PRACTICE EXAM 10: SEE PART 1 — INDIVIDUALS (100 QUESTIONS)

This full-length simulation exam contains 100 multiple-choice questions covering SEE Part 1: Individuals, built to mirror the domain weighting of the official IRS Special Enrollment Examination. The official Part 1 exam administered by Prometric consists of 85 scored questions (plus unscored pretest questions) with a 3.5-hour time limit; this practice exam is expanded to 100 questions per the book's practical question-count override so that the total practice question bank across all Part 1 exams reaches a useful study volume, while domain weighting percentages are scaled proportionally from the official 85-question breakdown. For the most realistic practice, allow yourself 3.5 hours to complete this exam without interruption, using only scratch paper and a basic calculator as permitted at the Prometric test center. The IRS-published passing score is a scaled score of 105 or higher on a 40-130 scale. Mark your answer for each question, then check your work against the Answer Key and Explanations section that follows. For an interactive, timed practice experience, use the Online Exam Simulator included with this book.

1. Under Circular 230 and EITC/CTC/HOH due diligence requirements, how long must a paid preparer retain the Form 8867 due diligence checklist and related worksheets?

A. 1 year from the date the return is filed
B. 2 years from the date the return is filed
C. 4 years from the return's due date, without extensions
D. 3 years from the latest of the date the return was filed or its due date

2. Under Circular 230, a practitioner is generally prohibited from charging a contingent fee for preparing an original tax return. Which situation is a recognized exception to this general prohibition?

A. Preparing an original return for a first-time client referred by another practitioner
B. Preparing an amended return correcting the client's own mathematical error
C. Representing a client in connection with an IRS examination of, or challenge to, an original or amended return
D. Preparing an extension request when the client's fee has not yet been paid

3. A person born in American Samoa who has never naturalized as a US citizen is best described, for US tax purposes, as which of the following?

A. A US national, but not a US citizen

B. A US citizen by birth, identical in status to someone born in the 50 states

C. A resident alien under the green card test

D. A nonresident alien ineligible to hold a Social Security number

4. A taxpayer's dependent child has no earned income for the year but received $1,500 of interest and dividend income. Under the filing requirement rules for dependents, which statement correctly describes when the child must file based solely on this unearned income?

A. The child never has a filing requirement while claimed as a dependent, regardless of income amount

B. The child must file once unearned income exceeds the dependent unearned-income filing threshold amount

C. The child must file only if the parents elect not to report the income on their own return

D. The child's filing requirement is triggered only when unearned income exceeds the regular single standard deduction

5. A child lived with each of her unmarried, never-married parents for exactly half of the year, and both parents otherwise meet all qualifying child tests. Neither parent agrees to let the other claim the child, and they do not file a joint return. Under the tiebreaker rules, which parent may claim the child?

A. Whichever parent has legal custody under the applicable state court order

B. The parent with the higher adjusted gross income for the year

C. The older of the two parents

D. Neither parent, until a court resolves the dispute

6. Circular 230's competence standard requires a practitioner engaging in practice before the IRS to do which of the following?

A. Possess the knowledge, skill, thoroughness, and preparation reasonably necessary for the matter, or associate with someone who does

B. Hold a current CPA license or be admitted to a state bar before accepting any engagement

C. Complete a minimum of 40 hours of continuing education in the specific subject matter each year

D. Decline any engagement outside the practitioner's original area of specialization, without exception

7. Under FBAR enforcement, how does a "willful" failure to file FinCEN Form 114 generally differ from a "non-willful" failure in terms of the potential civil penalty?

A. Both are subject to the identical fixed-dollar penalty regardless of intent

B. A non-willful violation carries a higher maximum penalty because it reflects a pattern of neglect

C. A willful violation carries a substantially higher maximum penalty, generally the greater of a set dollar amount or a percentage of the account balance

D. Willfulness eliminates any penalty because it is treated as a criminal matter only

8. A taxpayer receives IRS Letter 4883C requesting identity verification. What must the taxpayer do in response to this specific letter?

A. Mail copies of the prior two years' returns to the address on the letter within 10 days

B. Ignore it, since it applies only to returns filed on paper

C. Verify identity online only, through the IRS identity verification portal

D. Call the toll-free number provided, or in some cases visit a Taxpayer Assistance Center, to verify identity

9. When a taxpayer applies for an ITIN using Form W-7, which documentation requirement generally applies to proving identity and foreign status?

A. An original or certified copy from the issuing agency of an acceptable identity document, such as a passport

B. A notarized photocopy prepared by any licensed notary public in the taxpayer's home country

C. A signed affidavit from the taxpayer alone, without any supporting government-issued document

D. A prior-year US tax return showing the same name and address as the current application

10. A paid preparer is subject to the e-file mandate but determines a specific client's return is eligible for an administrative exemption from mandatory e-filing. Which form documents the exemption when filing that return on paper?

A. Form 8867
B. Form 2848
C. Form 8948
D. Form 8821

11. A taxpayer receives an IRS CP503 notice. What does this notice communicate?

A. The IRS has already filed a Notice of Federal Tax Lien against the taxpayer's property
B. The taxpayer's refund has been reduced due to a math error on the return
C. This is the taxpayer's first notification of a balance due for the tax year
D. This is a second reminder that a balance remains unpaid, following an earlier notice, and continues accruing interest and penalties

12. During intake, a client reports a single cash contribution of $300 to a qualified charity. Under the substantiation and recordkeeping rules, what documentation must the taxpayer obtain to support a deduction for this contribution?

A. A canceled check alone is always sufficient, regardless of the contribution amount
B. A contemporaneous written acknowledgment from the charity, since the contribution exceeds $250
C. No documentation is required as long as the amount is reported accurately on the return
D. Only a personal log entry noting the date and amount is required

13. A taxpayer filed her return and paid the balance due on the original due date. Absent an extension, what is the general deadline for the taxpayer to file a claim for a refund of an overpayment for that year?

A. One year from the date the tax was paid
B. Three years from the date the return was filed, or two years from the date the tax was paid, whichever is later

C. Two years from the date the return was filed, with no alternative measuring point
D. There is no deadline for filing a refund claim once the return has been filed

14. A taxpayer receives an IRS CP90 notice. What does this notice specifically communicate to the taxpayer?

A. The taxpayer's identity could not be verified and the return has been suspended
B. An installment agreement request has been approved
C. This is a final notice of intent to levy and of the taxpayer's right to a Collection Due Process hearing
D. The taxpayer's dependent has been disallowed due to a duplicate claim on another return

15. Which IRS office has the authority to censure, suspend, or disbar a practitioner from practice before the IRS for violating Circular 230?

A. The Office of Professional Responsibility
B. The Taxpayer Advocate Service
C. The Return Preparer Office's PTIN unit
D. The Office of Chief Counsel

16. A nonresident alien has no US filing requirement except when which of the following applies?

A. The nonresident alien's worldwide income falls below the standard filing threshold for single filers
B. The nonresident alien holds a valid ITIN but has not yet used it on a return
C. The nonresident alien resides outside the United States for the entire tax year
D. The nonresident alien has US-source income subject to tax, such as income effectively connected with a US trade or business

17. A taxpayer owns a lake house rented to unrelated tenants for 200 days during the year at fair rental value. The taxpayer also uses the property personally for 22 days during the year. Under the vacation home rules, how must the property be classified, and what is the primary consequence?

A. The property is not treated as a residence because rental days substantially exceed personal-use days, so a full rental loss may be deducted without limitation this year.

B. Personal-use days are disregarded entirely once rental days exceed 14, so all expenses remain fully deductible against other income sources.

C. The property is treated as a residence because personal use exceeds the greater of 14 days or 10% of rental days, so expense deductions cannot exceed rental income.

D. The property qualifies as a home office instead of a residence, allowing expenses to be deducted regardless of the income limitation rules.

18. A taxpayer received interest income from U.S. Treasury bonds held directly. Which statement correctly describes the tax treatment?

A. The interest is exempt from both federal and state income tax because it is issued by the federal government.

B. The interest is fully taxable for federal income tax purposes but exempt from state and local income taxation.

C. The interest is exempt from federal income tax but must be included in state and local taxable income.

D. The interest is taxable at capital gains rates rather than ordinary rates because Treasury securities are investment property.

19. A taxpayer received a dividend from a domestic corporation's common stock. To qualify for taxation at the preferential long-term capital gains rates rather than ordinary rates, which additional holding-period requirement must be satisfied?

A. The taxpayer must have held the underlying stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

B. The taxpayer must have held the underlying stock for more than 30 days during the 91-day period beginning 30 days before the record date.

C. The taxpayer must have held the underlying stock for at least one full calendar year prior to receiving the dividend distribution.

D. The taxpayer must have purchased the stock directly from the issuing corporation rather than in the secondary trading market.

20. A parent lends $150,000 to an adult child interest-free to help the child purchase a home. The loan remains outstanding for the full year, and neither the $10,000 de minimis exception nor any other exception applies. Under the below-market loan rules of Section 7872, how is this transaction generally treated?

A. The loan is disregarded entirely for tax purposes because no actual interest payment changed hands between the family members.
B. The parent must recognize an immediate long-term capital gain equal to the full principal amount of the loan.
C. The child is treated as receiving nontaxable gift income equal to the entire principal amount of the loan.
D. The parent is treated as receiving imputed interest income, and the same amount is treated as a gift to the child.

21. A taxpayer exchanged investment real estate with her brother in a transaction that qualified as a like-kind exchange under Section 1031, with no gain recognized at the time of the exchange. Fourteen months later, the brother sold the property he received to an unrelated third party. What is the tax consequence to the original taxpayer?

A. There is no consequence to the original taxpayer because Section 1031 exchanges between related parties are treated identically to exchanges between unrelated parties.
B. The original taxpayer must recognize the previously deferred gain in the year the related party disposed of the property, since the sale occurred within two years.
C. The original taxpayer must amend the prior year's return and pay an accuracy-related penalty because related-party exchanges are prohibited under Section 1031 entirely.
D. The original taxpayer recognizes half of the deferred gain immediately, with the remaining half deferred until the brother's replacement property is later sold.

22. A taxpayer's principal residence was condemned by the state for a highway project, and she received a condemnation award exceeding her adjusted basis in the home. She applies the Section 121 exclusion first and then wants to defer any remaining gain by purchasing qualifying replacement property. Which statement correctly describes how these two provisions interact?

A. The taxpayer must choose only one provision to apply, since Section 121 and Section 1033 can never both be used on the same transaction.
B. The Section 121 exclusion is unavailable for condemned property, so the taxpayer must rely entirely on Section 1033 deferral to avoid recognizing gain.
C. The Section 121 exclusion is applied first to reduce the realized gain, and any remaining gain may then be deferred under Section 1033 if replacement property is purchased.
D. The condemnation award is treated entirely as ordinary income rather than capital gain, making both Section 121 and Section 1033 inapplicable to the transaction.

23. A taxpayer's federal student loan was discharged entirely because the taxpayer was certified as totally and permanently disabled. Which statement correctly describes the federal income tax treatment of the discharged loan balance?

A. The discharged student loan balance is excluded from gross income under the current permanent exclusion for loans discharged due to death or total and permanent disability.
B. The discharged student loan balance is fully taxable as cancellation of debt income in the year the discharge is finalized by the loan servicer.
C. The discharged student loan balance is excluded only if the taxpayer also qualifies as insolvent immediately before the discharge under the insolvency exception.
D. The discharged student loan balance must be included in income ratably over the five years following the date the disability discharge was granted.

24. A partner contributed property with an adjusted basis of $30,000 to a partnership, subject to a $50,000 recourse mortgage that the partnership assumed. The partner's share of that liability after the contribution, under the partnership's liability-sharing rules, was $10,000. What is the tax consequence to the contributing partner?

A. No gain is recognized because contributions of property to a partnership in exchange for a partnership interest are always fully nonrecognition transactions under Section 721.
B. The partner recognizes ordinary income equal to the entire $50,000 liability assumed by the partnership, since debt relief is never treated as part of a capital contribution.
C. The partner's basis in the partnership interest is increased by the $40,000 net decrease in liability, with no gain recognized under any circumstance here.
D. The partner recognizes gain to the extent the deemed cash distribution from the $40,000 net liability relief exceeds the partner's $30,000 outside basis in the contributed property.

25. An employer offers a dependent care assistance program (DCAP) through a cafeteria plan, and an employee elects to have $6,500 withheld from wages during the year to pay for a qualifying dependent's daycare. The employee files a joint return with her spouse. What is the tax treatment of the DCAP benefit?

A. The entire $6,500 is excluded from the employee's gross income because dependent care assistance program benefits have no statutory dollar limitation for married couples.

B. The entire $6,500 must be included in wages because dependent care assistance benefits provided through a cafeteria plan are never eligible for income exclusion.

C. $5,000 is excluded from gross income, and the $1,500 excess over the statutory limit is included in the employee's taxable wages for the year.

D. $2,500 is excluded from gross income because married employees filing jointly are limited to half of the exclusion available to single employees.

26. A shareholder in an S corporation loaned the corporation $20,000 several years ago. Losses passed through in earlier years reduced the shareholder's debt basis to $8,000. This year, pass-through income fully restored the shareholder's debt basis to its $20,000 face amount before the corporation repaid $12,000 of the loan. What is the tax consequence of the repayment to the shareholder?

A. Because the debt basis was fully restored to face value before repayment, the $12,000 repayment is a nontaxable return of loan principal with no gain recognized.

B. The shareholder recognizes $12,000 of ordinary income because loan repayments from an S corporation are always taxable regardless of the shareholder's remaining debt basis.

C. The shareholder recognizes capital gain equal to the $12,000 repayment because open account debt automatically loses basis restoration once it has been reduced.

D. The shareholder must first reduce stock basis by $12,000 before any portion of the loan repayment can be treated as a nontaxable return of principal.

27. A taxpayer works part-time as a notary public and earns $2,000 during the year performing notarization services, reported on Schedule C. How is this notary income treated for self-employment tax purposes?

A. The notary income is subject to self-employment tax in full because all income reported on Schedule C is automatically subject to self-employment tax without exception.

B. The notary income is exempt from federal income tax entirely because notaries are considered public officials performing a government function.

C. The notary income is subject to self-employment tax only on the portion exceeding the annual notary fee exclusion threshold set by the IRS.

D. The notary income is included in gross income and subject to regular income tax, but it is specifically exempt from self-employment tax by statute.

28. A taxpayer purchased a stripped Treasury bond (the principal component only, with the interest coupons sold separately) at a discount from its face value. The taxpayer holds the bond until maturity, receiving no periodic cash interest payments. How must the taxpayer treat the discount for tax purposes each year?

A. No income is recognized until the bond matures and the face value is received, at which point the entire discount is reported as a single long-term capital gain.

B. The taxpayer must accrue and report a portion of the original issue discount as taxable interest income annually, even though no cash interest is actually received.

C. The discount is treated entirely as a return of capital and is never subject to federal income tax at any point during the holding period.

D. The discount is reported as tax-exempt interest income each year because stripped Treasury components retain the same tax-exempt status as municipal zero-coupon bonds.

29. An investor lends shares of dividend-paying stock to a broker-dealer through a securities lending arrangement. While the shares remain on loan, the investor receives a cash payment from the borrower equal to the dividend that would have been paid, designated as a substitute payment in lieu of a dividend. How is this payment generally treated for federal income tax purposes?

A. The payment retains its character as a qualified dividend eligible for preferential long-term capital gains tax rates.

B. The payment is entirely exempt from federal income tax because the investor did not actually receive a dividend.

C. The payment is treated as a nontaxable return of the investor's adjusted basis in the loaned shares.

D. The payment is treated as ordinary income and does not qualify for the reduced qualified dividend tax rate.

30. A married couple owned rental property as joint tenants with right of survivorship (not community property) in a common law state. Upon the death of one spouse, the property had a fair market value of $400,000, and the couple's original combined adjusted basis was $150,000, split equally. What is the surviving spouse's basis in the property after inheriting the deceased spouse's interest?

A. $400,000, because the entire property receives a full step-up to fair market value upon the death of either joint tenant spouse.
B. $275,000, consisting of the surviving spouse's original $75,000 basis in her half plus the $200,000 stepped-up basis in the inherited half.
C. $150,000, because joint tenancy property retains its original combined basis with no step-up allowed at the death of either spouse.
D. $200,000, because only the fair market value of the deceased spouse's half interest is treated as the surviving spouse's basis in the entire property.

31. A taxpayer owns a building personally and rents it at fair market rent to an S corporation he operates and in which he materially participates. The rental generates net rental income for the year. The taxpayer also has passive losses from an unrelated limited partnership investment. Under the self-rental rule, how is the building's net rental income treated?

A. The net rental income is recharacterized as nonpassive income and cannot be offset by the taxpayer's passive losses from the unrelated limited partnership.
B. The net rental income remains passive income and may be freely offset by the taxpayer's passive losses from the unrelated limited partnership investment.
C. The net rental income is treated as portfolio income, excluded from the passive activity rules entirely regardless of the taxpayer's participation level.
D. The net rental income is treated as self-employment income subject to self-employment tax because the taxpayer materially participates in the operating business.

32. A taxpayer established a Health Savings Account on June 1 of the current year. In April of the same year, before the HSA existed, the taxpayer paid $3,000 out of pocket for a qualifying medical procedure. In August, after establishing the HSA, the taxpayer requested a $3,000 distribution to reimburse himself for that April expense. How is the August distribution treated?

A. The distribution is a qualified medical expense reimbursement and is entirely tax-free because the underlying procedure itself qualified as deductible medical care.
B. The distribution is tax-free up to the annual HSA contribution limit, with any amount exceeding that limit included in taxable income.
C. The distribution is not a qualified medical expense reimbursement and is includible in income because the expense was incurred before the HSA was established.
D. The distribution is tax-free because HSA owners may reimburse any medical expense paid within the same calendar year the account was established.

33. A taxpayer sells investment land to her adult son under an installment sale, receiving payments over five years. The son resells the land within eighteen months to an unrelated buyer for cash. Under the related-party installment sale rules, what is the general effect of the son's early resale?

A. The related-party resale has no effect on the seller's reporting; installment gain is recognized only as payments are actually received.
B. The remaining deferred gain is generally accelerated and treated as received by the original seller in the year of the resale.
C. The related-party resale converts the original sale into a like-kind exchange, deferring all remaining gain indefinitely into the future.
D. The son's resale triggers a wash sale adjustment that increases the original seller's basis rather than accelerating any gain.

34. An employer provides employees with company-owned cell phones primarily for business communication purposes, though incidental personal use is permitted. What is the tax treatment of this fringe benefit to the employees?

A. The fair rental value of the phone must be included in each employee's wages because employer-provided cell phones are always treated as taxable personal property.
B. Only the portion of usage attributable to personal calls is excluded from wages, requiring employees to maintain detailed logs distinguishing business from personal use.
C. The benefit is excluded from wages only up to a $50 monthly de minimis threshold set specifically for employer-provided communication devices and equipment.
D. The entire value of the phone is excluded from wages as a working condition fringe benefit, with incidental personal use treated as de minimis and not requiring allocation.

35. An employer reimburses a newly hired employee $8,000 for moving expenses incurred relocating for the new job. The employee is not a member of the Armed Forces on active duty moving pursuant to a military order. How is the reimbursement treated for federal income tax purposes?

A. The reimbursement is excluded from wages entirely because moving expense reimbursements have always been nontaxable fringe benefits for newly hired employees.
B. The reimbursement is excluded from wages up to the employee's actual documented moving costs, with any excess amount included as taxable wages.
C. The reimbursement is fully included in the employee's taxable wages, since the moving expense exclusion and deduction are currently suspended for non-military taxpayers.
D. The reimbursement is excluded from wages only if the employee's new workplace is at least 50 miles farther from the old home than the former workplace.

36. A taxpayer realized a $50,000 capital gain from the sale of stock and, within 180 days of the sale, invested the entire $50,000 gain in a Qualified Opportunity Fund. What is the tax treatment of the invested gain in the year of the original sale?

A. The $50,000 gain is deferred from current recognition and is not included in income for the year of sale, subject to later recognition rules tied to the QOF investment.
B. The $50,000 gain is immediately excluded from income permanently, with no future recognition required regardless of when the Qualified Opportunity Fund interest is sold.
C. Only 50% of the $50,000 gain may be deferred through a Qualified Opportunity Fund investment, with the remaining half taxable in the year of the original sale.
D. The $50,000 gain must still be reported currently, with the Qualified Opportunity Fund investment instead generating a nonrefundable tax credit equal to 10% of the gain invested.

37. Marcus owns a main home with $500,000 of acquisition debt and a second home with $400,000 of acquisition debt, both loans originated in 2022. For purposes of the home mortgage interest deduction, how does the $750,000 acquisition debt limit apply to his combined loans?

A. The limit applies separately to each qualified residence, allowing both loans to qualify in full.
B. The limit applies only to the main home, and interest on the second home is fully disallowed.
C. The limit applies in aggregate across both residences, so interest is deductible on only $750,000 of the combined balance.

D. The limit doubles to $1,500,000 whenever a taxpayer maintains two qualified residences at the same time.

38. Which of the following best describes the deductibility of the value of a taxpayer's own time and labor donated to a qualified charity as a volunteer?

A. The value of the donated time and labor is never deductible as a charitable contribution, regardless of its worth.
B. The value is deductible only if the charity issues a written acknowledgment stating an hourly rate.
C. The value is deductible up to 50% of the taxpayer's adjusted gross income for the year.
D. The value is deductible in full, the same as an equivalent cash donation of that amount.

39. Which statement correctly describes the basic standard deduction, before any additional amount for age or blindness, available to individual taxpayers?

A. It is a single flat dollar amount applying uniformly to every taxpayer regardless of filing status.
B. It varies by filing status, with married filing jointly generally receiving about twice the single amount, and is adjusted annually for inflation.
C. It is available only to taxpayers who also itemize deductions in the same tax year.
D. It is calculated each year as a fixed percentage of the taxpayer's adjusted gross income.

40. Beyond meeting the income and eligibility requirements, which factor can reduce the contribution amount a taxpayer may use to compute the Retirement Savings Contributions Credit (Saver's Credit)?

A. Contributions made to an employer-sponsored 401(k) plan instead of a traditional or Roth IRA.
B. Filing the return by the extended due date rather than the original unextended due date.
C. Earning all income from self-employment activity rather than from wage or salary employment.
D. Distributions taken from the account during the testing period, spanning the credit year, prior two years, and the period before the filing deadline.

41. A taxpayer excludes wages earned while working abroad from U.S. gross income under the foreign earned income exclusion. May the taxpayer also claim the Foreign Tax Credit for foreign income tax paid on that same excluded income?

A. Yes, the exclusion and the credit may both be claimed freely on the same income without restriction.

B. Yes, but only if the taxpayer files Form 1116 and elects the accrual method of accounting.

C. No, the credit is disallowed for foreign tax attributable to the excluded income, since claiming both would create a double tax benefit.

D. No, the taxpayer must instead amend the prior year's return to remove the exclusion entirely.

42. Under the Energy Efficient Home Improvement Credit, what benefit applies specifically to a qualified home energy audit conducted at a taxpayer's main home?

A. A credit equal to 30% of the audit's cost, capped at $150, if performed by a certified home energy auditor.

B. A credit equal to 30% of the audit's cost with no dollar cap, available once per decade.

C. A full deduction of the audit's cost from adjusted gross income, regardless of auditor certification.

D. A flat $500 credit per audit, unrelated to the actual cost the taxpayer paid.

43. For the Child and Dependent Care Credit on a joint return, how is earned income treated for a spouse who is a full-time student or is physically or mentally incapable of self-care for an entire month?

A. That spouse is treated as having zero earned income, disqualifying the couple from the credit entirely.

B. That spouse is deemed to have monthly earned income of $250 with one qualifying person, or $500 with two or more.

C. That spouse's earned income is imputed at the federal minimum wage multiplied by hours of care needed.

D. That spouse's earned income is deemed equal to the working spouse's actual monthly wages for that month.

44. Beyond the affordability percentage test, what additional standard must employer-sponsored coverage meet for an employee to be treated as having access to adequate coverage, thereby limiting eligibility for the Premium Tax Credit?

A. The coverage must be provided through a fully insured plan rather than a self-funded employer plan.

B. The coverage must include dental and vision benefits in addition to standard medical coverage.

C. The coverage must provide minimum value, meaning the plan pays at least 60% of the total allowed cost of covered benefits.

D. The coverage must be offered to the employee's entire extended family, not just dependents.

45. A taxpayer allows a qualified charity to use her vacation home rent-free for a week-long fundraising retreat, without transferring any ownership interest in the property. May she deduct the fair rental value of that week as a charitable contribution?

A. Yes, she may deduct the fair rental value because the use directly benefited a qualified charity.

B. Yes, but only if the charity provides a written acknowledgment stating the rental value of the week.

C. No, because the retreat must last at least 30 consecutive days to qualify for any deduction.

D. No, a gift of the right to use property is a nondeductible partial interest under the tax law.

46. A professional sculptor donates one of her own original sculptures, which she personally created, to a qualified public charity's permanent collection. How is her charitable deduction generally determined?

A. She may deduct the sculpture's full fair market value, the same as other long-term capital gain property.

B. Her deduction is limited to her basis in the sculpture, generally the cost of materials, because self-created works are ordinary income property.

C. She may deduct nothing, because artwork created by the donor is never eligible for any deduction.

D. She may deduct twice her basis in the sculpture as an incentive for donating original artwork.

47. A married couple's household employee is a 17-year-old whose earnings otherwise qualify as compensation for federal tax purposes. Separately, for a child to satisfy the Child Tax Credit requirements beyond the relationship, age, and residency tests, which additional requirement generally applies to that qualifying child?

A. The child must have provided more than half of their own financial support during the tax year in question.

B. The child must have gross income below the dependent exemption threshold amount established for the applicable tax year.

C. The child must be claimed as a dependent on a return other than the parents' own jointly filed return.

D. The child must be a United States citizen, United States national, or United States resident alien for the tax year.

48. Under current law following the One Big Beautiful Bill Act, what happened to the Residential Clean Energy Credit and the Energy Efficient Home Improvement Credit?

A. Both credits were terminated for qualifying property placed in service after December 31, 2025.
B. Both credits were made permanent with no expiration date under any future legislation.
C. Both credits were expanded to cover commercial rental properties beginning in 2026.
D. Both credits were converted from nonrefundable credits into fully refundable credits.

49. Which enrollment status requirement applies to the American Opportunity Tax Credit but not to the Lifetime Learning Credit?

A. The student must be enrolled at least half-time for at least one academic period during the year.
B. The student must be enrolled full-time for the entire twelve-month tax year without interruption.
C. The student must be enrolled in an online-only program accredited by the Department of Education.
D. The student must be enrolled in exactly two academic periods within the same tax year.

50. A taxpayer finances the purchase of a houseboat that she uses as her second home. For interest on the loan to qualify as deductible qualified residence interest, what must the houseboat have?

A. A permanently affixed foundation and a mailing address recognized by the local postal service.
B. Basic living accommodations, namely sleeping space, cooking facilities, and toilet facilities.
C. Registration as a documented vessel with the United States Coast Guard.
D. A minimum appraised value greater than the value of the taxpayer's main home.

51. A U.S. taxpayer makes a cash donation directly to a charitable organization organized and operating solely in a foreign country, with no U.S. affiliate. How is this donation generally treated for U.S. charitable deduction purposes?

A. It is fully deductible as long as the organization would qualify as tax-exempt under U.S. rules.

B. It is deductible only up to $1,000 per year regardless of the taxpayer's income.

C. It is generally not deductible, absent a specific tax treaty provision such as those with Canada, Mexico, or Israel.

D. It is deductible only if the taxpayer itemizes and the gift exceeds 10% of adjusted gross income.

52. A taxpayer is eligible for premium-free Medicare Part A but chooses not to enroll and instead purchases a Marketplace plan. How does this affect her eligibility for the Premium Tax Credit?

A. Eligibility is unaffected, since the taxpayer is not actually enrolled in Medicare.

B. Eligibility increases, because declining Medicare is treated as proof of financial need.

C. Eligibility depends solely on the taxpayer's household income relative to the federal poverty line.

D. Eligibility is generally barred, because being eligible for other minimum essential coverage disqualifies the taxpayer regardless of enrollment.

53. A taxpayer contributes to a qualified charity through recurring payroll deductions withheld by her employer. What documentation may she use to substantiate these contributions instead of a receipt issued directly by the charity?

A. No substantiation is required for payroll-deducted contributions of any amount.

B. A pay stub, Form W-2, or similar employer document showing the withheld amount, along with a charity pledge card.

C. A signed affidavit from a coworker confirming that the payroll deduction occurred.

D. The employer's quarterly payroll tax return filed with the Internal Revenue Service.

54. A 17-year-old who is claimed as a dependent on her parents' return earned $500 of wages from a part-time job and has no other income. How is her own standard deduction generally determined for the tax year?

A. It is limited to the greater of a set minimum amount or her earned income plus $450, capped at the regular standard deduction.

B. It is automatically reduced to zero, because dependents receive no standard deduction under any circumstance.

C. It equals the full regular standard deduction available to any single filer, without any special limitation.

D. It equals her total wages earned for the year, with no separate minimum amount allowed.

55. A taxpayer donates appreciated cryptocurrency held for two years directly to a qualified public charity. How is this contribution generally treated for charitable deduction purposes?

A. As cash, because cryptocurrency functions as a medium of exchange similar to currency.

B. As a service contribution, since transferring digital assets requires the donor's technical labor.

C. As noncash property, subject to fair market value and qualified appraisal rules like other long-term capital gain property.

D. As a nondeductible gift, since the IRS does not currently recognize digital assets for charitable purposes.

56. A taxpayer installs a personal-use electric vehicle charging station at her main home, located within an eligible census tract. What is the general structure of the Alternative Fuel Vehicle Refueling Property Credit available for this installation?

A. A credit of 10% of the equipment cost, capped at $2,000, available nationwide with no location restriction.

B. A credit equal to the full cost of the equipment, with no percentage limitation or dollar cap.

C. A flat $500 credit regardless of the equipment's actual installed cost.

D. A credit of 30% of the equipment cost, capped at $1,000, limited to property in an eligible census tract.

57. Railroad Retirement Tax Act (RRTA) taxes are divided into Tier 1 and Tier 2 components. Which statement correctly describes Tier 2 RRTA tax?

A. Tier 2 tax applies only to employers, with no corresponding employee tax obligation under RRTA.

B. Tier 2 tax funds a private-sector-style pension benefit and is imposed at rates and wage bases separate from Tier 1.

C. Tier 2 tax uses the identical rate and wage base as the Social Security equivalent Tier 1 portion.

D. Tier 2 tax replaces federal income tax withholding obligations for railroad employees entirely.

58. A taxpayer's failure to file a return is proven to be fraudulent rather than merely due to reasonable neglect. How does the failure-to-file penalty rate change as a result?

A. The penalty rate stays at 5% per month, capped at a 25% maximum, identical to ordinary failure to file.
B. The penalty rate drops to 0.5% per month because fraud converts the failure-to-file penalty into a failure-to-pay penalty.
C. The penalty is waived entirely because fraud penalties under accuracy-related rules replace the failure-to-file penalty completely.
D. The penalty rate triples to 15% per month, capped at a 75% maximum, instead of the ordinary failure-to-file rate.

59. A taxpayer owes an estimated tax underpayment penalty but does not want to compute it herself. Which statement about Form 2210 is correct?

A. In most routine cases, the taxpayer may leave the penalty computation to the IRS, which will calculate it and bill the taxpayer.
B. Form 2210 must always be attached to the return, or the underpayment penalty is automatically waived regardless of circumstances.
C. Only taxpayers who annualize income are permitted to let the IRS calculate the penalty instead of self-computing.
D. Filing Form 2210 is mandatory whenever any estimated tax underpayment penalty exists, with no IRS-computed alternative available.

60. A minister who has not filed an approved Form 4361 exemption receives a cash salary and a properly designated parsonage allowance excluded from gross income for income tax purposes. How is the parsonage allowance treated for self-employment tax purposes?

A. The allowance is excluded from both income tax and self-employment tax, receiving identical treatment under both systems.
B. The allowance reduces net earnings from self-employment dollar for dollar, lowering the minister's overall self-employment tax liability.

C. The allowance, despite its income tax exclusion, is included in net earnings from self-employment and subject to self-employment tax.
D. The allowance is subject to self-employment tax only if it exceeds the fair rental value of the furnished home.

61. A homeowner hires a cleaning service that assigns different staff members each visit, supervises their work, sets their schedule, and provides all cleaning equipment. Under the common law control test, how is the cleaning staff classified for household employment tax purposes?

A. As household employees of the homeowner, because the work is performed inside the homeowner's private residence.
B. As employees of the cleaning service, not household employees of the homeowner, since the service controls the work performed.
C. As statutory household employees regardless of who directs the work, solely because cleaning is a domestic service.
D. As independent contractors of the homeowner, requiring the homeowner to issue Form 1099-NEC for the cleaning fees paid.

62. An investor owned shares of a mutual fund for only four months before receiving a capital gain distribution reported on Form 1099-DIV. How is this capital gain distribution characterized on the investor's return?

A. Short-term capital gain, because the investor's own holding period in the fund shares was under one year.
B. Ordinary income, because the fund's short internal holding period disqualifies the distribution from capital gain treatment entirely.
C. Long-term capital gain, regardless of the investor's own holding period, because of the distribution's statutory character.
D. Split proportionally between short-term and long-term based on the fund's average internal asset holding period that year.

63. A taxpayer who claimed the first-time homebuyer credit and is subject to the 15-year repayment schedule refinances the existing mortgage on the home but continues living there as a principal residence. How does refinancing affect the credit repayment obligation?

A. Refinancing has no effect; the taxpayer continues repaying the credit in equal annual installments as originally scheduled.
B. Refinancing triggers immediate repayment of the entire remaining credit balance on the return for the refinance year.
C. Refinancing suspends the repayment schedule until the new mortgage is paid off in full by the taxpayer.
D. Refinancing converts the remaining repayment obligation into an addition to the mortgage principal owed to the lender.

64. A decedent had an unused net operating loss carryforward at death that had not yet been fully absorbed against income. How is this carryforward treated on the decedent's final return and afterward?

A. It becomes income in respect of a decedent, passing to the estate or beneficiaries to deduct against future income.
B. It converts into a deduction in respect of a decedent, fully deductible by whoever receives the decedent's remaining assets.
C. It is automatically doubled in value before being reported as a miscellaneous item on the decedent's final return.
D. It generally expires unused, since an NOL carryforward is a personal attribute that does not survive the taxpayer's death.

65. A self-employed taxpayer's total self-employment tax includes both the regular self-employment tax and the Additional Medicare Tax owed because net earnings exceed the applicable threshold. Regarding the above-the-line deduction for one-half of self-employment tax, which statement is correct?

A. The deduction applies only to the regular self-employment tax; no deduction is allowed for the Additional Medicare Tax portion.
B. The deduction applies equally to both the regular self-employment tax and the Additional Medicare Tax portion combined together.
C. The deduction applies only to the Additional Medicare Tax portion, since the regular self-employment tax is never deductible.
D. No deduction is allowed for any portion once Additional Medicare Tax applies, eliminating the usual self-employment tax deduction.

66. A taxpayer sold a rental property in an installment sale and reports a portion of the gain as principal payments are received over several years. For Net Investment Income Tax purposes, how is this gain treated?

A. The entire gain is included in net investment income in the year of sale, regardless of the installment method used.
B. Each year's recognized portion of the gain is included in net investment income for that year as it is reported.
C. Installment sale gain is permanently excluded from net investment income because it is not received as a lump sum.
D. The gain is included in net investment income only in the final year when the last installment payment is received.

67. A payer must withhold and remit backup withholding on certain reportable payments made to a payee. Which situation generally triggers a payer's obligation to begin backup withholding on those payments?

A. Backup withholding applies only when the payee affirmatively requests it in writing before the first payment is made.
B. Backup withholding applies automatically to all payments over $10,000 regardless of whether the payee furnished a valid TIN.
C. Backup withholding is triggered when the payee fails to furnish a valid taxpayer identification number, or the IRS notifies the payer the TIN is incorrect.
D. Backup withholding applies only to payments made to corporations, since payments to individuals are always exempt from the requirement.

68. A taxpayer files her return five months late and also fails to pay the balance due, so both the failure-to-file and failure-to-pay penalties apply for the same month. How does the IRS calculate the combined penalty for a month in which both apply?

A. Both penalties are charged in full separately, producing a combined rate of 5.5% for that overlapping month.
B. Only the larger failure-to-file penalty applies for that month, and the failure-to-pay penalty is disregarded entirely.

C. Only the smaller failure-to-pay penalty applies for that month, and the failure-to-file penalty is disregarded entirely.
D. The failure-to-file penalty is reduced by the failure-to-pay penalty amount for that month, netting to 4.5%.

69. An employee received cash tips of $85 during the month while working for a single employer. What is the employee's obligation regarding reporting these tips?

A. No reporting to the employer is required unless total tips for the entire year exceed $20,000 in the aggregate.
B. The employee must report the tips quarterly to the employer, matching the employer's quarterly employment tax filing schedule.
C. Because tips exceed $20 for the month, the employee must report them in writing to the employer by the 10th of the next month.
D. The employee reports the tips directly to the IRS only, with no reporting obligation running to the employer at all.

70. A taxpayer retired after reaching age 62 during the tax year and had an underpayment of estimated tax for that year due to the changed income situation. Which statutory exception may allow the IRS to waive the underpayment penalty?

A. The general reasonable cause exception available to any taxpayer, identical to the standard used for failure-to-file penalties.
B. The de minimis exception, which applies automatically whenever the taxpayer's unpaid balance is under a set dollar threshold.
C. The farmer and fisherman exception, extended by statute to cover any taxpayer who recently retired from a prior occupation.
D. The recently retired or disabled taxpayer waiver, available when the underpayment was due to reasonable cause and not willful neglect.

71. A taxpayer acquired qualified small business stock on original issue in June 2009 and held it for more than five years before selling it at a gain. Which exclusion percentage applies to the gain under Section 1202?

A. 75% of the gain is excluded, the rate applicable to qualified small business stock acquired in this specific window.

B. 50% of the gain is excluded, the original base rate applicable to all qualified small business stock ever issued.

C. 100% of the gain is excluded, the rate reserved for stock acquired after September 27, 2010.

D. 0% of the gain is excluded, because stock acquired during this window does not qualify for any exclusion.

72. A licensed real estate agent earns commissions based entirely on sales output, works under a written contract stating she will not be treated as an employee for federal tax purposes, and receives substantially no income unrelated to sales performance. How is she classified for federal employment tax purposes?

A. As a common law employee, requiring the brokerage to withhold and pay employment taxes on her commission income.

B. As a statutory nonemployee, treated as self-employed for federal tax purposes regardless of the usual common law control test.

C. As a statutory employee, subject to Social Security and Medicare withholding but exempt from federal income tax withholding.

D. As a household employee of the brokerage, subject to the same annual cash wage threshold rules that apply to nannies.

73. A taxpayer owns both nonresidential real property and tangible personal property placed in service after 1986, each depreciated using standard regular-tax methods. Regarding the AMT depreciation adjustment, which statement is correct?

A. The real property generally requires no AMT adjustment, since regular tax already depreciates it using the straight-line method.

B. Both the real property and the personal property require an identical AMT adjustment computed under the same formula.

C. The personal property requires no AMT adjustment, while only the real property requires a full recomputation for AMT purposes.

D. Neither asset requires any AMT depreciation adjustment, since AMT depreciation and regular tax depreciation are always identical.

74. An employer failed to make a required federal tax deposit and did not pay the amount even after receiving an IRS notice demanding immediate payment, remaining unpaid more than 10 days after that notice. What failure-to-deposit penalty rate applies?

A. 5%, the same rate that applies to deposits made between six and fifteen calendar days late.
B. 15%, the highest failure-to-deposit penalty tier, reserved for amounts still unpaid after an IRS notice and demand.
C. 2%, the lowest failure-to-deposit penalty tier, reserved for deposits made within five calendar days of the due date.
D. 10%, the tier that applies to deposits made sixteen or more calendar days late without any IRS notice involved.

75. A taxpayer, age 42, purchases Series EE savings bonds in their own name (not jointly with the child) and later redeems them, using all principal and interest to pay a dependent's qualified tuition and fees at an eligible institution. The taxpayer's modified AGI falls within the phase-out range for the year. Which statement correctly describes the tax treatment of the bond interest under the Education Savings Bond Program?

A. All of the interest is taxable because Series EE bonds do not qualify for education-related interest exclusions under any circumstances.
B. The interest exclusion is unavailable because the bonds are titled only in the taxpayer's name and not the dependent's.
C. A portion of the interest is excludable from income, phased out ratably based on where modified AGI falls within the applicable range.
D. The interest exclusion is entirely disallowed once modified AGI exceeds the beginning of the applicable phase-out threshold amount.

76. A U.S. citizen decedent leaves the entire estate outright to a surviving spouse who is not a U.S. citizen and has no green card. Absent additional planning, the unlimited marital deduction is unavailable for this transfer. Which planning technique allows the estate to still qualify for marital deduction treatment on assets passing to the noncitizen spouse?

A. Naming the spouse as a joint tenant with rights of survivorship on all estate assets before death.
B. Directing the executor to file a portability election on a timely filed estate tax return.

C. Establishing an irrevocable life insurance trust naming the spouse as sole income beneficiary for life.
D. Directing that the assets pass into a Qualified Domestic Trust meeting the statutory requirements for noncitizen spouses.

77. As part of a divorce settlement finalized this year, one spouse transfers appreciated rental real estate directly to the other spouse under the terms of the divorce decree. Neither spouse receives cash or other property in exchange. How is this transfer treated for federal income tax purposes?

A. No gain or loss is recognized, and the receiving spouse takes the transferor's adjusted basis in the property.
B. The transferring spouse recognizes gain to the extent the property's fair market value exceeds its adjusted basis.
C. The receiving spouse must recognize ordinary income equal to the property's fair market value on the transfer date.
D. Gain is recognized by the transferring spouse but may be deferred using installment sale reporting rules.

78. A wealthy spouse wants to remove assets and future appreciation from the taxable estate using a substantial gift, but the couple wants to preserve indirect access to trust income and principal through the other spouse's beneficial interest if family circumstances change. Which irrevocable trust arrangement best accomplishes this dual goal?

A. A qualified personal residence trust naming the donor spouse as trustee and income beneficiary for a term of years.
B. A charitable remainder trust naming the donor spouse as the sole noncharitable income beneficiary for life.
C. A spousal lifetime access trust naming the non-donor spouse as a permissible lifetime beneficiary of the trust.
D. A grantor retained annuity trust paying a fixed annuity back to the donor spouse for a term of years.

79. An estate's assets have generally declined in value during the six months following the decedent's date of death. The executor is considering electing the alternate valuation date under Section 2032 instead of using date-of-death values. Which condition must be satisfied for this election to be valid?

A. The election is available automatically whenever any individual asset in the estate has declined in value since death.

B. The election must reduce both the value of the gross estate and the total federal estate tax liability.

C. The election may be made only if the estate is required to file a return solely for portability purposes.

D. The election applies only to publicly traded securities and cannot be made for real property or business interests.

80. A donor transfers appreciated stock to a qualified charity in exchange for a charitable gift annuity, receiving fixed lifetime annuity payments from the charity in return. How are the annuity payments generally taxed to the donor?

A. Each payment is fully taxable as ordinary income with no portion treated as capital gain or return of capital.

B. Each payment is entirely excluded from income because the underlying transfer already qualified for a charitable deduction.

C. Each payment is taxed entirely as long-term capital gain since the funding asset was appreciated stock.

D. Each payment is generally split among tax-free return of capital, capital gain, and ordinary income components.

81. A grandparent wants to make substantial annual gifts to a young grandchild that qualify for the annual gift tax exclusion, but does not want the child to have unrestricted access to the funds at age 18 as would occur with a custodial account. Which arrangement allows the gifts to qualify for the annual exclusion despite the trust not granting an immediate present interest?

A. An irrevocable trust that distributes income to the grandchild annually beginning immediately with no restriction on principal.

B. A revocable trust naming the grandchild as sole beneficiary, terminating automatically when the grandchild reaches age 21.

C. A custodial account under the Uniform Transfers to Minors Act with distribution delayed until age 25 by trust terms.

D. A trust meeting Section 2503(c) requirements, distributing trust assets to the grandchild by age 21 or granting a withdrawal right.

82. A 66-year-old taxpayer maintains a Health Savings Account funded over many years while covered under a high-deductible health plan. The taxpayer takes a distribution this year for expenses that do not qualify as unreimbursed medical costs. How is this nonqualified distribution taxed?

A. The distribution is included in ordinary income but is not subject to the 20% additional tax after age 65.
B. The distribution is included in ordinary income and remains subject to the full 20% additional tax regardless of age.
C. The distribution is entirely tax-free since all HSA distributions become nontaxable once the account owner reaches age 65.
D. The distribution is taxed as long-term capital gain because the funds were held in the account over one year.

83. Two shareholders in a closely held corporation cross-purchase life insurance policies on each other's lives to fund a buy-sell agreement. One shareholder later sells the policy on the other shareholder's life directly to that insured shareholder for its cash surrender value. When the insured shareholder later dies and the death benefit is paid, how is the transfer-for-value rule applied to the proceeds?

A. The entire death benefit becomes taxable as ordinary income because any sale of a policy triggers the transfer-for-value rule.
B. The death benefit remains fully income tax-free because a sale of a policy to the insured is an exception.
C. Only the portion of proceeds exceeding total premiums paid by the original owner is subject to income tax.
D. The death benefit is taxable as capital gain because the policy was sold for valuable consideration before death.

84. A grandparent wants to contribute a lump sum to a 529 education savings plan for a grandchild that exceeds the annual gift tax exclusion amount, without using any of the grandparent's lifetime gift tax exemption, and without filing a gift tax return reporting a taxable gift. Which election allows this larger contribution to be treated as made ratably over multiple years?

A. The grandparent may deduct the excess contribution amount directly against the estate tax exemption on a future estate tax return.

B. The grandparent may claim an unlimited exclusion for 529 contributions regardless of size under the education gift exception.

C. The grandparent may elect to treat the contribution as made ratably over a five-year period for gift tax purposes.

D. The grandparent may split the gift with a spouse to double the exclusion without filing any gift tax return.

85. A taxpayer's 16-year-old dependent child holds an investment account in the child's own name that generates $6,000 of interest and dividend income during the year, none of which is earned income from services. Under the current kiddie tax rules, how is this unearned income generally taxed?

A. All of the unearned income is taxed at the same rates that apply to trusts and estates automatically.

B. All of the unearned income is taxed at the child's own individual marginal tax rate with no exceptions.

C. Unearned income above the applicable threshold is generally taxed at the parents' marginal tax rate, not the child's.

D. All of the unearned income is entirely exempt from federal income tax because the child is a minor.

86. An executor of a decedent's estate, which is not otherwise required to file an estate tax return because the gross estate is below the filing threshold, wants to make a portability election to preserve the decedent's unused exclusion amount for the surviving spouse but missed the original filing deadline. Which statement correctly describes available relief?

A. No relief is available, and any unused exclusion is permanently forfeited once the original nine-month deadline passes.

B. Simplified relief allows a return electing portability to be filed within a specified extended period after death.

C. Relief is available only if the estate first pays a penalty equal to the estate tax that would have applied.

D. Relief requires a private letter ruling request in every case with no automatic extended filing procedure available.

87. A client is comparing a testamentary trust created under the terms of a will with a revocable living trust for purposes of managing assets for a surviving spouse and children. Which statement correctly distinguishes the testamentary trust's probate treatment from that of a properly funded revocable living trust?

A. Neither arrangement requires probate because both are formed and funded through operation of state trust law alone.
B. A testamentary trust avoids probate entirely, while a funded revocable living trust always requires the assets to pass through probate.
C. Both arrangements require the same probate process because a will must still be filed regardless of trust type used.
D. A testamentary trust is funded only through the probate process, while a properly funded living trust avoids probate for those assets.

88. For federal income tax purposes on Form 1041, which of the following best distinguishes a 'simple trust' from a 'complex trust'?

A. A simple trust is generally required to distribute all trust accounting income currently, may not distribute principal, and may not make deductible charitable contributions; a complex trust is not bound by these requirements.
B. A simple trust is defined by holding only marketable securities, while a complex trust is defined by holding real property or a closely held business interest.
C. A simple trust must be created under a decedent's will, while a complex trust must always be created and funded during the grantor's lifetime.
D. A simple trust may never claim any exemption amount on Form 1041, while a complex trust automatically claims a flat three-hundred-dollar exemption every year.

89. A U.S. person transfers $60,000 cash to a foreign corporation in exchange for stock in March, then transfers an additional $55,000 cash to the same foreign corporation in November of the same year. Regarding Form 926 reporting for these cash transfers, which statement is correct?

A. Neither transfer is reportable because each individual transfer is below the $100,000 threshold applied on a per-transaction basis.
B. Only the November transfer is reportable because it is the transfer that pushes the taxpayer's cumulative total over the threshold.

C. Both transfers must be reported on Form 926 because cash transfers to the same foreign corporation are aggregated over a twelve-month period, and the combined total exceeds $100,000.
D. Cash transfers are never reportable on Form 926 under any circumstances, since only appreciated property transfers trigger the filing requirement.

90. A decedent purchased a life insurance policy on his own life and, two years before his death, absolutely and irrevocably transferred all incidents of ownership in the policy to an irrevocable trust for his children, retaining no rights in the policy. How is the policy treated for federal estate tax purposes?

A. The policy is fully excluded from the gross estate because the decedent retained no incidents of ownership at the moment of death.
B. The full death benefit is included in the gross estate under the three-year rule of Section 2035 because the policy transfer occurred within three years of death.
C. Only the cash surrender value of the policy on the date of transfer is included in the decedent's gross estate.
D. The policy is included in the gross estate only if the trust's beneficiaries are also the decedent's heirs at law under state intestacy rules.

91. A transferor allocates GST exemption to a trust equal to only 60 percent of the value of the property transferred, rather than the full value. How does this partial allocation affect the trust's treatment for generation-skipping transfer tax purposes?

A. The trust becomes fully exempt from GST tax because any allocation, regardless of the amount allocated, exempts the entire trust from future tax.
B. The partial allocation is disregarded entirely, and the trust is treated as though no GST exemption had been allocated to it at all.
C. The trust is instead taxed at a flat 40 percent rate on all future distributions, regardless of the partial allocation actually made.
D. The trust has an inclusion ratio of 0.40, since the applicable fraction of exemption allocated is subtracted from 1, so 40 percent of future taxable distributions remains subject to tax.

92. A U.S. person fails to timely file an FBAR for a foreign account but can demonstrate the failure was due to reasonable cause and that the account balance was properly reported for income tax purposes. What is the effect of establishing reasonable cause for a non-willful FBAR violation?

A. Reasonable cause has no legal effect, and the maximum non-willful penalty still applies automatically regardless of the circumstances shown.

B. Reasonable cause instead converts the violation into a willful violation, subjecting the filer to the higher willful penalty ceiling.

C. Reasonable cause only reduces the assessed penalty amount by half but never eliminates the underlying non-willful penalty entirely.

D. Reasonable cause, once established along with proper reporting of the underlying income, allows the non-willful penalty to be excused entirely under the statutory exception.

93. A U.S. shareholder of a passive foreign investment company (PFIC) makes a timely qualified electing fund (QEF) election. How does this election change the shareholder's tax treatment compared to the default excess distribution regime?

A. The shareholder currently includes a pro rata share of the PFIC's ordinary earnings and net capital gain each year, avoiding the interest charge and top-rate treatment applied to excess distributions.

B. The shareholder instead defers all income recognition entirely until the PFIC shares are eventually sold, with no interest charge ever imposed.

C. The election permanently exempts the shareholder from filing any PFIC-related information return in all future tax years.

D. The election converts all future gain recognized on the sale of the PFIC shares into permanently tax-exempt income.

94. During the year, a U.S. person receives $70,000 from her nonresident alien uncle and $60,000 from her nonresident alien aunt, who is the uncle's spouse. For purposes of the Form 3520 foreign gift reporting threshold, how are these amounts treated?

A. Each gift is tested separately against the threshold, so neither individual gift is reportable since both fall under $100,000 alone.

B. Only the larger of the two gifts is counted toward the threshold, and the smaller gift is disregarded entirely for reporting.

C. Gifts from related nonresident alien individuals are aggregated for the year, and because the combined $130,000 exceeds the $100,000 threshold, both gifts must be reported on Form 3520.

D. Gifts between spouses who are both nonresident aliens can never be aggregated together under any circumstances for reporting purposes.

95. A U.S. shareholder fails to file a required Form 5471 and, after IRS notice, still has not filed 90 days later. Regarding the additional continuation penalty that applies after the 90-day notice period, which statement is correct?

A. No additional penalty applies once the initial $10,000 penalty has been assessed, regardless of any continued noncompliance thereafter.
B. An additional $10,000 penalty applies for each 30-day period the failure continues after the 90-day notice period, up to a statutory maximum per return.
C. The continuation penalty is capped at a single one-time $1,000 charge regardless of how long the failure continues.
D. The continuation penalty applies only when the foreign corporation involved also happens to meet the technical definition of a PFIC.

96. A nonresident alien becomes a U.S. resident alien partway through the tax year under the substantial presence test and remains a resident through year-end. For the portion of the year before residency began, which statement correctly describes the taxpayer's dual-status filing treatment?

A. The taxpayer files a single dual-status return, reporting only U.S.-source and effectively connected income for the nonresident portion and worldwide income for the resident portion.
B. The taxpayer must file two entirely separate and complete returns, a full-year Form 1040-NR and a full-year Form 1040, both reporting worldwide income.
C. The taxpayer is treated as a resident alien for the entire tax year, including the period before residency began under the substantial presence test.
D. The taxpayer is treated as a nonresident alien for the entire year and reports no worldwide income no matter how long residency ultimately lasted.

97. A married taxpayer dies during the year survived by a spouse who wishes to file a joint income tax return covering the decedent's final tax year. Regarding who may sign the return on the decedent's behalf, which statement is correct?

A. The decedent's executor or personal representative, if one has been appointed, must sign the final joint return on the decedent's behalf along with the surviving spouse.

B. Only the surviving spouse may ever sign the return, and no representative signature is required even when an executor has been appointed.
C. A joint income tax return can never be filed for a decedent's final tax year under any circumstances whatsoever.
D. The Internal Revenue Service itself signs the final return on the decedent's behalf once formally notified of the death.

98. A U.S. person contributes property to a foreign partnership in exchange for a partnership interest, and the value of the property contributed, combined with other contributions made during the preceding 12 months, exceeds $100,000. Under which Form 8865 filer category must this contribution be reported?

A. Category 1, reserved for U.S. persons who controlled the foreign partnership at any time during the partnership's tax year.
B. Category 2, reserved for U.S. persons owning at least a 10 percent interest while the partnership was controlled by U.S. persons.
C. Category 3, which applies to U.S. persons who contribute property to a foreign partnership in exchange for an interest exceeding the reporting threshold.
D. Category 4, reserved solely for U.S. persons reporting reportable events such as acquisitions or dispositions of a partnership interest.

99. A trust is treated as wholly owned by its grantor under the grantor trust rules. Regarding how the trust may satisfy its federal income tax reporting obligations, which statement is correct?

A. The trust must always file a complete Form 1041 reporting all income, deductions, and credits in its own name, with no alternative method ever available.
B. The trustee may instead use an optional reporting method that furnishes payors' information directly to the grantor, avoiding a complete Form 1041 filing for the trust.
C. The trust is entirely exempt from all federal income tax reporting because grantor trusts carry no filing obligation whatsoever.
D. The trust must instead file Form 706 rather than Form 1041 whenever it is treated as a grantor trust.

100. An estate is paying estate tax attributable to a closely held business interest in installments under the Section 6166 deferral election. The heir who received the business interest then disposes of more than 50 percent of that interest. What is the consequence for the deferred estate tax?

A. The installment deferral continues entirely unaffected because Section 6166 places no restrictions on post-election dispositions by the heir.

B. The interest rate on the remaining installment payments is simply increased, but the underlying deferral otherwise continues unchanged.

C. Only actions taken by the executor, and never later actions by the heir, can ever trigger acceleration under Section 6166.

D. The disposition of more than 50 percent of the business interest accelerates the tax, and the remaining unpaid deferred estate tax becomes immediately due.

Answer Key and Explanations — Practice Exam 10, Part 1: Individuals

1. D — Due diligence rules require preparers to retain Form 8867 and its supporting worksheets for three years, measured from the latest of the filing date or the return's original due date. This period lets the IRS verify the required steps were performed and protects the preparer against the per-failure due-diligence penalty on EITC, CTC, and HOH claims.

2. C — Circular 230 generally bars contingent fees for preparing an original return, since fee amount should not hinge on outcome. The recognized exception applies to representation involving an IRS examination or challenge to an original or amended return, or a judicial proceeding, where the practitioner's fee may lawfully depend on the result obtained for the client.

3. A — Individuals born in American Samoa (and certain other outlying possessions) acquire US national status at birth rather than automatic US citizenship, unless citizenship is later obtained through naturalization. A US national owes allegiance to the United States and may live and work there, but the distinction from citizenship affects certain legal rights, though not general US tax filing obligations.

4. B — A dependent's own filing requirement is driven by specific unearned-income thresholds separate from the general standard deduction rules for non-dependents. Once a dependent's unearned income exceeds the applicable annual threshold, the dependent must file an individual return reporting that income, regardless of whether the parents also claim the dependent and regardless of the dependent's earned income.

5. B — When parents who never married and don't file jointly both qualify to claim the same child and cannot agree, and the child spent equal time with each, the tiebreaker rule awards the claim to the parent with the higher adjusted gross income for the year, rather than to either parent automatically based on age, gender, or informal custody arrangements.

6. A — Circular 230 section 10.35 requires a practitioner to possess the knowledge, skill, thoroughness, and preparation reasonably necessary for the specific matter undertaken. A practitioner lacking sufficient competence may still accept the engagement by consulting with, or associating another practitioner who has, the necessary expertise, rather than declining every matter outside prior experience.

7. C — A willful FBAR violation carries a substantially higher civil penalty exposure than a non-willful violation, generally the greater of a set statutory dollar amount or up to fifty percent of the account balance, reflecting the taxpayer's knowing or reckless disregard of the filing obligation. Non-willful violations carry a lower fixed maximum penalty per violation, subject to reasonable-cause relief.

8. D — Letter 4883C requires the taxpayer to contact the IRS directly, by calling the number listed on the letter, and in certain cases scheduling an in-person visit to a Taxpayer Assistance Center, to verify identity before the associated return can be processed and any refund released. Online-only verification tools do not resolve this particular notice.

9. A — Form W-7 generally requires the applicant to submit an original identification document, such as a passport, or a copy certified by the issuing agency, to establish both identity and foreign status. Uncertified photocopies and notarized copies from third parties generally do not satisfy this documentation standard, though limited exceptions exist through IRS-authorized Certifying Acceptance Agents.

10. C — A preparer subject to the mandatory e-file requirement who determines a return qualifies for an administrative exemption documents that exemption using Form 8948, filed with the paper return. This form distinguishes properly excused paper filings from noncompliance with the mandate, which otherwise applies to preparers expecting to file eleven or more covered returns.

11. D — CP503 is a second reminder notice, issued after an initial balance-due notice went unanswered, informing the taxpayer that the amount owed remains unpaid and continues to accrue interest and applicable penalties. It precedes more serious collection notices, such as a final notice of intent to levy, if the balance still is not resolved.

12. B — Substantiation rules require a contemporaneous written acknowledgment from the charity for any single contribution of $250 or more, describing the amount and confirming whether goods or services were provided in exchange. Without this acknowledgment, obtained before the return is filed, the deduction is not allowable even if the payment is otherwise documented by a canceled check.

13. B — The general refund-claim statute of limitations requires the taxpayer to file within three years from the date the original return was filed, or within two years from the date the tax was actually paid, whichever period gives the taxpayer more time. A claim filed after both windows close is generally time-barred, regardless of the underlying merits.

14. C — CP90 is a final notice of intent to levy, sent before the IRS seizes assets to satisfy an unpaid balance, and it informs the taxpayer of the statutory right to request a Collection Due Process hearing with the Office of Appeals within thirty days. Failing to respond within that window forfeits the opportunity for that specific hearing.

15. A — The Office of Professional Responsibility administers and enforces Circular 230, holding the authority to investigate alleged violations and to censure, suspend, or disbar practitioners from practice before the IRS. This authority is distinct from the Return Preparer Office, which primarily handles PTIN registration and related administrative preparer matters, not disciplinary sanctions.

16. D — A nonresident alien generally has no US filing obligation unless the individual receives income effectively connected with a US trade or business, or certain other US-source income subject to tax, such as fixed or determinable annual gains not otherwise exempted. Filing thresholds tied to worldwide income under the regular standard deduction rules do not apply to nonresident aliens.

17. C — Personal use exceeding the greater of 14 days or 10% of fair-rental days converts a rental property into a dwelling used as a residence under IRC Section 280A. Once that threshold is crossed, expense deductions are limited to gross rental income, and no net rental loss may be claimed, regardless of how many days the property was rented out.

18. B — Interest paid on U.S. Treasury obligations is fully includible in gross income for federal purposes, taxed at ordinary rates like other interest income. However, federal law prohibits states from taxing interest earned on obligations of the United States government, so Treasury bond interest is exempt from state and local income taxation, unlike interest from most corporate or bank sources.

19. A — To be taxed as a qualified dividend at preferential capital gains rates, the shareholder must satisfy a specific holding-period test: the stock must be held for more than 60 days within the 121-day window that begins 60 days before the ex-dividend date. Dividends failing this test remain ordinary income taxed at the taxpayer's regular marginal rate.

20. D — Under Section 7872, a below-market gift loan between family members is recharacterized as if the lender charged interest at the applicable federal rate. The lender is treated as receiving imputed interest income, includible on the lender's own return, while an equivalent amount is treated as a gift to the borrower, using part of the annual exclusion.

21. B — When related parties exchange like-kind property and either party disposes of the property received within two years of the exchange, the related-party rule requires the originally deferred gain to be recognized as of the date of that subsequent disposition. This prevents related parties from using Section 1031 to shift basis while cashing out the appreciation shortly afterward.

22. C — When a principal residence is condemned, the taxpayer applies the Section 121 exclusion first against the realized gain. Any gain remaining after that exclusion may then be deferred under Section 1033 by timely purchasing qualifying replacement property costing at least as much as the unexcluded proceeds. The two provisions work together, not as alternatives.

23. A — Current law provides a permanent income exclusion for student loans discharged on account of the borrower's death or total and permanent disability, applicable to discharges after 2020 without expiration. The excluded amount is not reported as cancellation of debt income and requires no separate insolvency showing, unlike the general Section 108 exceptions that otherwise apply to cancelled debt.

24. D — Under Section 752, a partnership's assumption of a partner's liability exceeding the partner's retained share is treated as a deemed cash distribution to that partner. Because a deemed distribution is treated like any other partnership distribution under Section 731, gain is recognized only to the extent the deemed distribution exceeds the partner's outside basis, here $40,000 minus $30,000, or $10,000.

25. C — The dependent care assistance exclusion under Section 129 is capped at $5,000 per year for a married couple filing jointly, regardless of the amount actually elected through the cafeteria plan. Any amount contributed above that statutory ceiling loses its exclusion and must instead be reported as taxable wages subject to income and employment tax withholding.

26. A — When pass-through income for the year restores a shareholder's reduced debt basis before any repayment occurs, the loan basis returns toward its original face amount under the basis-restoration ordering rules. A subsequent repayment made after basis has been restored to at least the amount repaid is treated as a nontaxable return of the shareholder's loan principal, producing no gain.

27. D — Fees received for services performed as a notary public are specifically excluded from net earnings from self-employment by statute, even though the same fees remain fully taxable as ordinary income for regular income tax purposes. As a result, notary income is reported on Schedule C but is separately backed out on Schedule SE so no self-employment tax applies to it.

28. B — Stripped bonds, including the principal component of a Treasury bond with its coupons removed, are treated as issued with original issue discount equal to the difference between the purchase price and the redemption amount. The holder must accrue and report a ratable portion of that discount as taxable interest income each year, regardless of receiving no actual cash payment.

29. D — A substitute payment in lieu of a dividend, received while loaned shares remain on loan through the dividend record date, is not an actual dividend paid by the corporation and does not qualify for the reduced qualified dividend rate. The payment is reported as ordinary income, and brokers generally report it on Form 1099-MISC rather than Form 1099-DIV.

30. B — For jointly held property that is not community property, only the decedent's fractional interest receives a basis step-up to its date-of-death fair market value; the survivor's own interest keeps its original basis. Here, the surviving spouse's basis becomes her original $75,000 plus the $200,000 stepped-up value of the inherited half, totaling $275,000 for the whole property.

31. A — Under the self-rental recharacterization rule, net rental income from property leased to a business in which the taxpayer materially participates is treated as nonpassive, even though rental activities are ordinarily passive by definition. This prevents taxpayers from generating artificial passive income to absorb unrelated passive losses, so the building's net income cannot offset the limited partnership's passive losses.

32. C — A Health Savings Account distribution is tax-free only when it reimburses a qualified medical expense incurred on or after the date the HSA was established. Because the expense here was paid in April, before the account existed in June, the reimbursement does not qualify as tax-free and must be included in the taxpayer's gross income, potentially with penalty.

33. B — Under the related-party installment sale rules, when a related purchaser disposes of installment sale property within two years of the original sale, the amount realized on that disposition generally accelerates recognition of the seller's remaining deferred gain. The seller reports the previously deferred gain in the year of the related party's early resale rather than awaiting future payments.

34. D — Employer-provided cell phones furnished primarily for noncompensatory business reasons qualify as a working condition fringe benefit, excludable from the employee's wages in full. Because tracking incidental personal use would be administratively impractical, the IRS treats minor personal use of such phones as a nontaxable de minimis benefit, eliminating any requirement to allocate value or maintain usage logs.

35. C — The exclusion for employer-paid or reimbursed moving expenses, along with the related moving expense deduction, is suspended under current law for civilian taxpayers, with a narrow exception preserved only for active-duty Armed Forces members moving pursuant to military orders. Because this employee does not qualify for that exception, the entire $8,000 reimbursement is included in taxable wages subject to withholding.

36. A — A taxpayer who reinvests eligible capital gain into a Qualified Opportunity Fund within 180 days of the sale may elect to defer recognition of that gain, excluding it from income in the year realized. The deferred gain is later recognized under statutory triggering rules, generally upon disposition of the QOF interest or an earlier statutory inclusion date, whichever occurs first.

37. C — The $750,000 acquisition debt limit is a single aggregate ceiling that applies per taxpayer, not per home. When acquisition debt on a main home and a second home together exceed $750,000, interest is deductible only on the portion of the combined balance up to that ceiling; interest allocable to the excess principal is nondeductible personal interest.

38. A — The value of a taxpayer's own time, labor, or professional services donated to a qualified charity is never deductible as a charitable contribution, no matter how valuable the service. Only unreimbursed out-of-pocket expenses incurred while performing volunteer work for the organization, such as supplies or mileage, may be deducted, not the imputed value of the time itself.

39. B — The basic standard deduction is set by Congress and indexed annually for inflation, with the dollar amount depending on filing status. Married taxpayers filing jointly generally receive approximately double the amount allowed for single filers, while head of household falls between the two. It is available whether or not a taxpayer itemizes.

40. D — Distributions received by the taxpayer or spouse from an applicable retirement plan during the testing period reduce, dollar for dollar, the contributions otherwise eligible for the Saver's Credit. The testing period spans the credit year, the two preceding years, and the period after year-end through the return's filing deadline, including extensions.

41. C — Section 911 bars a double tax benefit: foreign tax paid or accrued on income excluded from gross income under the foreign earned income exclusion cannot also generate a Foreign Tax Credit. The credit is allowed only for foreign tax attributable to income that remains subject to U.S. taxation after the exclusion is applied.

42. A — The home energy audit component of the Energy Efficient Home Improvement Credit allows 30% of the audit's cost, up to a $150 maximum, but only if a certified home energy auditor performs the audit and the taxpayer receives a written report identifying the most significant and cost-effective energy efficiency improvements available.

43. B — For each month a spouse is a full-time student or incapable of self-care, that spouse is deemed to have earned income of $250 if there is one qualifying person, or $500 if there are two or more. This special rule lets the couple qualify using the lower earner's actual wages.

44. C — Employer coverage must satisfy two separate tests: affordability, based on the employee's required contribution percentage, and minimum value, meaning the plan is designed to pay at least 60% of the total allowed cost of covered benefits. Failing either test can preserve the employee's Premium Tax Credit eligibility on the Marketplace.

45. D — A contribution of the right to use property, without transferring the underlying ownership interest, is treated as a gift of a nondeductible partial interest. Charitable deductions generally require a transfer of the taxpayer's entire interest in the donated property, so free use of a home or other property produces no deduction.

46. B — Property created by the donor, such as an artist's own artwork or manuscript, is ordinary income property because its sale would produce ordinary income rather than capital gain. The charitable deduction for self-created property is limited to the donor's basis, typically the cost of materials, not the item's fair market value.

47. D — In addition to the relationship, age, and residency tests, a qualifying child for the Child Tax Credit must be a United States citizen, national, or resident alien for the tax year, and must have a Social Security number valid for employment issued before the return's due date, distinguishing this credit's eligibility from the general dependent exemption rules.

48. A — The One Big Beautiful Bill Act, enacted in 2025, terminated both the Residential Clean Energy Credit under Section 25D and the Energy Efficient Home Improvement Credit under Section 25C for property placed in service after December 31, 2025, ending these residential energy incentives several years earlier than their prior scheduled expiration dates.

49. A — The American Opportunity Tax Credit requires the student to be enrolled at least half-time in a degree or credential program for at least one academic period during the year. The Lifetime Learning Credit has no minimum enrollment requirement and remains available for a single course taken less than half-time, making it useful for career-skill courses.

50. B — A boat, RV, or mobile home qualifies as a taxpayer's residence for mortgage interest deduction purposes only if it contains basic living accommodations: sleeping space, cooking facilities, and toilet facilities. Without these features, interest on the loan financing the property is not deductible qualified residence interest, regardless of the loan's size.

51. C — Contributions made directly to a foreign charitable organization are generally not deductible for U.S. income tax purposes, because Section 170 requires the recipient to be a domestic organization. Limited exceptions exist under specific tax treaties, such as those with Canada, Mexico, and Israel, each carrying its own conditions and limitations.

52. D — A taxpayer eligible for other minimum essential coverage, such as Medicare, Medicaid, or CHIP, is generally barred from Premium Tax Credit eligibility for Marketplace coverage, even if that other coverage is never actually elected. Eligibility for the other coverage, not enrollment in it, is what triggers the disqualification under the statute.

53. B — For contributions made through payroll withholding, the taxpayer substantiates the gift with a pay stub, Form W-2, or other document from the employer showing the amount withheld, together with a pledge card or similar document from the charity showing it does not provide goods or services in exchange for contributions.

54. A — A taxpayer who can be claimed as a dependent has a limited standard deduction equal to the greater of a set minimum dollar amount or the dependent's earned income plus $450, but this amount can never exceed the regular standard deduction otherwise available for that dependent's filing status for the year.

55. C — The IRS treats cryptocurrency as property, not currency, for federal tax purposes. A donation of appreciated cryptocurrency held long-term is therefore treated like other noncash long-term capital gain property, valued at fair market value on the date of the gift and subject to the qualified appraisal requirement for amounts over $5,000.

56. D — For personal-use property, the Alternative Fuel Vehicle Refueling Property Credit generally equals 30% of the cost of qualified refueling or recharging equipment, such as a home electric vehicle charger, capped at $1,000. Eligibility is further limited to equipment installed in an eligible low-income or non-urban census tract, not all locations nationwide.

57. B — Tier 2 RRTA tax operates like a private-sector pension plan layered atop the Social Security-equivalent Tier 1 tax, using its own separate rate and wage base for both the railroad employer and employee. It funds supplemental retirement benefits unique to railroad workers, distinguishing railroad retirement taxation from ordinary FICA taxation for other employees.

58. D — When a failure to file is fraudulent rather than merely negligent, the penalty rate increases sharply from the ordinary 5% per month to 15% per month, with the maximum cap rising from 25% to 75% of the unpaid tax. This heightened penalty reflects the deliberate, willful nature of fraudulent noncompliance.

59. A — For many routine underpayment situations, a taxpayer need not compute the penalty personally on Form 2210; the IRS will calculate the amount owed and send a bill. Filing Form 2210 becomes necessary mainly when claiming an exception, such as the annualized income method, that reduces the computed penalty below the standard amount.

60. C — A minister's parsonage or housing allowance is excluded from gross income for federal income tax purposes but is not excluded for self-employment tax purposes. Under the special rule for ministers, the allowance is added back into net earnings from self-employment, so it remains subject to self-employment tax even though it escapes income tax.

61. B — Household employee status depends on the common law control test: who directs how, when, and with what tools the work is performed. Because the cleaning service assigns staff, sets schedules, and supplies equipment, it retains control, making the workers its employees rather than household employees of the homeowner who merely purchased the service.

62. C — Capital gain distributions reported by a mutual fund or other regulated investment company are always treated as long-term capital gain to the shareholder, no matter how briefly the shareholder actually held the fund shares. This statutory rule reflects the fund's own underlying long-term holding period on the assets it sold, not the investor's.

63. A — Refinancing an existing mortgage does not constitute a disposition or change in use of the home and therefore does not accelerate the first-time homebuyer credit repayment. As long as the taxpayer continues owning and using the property as a principal residence, the original 15-year installment repayment schedule continues unaffected by the refinance transaction.

64. D — A net operating loss carryforward is a personal tax attribute belonging to the individual taxpayer who generated it, not an item of income in respect of a decedent. Unlike IRD, which passes to whoever receives the underlying income, an unused NOL carryforward generally expires at death and cannot be claimed by the estate or heirs.

65. A — The above-the-line deduction for one-half of self-employment tax applies only to the regular Social Security and Medicare components of self-employment tax. No corresponding deduction is allowed for the Additional Medicare Tax portion, because that tax has no employer-equivalent share and was never designed to mirror the deductible structure of ordinary self-employment tax.

66. B — Net Investment Income Tax follows the same recognition timing as regular income tax for installment sales: only the gain actually recognized in a given year, as principal payments are received, is included in net investment income for that year. The tax is not accelerated into the year of sale or deferred to the final payment.

67. C — Backup withholding at a flat statutory rate generally applies when a payee fails to furnish a correct taxpayer identification number, when the IRS notifies the payer that the payee's TIN is incorrect, or in certain underreporting situations identified by the IRS. The payer must withhold and remit the required percentage of reportable payments until the condition is resolved.

68. D — When both the failure-to-file and failure-to-pay penalties apply for the same month, the IRS reduces the 5% failure-to-file rate by the 0.5% failure-to-pay rate for that month, producing a combined net rate of 4.5% rather than stacking both penalties in full, which prevents an excessive double penalty for the same period of noncompliance.

69. C — An employee who receives $20 or more in tips during a calendar month while working for one employer must report the total in writing to the employer by the 10th day of the following month, so the employer can withhold applicable income, Social Security, and Medicare taxes based on the reported tip income.

70. D — The estimated tax underpayment penalty may be waived when the taxpayer retired after reaching age 62, or became disabled, during the tax year in which the estimated payments were due, and the underpayment resulted from reasonable cause rather than willful neglect. This targeted statutory exception recognizes that retirement or disability can disrupt normal income planning.

71. A — Qualified small business stock acquired on original issue between February 18, 2009, and September 27, 2010, qualifies for a 75% gain exclusion under Section 1202 once the required five-year holding period is met. This intermediate rate applies between the original 50% exclusion and the full 100% exclusion for stock acquired after September 27, 2010.

72. B — Certain workers, including licensed real estate agents and direct sellers, are classified by statute as nonemployees for federal tax purposes when compensation is tied to output rather than hours worked and a written contract specifies nonemployee status. This statutory nonemployee classification applies automatically, bypassing the usual common law control analysis used for other workers.

73. A — Nonresidential and residential real property placed in service after 1986 is already depreciated for regular tax purposes using the straight-line method over its class life, matching the method AMT requires. Because there is no acceleration to reverse, real property generally needs no AMT adjustment, unlike personal property depreciated under accelerated declining-balance methods for regular tax.

74. B — The failure-to-deposit penalty escalates through tiers based on how late the deposit is made: 2% for one to five days, 5% for six to fifteen days, and 10% for sixteen or more days or before an IRS notice. The maximum 15% tier applies once an amount remains unpaid more than 10 days after IRS notice and demand.

75. C — Section 135 allows taxpayers who purchase Series EE or I bonds after age 24 to exclude interest used for qualified higher education expenses, but the exclusion phases out ratably as modified AGI moves through the applicable range, producing a partial exclusion rather than full taxability or full exclusion at that income level.

76. D — The unlimited marital deduction generally does not apply to transfers to a noncitizen surviving spouse because of concerns the assets could leave U.S. taxing jurisdiction. A Qualified Domestic Trust, meeting statutory trustee and distribution requirements, preserves marital deduction treatment by deferring estate tax until principal is distributed or the trust terminates.

77. A — Under Section 1041, transfers of property between spouses, or between former spouses if incident to divorce, are treated as gifts. No gain or loss is recognized by either party, and the receiving spouse takes a carryover basis equal to the transferor's adjusted basis, preserving any built-in gain for later recognition.

78. C — A spousal lifetime access trust is an irrevocable trust funded by one spouse that names the other spouse as a permissible beneficiary. This uses the donor's gift and estate tax exemption to remove assets from the estate while allowing the family indirect access to trust funds through distributions to the beneficiary spouse.

79. B — Section 2032 lets an executor value estate assets six months after death rather than at death, but the election is valid only when it lowers both the gross estate's value and the total estate tax liability owed. An election that fails to reduce both figures together is not permitted under the statute.

80. D — A charitable gift annuity funded with appreciated property produces payments that are generally allocated among three components: a tax-free return of the donor's investment in the contract, capital gain attributable to the appreciated asset's built-in gain, and ordinary income representing the annuity's interest element, spread over the donor's life expectancy.

81. D — A Section 2503(c) minor's trust qualifies gifts for the annual exclusion even though the beneficiary lacks an immediate present interest, provided trust income and principal may be spent for the minor before age 21, and any assets remaining must either be distributed at 21 or become subject to a withdrawal right.

82. A — Nonqualified HSA distributions are always included in the account owner's gross income, but the additional 20% tax applies only before the owner reaches age 65, becomes disabled, or dies. Once the owner turns 65, nonqualified withdrawals are taxed like distributions from a traditional IRA, with ordinary income tax but no penalty.

83. B — The transfer-for-value rule generally makes death proceeds taxable when a policy is sold for consideration, but several exceptions preserve tax-free treatment, including a sale to the insured. Because the policy was transferred directly to the person whose life it insures, this exception applies and the full death benefit remains income tax-free.

84. C — A contributor to a 529 plan may elect under the special five-year averaging rule to treat a lump-sum contribution as made ratably over five years for gift tax purposes, allowing up to five years of annual exclusions to be used at once, provided a gift tax return reporting the election is filed.

85. C — Under current kiddie tax rules, a child's net unearned income above the statutory threshold is generally taxed at the parents' marginal tax rate rather than the child's own rate, reversing the temporary TCJA-era rule that applied trust and estate rates. A small initial amount of unearned income remains taxed at the child's rate.

86. B — The IRS provides simplified relief, through published guidance such as Revenue Procedure 2022-32, allowing an estate that was not otherwise required to file a return to obtain an automatic extension of several years after the decedent's death to file a late return solely to elect portability of the unused exclusion amount.

87. D — A testamentary trust does not exist until the will is admitted to probate and its assets are funded only through that probate administration, so the underlying assets pass through probate first. A revocable living trust, if properly funded with assets retitled into the trust during life, avoids probate for those same assets at death.

88. A — A simple trust cannot accumulate income, distribute principal, or make charitable contributions from principal, and it must distribute all trust accounting income to beneficiaries in the year earned. Any trust failing these conditions in a given year is instead classified as a complex trust, which changes its available deductions and beneficiary reporting requirements under Form 1041.

89. C — Form 926 reporting is not limited to a single transaction. Cash transfers to the same foreign corporation made within a twelve-month period are aggregated, and once the combined value of cash and property transfers exceeds one hundred thousand dollars, every transfer during that period must be reported on Form 926, not merely the transfer that crosses the threshold.

90. B — Under Section 2035, gratuitous transfers of a life insurance policy on the decedent's own life made within three years of death pull the full death benefit back into the gross estate, even though the decedent retained no incidents of ownership at death. This three-year rule prevents last-minute transfers from avoiding estate tax inclusion on insurance proceeds.

91. D — When a transferor allocates GST exemption equal to only part of a trust's value, the trust's inclusion ratio equals one minus the applicable fraction of exemption allocated. Here, allocating exemption to sixty percent of value produces an inclusion ratio of 0.40, meaning forty percent of each future taxable distribution or termination remains subject to generation-skipping transfer tax.

92. D — A non-willful FBAR violation can be excused entirely if the filer establishes reasonable cause for the failure to file and demonstrates that the foreign account balance and any related income were properly reported for income tax purposes. This statutory exception distinguishes non-willful conduct from willful violations, which carry no comparable reasonable-cause relief.

93. A — A timely qualified electing fund election requires the shareholder to currently include a pro rata share of the PFIC's ordinary earnings and net capital gain each year as reported income. This current-inclusion method avoids the deferred-tax interest charge and top-rate treatment imposed under the default excess distribution regime for unelected PFIC shareholders.

94. C — Gifts received from related nonresident alien individuals, such as spouses, are aggregated for purposes of the Form 3520 foreign gift reporting threshold. Because the combined gifts here total one hundred thirty thousand dollars, well above the one-hundred-thousand-dollar threshold, the recipient must report both gifts, not merely the larger individual gift, on Form 3520.

95. B — After the ninety-day notice period expires without compliance, an additional ten-thousand-dollar penalty applies for each subsequent thirty-day period that the failure to file Form 5471 continues, subject to a statutory maximum per return. This continuation penalty stacks on top of the original ten-thousand-dollar initial failure-to-file penalty, substantially increasing exposure for prolonged noncompliance.

96. A — A dual-status alien who becomes a U.S. resident during the year generally files one dual-status return combining two periods: a nonresident period, during which only U.S.-source income is reported, and a resident period beginning on the residency starting date, during which worldwide income is reported, subject to special filing restrictions.

97. A — A decedent cannot personally sign a final income tax return, so when a surviving spouse elects to file a joint return for the decedent's last tax year, the decedent's executor or other appointed personal representative must sign on the decedent's behalf. Without a representative's signature, the joint election generally cannot be properly completed for that estate.

98. C — Form 8865 uses four filer categories. Category 3 applies specifically to U.S. persons who contribute property to a foreign partnership in exchange for a partnership interest when the value of that contribution, aggregated with other contributions over the preceding twelve months, exceeds the one-hundred-thousand-dollar reporting threshold, distinguishing it from the control-based Category 1 and Category 2 tests.

99. B — A trust treated as wholly owned by its grantor under the grantor trust rules is not required to file a complete Form 1041 in its own name. Instead, the trustee may use the optional reporting method, furnishing payors with the grantor's taxpayer identification number so income is reported directly on the grantor's own return.

100. D — Section 6166 conditions continued installment deferral on the business interest remaining in qualifying hands. If the heir who received the interest disposes of more than fifty percent of it, the disposition triggers acceleration, and the entire remaining unpaid balance of the deferred estate tax becomes immediately due, ending the installment privilege.