the prior year. Since this taxpayer claimed the standard deduction, no benefit was received, so the refund is excluded from income.

22. B — Royalty income received passively by an author who is not regularly engaged in the trade or business of writing is generally reported on Schedule E, rather than Schedule C, and is generally not subject to self-employment tax, distinguishing it from royalty income earned by a taxpayer actively engaged in writing as an ongoing trade or business.

23. C — Property or cash received by an individual as an inheritance is generally excluded entirely from the recipient's gross income for federal income tax purposes, though any subsequent income the inherited property itself generates after receipt, such as interest or dividends, is separately taxable to the recipient in the ordinary manner.

24. A — Under the constructive receipt doctrine applicable to a cash-method taxpayer, interest income is generally includible only in the year it is actually or constructively received, meaning made available for withdrawal without substantial restriction. Since the $50 was not available until the following January, it is generally not includible in the current year.

25. D — A taxpayer receiving a lump-sum Social Security payment that includes benefits for one or more earlier years may generally elect a special lump-sum election method, treating the retroactive portion as if received in the earlier years to which it relates, which can reduce the overall taxable portion compared to including it all in the current year.

26. C — When a traditional IRA contains both deductible and nondeductible (basis) contributions, distributions are generally taxed on a pro-rata basis under the Form 8606 basis-recovery rules, meaning a proportional share of each distribution, based on the ratio of total basis to total account balance, is excluded from taxable income, with the remainder taxable.

27. B — Qualified dividends and net long-term capital gain are taxed at preferential rates of 0%, 15%, or 20%, depending on the taxpayer's total taxable income. When that income falls within the applicable 0% bracket threshold, the qualified dividends and long-term capital gain are taxed at a 0% federal rate for that portion of income.

28. A — A reimbursement made under a properly structured accountable plan, requiring adequate business connection, substantiation, and return of any excess, is generally excluded entirely from the employee's Box 1 wages and taxable income, unlike a reimbursement made under a nonaccountable plan, which is generally includible in the employee's own taxable wages.

29. D — When a qualified plan loan defaults, such as when an employee separates from employment without repaying the outstanding balance, the unpaid loan balance is generally treated as a deemed taxable distribution, includible in the taxpayer's ordinary taxable income, and potentially subject to the 10% early distribution penalty if the taxpayer has not yet reached age 59½.

30. B — Interest income earned on U.S. Treasury obligations is generally exempt from state and local income taxation under federal law, even though such interest remains fully taxable for federal income tax purposes, a notable distinction from most other types of interest income, which are generally taxable at both the federal and state level.

31. A — A signing bonus paid by an employer to induce a taxpayer to accept employment is generally treated as taxable wage compensation, includible in the employee's Box 1 wages and subject to the same standard federal income tax withholding and payroll tax treatment as any other form of compensation for services to be performed.

32. C — Under current law, income from a hobby activity, meaning an activity not engaged in for profit, is generally fully includible in the taxpayer's gross income, while expenses related to that hobby activity are generally not deductible, since the miscellaneous itemized deduction that previously allowed some hobby expense deductions has been suspended for most taxpayers.

33. D — Severance pay received in connection with the termination of employment, including pay connected to an involuntary workforce reduction layoff, is generally treated as fully taxable wage compensation, subject to standard federal income tax withholding and payroll taxes, in substantially the same manner as the employee's regular wage compensation would have been treated.

34. A — Investment gains, including capital appreciation, earned within a traditional IRA generally lose their preferential capital gains character. Upon distribution from the IRA, the entire withdrawal, including any appreciation that would have been a long-term capital gain outside the account, is generally taxed as ordinary income at the taxpayer's regular marginal tax rate.

35. C — A manufacturer's rebate that functions as a reduction in the purchase price of an item, rather than as compensation for services performed or a return on investment, is generally treated as a purchase price adjustment rather than as taxable income to the purchasing taxpayer, consistent with long-standing IRS guidance on this specific type of consumer rebate.

36. B — After separately netting gains and losses within each of the short-term and long-term categories, any remaining net short-term gain or loss is further netted against any remaining net long-term gain or loss. Here, the $9,000 short-term gain and $9,000 long-term loss fully offset, resulting in a net $0 capital gain or loss.

37. D — A taxpayer generally benefits from claiming whichever amount is larger between the standard deduction and total itemized deductions, since a larger deduction produces lower taxable income. Here, the $17,000 in itemized deductions exceeds the $14,600 standard deduction, so itemizing on Schedule A generally produces the better result for this taxpayer.

38. A — Only the $500 cash contribution is deductible; the value of personally donated time or services, even at a taxpayer's normal professional billing rate, is never deductible as a charitable contribution. Only actual out-of-pocket unreimbursed expenses directly connected to the volunteer service, such as documented mileage, could potentially qualify for an additional deduction.

39. B — The Child Tax Credit phase-out generally reduces the credit by $50 for each $1,000, or fraction thereof, that modified AGI exceeds the applicable threshold. With $10,000 in excess income, representing ten full $1,000 increments, the credit is reduced by $500 (10 multiplied by $50) before applying the remaining credit amount.

40. C — The American Opportunity Credit formula provides 100% of the first $2,000 in qualified expenses plus 25% of the next $2,000. Applying this formula to $2,200 in expenses yields $2,000 (100% of the first $2,000) plus $50 (25% of the remaining $200), for a total credit of $2,050 for this dependent.

41. C — Eligible long-term care insurance premiums are generally includible with other qualifying unreimbursed medical expenses on Schedule A, subject to the same 7.5% AGI floor, though the amount of premium that counts as a qualifying medical expense is subject to an age-based annual dollar limit that increases as the taxpayer's age increases.

42. B — Points paid to obtain a mortgage used to purchase a taxpayer's primary residence, when meeting specific IRS requirements such as being an established business practice in the area and separately stated on the settlement statement, are generally treated as prepaid interest and are generally fully deductible in the year the points were actually paid.

43. A — Below the applicable lower taxable income threshold, the QBI deduction is generally the lesser of 20% of qualified business income or 20% of taxable income minus net capital gain, without the wage limitation or specified-service restrictions applying. Here, 20% of the $40,000 in QBI yields an $8,000 deduction for this taxpayer.

44. D — When a charitable contribution exceeds the applicable AGI-based percentage limitation for that specific type of donated property, such as the 30% limitation generally applicable to long-term appreciated stock, the excess amount generally may be carried forward and deducted in each of the following five tax years, subject to the same percentage limitation in each of those years.

45. D — The Saver's Credit specifically excludes any individual who is claimed as a dependent on another taxpayer's own return, along with separately excluding full-time students and taxpayers under age 18, regardless of that specific dependent's own retirement account contributions actually made during the specific tax year in question at all times.

46. C — Payments made to the taxpayer's own child who is under age 19 at the end of the year are generally disqualified from counting as qualifying care expenses for the Child and Dependent Care Credit, regardless of whether that child is otherwise claimed as a dependent, since the statute specifically excludes this category of care provider.

47. B — The Energy Efficient Home Improvement Credit generally provides a separate, higher $2,000 annual limit specifically for heat pumps, heat pump water heaters, and biomass stoves, applying the standard 30% rate, which is distinct from and does not count against the credit's lower general $1,200 aggregate annual limit for most other qualifying property.

48. A — A taxpayer covered by an employer retirement plan whose modified AGI falls within the applicable phase-out range is generally allowed a partial, proportionally reduced IRA deduction, calculated based on where the taxpayer's income falls within that specific range, rather than either the full deduction or a complete disallowance of it.

49. D — The educator expense deduction and the student loan interest deduction are separate, independent above-the-line adjustments to income, each with its own distinct eligibility requirements and dollar caps, and a taxpayer who separately qualifies for both may generally claim each deduction independently and simultaneously on the same return for the same tax year.

50. C — Under current law, the itemized deduction for personal casualty and theft losses is generally limited to losses attributable to a federally declared disaster area. A personal casualty loss occurring outside such a declared area, such as this residential fire, is generally not deductible at all as an itemized deduction under current federal tax law.

51. A — When foreign tax paid exceeds the Form 1116 foreign tax credit limitation for the year, the excess amount generally may be carried back one year and, if not fully used, carried forward for up to ten years, subject to the specific statutory ordering rules that govern how the credit may be applied in each carryback or carryforward year.

52. B — The Lifetime Learning Credit equals 20% of qualified education expenses, up to a $10,000 annual expense cap per tax return, regardless of how many students' expenses are combined. Applying the 20% rate to the $10,000 cap, rather than the full $12,000 actually paid, yields a maximum available credit of $2,000 for the year.

53. A — For the adoption of a child determined by a state to have special needs, once the adoption becomes final, the taxpayer may generally claim the full applicable annual dollar limit as the Adoption Credit, regardless of the taxpayer's actual documented qualified adoption expenses, a more favorable rule than the expense-based limitation that applies to other adoptions.

54. C — Under current law, home equity loan interest is generally deductible as home mortgage interest only when the loan proceeds are used to buy, build, or substantially improve the home securing the loan. Since these proceeds were used for a family vacation, an unrelated personal expense, the resulting interest is generally not deductible at all under current law.

55. B — A qualifying child for Earned Income Tax Credit purposes must generally have lived with the taxpayer in the United States for more than half of the tax year. Since this child lived with the taxpayer only four months, well under that threshold, the child generally does not meet the residency test needed to claim the EITC based on that child.

56. D — A taxpayer who is legally obligated to repay a qualified education loan may generally claim the student loan interest deduction for interest actually paid, even when the loan proceeds were used for a dependent's qualified higher education expenses rather than the taxpayer's own, since legal obligation on the loan, not whose education it funded, generally controls deduction eligibility.

57. A — Under the progressive marginal bracket system, only the specific additional income that falls within a new, higher bracket is taxed at that higher rate; a raise or additional income does not retroactively cause a taxpayer's entire income to be taxed at the new marginal rate reached by that additional amount.

58. C — After netting within each category, a net short-term loss is applied against a net long-term gain, and the resulting net gain retains its long-term character. Here, the $500 short-term loss offsets part of the $2,000 long-term gain, leaving a $1,500 net long-term capital gain eligible for the preferential long-term capital gains tax rates.

59. D — The Schedule D Tax Worksheet is generally used when a return includes multiple types of preferentially taxed income, such as standard long-term capital gain, qualified dividends, and unrecaptured Section 1250 gain, ensuring each specific category of income is taxed at its own correct applicable rate rather than being blended together incorrectly.

60. B — The Net Investment Income Tax applies a 3.8% rate to the lesser of net investment income or the amount by which MAGI exceeds the applicable threshold. Since the $8,000 MAGI excess here is smaller than the $12,000 of net investment income, the 3.8% tax applies specifically to the smaller $8,000 excess figure.

61. D — An employer withholds Additional Medicare Tax once an individual employee's wages from that employer exceed $200,000, without regard to the employee's marital status or a spouse's income. Form 8959 reconciles this withholding against the couple's actual combined joint liability based on the applicable $250,000 threshold, potentially resulting in a partial refund of over-withheld tax.

62. C — A nonqualified deferred compensation arrangement that fails to comply with Section 409A's specific timing, election, and distribution requirements generally results in the deferred amount becoming immediately taxable to the employee, along with an additional 20% tax and potential interest charges, a significantly harsher overall outcome than fully compliant deferred compensation.

63. A — The statutory credit ordering rules determine the specific sequence in which multiple nonrefundable credits are applied against a taxpayer's tax liability, which matters because certain credits, such as the general business credit and foreign tax credit, allow carryback or carryforward treatment when liability is insufficient, while other credits generally do not allow any such carryover.

64. B — The Qualified Dividends and Capital Gain Tax Worksheet separates ordinary taxable income, taxed under the regular progressive bracket structure, from qualified dividends and net capital gain, which are instead taxed at the separate preferential 0%, 15%, or 20% rates, ensuring the taxpayer's total tax liability correctly reflects each portion's own applicable rate.

65. B — A taxpayer generally avoids the estimated tax underpayment penalty by paying, through withholding alone or combined with estimated payments, at least 90% of the current year's tax liability, or the applicable prior-year safe harbor percentage. Since this taxpayer's withholding alone reached 92%, exceeding the 90% threshold, no underpayment penalty generally applies.

66. C — Sales between related parties, including siblings, are generally subject to closer IRS scrutiny regarding whether the transaction reflects a genuine arm's-length price. A sale price set meaningfully below fair market value may cause the IRS to recharacterize part of the below-market transfer as a taxable gift, separate from the sale itself, requiring its own gift tax analysis.

67. A — The AMT exemption amount is generally phased out, reduced gradually rather than eliminated all at once, as a taxpayer's alternative minimum taxable income rises above the applicable higher threshold, which generally increases a higher-income taxpayer's exposure to a larger effective AMT liability compared to a taxpayer whose AMTI remains under that threshold.

68. D — Under Section 121, a taxpayer who owned and used a home as a principal residence for at least two of the five years before the sale may generally exclude gain up to the applicable exclusion amount ($250,000 single, $500,000 married filing jointly) from taxable income, provided the exclusion has not already been used within the preceding two years.

69. B — Distributions from a nonqualified annuity purchased with after-tax dollars are generally taxed as ordinary income to the extent they represent earnings, under the applicable ordering rules, such as last-in-first-out treatment for many nonqualified annuities, which determine how much of a given distribution is taxable earnings versus a nontaxable return of the taxpayer's own investment.

70. D — An excess Roth IRA contribution that is not timely corrected, generally by the applicable tax filing deadline including extensions, is generally subject to a 6% excise tax on the excess amount for each year it remains in the account uncorrected, providing a strong incentive to promptly withdraw or otherwise correct any excess contribution identified.

71. C — The earnings portion of a Coverdell Education Savings Account distribution not used for the beneficiary's qualified education expenses is generally includible in taxable income and is generally subject to an additional 10% penalty on that earnings portion, a treatment similar in concept to the tax consequence of a non-qualified distribution from a 529 college savings plan.

72. A — A required installment repayment of a previously claimed First-Time Homebuyer Credit, under the specific now-expired program that required such repayment, is generally reported as an addition to the taxpayer's total tax liability for the year, added on top of the taxpayer's regular income tax calculation, similar to certain other tax credit recapture provisions.

73. C — Compensation specifically for physical injuries or physical sickness is generally excluded from taxable income under a specific statutory exclusion, but punitive damages are generally excluded from that exclusion and remain fully taxable, even when awarded within the same lawsuit and arising from the same underlying set of facts as the excludable physical injury damages.

74. B — A traditional IRA distribution used for qualified first-time homebuyer expenses, up to a $10,000 lifetime limit, is generally excluded from the 10% early distribution penalty under a specific statutory exception, though the distribution itself remains includible in the taxpayer's ordinary taxable income, since only the penalty, not the underlying income tax, is excepted here.

75. A — A practitioner should generally explain that accelerating a deductible expense into a year when the client is in a higher marginal tax bracket generally produces a greater tax benefit, since the deduction offsets income that would otherwise be taxed at that higher rate, compared to waiting until a year when the client expects to be in a lower bracket.

76. D — A practitioner should explain that this bunching strategy, timing discretionary deductible payments such as charitable contributions into alternating years, can generally increase the client's total deductions claimed over a multi-year period, by pushing itemized deductions meaningfully above the standard deduction in the bunched years while still claiming the standard deduction in the other years.

77. C — A practitioner should explain that making timely quarterly estimated tax payments throughout the year generally helps the client avoid or reduce an underpayment penalty, since the penalty is generally calculated based on whether sufficient tax was paid throughout the year on a quarterly basis, rather than being satisfied simply by paying the full amount owed when the return is filed.

78. B — A practitioner should explain that converting the property back to a primary residence may allow the client to again meet the ownership and use tests, but under the nonqualified use rules, a portion of the gain allocable to periods of nonqualified rental use after 2008 is generally not eligible for the Section 121 exclusion.

79. D — A practitioner should explain that traditional 401(k) contributions generally reduce the client's current taxable income and grow tax-deferred until withdrawal, while a regular taxable brokerage account offers no upfront deduction and generally generates currently taxable dividends, interest, and realized capital gains each year, a meaningful distinction relevant to the client's overall savings strategy.

80. A — Circular 230 and related preparer penalty standards generally do not require disclosure for a position that meets the higher substantial authority standard, since that standard alone is generally sufficient to avoid penalty exposure without additional disclosure, unlike a position meeting only the lower reasonable basis standard, which generally does require disclosure to avoid penalty exposure.

81. B — A practitioner should generally explain that gifting appreciated stock to a family member in a lower tax bracket can reduce the family's overall combined tax burden, since the recipient's generally lower marginal rate applies to the gain upon a later sale, though the Kiddie Tax rules may limit this benefit if the recipient is a minor.

82. D — A practitioner should explain that a 529 plan contribution generally allows the funds to grow tax-deferred, with qualified education withdrawals generally entirely tax-free, while also potentially helping remove the contributed amount from the grandparent's own taxable estate, advantages that a simple direct cash gift to the grandchild's parents generally would not provide in the same way.

83. C — A practitioner should explain that while claiming Social Security benefits earlier generally results in a smaller monthly benefit for life, the resulting benefit amount also feeds into the applicable Social Security taxability formula, meaning the specific claiming age decision can indirectly affect how much of the client's total benefits ultimately become subject to federal income tax each year.

84. A — A practitioner should explain that a payment made directly to an educational institution for a grandchild's tuition generally qualifies for an unlimited gift tax exclusion under a specific statutory provision, separate from and in addition to the standard annual per-recipient gift tax exclusion, making direct tuition payments a potentially valuable estate and gift tax planning technique for the client.

85. C — A practitioner should explain that Form 4868 generally extends only the deadline for filing the return itself, typically by six months; it does not extend the deadline for actually paying any tax owed, which generally remains due by the original filing deadline, meaning interest and possibly a failure-to-pay penalty can still apply to any unpaid balance.

86. A — A practitioner should explain that an HSA generally offers a distinct triple tax benefit: contributions are generally deductible or pretax, the account balance generally grows tax-free over time, and qualified medical withdrawals are generally entirely tax-free, a combination of advantages that a standard flexible spending account, which lacks the same rollover and investment growth features, generally does not offer.

87. D — A practitioner should generally advise the client to weigh the potential self-employment tax savings from an S corporation structure, achieved by paying a reasonable salary subject to payroll tax and taking additional profit as a distribution not subject to self-employment tax, against the added complexity, payroll administration costs, and other ongoing compliance requirements of operating as an S corporation.

88. B — Capital gains allocated to trust principal, rather than to distributable net income, under the trust's governing instrument and applicable state law are generally taxed directly to the trust itself, using the trust's own separate, notably compressed income tax rate schedule, rather than being passed through and taxed to the trust's beneficiaries.

89. B — A traditional IRA with a valid, up-to-date named beneficiary designation generally passes directly to that beneficiary outside of the decedent's probate estate, governed by the beneficiary designation on file with the IRA custodian, rather than by the terms of the decedent's will, which generally has no effect on this specific type of asset.

90. D — A gift received from a foreign person is generally not includible in the U.S. recipient's taxable income, consistent with the general treatment of gifts, but the U.S. recipient may be required to separately report the gift on Form 3520 if the aggregate amount received from foreign sources exceeds the applicable annual reporting threshold for the year.

91. C — Unlike a trust, which is generally required to use a calendar year, an estate's executor may generally elect a fiscal year for the estate's Form 1041 filing, which can provide additional flexibility in timing the recognition of income and deductions between the estate and its beneficiaries throughout the administration period.

92. A — Filing a joint return generally creates joint and several liability for both spouses for the entire tax liability shown on that return, regardless of which spouse actually earned the underlying income, and a later divorce generally does not by itself eliminate this liability, though a divorced spouse may separately seek innocent spouse relief if the applicable requirements are met.

93. C — Directly held foreign real property, such as a personal residence owned individually rather than through a foreign entity or financial account, is generally not reportable on either the FBAR or Form

8938, since both of these specific foreign asset reporting forms generally apply to specified foreign financial accounts and financial assets, not directly held real property.

94. D — A qualified disability trust, meeting the specific statutory requirements for the sole benefit of a beneficiary with a qualifying disability, generally receives a substantially larger income tax exemption amount than an ordinary complex trust would receive, recognizing the trust's specific supportive purpose, though the trust remains otherwise subject to the standard fiduciary income tax filing and computation rules.

95. B — U.S.-source dividend income received by a nonresident alien not engaged in a U.S. trade or business is generally subject to a flat 30% withholding tax on the gross amount, unless a lower rate applies under an applicable U.S. income tax treaty between the United States and the nonresident alien's country of residence.

96. A — For federal estate tax purposes, the decedent's gross estate generally includes both probate assets passing under the will and non-probate assets, such as jointly held property with survivorship rights, life insurance, and retirement accounts with named beneficiaries, regardless of the specific legal mechanism by which each asset actually passes to its recipient.

97. D — Residents of Guam, like residents of several other U.S. territories, are generally subject to a mirror tax system, generally filing their return with Guam's own tax authority based on the U.S. Internal Revenue Code applied as if it were Guam's own local tax law, rather than filing a separate federal return directly with the IRS.

98. C — Upon the death of the grantor, a previously revocable living trust generally becomes irrevocable and ceases to be treated as a grantor trust for income tax purposes, meaning the trust generally must obtain its own separate employer identification number and begin filing its own Form 1041 return, rather than being reported on the grantor's return.

99. B — An executor is generally responsible for ensuring all of a decedent's outstanding federal tax obligations are satisfied, which includes filing any unfiled prior-year returns from before the decedent's death, in addition to separately filing the decedent's final individual income tax return covering the period from the start of the year of death through the actual date of death.

100. A — A bona fide resident of American Samoa for the entire tax year may generally exclude income from American Samoa sources from U.S. federal taxable income under a specific statutory possession income exclusion, similar in general concept to the separate exclusion available to bona fide residents of Puerto Rico, though each possession's specific exclusion has its own distinct statutory requirements.