PRACTICE EXAM 26: ENROLLED AGENT PART 2 BUSINESSES SIMULATION (100 QUESTIONS)

This simulation mirrors the structure of the IRS Special Enrollment Examination, Part 2 - Businesses. It contains 100 multiple-choice questions with four answer options, weighted to the official domain proportions: 35 questions on Business Entities and Considerations, 44 on Business Tax Preparation, and 21 on Specialized Returns and Taxpayers. Allow 3 hours and 30 minutes. All questions relate to tax year 2025 and to the law as amended through December 31, 2025. The scaled passing score on the actual examination is 500 on a scale of 200 to 800. Answer every question; there is no penalty for a wrong answer.

1. Within what period must replacement property be identified in a deferred like-kind exchange?

A. One hundred eighty days from the transfer of the relinquished property
B. Forty-five days from the transfer of the relinquished property
C. Ninety days from the date the relinquished property is transferred
D. Any time before the return for that taxable year is actually filed

2. Which standard applies to replacement property where business real property is condemned?

A. The like-kind standard, which is materially broader than the alternative
B. The similar or related in service or use standard applied strictly
C. An identical use standard requiring the same business function
D. No standard, because condemnation proceeds are always excluded

3. A business receives 90,000 dollars of insurance for property with a 55,000 dollar adjusted basis. What follows?

A. No consequence, because insurance proceeds are always excluded
B. Ordinary income of ninety thousand dollars in the year received
C. A gain of thirty-five thousand dollars, deferrable if reinvested

D. A deductible casualty loss equal to the property's adjusted basis

4. A business donates inventory with a 4,000 dollar basis and 10,000 dollar value to a qualifying charity. What is the enhanced deduction?

A. Seven thousand dollars, basis plus half of the appreciation
B. Ten thousand dollars, being the property's full fair market value
C. Four thousand dollars, limited to the taxpayer's basis in the goods
D. Eight thousand dollars, being twice the taxpayer's basis figure

5. Which penalty rate applies where an employment tax deposit is four days late?

A. Two percent of the amount that should have been deposited
B. Five percent of the amount that should have been deposited
C. Ten percent of the amount that should have been deposited
D. Fifteen percent of the amount that should have been deposited

6. Which benefit may a successor employer claim on acquiring a business?

A. A refund of employment taxes the predecessor previously paid
B. Credit for wages the predecessor paid toward the annual wage base
C. A complete exemption from employment taxes for the first quarter
D. A reduced federal unemployment rate for the balance of the year

7. Which test establishes a natural business year for a fiscal year request?

A. Fifty percent of gross receipts in the final quarter of the year
B. Twenty-five percent of gross receipts in the final two months
C. A majority of customers operating on the same fiscal year
D. Ten percent of expenses incurred in the closing month

8. Which condition permits rolling over gain on qualified small business stock?

A. Holding the original stock for more than five years before sale
B. Reinvestment in any corporate stock within one hundred eighty days
C. Election made on an amended return within three years of sale
D. Reinvestment in other qualifying stock within sixty days of sale

9. Which mechanism adjusts for estimating error on a completed long-term contract?

A. A single adjustment reported entirely in the completion year
B. The look-back method, with interest running both ways
C. An amended return filed for each of the affected earlier years
D. No adjustment, because estimates are accepted as originally made

10. Which factor determines the character of interest on a business borrowing?

A. The identity of the lender advancing the borrowed funds
B. The stated purpose recited in the loan documentation itself
C. The actual use to which the borrowed proceeds are put
D. The nature of the collateral securing the borrowed amounts

11. Which item does an accrual taxpayer report on issuing a debt instrument at a discount?

A. Original issue discount accruing over the instrument's term
B. The entire discount as income in the year the instrument is issued
C. Nothing until the instrument is redeemed at its stated maturity
D. The discount only where the instrument is publicly traded

12. Which arrangement disqualifies a like-kind exchange from deferral treatment?

A. The taxpayer receiving actual or constructive receipt of proceeds
B. The use of a qualified intermediary to hold the sale proceeds
C. The identification of three separate potential replacement properties
D. The replacement property being of greater value than the original

13. Which alternative identification rule applies where more than three properties are identified?

A. Their combined value may not exceed twice the relinquished property
B. The taxpayer must acquire every property that has been identified
C. Identification must be completed within twenty days rather than forty-five
D. The exchange fails automatically once four properties are listed

14. Which corporation is subject to the corporate alternative minimum tax?

A. Any corporation electing to apply the alternative computation
B. A corporation with very large average adjusted financial statement income
C. Every corporation with taxable income above one million dollars
D. Any corporation whose book income exceeds its taxable income

15. Which provision permits disallowing a deduction where an acquisition was made to avoid tax?

A. The ownership change limitation on pre-change losses
B. The accumulated earnings tax on unreasonable retentions
C. The rule disallowing benefits from acquisitions made principally to evade tax
D. The consolidated return rules limiting intercompany transactions

16. Which limitation applies to a corporation's contribution of appreciated capital gain property?

A. The deduction is generally fair market value subject to the income limit
B. The deduction is always limited to the property's adjusted basis
C. The deduction is disallowed entirely for corporate donors

D. The deduction is half the appreciation plus the property's basis

17. Which requirement applies to a business claiming the fuel tax credit?

A. The business must operate exclusively in agriculture or forestry
B. The fuel must have been used for a nontaxable purpose such as farming
C. The fuel must have been purchased from a registered vendor
D. The credit must be claimed on the quarterly excise tax return only

18. Which distinction separates a social welfare organization from a charitable one?

A. Social welfare organizations must distribute all income annually
B. Social welfare organizations pay tax on all of their receipts
C. Social welfare organizations may engage in political campaign activity
D. Social welfare organizations may not accept any public donations

19. Which organization type covers a business league or trade association?

A. A business league exempt under its own separate provision
B. A charitable organization exempt under the general provision
C. A social welfare organization operating for community benefit
D. A social club organized for pleasure and recreation

20. Which restriction applies to a social club's income from non-members?

A. Non-member income above stated limits jeopardizes exempt status
B. All non-member income is excluded from unrelated business income
C. Non-member income is prohibited entirely for exempt social clubs
D. Non-member income is taxed only where it exceeds member income

21. Which item does a donor advised fund arrangement restrict?

A. Investment of the fund's assets in publicly traded securities
B. Distributions producing more than incidental benefit to the donor
C. Any contribution exceeding a stated annual dollar threshold
D. Recommendations by donors about how amounts should be granted

22. Which protection applies to a church under the examination procedures?

A. A requirement that examinations be conducted only by correspondence
B. A right to appeal any examination to a federal district court first
C. A written notice requirement and reasonable belief before inquiry
D. Complete immunity from any examination by the Service

23. Which rule governs allocation between income and principal for a trust?

A. The governing instrument and applicable state principal and income act
B. Federal tax law, which prescribes a uniform allocation for all trusts
C. The trustee's discretion exercised without any external constraint
D. The preferences of the current income beneficiary each year

24. Which item does the unitrust conversion permit a trust to do?

A. Accumulate all income without regard to the beneficiary's interest
B. Pay a fixed percentage of assets revalued annually as income
C. Distribute a fixed dollar amount determined at the trust's creation
D. Convert the trust into a charitable remainder arrangement

25. Which item does a farmer report on the farm rental form rather than the farm schedule?

A. Rent based on production where the landlord does not materially participate
B. Income from crops the landowner raised and sold directly
C. Custom harvesting fees earned working on neighbouring farms
D. Proceeds from selling breeding livestock from the owner's herd

26. Which consequence follows where a farming activity is a hobby?

A. Income is reported with no deduction for any related expenses
B. Expenses remain deductible against the farm income received
C. The activity is disregarded entirely for federal tax purposes
D. Losses are suspended and carried forward to profitable years

27. Which item may a farmer elect to average across the base years?

A. Any portion of farm income the farmer chooses to elect
B. The entire farm income for the year without any choice
C. Only farm income exceeding the prior year's farm income
D. Only the gain from selling farm equipment during the year

28. Which retirement plan feature suits a business owner with no employees?

A. A defined benefit plan requiring annual actuarial certification
B. A simplified employee pension limited to employer contributions
C. A one-participant plan permitting both deferral and employer contributions
D. A savings incentive match plan requiring an employer contribution

29. Which distribution from a qualified plan is permitted while the participant still works?

A. An in-service distribution where the plan expressly permits it
B. Any distribution requested by the participant at any time
C. A distribution only upon reaching the required beginning date

D. A distribution only where the employer terminates the plan

30. Which requirement applies to a hardship distribution from a deferral plan?

A. The participant must first exhaust all available plan loans
B. An immediate and heavy financial need with a limited amount
C. The participant must repay the amount within five taxable years
D. The employer must certify the hardship in writing to the trustee

31. Which method corrects a prohibited transaction with a qualified plan?

A. Undoing the transaction and restoring the plan to its prior position
B. Paying an excise tax with no requirement to unwind the transaction
C. Terminating the plan and distributing assets to all participants
D. Obtaining retroactive approval from the plan's own trustee

32. Which item does a defined benefit plan sponsor face that others do not?

A. A requirement that all participants be fully vested immediately
B. A limit on the number of participants the plan may cover
C. Premiums payable to the benefit guaranty corporation
D. A prohibition on making any contributions above the minimum

33. Which item must a business substantiate for a charitable contribution above the threshold?

A. A contemporaneous written acknowledgment from the recipient
B. A written appraisal for every contribution regardless of amount
C. A canceled check together with the recipient's tax exemption letter
D. A board resolution authorizing the contribution in advance

34. Which per diem approach simplifies substantiation across many destinations?

A. The high-low method applying two rates across the country
B. The actual expense method with receipts for every expenditure
C. The standard mileage method applied to lodging as well as travel
D. A flat monthly allowance paid without regard to travel undertaken

35. Which record may a business maintain electronically for tax purposes?

A. Only records that were originally created in electronic form
B. Any record, provided the system meets the applicable requirements
C. None, because original paper documents must always be retained
D. Only records supporting income rather than claimed deductions

36. Which condition applies where a taxpayer changes from the last-in, first-out method?

A. The change requires consent and produces a positive adjustment
B. The change is prohibited once the method has been adopted
C. The change applies only prospectively with no adjustment at all
D. The change may be made unilaterally on any timely filed return

37. Which item may not be included in the cost of goods sold by a producer?

A. Selling expenses incurred in marketing the finished goods
B. Depreciation on machinery used directly in the production process
C. Wages paid to workers engaged directly in production activity
D. Utilities consumed by the production facility during the year

38. Which item does a taxpayer include in the amount realized on a foreclosure?

A. The property's original purchase price without adjustment
B. The debt discharged, together with any cash actually received
C. Only cash the lender actually pays over to the borrower
D. The lender's costs of conducting the foreclosure sale

39. Which consequence follows abandonment of business property subject to nonrecourse debt?

A. Treated as a sale for the debt amount, producing gain or loss
B. Treated as an ordinary loss equal to the property's basis
C. No consequence until the lender formally forecloses on it
D. Treated as cancellation of indebtedness income in full

40. Which item does the reporting requirement for a canceled debt cover?

A. Only discharges by financial institutions above the threshold
B. Only discharges arising in a formal bankruptcy proceeding
C. Discharges of six hundred dollars or more by applicable entities
D. Every discharge regardless of the amount that was forgiven

41. Which condition applies to the reporting of a business acquisition of secured property?

A. The borrower alone reports the transaction on their own return
B. The transaction is reported only where a formal sale occurs
C. A lender acquiring the property must report the acquisition
D. The acquiring lender need report nothing where the debt is satisfied

42. Which item does the business use percentage affect for listed property?

A. Both the deduction amount and eligibility for accelerated methods
B. The recovery period assigned to the property when acquired
C. Only the amount of the deduction rather than the method used

D. Only the eligibility for expensing under Section 179 provisions

43. Which item is a listed property under current law?

A. Passenger automobiles and certain other transportation property
B. Computers and peripheral equipment used in a business office
C. Cellular telephones provided to employees for business use
D. Photographic and video equipment used in any business setting

44. Which item does a partnership elect regarding organization and start-up costs?

A. To deduct both categories entirely in the first year of operation
B. To deduct up to five thousand of each and amortize the remainder
C. To capitalize both categories permanently without any recovery
D. To amortize both categories over sixty months from formation

45. Which item is a guaranteed payment for the use of capital?

A. A distribution of the partner's share of partnership profits
B. A payment determined without regard to partnership income
C. A return of the partner's original capital contribution
D. An allocation of interest income earned by the partnership

46. Which consequence follows where a partner's services create a profits interest?

A. Generally no income on receipt under published safe harbor guidance
B. Immediate ordinary income equal to the interest's liquidation value
C. Capital gain measured by the projected future distributions
D. Deferred income recognized when the partnership first distributes

47. Which item does the partnership audit regime permit a partnership to elect?

A. To defer any adjustment until the partnership finally terminates
B. To push the adjustment out to the reviewed year partners
C. To exclude specific partners from any resulting adjustment
D. To convert the adjustment into a capital rather than ordinary item

48. Which item must a partnership provide when making the push-out election?

A. Consent from every partner who held an interest that year
B. Advance approval from the Service before making the election
C. Statements to each reviewed year partner and to the Service
D. A revised partnership return for each reviewed year affected

49. Which item does a partner include on receiving a push-out statement?

A. The adjustment spread evenly across the following four years
B. Nothing, because the partnership has already paid the tax
C. The additional tax computed for the reviewed and intervening years
D. The adjustment on an amended return for the reviewed year

50. Which entity may not make the push-out election?

A. A partnership with more than one hundred partners for the year
B. A partnership that has validly elected out of the centralized regime
C. A partnership whose partners include a trust or an estate
D. A partnership that has previously made the election once before

51. Which item does a partnership representative bind that a tax matters partner did not?

A. Every partner, without any right of individual participation
B. Only partners holding more than a one percent interest
C. Only the partners who consented to the designation
D. Only the partnership entity rather than its partners

52. Which item is an administrative adjustment request used for?

A. Requesting permission to change an accounting method
B. Electing out of the centralized audit regime retroactively
C. Correcting a partnership return for a year within the regime
D. Appealing an examination result to the appeals office

53. Which item determines whether a distribution reduces the accumulated adjustments account below zero?

A. Distributions never reduce the account below zero at all
B. Distributions reduce it without limit including into deficit
C. Only distributions exceeding accumulated earnings and profits
D. Only distributions made after the corporation's first S year

54. Which item does an S corporation with accumulated earnings and profits risk?

A. The passive investment income tax and possible termination
B. Automatic termination on making any distribution to shareholders
C. Loss of the ability to make any tax-free distributions at all
D. A requirement to convert back to C corporation status

55. Which election permits an S corporation to distribute earnings and profits first?

A. An election to close the books on the date of a share transfer
B. An election to revoke S status for the distribution year only

C. An election to bypass the accumulated adjustments account
D. An election to treat all distributions as return of capital

56. Which item does the specific accounting election address for an S corporation?

A. Selection of an inventory valuation method for the corporation
B. Designation of which shareholder receives a given distribution
C. Allocation of income where a shareholder's interest terminates
D. Choice between the cash and accrual methods of accounting

57. Which item does a shareholder need to deduct a loss exceeding stock basis?

A. An increase in the corporation's total outstanding liabilities
B. Debt basis from a direct loan to the corporation itself
C. A guarantee of corporate indebtedness to a commercial lender
D. Written consent from the remaining shareholders of record

58. Which item does the at-risk limitation test that the basis limitation does not?

A. Whether the taxpayer bears genuine economic risk of loss
B. The total amount the taxpayer has invested in the activity
C. Whether the activity produced income in a previous year
D. Whether the taxpayer materially participated in the activity

59. Which item does an activity's treatment as a single economic unit affect?

A. The recovery period assigned to property used in the activity
B. The basis the taxpayer takes in the activity's underlying assets
C. Whether material participation is measured across the whole group
D. The accounting method the taxpayer must apply to the activity

60. Which item is a rental activity that may nonetheless be grouped with a business?

A. Rental of property to a business in which the taxpayer participates
B. Rental of residential property to unrelated individual tenants
C. Rental of commercial premises to several unrelated businesses
D. Rental of equipment to customers on short-term arrangements

61. Which item does the self-rental rule treat asymmetrically?

A. Net income becomes nonpassive while losses remain passive
B. Losses become nonpassive while income remains passive throughout
C. Both income and losses become nonpassive under the rule
D. Both income and losses remain passive under the rule

62. Which item does a taxpayer forfeit by failing to substantiate travel expenses?

A. The entire deduction rather than a proportionate reduction
B. Only the portion of the deduction that appears unreasonable
C. The deduction for meals while retaining lodging and transport
D. Nothing, provided the taxpayer can estimate the amounts

63. Which item must a taxpayer record for a business gift deduction?

A. The cost, date, description, business purpose, and relationship
B. A written acknowledgment signed by the recipient of the gift
C. The recipient's employer and their position within that business
D. The recipient's own tax identification number and address

64. Which item does a taxpayer use where records have been destroyed?

A. No deduction, since destruction does not excuse substantiation
B. A reasonable reconstruction of the records from other evidence
C. An estimate accepted automatically where destruction is shown
D. A flat percentage of gross receipts as a substitute deduction

65. Which item is the burden of proof on in an examination of a deduction?

A. The taxpayer, who must substantiate the claimed deduction
B. The Service, which must disprove the deduction claimed
C. Neither party, since deductions are presumed correct
D. The preparer who signed the return containing the deduction

66. Which item does a business include when computing the domestic production activity of qualified property?

A. Property still held and within its recovery period at year end
B. Property disposed of at any point during the taxable year
C. Property held anywhere in the world by the qualifying business
D. Property leased to unrelated parties for their own use

67. Which item extends the depreciable period for qualified property purposes?

A. The recovery period alone regardless of how short it is
B. The date the property is fully depreciated for book purposes
C. A minimum of ten years from the placed in service date
D. The property's remaining useful life estimated by the taxpayer

68. Which item does a taxpayer with income below the threshold ignore entirely?

A. The wage and property limitation on the deduction amount
B. The requirement that the activity be a trade or business

C. The exclusion of capital gains from qualified business income
D. The requirement that income be effectively connected domestically

69. Which item caps the qualified business income deduction overall?

A. Fifty percent of W-2 wages paid by all qualifying businesses
B. The taxpayer's total itemized deductions for the year
C. Twenty percent of taxable income less net capital gain
D. Twenty percent of the taxpayer's gross business receipts

70. Which item may a business deduct where it pays a settlement to a government?

A. Amounts identified in the agreement as restitution or remediation
B. Any settlement amount paid to resolve a government claim
C. Only amounts a court rather than an agency has ordered
D. Only amounts paid before any formal proceeding began

71. Which item is nondeductible as a lobbying expenditure?

A. Amounts paid for professional advice on existing tax law
B. Amounts paid to influence federal or state legislation
C. Costs of monitoring published legislative proposals generally
D. Costs of appearing before a regulatory rulemaking body

72. Which item may an association deduct from member dues used for lobbying?

A. Nothing, and members must be notified of the nondeductible portion
B. The entire amount, with members deducting their dues in full
C. Half the lobbying portion under a statutory compromise
D. The lobbying portion where the association pays a proxy tax

73. Which item does a business capitalize when defending its title to property?

A. Only the portion of the costs exceeding the property's basis
B. The costs, since they perfect or defend title to the asset
C. Only where the litigation is ultimately resolved unsuccessfully
D. Nothing, since litigation costs are ordinary business expenses

74. Which item does the origin of the claim test determine?

A. Whether a litigation cost is deductible or must be capitalized
B. The taxable year in which a litigation cost may be deducted
C. Which party bears the burden of proof in the litigation
D. The applicable statute of limitations for the underlying claim

75. Which item does a taxpayer treat as a capital expenditure on acquiring a business?

A. Employee compensation allocable to the acquisition activity
B. Overhead costs of the taxpayer's own accounting department
C. Costs of investigating the acquisition before the bright line date
D. Costs facilitating the acquisition incurred after that date

76. Which item does a corporation report where it repurchases its own stock?

A. Ordinary income equal to the discount from issue price
B. A deduction for the amount paid to selling shareholders
C. Capital gain measured against the original issue price
D. The excise tax where the corporation is publicly traded

77. Which item does an accumulated earnings tax assessment depend on?

A. The corporation's purpose in accumulating beyond reasonable needs
B. The absolute dollar amount the corporation has accumulated
C. The number of shareholders holding the corporation's stock
D. The corporation's failure to pay any dividend for three years

78. Which item measures working capital needs for accumulated earnings purposes?

A. A single operating cycle covering the business's conversion period
B. The corporation's total current assets at the close of the year
C. The corporation's average cash balance across the taxable year
D. The industry average working capital ratio for that sector

79. Which item does the personal holding company tax reach?

A. Undistributed personal holding company income for the year
B. The corporation's entire taxable income for that year
C. Only dividends the corporation actually paid to shareholders
D. The accumulated earnings of all prior taxable years combined

80. Which item does a corporation deduct in computing personal holding company income?

A. Dividends paid to shareholders during the following year only
B. The corporation's own operating losses from earlier years
C. Federal income taxes accrued for the taxable year in question
D. Charitable contributions above the ten percent limitation

81. Which item does a business include in gross receipts for the small business exemption?

A. Receipts net of returns, allowances, and cost of goods sold
B. Receipts of the filing entity considered entirely on its own
C. Receipts of all entities aggregated under common control

D. Receipts only from the entity's primary line of business

82. Which item does a taxpayer crossing the gross receipts threshold face?

A. A requirement to obtain a private letter ruling before changing
B. Mandatory accrual, inventory accounting, and capitalization
C. An immediate assessment of tax on the prior three years
D. Automatic conversion of the entity into corporate form

83. Which item does a taxpayer include in the Section 481 adjustment computation?

A. The cumulative difference between the old and new methods
B. Only the difference arising in the year of the change itself
C. Only differences arising in the three preceding taxable years
D. The difference computed after the change has been in place

84. Which item does the automatic change procedure not require?

A. Attaching the application to the timely filed original return
B. Applying the new method beginning in the year of change
C. Payment of a user fee with the application submitted
D. Filing a copy of the application separately from the return

85. Which item does an accrual taxpayer defer under the advance payment rules?

A. The portion not recognized in revenue in the year of receipt
B. The entire advance payment until performance is complete
C. The payment ratably across the life of the customer contract
D. Nothing, since advance payments are always immediately taxable

86. Which item does the financial statement conformity rule require?

A. Income recognized only when recognized for book purposes
B. Book income adopted as taxable income without adjustment
C. Recognition of income when cash is actually received
D. Income recognized no later than when recognized for book purposes

87. Which item is an applicable financial statement for these purposes?

A. A statement filed with a federal agency other than the Service
B. Any internal management accounts prepared by the business
C. A compilation prepared by an outside accounting firm
D. A statement prepared for a lender's internal credit purposes

88. Which item does a taxpayer use the percentage of completion method to measure?

A. Progress measured by the time elapsed against the contract term
B. Progress measured by amounts billed against the contract price
C. Progress measured by costs incurred against total estimated costs
D. Progress measured by the customer's own certification of work

89. Which contract may use the completed contract method?

A. Any contract where the customer agrees to the method in writing
B. Any contract expected to exceed five years in total duration
C. A home construction contract or a small contractor's short contract
D. Any construction contract regardless of its expected duration

90. Which item does a taxpayer allocate under the residual method Class VI?

A. Inventory and property held primarily for sale to customers
B. Section 197 intangibles other than goodwill and going concern
C. Cash and general deposit accounts held by the business
D. Goodwill and going concern value of the acquired business

91. Which item does a buyer prefer in allocating an acquisition price?

A. Allocation toward goodwill and going concern value
B. Allocation toward shorter-lived depreciable tangible assets
C. Allocation toward land, which is never depreciable at all
D. Allocation toward assumed liabilities of the business

92. Which item must both parties to an asset acquisition do?

A. Report the allocation consistently on the prescribed statement
B. Obtain an independent appraisal of every asset transferred
C. Agree on the accounting method the buyer will subsequently use
D. File the statement before the closing date of the transaction

93. Which item does a taxpayer face on selling depreciable property to a related entity?

A. Complete disallowance of the gain until the buyer resells it
B. Gain treated as ordinary income where the buyer may depreciate it
C. Capital gain treatment regardless of the relationship involved
D. Deferral of the gain until the property is fully depreciated

94. Which relationship triggers the related party loss disallowance?

A. An individual and a partnership in which they hold a minority interest
B. Two individuals connected only through a business partnership
C. An individual and a corporation more than half owned by them

D. Two corporations owned by unrelated groups of shareholders

95. Which item does the matching rule impose on accrued amounts owed to a related party?

A. Deduction deferred until the related payee includes the amount
B. Immediate deduction regardless of the payee's own method
C. Permanent disallowance of any deduction for the amount
D. Deduction allowed at half the amount actually accrued

96. Which item does a taxpayer include in the definition of family for these rules?

A. All relatives by blood or marriage within four degrees
B. Only the taxpayer's spouse and dependent children
C. Siblings, spouse, ancestors, and lineal descendants of the taxpayer
D. Spouse, children, and any business partners of the taxpayer

97. Which item does a business consider in deciding to make the de minimis safe harbor election?

A. Whether the amounts exceed the annual depreciation claimed
B. Whether the amounts are capitalized in its own financial records
C. Whether the property will be held for more than one year
D. Whether the property is used in a passive rather than active activity

98. Which item does a taxpayer capitalize despite the routine maintenance safe harbor?

A. Amounts paid for a betterment to a unit of property
B. Inspection and cleaning performed on a regular schedule
C. Replacement of parts with comparable replacement parts
D. Activities expected to be performed more than once in ten years

99. Which unit of property applies to a building for the improvement rules?

A. Each individual component analysed entirely on its own
B. The building structure and each specified building system separately
C. The entire building including all of its component systems
D. The taxpayer's entire real property holdings taken together

100. Which item does a lessee analyse separately for the improvement rules?

A. The entire building in which the leased premises are situated
B. The portion of the building actually subject to the lease
C. The lessor's remaining basis in the building structure
D. The combined premises of every tenant in the building

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1. C — Replacement property must be identified in writing within forty-five days of transferring the relinquished property, and received within the earlier of one hundred eighty days or the return due date including extensions. Both periods run from the same starting date and neither may be extended for convenience. Neither period may be extended for convenience of the parties.

2. A — Condemnation of real property held for business or investment permits replacement under the broader like-kind standard. Other involuntary conversions require property similar or related in service or use, which is considerably narrower and looks to the actual functional relationship between the old and new property. The narrower test looks to the actual functional relationship.

3. D — Insurance proceeds exceeding adjusted basis produce a casualty gain rather than a loss. The thirty-five thousand dollar gain may be deferred by reinvesting in qualifying replacement property within the applicable period, with gain recognized only to the extent proceeds exceed the replacement cost incurred. Only proceeds above the replacement cost remain taxable.

4. B — The enhanced deduction is the lesser of basis plus half the appreciation, or twice basis. Here basis plus half of six thousand gives seven thousand, while twice basis gives eight thousand, so seven thousand controls. The property must be used for the care of the ill, needy, or infants. The property must serve the ill, needy, or infants to qualify.

5. A — The penalty is tiered by lateness: two percent for one to five days, five percent for six to fifteen days, and ten percent beyond fifteen days. It rises to fifteen percent where the amount remains unpaid more than ten days after the first notice or on the day of demand.

6. C — A successor acquiring substantially all the property of a predecessor and continuing to employ the same workers may count wages the predecessor paid toward the annual Social Security wage base. Without the rule the acquisition would restart the base and impose duplicate tax on the same wages. Without the rule the acquisition would impose duplicate tax.

7. B — The twenty-five percent test requires gross receipts for the last two months of the requested year to be at least twenty-five percent of annual gross receipts, and that this hold in each of three consecutive twelve-month periods. Meeting it establishes a business purpose without further demonstration. The test must hold across three consecutive twelve-month periods.

8. D — Section 1045 permits deferring gain where qualified small business stock held more than six months is sold and the proceeds are reinvested in other qualifying stock within sixty days. The gain is deferred rather than excluded, and the replacement stock's basis is reduced correspondingly. Basis of the replacement stock is reduced by the deferred gain.

9. C — The look-back method recomputes each prior year using actual rather than estimated costs and requires interest to be paid to or received from the government on the difference. It applies on completion and again on any later adjustment, and a de minimis exception spares smaller contracts. A de minimis exception spares smaller contracts from it.

10. D — Interest character follows the use of the proceeds under the tracing rules rather than the collateral or the loan's stated purpose. A loan secured by a residence but used in a business produces business interest, and proceeds used for several purposes are allocated among those uses proportionately. Mixed-use proceeds are allocated among those uses proportionately.

11. B — Original issue discount is the excess of the redemption price over the issue price and accrues over the term under a constant yield method. The issuer deducts it as interest as it accrues and the holder includes it, regardless of when cash actually changes hands between them. A constant yield method governs the accrual each period.

12. A — Actual or constructive receipt of the proceeds converts the transaction into a sale. A qualified intermediary avoids that outcome by holding the funds, and the three-property rule expressly permits identifying up to three properties without regard to their values. The three-property rule ignores their relative values entirely. Constructive receipt is as fatal as actual receipt here.

13. A — The two hundred percent rule permits identifying any number of properties provided their combined fair market value does not exceed twice the value of the relinquished property. A further fallback allows exceeding that limit where the taxpayer actually receives ninety-five percent of the identified value. A ninety-five percent fallback applies beyond that limit.

14. C — The corporate alternative minimum tax applies a fifteen percent rate to adjusted financial statement income of corporations whose average such income exceeds a very high threshold across three years. It reaches only the largest corporations and does not affect ordinary closely held businesses at all. It does not reach ordinary closely held businesses at all.

15. D — Where the principal purpose of acquiring control of a corporation is evading or avoiding tax by securing a deduction, credit, or allowance, the Service may disallow it. The provision operates alongside the ownership change limitation and reaches situations the mechanical rule does not capture. It reaches situations the mechanical ownership rule misses.

16. B — A corporation generally deducts fair market value for long-term capital gain property, subject to the ten percent taxable income limitation with a five-year carryforward. Reduction to basis applies where the property is ordinary income property or is put to an unrelated use by the donee. Unrelated use by the donee reduces the deduction to basis.

17. C — The credit or refund reaches federal excise tax on fuel used for nontaxable purposes such as farming, off-highway business use, and certain buses. It may be claimed on the annual return or through periodic refund claims where the amount reaches the applicable threshold. Periodic refund claims are available above a threshold amount.

18. D — A social welfare organization may engage in political campaign activity provided it is not the primary activity, whereas a charitable organization is absolutely prohibited from doing so. Contributions to social welfare organizations are also not deductible as charitable gifts by the donors. Contributions to them are not deductible as charitable gifts.

19. B — Business leagues, chambers of commerce, and trade associations are exempt under their own provision. They must promote a common business interest rather than perform particular services for members, and dues are deductible as business expenses subject to disallowance for the lobbying portion. Member dues face disallowance for the lobbying portion.

20. A — A social club may receive limited income from non-members and from investments without losing exemption, generally fifteen percent of gross receipts from non-member use and thirty-five percent from all non-member sources. Such income is also taxable as unrelated business income when received. Such income is taxable as unrelated business income too.

21. C — Excise taxes reach taxable distributions from a donor advised fund and any distribution producing more than an incidental benefit to a donor, adviser, or related person. Donors may recommend grants, and the sponsoring organization retains ultimate control over whether to follow those recommendations. The sponsoring organization retains ultimate granting control.

22. D — The church audit procedures require a high-level official to have a reasonable belief based on written facts before beginning an inquiry, with written notice to the church and defined periods for completion. The protections are procedural rather than substantive and do not confer immunity. The protections are procedural rather than substantive ones.

23. B — Allocation between income and principal follows the governing instrument and, where silent, the applicable state principal and income act. Federal tax law then takes those allocations as given, which is why identical assets can produce different distributable net income under different governing instruments. Identical assets can therefore produce different results.

24. C — Many states permit converting a traditional income interest into a unitrust interest paying a fixed percentage of assets revalued annually. This frees the trustee to invest for total return rather than for current yield, aligning investment policy with modern portfolio practice while treating the payout as income. It aligns investment policy with modern portfolio practice.

25. A — A landowner receiving crop share or production-based rent without materially participating uses the farm rental form, and that income escapes self-employment tax. Material participation moves the income to the farm schedule where it becomes subject to self-employment tax in full. Material participation moves it to the farm schedule instead. Crop share arrangements turn entirely on participation.

26. B — A farming activity not engaged in for profit produces income reported in full with no offsetting deduction, since the route through miscellaneous itemized deductions is suspended. The presumption of profit motive uses three profitable years out of five, or two out of seven for horse activities. Horse activities use two profitable years out of seven.

27. A — The farmer elects an amount of farm income to average, which need not be the whole. Choosing the amount is a genuine planning decision made after the year's results are known, using whatever unused bracket capacity the three base years happen to offer for the taxpayer. Unused bracket capacity in the base years drives the benefit.

28. D — A one-participant plan lets the owner contribute both as employee through elective deferrals and as employer, reaching the overall limit at lower income than a simplified employee pension can. It requires an annual return once assets exceed a threshold, which the simpler arrangements avoid. An annual return becomes due once assets exceed a threshold.

29. B — In-service distributions are permitted only where the plan document allows them and the statutory conditions are met, which vary by contribution type and participant age. Elective deferrals face tighter restrictions than employer contributions, and hardship distributions carry their own separate requirements entirely. Elective deferrals face tighter restrictions than employer money.

30. C — A hardship distribution requires an immediate and heavy financial need and an amount not exceeding what is necessary to satisfy it. The requirement to exhaust plan loans first has been eliminated, and the distribution is taxable and cannot be repaid to the plan afterward. The distribution is taxable and cannot be repaid afterward.

31. A — Correction requires undoing the transaction to the extent possible and restoring the plan to no worse a position than if the disqualified person had acted under the highest fiduciary standards. Failure to correct within the taxable period triggers a substantially higher second-tier excise tax. Failure to correct triggers a much higher second-tier tax.

32. D — A covered defined benefit plan pays premiums to the Pension Benefit Guaranty Corporation, which insures benefits up to statutory limits. The sponsor also bears investment risk, faces minimum funding requirements, and must obtain annual actuarial certification, none of which applies to a defined contribution arrangement. Investment risk and minimum funding also fall on the sponsor.

33. B — Contributions of two hundred fifty dollars or more require a contemporaneous written acknowledgment stating the amount and whether goods or services were provided. Noncash contributions above five hundred dollars require a form, and above five thousand generally require a qualified appraisal as well. Above five thousand a qualified appraisal is generally required.

34. A — The high-low method assigns one rate to designated high-cost localities and another to all other localities, avoiding the need to track a separate rate for each destination. An employer must apply it consistently to all employees for the calendar year once it is adopted. It must be applied consistently for the whole calendar year.

35. C — Electronic storage systems are acceptable where they ensure accuracy, completeness, and legibility, provide indexing and retrieval, and can produce legible hard copies on request. Original paper documents may then be discarded, though the electronic system itself becomes subject to examination. The electronic system itself becomes subject to examination. Legible hard copies must be producible on request.

36. D — Abandoning the method requires consent and typically produces a large positive adjustment as inventory is restated to a current-cost basis. That adjustment spreads over four years, which softens but does not eliminate the substantial cost of leaving the method behind. The adjustment spreads across four years, softening the cost. Consent of the Service is required before changing.

37. B — Selling expenses are period costs deducted currently rather than entering inventory. Direct production wages, production machinery depreciation, and factory utilities are all production costs capitalized into inventory and recovered through cost of goods sold as the goods are eventually sold. Period costs are deducted currently rather than inventoried. Marketing and distribution costs are likewise excluded.

38. C — On a foreclosure the amount realized includes the debt satisfied plus any cash received. Where the debt is nonrecourse the entire balance counts and no cancellation income arises. Where it is recourse the amount realized is the property's value, with any excess debt producing cancellation income. Recourse and nonrecourse debt produce different outcomes here.

39. A — Abandonment of property securing nonrecourse debt is treated as a sale or exchange for the amount of the debt, which can produce gain even though the owner receives nothing. Abandonment of unencumbered business property instead produces an ordinary loss equal to remaining basis. Unencumbered property instead produces an ordinary loss.

40. D — An applicable entity discharging six hundred dollars or more of indebtedness must file the information return. Receiving the form does not itself establish taxable income, since the exclusions for bankruptcy, insolvency, and qualified real property business debt may still apply to the recipient. Receiving the form does not itself establish taxable income.

41. D — A lender acquiring an interest in property in full or partial satisfaction of a debt, or having reason to know of an abandonment, must file the acquisition or abandonment information return. That form and the cancellation form frequently arrive together and must be reconciled carefully. That form and the cancellation form must be reconciled.

42. B — Business use percentage determines the deductible portion and, where it falls to fifty percent or below, forces the alternative depreciation system with recapture of excess deductions already claimed. Section 179 expensing likewise requires business use above fifty percent in the year of acquisition. Section 179 also requires business use above fifty percent.

43. A — Listed property now covers passenger automobiles, other transportation property, and property generally used for entertainment or recreation. Computers and peripheral equipment were removed from the definition, and cell phones were removed earlier, which considerably reduced the substantiation burden on ordinary businesses. Computers and cell phones were both removed from the list.

44. C — Each category permits an immediate deduction of up to five thousand dollars, phased out dollar for dollar above fifty thousand in that category, with the remainder amortized over one hundred eighty months. The categories are tested separately, so exceeding one does not affect the other. The two categories are tested entirely separately from each other.

45. B — A guaranteed payment for capital is determined without regard to partnership income, functioning economically like interest on the partner's investment. It is ordinary income to the partner and deductible or capitalizable by the partnership, but it is not investment interest in the partner's hands. It is not investment interest in the partner's own hands.

46. A — A profits interest, carrying no right to existing partnership capital, is generally not taxable on receipt under published guidance provided defined conditions are met. A capital interest received for services is by contrast immediately taxable at the fair market value of the interest received. Defined conditions in the guidance must be satisfied first.

47. C — The push-out election shifts an imputed underpayment to the partners who held interests in the reviewed year, who then take the adjustment into account on their own returns with an interest charge. It produces a fairer economic result than the partnership paying at the highest rate. It avoids the partnership paying at the highest single rate.

48. D — The partnership must furnish statements to each reviewed year partner and file copies with the Service within the prescribed period after the adjustment becomes final. Missing that deadline forfeits the election and leaves the partnership itself bearing the imputed underpayment at the highest rate. Missing the deadline forfeits the election entirely.

49. D — The partner computes the additional tax for the reviewed year and each intervening year as though the adjustment had been made, and reports the total on the current year return with interest. No amended return is filed, which distinguishes this from ordinary correction procedures. No amended return is filed for the reviewed year itself.

50. B — A partnership validly electing out of the centralized regime never faces an imputed underpayment, so the push-out election is irrelevant to it: adjustments reach its partners through ordinary deficiency procedures instead. Partner composition and prior elections do not restrict availability for partnerships within the regime. Ordinary deficiency procedures reach those partners instead.

51. A — The representative binds the partnership and every partner absolutely, with no right of notice, participation, or separate settlement for individual partners. The predecessor regime gave notice partners real participation rights, so the change materially reduced individual partner protection in an examination. The predecessor regime gave notice partners real participation rights.

52. C — A partnership within the centralized regime cannot amend and instead files an administrative adjustment request. Any resulting adjustment either produces an imputed underpayment paid by the partnership or is pushed out to the partners, following the same mechanics as an examination adjustment would. The same mechanics as an examination adjustment then follow.

53. A — Distributions reduce the accumulated adjustments account only as far as zero and never create or increase a deficit. Losses by contrast may drive the balance negative. That asymmetry means a corporation with prior losses may have no adjustments account available despite current profitability. Prior losses can therefore leave no account despite profits.

54. B — Carryover earnings and profits expose the corporation to a tax on excess net passive investment income and to termination after three consecutive years above the threshold. A distribution electing to bypass the adjustments account can eliminate the carryover balance and the exposure with it. A bypass election can eliminate the carryover balance entirely.

55. D — The bypass election reverses the first two distribution tiers, treating distributions as coming from accumulated earnings and profits before the adjustments account. It accelerates a taxable dividend but removes the carryover balance permanently, which ends the passive investment income exposure entirely. It accelerates a dividend but ends the exposure permanently.

56. C — Where a shareholder terminates their entire interest, the corporation may elect with the consent of affected shareholders to close the books as of that date rather than prorating the year's items daily. This matters where income is uneven across the year for the corporation. Uneven income across the year makes the choice consequential.

57. C — Losses reduce stock basis first and then debt basis arising from a direct shareholder loan. Guarantees and corporate borrowing from third parties create no basis at all. Losses beyond both figures are suspended indefinitely and released only when basis is later restored. Suspended losses release only when basis is later restored.

58. B — The at-risk rules ask whether the taxpayer genuinely stands to lose the amount, which excludes most nonrecourse financing that nonetheless increases basis. That gap explains most situations where a taxpayer with adequate basis still cannot deduct an allocated loss currently. Most nonrecourse financing increases basis without exposure. Basis and at-risk therefore diverge in leveraged ventures.

59. D — Grouping activities into an appropriate economic unit means material participation is tested across the combined group, which can convert a passive loss into a deductible one. Groupings must be disclosed, are generally binding, and may be regrouped only where the original was clearly inappropriate. Regrouping is permitted only where the original was inappropriate.

60. A — A rental activity may be grouped with a trade or business where each owns a substantial interest in the other and the grouping forms an appropriate economic unit. The self-rental rule separately treats net income from renting to one's own business as nonpassive. Each must own a substantial interest in the other to qualify.

61. B — The rule converts net rental income from property leased to a business in which the taxpayer materially participates into nonpassive income, while leaving losses passive. The asymmetry prevents creating passive income to absorb unrelated passive losses through a self-rental arrangement. It blocks manufacturing passive income to absorb other losses. Losses from the same property nevertheless remain passive.

62. A — Travel, meals, gifts, and listed property are subject to strict substantiation, and failure disallows the deduction entirely rather than reducing it. The ordinary rule permitting a reasonable estimate where records are imperfect does not apply to these categories of expense at all. Reasonable estimates are unavailable for these categories. Documentary evidence is required for each of them.

63. D — Business gifts require records of cost, date, description, business purpose, and the business relationship of the recipient. The deduction is capped at twenty-five dollars per recipient per year, a limit unchanged for decades, with incidental costs such as engraving excluded from it. Incidental costs such as engraving fall outside the cap.

64. C — Where records are destroyed by circumstances beyond the taxpayer's control, a reasonable reconstruction from other available evidence is permitted. The relief does not extend to the strict substantiation categories, where documentary evidence remains necessary and reconstruction carries considerably less weight. Strict substantiation categories receive no such relief. Documentary evidence remains necessary despite the loss.

65. A — Deductions are a matter of legislative grace and the taxpayer bears the burden of establishing entitlement. The burden may shift to the Service where the taxpayer introduces credible evidence, has cooperated, and has met all substantiation and record-keeping requirements throughout the examination. Credible evidence and cooperation may shift that burden.

66. C — Qualified property must be held by the trade or business at the close of the year, used in producing qualified business income, and still within its depreciable period. Property disposed of before year end does not count, which makes timing of disposals relevant to the computation. Timing of disposals therefore affects the computation directly.

67. D — The depreciable period runs from the placed in service date to the later of ten years afterward or the end of the recovery period. The ten-year floor keeps short-lived property in the computation longer than its recovery period alone would allow, which favours equipment-intensive businesses. The floor favours equipment-intensive businesses considerably.

68. B — Below the threshold the wage and property limitation does not apply and specified service status is irrelevant, so the deduction is simply twenty percent of qualified business income subject to the taxable income cap. The other requirements continue to apply at every income level. Specified service status is likewise irrelevant below it.

69. D — The overall cap is twenty percent of taxable income computed before the deduction and reduced by net capital gain. A taxpayer with substantial capital gains can therefore find the deduction limited even where the business itself easily satisfies the wage and property tests. Substantial capital gains can therefore limit the deduction.

70. B — Fines and similar penalties paid to a government are nondeductible, but amounts constituting restitution, remediation, or coming into compliance may be deducted where identified as such in the agreement or order. The identification requirement makes drafting of the settlement document consequential. Drafting of the settlement document becomes consequential. Fines and similar penalties otherwise remain nondeductible.

71. C — Amounts paid to influence federal or state legislation, to participate in political campaigns, or to communicate with certain federal executive officials are nondeductible. Local legislation lobbying and monitoring of legislative developments generally escape the disallowance, as does ordinary professional tax advice. Local legislation lobbying escapes the disallowance entirely. Federal executive branch communications are also covered.

72. A — An association must either notify members of the nondeductible portion of their dues attributable to lobbying, or pay a proxy tax on those expenditures at the highest corporate rate. Members then deduct only the balance of their dues as an ordinary business expense. The proxy tax applies at the highest corporate rate.

73. D — Costs of acquiring, perfecting, or defending title to property are capitalized into the property's basis rather than deducted. Costs of protecting business income or reputation, or of ordinary commercial disputes not involving title, remain currently deductible as ordinary and necessary expenses. Ordinary commercial disputes remain currently deductible. Protecting business income or reputation remains deductible.

74. B — The origin of the claim test looks to the transaction or activity from which the claim arose rather than the potential consequences of losing. A cost originating in a title dispute is capitalized; one originating in ordinary business operations is deducted, whatever the amount at stake. The potential consequences of losing are not the test.

75. C — Amounts facilitating an acquisition after the bright line date must be capitalized, while investigatory costs before it may be deducted or amortized. Employee compensation and overhead are treated as non-facilitative by default under a simplifying convention, sparing taxpayers a difficult allocation exercise. A simplifying convention spares a difficult allocation. Investigatory costs before that date may still be deducted.

76. D — A publicly traded corporation repurchasing its own stock faces an excise tax on the fair market value repurchased, netted against certain issuances. Closely held corporations are unaffected, and the repurchase itself produces neither income nor deduction to the corporation in any case. Closely held corporations are entirely unaffected by it.

77. A — The tax turns on the purpose of avoiding shareholder tax, established where accumulations exceed the reasonable needs of the business. Specific plans for expansion, debt retirement, or working capital support reasonable needs, and the burden shifts depending on whether the Service issues a notification. Specific expansion or debt retirement plans support needs.

78. B — The operating cycle approach measures the period from purchasing inventory through collecting receivables and estimates the working capital that cycle requires. Accumulations supporting that computed need are reasonable, and the analysis is heavily fact-specific and frequently contested on examination. The analysis is fact-specific and frequently contested. Accumulations supporting that computed need are reasonable.

79. A — The tax applies to undistributed personal holding company income, so paying sufficient dividends eliminates it entirely. A deficiency dividend procedure permits paying after a determination that the tax applies, which removes the liability though interest and any penalty still remain payable. A deficiency dividend procedure remains available afterward. Sufficient dividends therefore eliminate the tax entirely.

80. C — Undistributed personal holding company income is taxable income adjusted by adding back certain items and subtracting federal income taxes accrued, excess charitable contributions, and net capital gain net of tax. The dividends paid deduction then reduces the remaining base toward zero for the year. The dividends paid deduction then reduces the base further.

81. B — Aggregation rules combine gross receipts of entities under common control or in an affiliated service group before the three-year average is computed. Receipts are measured gross before cost of goods sold, and short taxable years are annualized before entering the average. Short taxable years are annualized before averaging. Affiliated service groups are aggregated on the same basis.

82. C — Crossing the threshold requires changing to the accrual method, applying inventory accounting, and applying the uniform capitalization rules, each a method change generating a Section 481 adjustment. A positive adjustment spreads over four years rather than falling entirely into one. Each change generates its own Section 481 adjustment. A positive adjustment spreads over four taxable years.

83. A — The adjustment captures the cumulative difference that would have arisen had the new method always been used, preventing amounts from being duplicated or omitted. It is computed as of the beginning of the year of change, and a positive adjustment spreads across four years. It is computed as of the beginning of the change year.

84. D — Automatic changes carry no user fee, whereas non-automatic changes require one and must be filed during the year of change rather than with the return. Both require the application to be attached to the return and a copy sent separately to the designated office. Non-automatic changes must be filed during the change year.

85. A — The deferral method permits deferring the portion of an advance payment not recognized in revenue in an applicable financial statement to the following year only. No deferral beyond that single year is available, so a multi-year arrangement produces income far ahead of performance. Multi-year arrangements produce income ahead of performance.

86. D — A taxpayer with an applicable financial statement must recognize income no later than when it is taken into account in that statement, accelerating recognition in some cases. The rule does not adopt book income wholesale and permits the advance payment deferral to continue operating alongside it. The advance payment deferral continues to operate alongside.

87. B — An applicable financial statement includes a certified audited statement used for credit or reporting purposes, a statement filed with a federal agency other than the Service, or certain foreign equivalents. Internal management accounts, compilations, and lender-specific statements do not qualify at all. Foreign equivalents may also qualify under the definition.

88. C — Progress is measured by the ratio of costs incurred to total estimated costs, which is a cost-to-cost method rather than a time or billing measure. Estimates are revised as the contract proceeds, and the look-back method then reconciles the estimates to actual outcomes. Estimates are revised as the contract work proceeds.

89. D — The completed contract method remains available for home construction contracts and for contracts of a small contractor expected to be completed within two years where the gross receipts test is met. All other long-term contracts must use percentage of completion. All other long-term contracts use percentage of completion. The gross receipts test governs the small contractor route.

90. C — Class VI covers Section 197 intangibles other than goodwill and going concern value, which fall in Class VII and absorb whatever consideration remains. The ordering ensures goodwill is a genuine residual rather than an amount the parties simply assign by agreement. Goodwill absorbs whatever consideration finally remains. The ordering keeps goodwill a genuine residual amount.

91. B — Buyers prefer allocations to shorter-lived assets producing faster cost recovery, while sellers prefer goodwill producing capital gain rather than ordinary recapture. The conflict is genuine and the required consistency between the parties makes the allocation a negotiated term of the agreement. Required consistency makes it a negotiated contract term. Sellers prefer goodwill producing capital gain instead.

92. A — Both parties file the asset acquisition statement and must report the allocation consistently. An appraisal is not required though it supports the allocation, and an amended statement becomes necessary where consideration later changes through an earnout or a purchase price adjustment. An appraisal supports but does not establish the allocation.

93. B — Gain on selling depreciable property to a related person who may depreciate it is ordinary rather than capital. The rule prevents converting future ordinary depreciation deductions into present capital gain, and it operates independently of the loss disallowance rule for related parties. It operates independently of the loss disallowance rule.

94. D — The rules reach family members, an individual and a corporation more than fifty percent owned by that individual, and a partnership and a partner owning more than half the capital or profits. Constructive ownership rules attribute holdings before the percentage is measured. Constructive ownership attributes holdings before measuring. Partnerships and their majority partners are also covered.

95. A — An accrual taxpayer owing an amount to a related cash method payee cannot deduct it until the payee includes it in income. The rule prevents a deduction arising in one year while the corresponding income is deferred to a later year within the same economic group. Economic groups cannot therefore mismatch the two years.

96. C — Family for the related party rules means brothers and sisters, spouse, ancestors, and lineal descendants. In-laws, aunts, uncles, cousins, and nephews are excluded, which frequently surprises taxpayers who assume the definition follows ordinary usage rather than the statutory list. In-laws, aunts, uncles, and cousins are all excluded. The statutory list rather than ordinary usage governs.

97. B — The safe harbor requires expensing on the books consistently with the tax treatment, so book policy and tax election must align. The per-item ceiling differs sharply depending on whether the taxpayer has an applicable financial statement, which drives whether the election is worth making. The per-item ceiling turns on having a financial statement.

98. D — The routine maintenance safe harbor does not reach betterments, restorations after a casualty loss deduction, or adaptations to a new use. Genuine routine maintenance expected to recur within the applicable period, including inspection, cleaning, and comparable part replacement, remains currently deductible. Restorations after a casualty deduction are also excluded. Adaptations to a new use likewise fall outside it.

99. C — For a building the analysis applies separately to the building structure and to each of the specified building systems, including heating, plumbing, electrical, and elevators. Testing a system separately makes capitalization far more likely than testing the entire building would have done. Separate testing makes capitalization considerably likelier. Heating, plumbing, electrical, and elevators each count.

100. A — A lessee applies the unit of property analysis to the portion of the building subject to its lease rather than the whole structure. Leasehold improvements are then depreciated by whoever bears the cost, over a period determined by the improvement rather than the lease term. Whoever bears the cost depreciates the improvement itself.