PRACTICE EXAM 11: 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. A taxpayer wants to file a claim for refund of an overpayment reported on a return that was filed and fully paid on time. Under the general statute of limitations for refund claims, by when must the taxpayer file the claim?

A. Within three years of the date the return was filed, or two years of the date the tax was paid, whichever period expires later
B. Within two years of the date the return was filed, or three years of the date the tax was paid, whichever period expires later
C. Within three years of the date the tax was assessed by the IRS, regardless of when the return was actually filed or paid
D. Within one year of the date the return was filed, with no alternative payment-based period ever available to the taxpayer

2. Generally, once a tax liability is assessed, for how long does the IRS retain the legal authority to collect the unpaid balance through enforced collection action, absent any events that suspend or extend the period?

A. 5 years from the date of assessment

B. 10 years from the date of assessment
C. 15 years from the date of assessment
D. 20 years from the date of assessment

3. A taxpayer files an individual income tax return reporting a balance due but does not pay the amount owed by the filing deadline. Which IRS notice is typically the first one issued to inform the taxpayer of the balance due?

A. CP90, a formal Notice of Intent to Levy along with the taxpayer's right to a Collection Due Process hearing
B. CP504, a Notice of Intent to Seize (Levy) certain assets and notify the taxpayer's state of the balance
C. CP503, a second reminder notice concerning an unpaid balance that is still due on the account
D. CP14, the first notice sent informing the taxpayer of a balance due and the exact amount currently owed

4. Under Circular 230, a practitioner who prepares a client's individual income tax return is prohibited from doing which of the following with respect to a refund check issued to that client?

A. Advising the client in writing about the expected timing of the refund based on the filing method used
B. Discussing with the client how an anticipated refund could be applied toward next year's estimated tax payments
C. Endorsing or otherwise negotiating the refund check, whether or not the practitioner prepared the underlying return
D. Informing the client that a portion of the refund reflects a return of the practitioner's stated fee

5. A client wants to authorize a representative on Form 2848, Power of Attorney and Declaration of Representative. Which individual, standing alone, generally lacks the credentials needed to be listed as an eligible representative on that form?

A. An attorney who is currently licensed and in good standing with a state bar association
B. An unenrolled return preparer who holds no Annual Filing Season Program Record of Completion
C. An enrolled agent whose enrollment card is current and has not lapsed or been revoked

D. A certified public accountant who is duly qualified to practice in any state

6. A taxpayer attempts to e-file her individual income tax return, but the return is rejected because a return has already been filed under her Social Security number. What form should the taxpayer complete to report this as suspected identity theft?

A. Form 8821, Tax Information Authorization, used only to authorize disclosure of confidential return information to a third party

B. Form 8857, Request for Innocent Spouse Relief, used to seek relief from a joint tax liability

C. Form 3949-A, Information Referral, used to report suspected tax law violations committed by another party

D. Form 14039, Identity Theft Affidavit, used to alert the IRS that the taxpayer's identity may have been compromised

7. A practitioner needs to verify a new client's income and withholding as reported to the IRS by third-party payers for a specific year. Which type of IRS transcript should the practitioner request to obtain this information?

A. A Wage and Income transcript, which shows data from information returns such as Forms W-2 and 1099

B. A Tax Return transcript, which shows most line items exactly as reported on the originally filed return

C. An Account transcript, which shows payments, penalties, and adjustments made to the account after filing

D. A Record of Account transcript, which combines only the taxpayer's filing status and dependent history

8. A paid preparer completes Form 8867, Paid Preparer's Due Diligence Checklist, for a client's return. For which of the following credits or filing statuses is completion of this form specifically required?

A. The Child and Dependent Care Credit together with the Retirement Savings Contributions Credit, and no other item

B. The Foreign Tax Credit together with the Premium Tax Credit, and no other credit or filing status

C. The Earned Income Tax Credit, the Child Tax Credit family, the American Opportunity Credit, and Head of Household status

D. The Adoption Credit together with the Credit for the Elderly or Disabled, and the Saver's Credit

9. An individual is appointed by a probate court as executor of a deceased taxpayer's estate and needs to notify the IRS of this fiduciary relationship so the IRS will deal directly with the executor regarding the decedent's tax matters. Which form should the executor file to establish this notice?

A. Form 2848, Power of Attorney and Declaration of Representative, naming the executor as the decedent's representative.

B. Form 56, Notice Concerning Fiduciary Relationship, notifying the IRS that the executor now stands in the decedent's place.

C. Form 8821, Tax Information Authorization, granting the executor limited access to the decedent's return information.

D. Form 4506-T, Request for Transcript of Tax Return, to obtain copies of the decedent's prior filed returns.

10. A taxpayer was medically incapable of managing her financial affairs for an extended period due to a documented physical impairment and did not have a court-appointed guardian during that time. How does this circumstance most directly affect the statute of limitations for filing a refund claim?

A. It has no effect, and the normal refund claim statute of limitations continues to run without interruption

B. It automatically extends the assessment statute of limitations for any tax the IRS may later assess

C. It shortens the refund claim period to one year from the date the impairment is medically resolved

D. It suspends the running of the refund claim period for as long as the financial disability continues, under the applicable Code provision

11. A representative is completing Line 3 of Form 2848, Power of Attorney and Declaration of Representative, to specify the tax matters, form numbers, and years or periods covered. What limitation applies to listing future periods on this line?

A. Future periods may not be listed at all; only years or periods that have already ended are permitted

B. Up to five future years or periods may be listed, measured from the date the form is signed

C. No more than three future years or periods may be listed, measured from the date the form is signed

D. An unlimited number of future years or periods may be listed as long as each one is dated

12. A taxpayer is assessed a failure-to-pay penalty and seeks reasonable cause relief. Which of the following circumstances, standing alone, is most likely to support a finding of reasonable cause?

A. The taxpayer's necessary tax records were destroyed in a documented fire shortly before the return and payment were due

B. The taxpayer was simply unaware that the filing and payment deadline applied to the type of income received

C. The taxpayer chose to spend available funds on ordinary, non-emergency living and household expenses instead of paying tax

D. The taxpayer's return preparer was extremely busy during the filing season and submitted the return a few days late

13. Before formally proposing an adjustment through the CP2000 underreporter process, the IRS sometimes issues an earlier notice comparing income reported on the return with information returns on file. What is this earlier, informal notice generally called?

A. CP12, a notice explaining a change the IRS made to a filed return that resulted in a refund

B. CP90, a formal Notice of Intent to Levy along with the taxpayer's right to a hearing

C. CP503, a second reminder notice concerning an unpaid balance that is still due on the account

D. CP2501, an informal notice proposing discrepancies found between the return and third-party information documents

14. A practitioner discovers that a client's return, filed in a prior year by the practitioner, contained an error that resulted in an understatement of tax. Under Circular 230, what is the practitioner's obligation regarding this discovery?

A. The practitioner must immediately file an amended return on the client's behalf without first contacting the client

B. The practitioner has no further obligation once the original return has been filed and accepted by the IRS

C. The practitioner must promptly advise the client of the error and the consequences of not correcting it

D. The practitioner must report the error directly to the IRS Office of Professional Responsibility within 30 days

15. Under Circular 230's rules governing solicitation of business, which statement correctly describes a permissible way for a practitioner to advertise tax preparation services to the public?

A. A practitioner may advertise a specific, guaranteed dollar refund amount to attract new clients before reviewing their documents

B. A practitioner may publish fee information, provided the practitioner honors the published fees for a reasonable period

C. A practitioner may freely use a client testimonial about the quality of tax services in any advertisement

D. A practitioner may describe the credentials of a competitor in a misleading way if the description is not literally false

16. A taxpayer files Form 4868 by the original due date, requesting an automatic extension of time to file her individual income tax return. She does not pay any of her estimated balance due at that time. Which statement correctly describes the effect of this extension?

A. The extension grants additional time to file the return but does not extend the time to pay any tax owed, so interest and the failure-to-pay penalty may still accrue.

B. The extension automatically grants an equal additional period of time to pay any balance due without interest or penalty.

C. The extension is invalid unless full payment of the estimated balance due accompanies the Form 4868 filing.

D. The extension extends both the filing deadline and the payment deadline by exactly six months from the original due date.

17. A 16-year-old who is claimed as a dependent has no earned income for the year but received $4,200 in interest and dividend income from a custodial brokerage account. Under the kiddie tax rules applicable to a child's net unearned income, how is this income generally taxed on the child's return?

A. All $4,200 is taxed at the child's own individual rates because minors receive a full exemption from kiddie tax on custodial accounts.
B. A small initial amount is tax-free, an additional amount is taxed at the child's own rate, and the remainder is taxed at the parent's marginal rate.
C. The entire $4,200 must be reported directly on the parent's own tax return and taxed there at the parent's marginal rate.
D. None of the income is taxable until the child turns eighteen, at which point the full amount becomes taxable in that year.

18. Last year a taxpayer itemized deductions on Schedule A, deducting $8,000 of state income tax withheld. This year, the taxpayer received a $1,200 state income tax refund. Applying the tax benefit rule, how should the refund generally be treated on this year's federal return?

A. The refund is fully excluded from income because state tax refunds are never taxable for federal purposes.
B. The refund is entirely taxable regardless of whether itemizing actually produced any tax benefit in the earlier year.
C. The refund is taxable only to the extent that deducting it produced an actual federal tax benefit in the earlier year.
D. The refund is taxable only if the taxpayer claimed the standard deduction instead of itemizing in the earlier year.

19. A taxpayer was injured in an accident and received a lawsuit settlement consisting of $80,000 for physical injuries and $50,000 designated as punitive damages. Which statement correctly describes the federal income tax treatment of this settlement?

A. Both the compensatory and punitive amounts are fully excludable because the underlying claim arose from a physical injury.
B. Both amounts are fully taxable because damage awards from lawsuits are never excludable from gross income.
C. The punitive damages are excludable, but the compensatory damages for physical injury must be included in gross income.
D. The compensatory damages for physical injury are excludable, but the punitive damages must be included in gross income.

20. A taxpayer sells her principal residence, part of which she used exclusively and regularly as a home office for her sole proprietorship, claiming depreciation on that portion in prior years. She otherwise meets the ownership and use tests for the Section 121 exclusion on the entire property. How is the gain treated with respect to the home office portion?

A. The exclusion applies to the entire gain, including the home office portion, except gain attributable to depreciation claimed after May 6, 1997, which must be recaptured.
B. The exclusion is entirely disqualified for the whole property because part of the home was used for business purposes during ownership.
C. The home office portion must be reported as a separate sale of business property ineligible for any Section 121 exclusion.
D. The exclusion applies to the entire gain including all depreciation recapture, since the office was inside the same residence.

21. A taxpayer trades regulated futures contracts that qualify as Section 1256 contracts and holds several open positions at year-end. Which statement correctly describes how gains on these contracts are taxed?

A. All gain is treated as short-term capital gain because the contracts were not held for more than one year.
B. All gain is treated as ordinary income because Section 1256 contracts do not qualify for capital gain treatment.
C. Open positions are excluded from current-year taxation entirely until the contracts are physically closed out or expire.
D. Open positions are marked to market at year-end, with resulting gain treated as 40% short-term and 60% long-term.

22. An employer maintains a written educational assistance program under Section 127 and pays $4,500 of an employee's graduate tuition during the year. Which statement correctly describes the tax treatment of this benefit to the employee?

A. The $4,500 is excluded from the employee's wages up to the annual statutory limit under the qualified program.

B. The $4,500 is fully taxable wages because tuition assistance is never excludable under any employer-sponsored program.

C. The $4,500 is excluded only if the coursework is required by the employer to keep the employee's current job.

D. The $4,500 is excluded only if the employee is a degree candidate enrolled at least half-time in school.

23. A cash-method salesperson died in November after earning but not yet collecting a $30,000 commission. The employer paid the commission to the deceased salesperson's estate the following January. Which statement correctly describes the tax treatment of this payment?

A. The $30,000 is excluded from income entirely because the salesperson died before the commission was actually received.

B. The $30,000 is income in respect of a decedent, taxable to the estate in the year it is received.

C. The $30,000 must be reported on the decedent's final individual income tax return for the year of death.

D. The $30,000 receives a full basis step-up to fair market value and is therefore not taxable to anyone.

24. A taxpayer certified by a physician as terminally ill sells his life insurance policy to a licensed viatical settlement provider for a lump sum before death. Which statement correctly describes the federal tax treatment of the proceeds?

A. The proceeds are fully taxable as ordinary income because the policy was sold before the insured's death occurred.

B. The proceeds are taxable as capital gain to the extent they exceed the taxpayer's basis in the policy.

C. The proceeds are excludable from gross income under the rules that apply to terminally ill individuals.

D. The proceeds are excludable only if the taxpayer uses the entire lump sum to pay medical expenses.

25. An employer presents a longtime employee with a $400 engraved watch to mark 25 years of service, given under a written, nondiscriminatory qualified plan award program. Which statement correctly describes the tax treatment of this award?

A. The full $400 is taxable wages because tangible personal property awards are never excludable from an employee's income.
B. The full $400 is excluded only if the employer also gives comparable awards to every other employee that year.
C. The full $400 is excluded because all employee achievement awards are excludable regardless of dollar amount or form.
D. The full $400 is excluded from wages because it is a qualified plan award within the deductible dollar limit.

26. A taxpayer sold investment stock at a $9,000 loss to her brother, who is a related party under the tax code. Which statement correctly describes the tax treatment of this loss?

A. The loss is fully deductible because the wash sale rules apply only to purchases by the same taxpayer.
B. The loss is disallowed to the seller, though the brother may later offset the disallowed loss against his own gain.
C. The loss is fully deductible in the year of sale because family stock transactions are exempt from disallowance rules.
D. The loss is disallowed permanently and can never reduce any future gain recognized by either party involved.

27. An investor sold a non-fungible token (NFT) that the IRS treats as a collectible for tax purposes, realizing a long-term gain. Which statement correctly describes the maximum federal capital gains rate that could apply to this gain?

A. The gain may be taxed at a maximum rate of 28%, the same ceiling that applies to other collectibles.
B. The gain is taxed exactly like ordinary long-term stock gain, capped at the standard 20% maximum rate.
C. The gain is entirely exempt from capital gains tax because digital assets are not tangible property.
D. The gain is automatically taxed as short-term capital gain regardless of how long the NFT was held.

28. Following a presidentially declared disaster, a taxpayer received a $3,000 qualified disaster relief payment from a state program to cover reasonable living expenses. Which statement correctly describes the tax treatment of this payment?

A. The payment is fully taxable as other income because government disaster payments are never excludable from gross income.
B. The payment is taxable only to the extent it exceeds the taxpayer's uninsured casualty loss from the disaster.
C. The payment is excludable from gross income because it qualifies as a disaster relief payment under the tax code.
D. The payment is excludable only if the taxpayer itemizes deductions and forgoes any related casualty loss deduction.

29. An enlisted member of the Armed Forces served in a designated combat zone for the entire month and received military pay for that period. Which statement correctly describes the tax treatment of this pay?

A. The pay is fully taxable because only officers, not enlisted members, qualify for any combat zone pay exclusion.
B. The pay is excludable from gross income for each month the member served in the designated combat zone.
C. The pay is taxable currently but eligible for an unlimited deferral until the member separates from service.
D. The pay is excludable only if the member was wounded or hospitalized during that month of service.

30. A taxpayer licensed as a foster care provider received qualified state payments for caring for a foster child placed in the home. Which statement correctly describes the tax treatment of these payments?

A. The payments are excludable from gross income because they are qualified foster care payments under the tax code.
B. The payments are fully taxable as self-employment income subject to both income tax and self-employment tax.
C. The payments are taxable as ordinary income but are exempt only from the self-employment tax portion.
D. The payments are excludable only for the child's first twelve months of placement in the home.

31. A landowner signed an oil and gas lease with an exploration company and received a $25,000 lease bonus payment upon execution, before any drilling occurred. Which statement correctly describes the tax treatment of this bonus payment?

A. The bonus is excludable from income entirely because no oil or gas has actually been extracted yet.
B. The bonus is treated as long-term capital gain because it represents payment for the underlying mineral rights.
C. The bonus is ordinary income to the landowner in the year received, subject to depletion in limited cases.
D. The bonus is deferred income not recognized until the lease either expires or drilling actually begins.

32. A taxpayer took a series of loans against the cash value of a permanent life insurance policy over several years. The policy later lapsed while the outstanding loan balance exceeded the taxpayer's basis in the policy. Which statement correctly describes the tax consequence of the lapse?

A. No income is ever recognized on a lapsed policy because loan proceeds were never actually received in cash.
B. The taxpayer recognizes a fully deductible capital loss equal to the outstanding loan balance at the time of lapse.
C. The taxpayer recognizes taxable income only if the policy was classified as a modified endowment contract before lapsing.
D. The taxpayer recognizes ordinary income to the extent the loan balance exceeds the taxpayer's basis in the policy.

33. An employer made an interest-free $40,000 loan to a key employee, structured as a compensation-related below-market loan under the tax code. Which statement correctly describes the tax treatment of the forgone interest?

A. The forgone interest has no tax consequence to either party because employer loans are always exempt from imputation rules.
B. The forgone interest is treated as a nondeductible gift from the employer, with no income to the employee.
C. The forgone interest is treated as compensation income to the employee and imputed interest income to the employer.
D. The forgone interest is treated as a tax-free fringe benefit fully excludable under the working condition rules.

34. A taxpayer who owns coal in place, and who has not been substantially involved in the mining operation, disposes of the coal under a royalty contract retaining an economic interest. Which statement correctly describes the tax treatment of the resulting income under Section 631(c)?

A. The income is fully taxed as ordinary self-employment income because coal royalties never qualify for capital treatment.

B. The income may qualify for capital gain treatment if the statutory requirements for a coal disposal are met.

C. The income is entirely excluded from gross income because coal is treated as a depletable mineral asset.

D. The income is taxed as ordinary income unless the taxpayer personally operates the mine for the full year.

35. A taxpayer's mutual insurance company converted to a stock company, and the taxpayer received shares of the new company's stock in the demutualization in exchange for surrendering membership rights. The taxpayer later sold the shares. Which approach do the courts and current IRS guidance generally support for determining the taxpayer's basis in the stock?

A. The stock generally has an open-transaction, cost-recovery basis rather than an assumed basis of zero for the shares.

B. The stock automatically receives a full fair-market-value basis equal to its value on the date of demutualization.

C. The stock always has a basis of zero because membership rights in a mutual company have no tax basis.

D. The stock basis is always equal to the total premiums the taxpayer paid over the life of the policy.

36. An individual, not otherwise a real estate dealer, subdivides a tract of investment land held for eleven years into five lots and sells one lot during the year, without making any substantial improvements to it. Which statement correctly describes the potential tax treatment of the gain under Section 1237?

A. The gain is automatically ordinary income because subdividing land into lots for sale always indicates dealer status.

B. The gain must be reported as investment interest income rather than as a capital gain or ordinary income.

C. The gain qualifies for capital treatment only if all five lots are sold together in a single transaction.

D. The gain may qualify for capital gain treatment because the taxpayer meets the safe-harbor conditions for subdivided land.

37. For the current tax year, what is the maximum above-the-line deduction an eligible K-12 educator may claim for unreimbursed classroom supply expenses, without needing to itemize?

A. $150 of unreimbursed classroom expenses per eligible educator for the tax year.

B. $250 of unreimbursed classroom expenses per eligible educator for the tax year.

C. $300 of unreimbursed classroom expenses per eligible educator for the tax year.

D. $500 of unreimbursed classroom expenses per eligible educator for the tax year.

38. A self-employed taxpayer with no other health coverage pays health insurance premiums for herself and her family. Which statement correctly describes the above-the-line self-employed health insurance deduction?

A. The deduction cannot exceed net self-employment earnings from the business under which the health plan is established, after the deduction for half of self-employment tax.

B. The deduction is completely unlimited and applies regardless of the taxpayer's self-employment earnings or profitability for the tax year in question.

C. The deduction is allowed only when the taxpayer forgoes the standard deduction and itemizes on Schedule A instead of claiming it above the line.

D. The deduction covers only premiums paid for the taxpayer personally and specifically excludes any premiums paid for a spouse or dependents.

39. A single taxpayer actively participates in her employer's 401(k) plan and also contributes to a traditional IRA. How does her employer plan participation affect the deductibility of her IRA contribution?

A. Active participation in an employer plan has no effect on the deductibility of a traditional IRA contribution for a single filer.

B. Her traditional IRA deduction phases out once her modified AGI exceeds the threshold for active participants, and is disallowed entirely above the upper limit.

C. She may no longer contribute to a traditional IRA at all once she actively participates in an employer-sponsored retirement plan.

D. Her IRA deduction is reduced dollar-for-dollar by the amount she contributes to the employer's 401(k) plan during the year.

40. Under current law, which taxpayer may still deduct unreimbursed moving expenses as an adjustment to income?

A. A civilian employee who relocates more than fifty miles for a new job with a different employer.

B. A self-employed taxpayer who moves her business location to a new city to expand her client base.

C. A recent college graduate who moves to accept her first full-time job offer after graduation.

D. A member of the Armed Forces who moves pursuant to a military order and a permanent change of station.

41. A taxpayer cashes in a certificate of deposit before its maturity date and is charged a penalty by the bank equal to several months' interest. How is this penalty treated on her return?

A. It is a nondeductible personal expense that does not affect the taxpayer's taxable income in any way.

B. It reduces the amount of taxable interest income reported directly on Schedule B, netted against the interest earned.

C. It is deductible only as a miscellaneous itemized deduction subject to the two-percent-of-AGI floor.

D. It is deductible above the line as an adjustment to income, regardless of whether the taxpayer itemizes.

42. Which condition must a taxpayer satisfy to make a deductible contribution to a Health Savings Account (HSA) for the year?

A. The taxpayer must be covered by a qualifying high-deductible health plan and have no disqualifying additional health coverage.

B. The taxpayer must itemize deductions on Schedule A instead of claiming the standard deduction for that tax year.

C. The taxpayer must be enrolled in Medicare Part A or Part B coverage at some point during the year.
D. The taxpayer must have earned income at least equal to the annual HSA contribution limit for that filing status.

43. For purposes of the Child and Dependent Care Credit, what is the maximum amount of work-related expenses a taxpayer may use to compute the credit if she has two or more qualifying persons?

A. $3,000 of total expenses, regardless of the number of qualifying persons in the household.
B. $5,000 of total expenses, matching the maximum pretax dependent care FSA exclusion amount.
C. $6,000 of total expenses, twice the limit that applies with only one qualifying person.
D. $8,000 of total expenses, adjusted annually for inflation based on the cost-of-living index.

44. A taxpayer makes a single cash contribution of $300 to a qualified charity. What documentation does she need to substantiate the deduction?

A. No documentation is required for cash contributions under $500 made to a single charitable organization.
B. A contemporaneous written acknowledgment from the charity stating the amount and whether any goods or services were provided.
C. A qualified independent appraisal obtained within sixty days of the date the contribution was made to the charity.
D. A canceled check alone is sufficient, and no statement or acknowledgment from the charity is ever required.

45. A taxpayer makes a cash contribution to a qualified veterans' organization, which is generally treated as a 30%-limit organization rather than a 50%-limit public charity. What AGI limitation applies to this contribution?

A. The contribution is limited to 60% of the taxpayer's AGI, the same ceiling that applies to most cash gifts.
B. The contribution is limited to 50% of the taxpayer's AGI, matching the limit for public charities generally.

C. The contribution is limited to 30% of the taxpayer's AGI because the organization is not a 50%-limit charity.

D. The contribution is limited to 20% of the taxpayer's AGI, the ceiling reserved for gifts of capital gain property.

46. Which statement correctly describes the federal income tax treatment of alimony under a divorce agreement?

A. Alimony paid under any divorce or separation agreement, regardless of when executed, is deductible by the payer.

B. Alimony is never deductible by the payer or includible in the recipient's income under current federal law.

C. Alimony is deductible only if the payer and recipient continue to live in the same household after the divorce.

D. Alimony paid under an agreement executed before 2019 remains deductible unless the agreement was later modified to say otherwise.

47. A taxpayer contributes cash to a donor-advised fund sponsored by a qualified public charity in December, and the fund does not distribute the money to an operating charity until the following year. When may the taxpayer claim the charitable deduction?

A. In the year the contribution is made to the donor-advised fund, not the year the fund grants the money out.

B. In the year the donor-advised fund actually distributes the money to an operating charity, not the contribution year.

C. Split evenly between the contribution year and the year the fund distributes the money to a charity.

D. The deduction is disallowed entirely because donor-advised fund contributions never qualify for a charitable deduction.

48. What role does the second lowest cost silver plan (SLCSP) play in computing a taxpayer's allowable Premium Tax Credit?

A. It sets the maximum amount of subsidy the Marketplace may ever pay, capping total advance payments for the year.

B. It serves as the benchmark plan used to calculate the taxpayer's allowable premium tax credit for the coverage period.

C. It is the plan the taxpayer must actually enroll in to be eligible to claim any premium tax credit.

D. It determines whether the taxpayer's household income falls within the required range for credit eligibility.

49. A retired taxpayer who itemizes deductions pays premiums for Medicare Part B and a Medicare Part D prescription drug plan. How are these premiums treated for purposes of the medical expense deduction?

A. They are never deductible because Medicare premiums are treated the same as premiums for basic Medicare Part A.

B. They qualify as deductible medical expenses, subject to the same AGI floor as other qualifying medical costs.

C. They are deductible only if the taxpayer is under age 65 and not yet eligible for Social Security.

D. They are deductible in full as an above-the-line adjustment, without regard to the AGI percentage floor.

50. A self-employed taxpayer establishes a SEP-IRA and makes a contribution on behalf of herself for the year. How is this contribution treated on her individual income tax return?

A. It is a nondeductible contribution that only establishes basis recoverable tax-free when funds are later withdrawn.

B. It is deductible only as a miscellaneous itemized deduction subject to a floor based on adjusted gross income.

C. It is deductible above the line as an adjustment to income, within the applicable SEP contribution limit.

D. It is deductible solely as a business expense reported directly on her Schedule C profit or loss statement.

51. A taxpayer receives jury duty pay from the court but is required by her employer to remit that pay to the employer in exchange for continuing to receive her full regular salary. How does she treat this on her return?

A. She excludes the jury duty pay from gross income entirely because it was never actually hers to keep.
B. She reports the jury duty pay as income but may not claim any offsetting deduction for the amount remitted.
C. She reports only her regular salary and ignores the jury duty pay for federal income tax purposes altogether.
D. She reports the jury duty pay as income and claims an above-the-line deduction for the amount remitted to her employer.

52. A sole proprietor computes her self-employment tax liability on Schedule SE for the year. What happens to one-half of that self-employment tax for income tax purposes?

A. It is deductible above the line as an adjustment to income, regardless of whether the taxpayer itemizes deductions.
B. It is deductible only as a miscellaneous itemized deduction subject to the two-percent-of-AGI floor on Schedule A.
C. It reduces the qualified business income eligible for the Section 199A deduction dollar-for-dollar in every case.
D. It is nondeductible entirely, since self-employment tax is treated the same as ordinary federal income tax liability.

53. A taxpayer pays substantial medical expenses for her adult child, who otherwise meets every dependency test except that the child's gross income exceeds the exemption amount for a qualifying relative. May the taxpayer deduct these medical expenses?

A. No, because the child fails a dependency test and therefore can never be a qualifying person for medical expenses.
B. Yes, a special medical expense rule allows the deduction even though the gross income test is not met.
C. Yes, but only if the taxpayer also claims the child as a qualifying child for the Child Tax Credit.
D. No, medical expenses paid for any dependent other than a qualifying child are never deductible under any circumstance.

54. At a charity fundraising event, a taxpayer purchases a $100 raffle ticket for a chance to win a car. What is the deductibility of this payment?

A. The full $100 is deductible as a cash charitable contribution because the raffle benefits a qualified charity.

B. The payment is deductible after subtracting the fair market value of the car from the ticket price.

C. None of the payment is deductible because it is a wagering transaction made for a chance to win a prize.

D. Half of the payment is deductible under the special rule for chance-based charitable fundraising purchases.

55. What is the maximum annual contribution a taxpayer may make to a single beneficiary's Coverdell Education Savings Account, before any income-based phase-out applies?

A. $2,000 per beneficiary per year, combined from all contributors, before any phase-out based on the contributor's income.

B. $5,000 per beneficiary per year, matching the annual gift tax exclusion amount for individual contributors.

C. $10,000 per beneficiary per year, indexed annually for inflation under current federal law provisions.

D. There is no dollar limit, provided the funds are used exclusively for qualified elementary expenses.

56. A taxpayer works exclusively as a common-law employee and receives wages reported on Form W-2. Is she eligible to claim the Section 199A qualified business income deduction on those wages?

A. Yes, employee wages qualify for the full twenty-percent deduction as long as taxable income is below the threshold.

B. Yes, but only half of her W-2 wages qualify as deductible qualified business income under the statute.

C. Yes, provided her employer does not offer her a qualified retirement plan during the tax year.

D. No, wages earned as a common-law employee do not constitute qualified business income eligible for the deduction.

57. A single sole proprietor operates a specified service trade or business (SSTB) and has 2023 taxable income of $250,000 before any QBI deduction, which is above the SSTB phase-out ceiling for her filing status. What happens to her Section 199A deduction for this business?

A. It is limited to the greater of 50% of W-2 wages or 25% of wages plus a UBIA component
B. It phases out proportionally but a reduced deduction still remains available for the business
C. It is completely eliminated because taxable income exceeds the applicable SSTB phase-out ceiling
D. It is unaffected, since the SSTB limitation only applies to C corporations, not proprietorships

58. A 12-year-old child has $8,000 of net unearned income for 2023 and no earned income. Under the kiddie tax rules of Form 8615, how is the portion of this income above the $2,500 threshold taxed?

A. It is taxed at the parent's marginal tax rate rather than the child's own rate
B. It is taxed at the trust and estate compressed tax rate schedule
C. It is taxed entirely at the child's own marginal tax rate like other income
D. It is excluded from taxable income entirely because the child is a minor

59. An employer has consistently treated a class of workers as independent contractors, filed all required Forms 1099-NEC for them, and had a reasonable basis for the classification, such as long-standing industry practice. Which statement correctly describes the relief available if the IRS later challenges the classification?

A. The employer is automatically liable for all back employment taxes regardless of its practices
B. The employer may qualify for Section 530 relief and avoid retroactive reclassification liability
C. The employer must reclassify the workers immediately but owes no penalties whatsoever
D. The employer can only avoid liability by filing Form SS-8 before any audit begins

60. A taxpayer received $6,000 in state unemployment compensation during the year after losing her job. How is this amount treated for federal income tax purposes?

A. It is entirely excluded from gross income as a government benefit payment
B. Only the amount exceeding $2,400 is included in gross income
C. It is taxed only if the taxpayer also received Social Security benefits
D. It is fully included in gross income and taxed as ordinary income

61. A self-employed hair stylist who rents a booth and operates her own independent business receives cash tips directly from clients in addition to her service fees. How are these tips treated for tax purposes?

A. They are excluded from gross income because tips are only taxable to employees

B. They must be reported to a payer employer using Form 4070 by the stylist

C. They are included in her business gross receipts and subject to self-employment tax

D. They are subject to FICA withholding rules since tip income always requires payroll withholding

62. A railroad employee earns $210,000 in RRTA Tier 1 Medicare-equivalent compensation from a single employer during the year. How does the Additional Medicare Tax withholding requirement apply to this compensation?

A. The employer must withhold Additional Medicare Tax once RRTA compensation exceeds $200,000, the same trigger as wages

B. RRTA compensation is entirely exempt from Additional Medicare Tax because it is not FICA wages

C. Additional Medicare Tax applies to RRTA compensation only if the employee also has self-employment income

D. The employer withholds Additional Medicare Tax only after RRTA compensation exceeds $250,000 in total

63. A married couple files a joint return. One spouse earns $130,000 in wages from a single employer, and the other spouse earns $140,000 in wages from a different single employer. Neither employer individually withheld any Additional Medicare Tax because neither spouse's wages from that employer exceeded $200,000. How is the couple's Additional Medicare Tax liability determined?

A. No Additional Medicare Tax is owed because neither spouse individually exceeded the $200,000 per-employer withholding trigger.

B. Each spouse separately owes Additional Medicare Tax on wages exceeding $200,000, computed without regard to any joint threshold.

C. The couple owes Additional Medicare Tax only if they instead elect to file separate returns for the year in question.

D. The couple reconciles combined wages of $270,000 against the $250,000 joint threshold on Form 8959, owing tax on the $20,000 excess.

64. A taxpayer purchases a corporate bond issued at an original issue discount, with the discount payable only at maturity rather than as periodic interest. How must the taxpayer generally report this discount for tax purposes each year?

A. No income is reported until the bond matures and the discount is actually received
B. A portion of the discount must be included in income annually as it accrues
C. The entire discount is treated as capital gain in the year of maturity only
D. The discount is reported only if the bond is sold before maturity occurs

65. A taxpayer owes $10,000 in unpaid tax and enters into an approved installment agreement with the IRS to pay the balance over time, continuing to file and pay as agreed. What happens to the failure-to-pay penalty rate during the period the agreement is in effect?

A. The failure-to-pay penalty is suspended completely and does not accrue during the agreement
B. The failure-to-pay penalty rate is reduced from 0.5% to 0.25% per month
C. The failure-to-pay penalty rate increases to 1% per month once an agreement begins
D. The failure-to-pay penalty is converted into a failure-to-file penalty for the remaining balance

66. A taxpayer's return reflects an understatement of tax that exceeds the greater of 10% of the correct tax liability or $5,000. Under Section 6662, which penalty is most likely to apply based on this substantial understatement?

A. The 75% civil fraud penalty applies automatically once this dollar threshold is met
B. The trust fund recovery penalty applies to the individual preparer of the return
C. No accuracy-related penalty applies unless the IRS also proves willful intent to evade tax
D. The 20% accuracy-related penalty applies for substantial understatement of income tax

67. A 45-year-old taxpayer takes a distribution from her traditional IRA before reaching age 59½ because she has become permanently and totally disabled. How is the 10% additional tax on early distributions applied in this situation?

A. The 10% additional tax does not apply because disability is a recognized statutory exception

B. The 10% additional tax applies in full regardless of the disability, with no exceptions
C. The 10% additional tax is reduced to 5% for disability distributions under current law
D. The 10% additional tax applies only if the distribution exceeds $100,000 in that year

68. A self-employed taxpayer has used the nonfarm optional method for computing self-employment tax in four separate prior tax years. She again has low nonfarm net profit this year and wants to use the method again. Which rule governs her ability to do so?

A. The nonfarm optional method may be used an unlimited number of times over a lifetime
B. The nonfarm optional method may only be used in consecutive years, with no gaps allowed
C. The nonfarm optional method may be used no more than five taxable years in a lifetime
D. The nonfarm optional method may be used only once per taxpayer during a lifetime

69. A non-SSTB business owner's taxable income exceeds the upper phase-in threshold for Section 199A. Her QBI deduction for that business is now limited to the greater of two wage-and-property-based tests. Which computation correctly states that limitation?

A. The greater of 100% of W-2 wages or 10% of unadjusted basis in qualified property
B. The greater of 50% of W-2 wages or 25% of W-2 wages plus 2.5% of unadjusted basis
C. A flat 20% of W-2 wages paid by the business, with no property component at all
D. The lesser of 50% of W-2 wages or 20% of qualified business income for the business

70. A 20-year-old full-time college student has $6,000 of earned income from a part-time job during the year, less than half of her own support, and also has $4,000 of investment income. Is she subject to the kiddie tax on her unearned income?

A. Yes, because she is a full-time student under age 24 whose earned income does not cover half her support
B. No, the kiddie tax applies only to children under age 18, regardless of student status
C. No, any earned income at all removes a full-time student from the kiddie tax rules
D. Yes, but only because her investment income for the year exceeds the $10,000 threshold

71. A worker who believes she has been misclassified as an independent contractor wants an official IRS determination of her worker status for federal employment tax purposes. Which form should she or the firm that engaged her file to request this determination?

A. Form 8919, to report and pay the employee share of Social Security and Medicare tax

B. Form 4137, to report allocated tips not reported to an employer during the year

C. Form 2210, to request a waiver of the estimated tax underpayment penalty

D. Form SS-8, to request an IRS determination of worker status for tax purposes

72. A taxpayer's sole proprietorship generates a net operating loss in the current tax year, and the loss arose entirely after 2017. Which statement correctly describes the general treatment of this net operating loss?

A. It may be carried back two years and forward twenty years, per the traditional NOL rules

B. It may offset up to 100% of taxable income in the carryforward year with no limit

C. It may be carried forward indefinitely but generally offsets only 80% of taxable income

D. It expires permanently if not fully used within the same tax year it arose

73. An individual is a limited partner in a partnership and receives a distributive share of ordinary business income based solely on her capital investment, with no guaranteed payment for services performed. How is this distributive share generally treated for self-employment tax purposes?

A. It is fully subject to self-employment tax in the same manner as a general partner's share

B. It is generally excluded from self-employment tax because a limited partner's share is not earnings from services

C. It is subject to self-employment tax only if the partnership is engaged in a service business

D. It is subject to self-employment tax at half the normal rate applicable to general partners

74. A couple's divorce decree is executed in 2023, and the decree requires one former spouse to make monthly payments to the other. How are these payments treated for federal income tax purposes under current law?

A. The payments are deductible by the payer and taxable income to the recipient, as under prior law

B. The payments are deductible by the payer but excluded from the recipient's taxable income

C. The payments are not deductible by the payer and not includible in the recipient's income

D. The payments are partially deductible by the payer based on the couple's combined income level

75. Which requirement must be satisfied for a distribution from a traditional IRA to qualify as a Qualified Charitable Distribution eligible for exclusion from gross income?

A. The funds must first be distributed to the IRA owner, who then has 60 days to transfer them to the charity.

B. The IRA owner must be at least 65 years old on the date the distribution is made to the charity.

C. The distribution must be made to a private foundation rather than to a public charity of the owner's choice.

D. The distribution must be transferred directly from the IRA trustee to an eligible charity, without passing through the owner's hands.

76. A client transfers her personal residence into an irrevocable trust, retaining the right to live in the home rent-free for a fixed term of years, after which the property passes outright to her children. What estate planning technique is being used, and what is its primary tax benefit?

A. A Qualified Personal Residence Trust, which values the gift to the children below the home's fair market value

B. A Grantor Retained Annuity Trust, which converts the home into a fixed stream of annuity payments

C. A Charitable Remainder Trust, which provides an immediate income tax deduction for the home's full value

D. An Intentionally Defective Grantor Trust, which freezes the home's value for generation-skipping tax purposes

77. A traditional IRA owner turns 73 in the current year and elects to delay her first required minimum distribution until the latest permitted deadline. What is the practical consequence of making this choice?

A. She must take both the first and second RMDs by December 31 next year, bunching two distributions into a single tax year

B. She permanently avoids the first RMD entirely, since a timely delay satisfies that year's distribution requirement in full

C. She loses eligibility for any further RMDs from that IRA and must convert the entire account to a Roth IRA

D. She reduces both years' RMD amounts because the account balance is averaged across the extended distribution period

78. Under a provision enacted by SECURE 2.0, an IRA owner age 71 wants to fund a charitable remainder trust using a distribution directly from her traditional IRA and have the distribution excluded from income like a standard qualified charitable distribution. Which statement correctly describes this option?

A. This option is unavailable, since charitable remainder trusts can never receive any distribution from an IRA account

B. She may make a single, one-time transfer of up to $50,000 from her IRA to a qualifying trust, excluded from income

C. She may transfer an unlimited amount from her IRA to the trust each year, provided she itemizes

D. She must wait until age 73 before any such IRA transfer to a charitable trust can qualify

79. An estate includes a family farm that qualifies for special use valuation under IRC Section 2032A. Which statement about this election is correct?

A. The election permits the executor to instead value the farm at its highest possible commercial development value

B. The election permanently and completely exempts the farm from any future estate tax or gift tax liability

C. The election is available only if the farm is sold outright to an unrelated third party quickly

D. The election values the farm using its actual use instead of highest and best use, subject to a capped reduction and recapture

80. A donor makes a substantial gift of appreciated property to a close friend, with the friend agreeing as a condition of the gift to pay any resulting gift tax. What is this arrangement called, and how does it affect the taxable gift?

A. A split gift, which allows both spouses to treat the gift as made one-half by each of them

B. A present interest gift, which qualifies fully for the annual exclusion regardless of the tax payment arrangement

C. A net gift, in which the value of the taxable gift is reduced by the amount of gift tax the donee agrees to pay

D. A grantor retained interest gift, which reduces the taxable gift by the value of an income interest kept by the donor

81. A traditional IRA owner directs the IRA custodian to purchase a vacation condominium, which the IRA owner and family members then use personally for several weeks each year. What is the tax consequence of this arrangement?

A. No consequence occurs as long as fair rental value is later reimbursed to the IRA within the same tax year

B. The personal use is a prohibited transaction, and the IRA is treated as fully distributed as of the first day of that year

C. The condominium must simply be retitled solely in the IRA owner's individual name to correct the transaction

D. The IRA owner owes only the 10% early withdrawal penalty on the fair rental value of the personal use

82. Divorced parents share custody of their child, but the custodial parent under the tax rules never signs a Form 8332 release. Both parents attempt to claim the child as a dependent on separately filed returns. How does the IRS resolve the conflicting claims?

A. The parent with the higher adjusted gross income automatically wins the claim, regardless of custody time

B. The claim is disallowed for both parents, and the child must be claimed by a grandparent instead

C. The parents must file a joint return solely for purposes of claiming the child that year

D. The custodial parent, the one with whom the child lived more nights during the year, keeps the claim absent a signed release

83. A married client wants a surviving spouse to receive all trust income for life, while the client controls who ultimately receives the trust principal after the spouse's death, and still wants the transfer to qualify for the unlimited marital deduction. Which planning tool accomplishes this?

A. A QTIP trust, which qualifies for the marital deduction when the spouse gets all income for life and an election is made

B. A bypass trust, which shelters the applicable exclusion amount but does not qualify for any marital deduction

C. An outright bequest, which requires the spouse to receive full ownership and control of the trust principal

D. A dynasty trust, which qualifies for the marital deduction only if it terminates within the spouse's lifetime

84. An HSA owner dies and names her adult son, who is not her spouse, as the sole beneficiary of the account. What is the tax result to the son?

A. The son becomes the new HSA owner and may continue using it tax-free for his own qualified medical expenses

B. The account must be liquidated and the entire balance rolled into the son's own traditional IRA within 60 days

C. The HSA stops being an HSA, and its fair market value at death is included in the son's taxable income

D. The son owes only a 20% additional tax on the account balance, with no amount included in ordinary income

85. A taxpayer owns three traditional IRAs at different custodians. In January, she completes a 60-day rollover from IRA #1 to IRA #2. In June of the same year, she takes a distribution from IRA #3 and wants to complete another 60-day rollover into IRA #1. What is the result?

A. The second rollover fails, since the one-per-12-month limit applies in the aggregate across all IRAs, not separately to each account

B. The second rollover is permitted, because the limit is applied separately to each individual IRA account

C. The second rollover is permitted only if it is completed within 60 days of the first rollover instead of the distribution

D. The second rollover is permitted, because trustee-to-trustee transfers are always exempt from any per-account rollover limit

86. A taxpayer, age 62, opened her first Roth IRA three years ago and now wants to withdraw earnings tax-free. She meets the age 59½ requirement. Is the distribution of earnings tax-free?

A. Yes, because reaching age 59½ alone satisfies every requirement for a qualified Roth IRA distribution

B. Yes, because the five-year rule applies only to Roth conversions, never to regular Roth contributions

C. No, because the separate five-year holding period, measured from the first Roth IRA contribution, has not yet been satisfied

D. No, because Roth IRA earnings become tax-free only after the account owner turns age 65

87. A traditional IRA owner fails to take her full required minimum distribution for the year. Under current law, what excise tax applies to the shortfall, and how might it be reduced?

A. A flat 50% excise tax applies to the shortfall, with no possibility of reduction under any circumstances

B. A 25% excise tax applies to the shortfall, reduced to 10% if the shortfall is corrected within a specified correction window

C. A 6% excise tax applies annually to the shortfall until the missed amount is eventually distributed

D. No excise tax applies to a missed RMD as long as the shortfall is taken before the following year's RMD is due

88. A married couple residing in a community property state holds jointly acquired stock as community property. Upon the death of one spouse, how is the basis of the community property stock adjusted for federal income tax purposes?

A. Only the decedent's one-half interest receives a new basis equal to fair market value at death, while the surviving spouse's half retains its original cost basis.

B. Neither half receives a new basis; the entire property retains its original cost basis until the surviving spouse later sells or transfers it.

C. The entire property receives a new basis equal to the average of its original cost and its fair market value at the date of death.

D. Both the decedent's half and the surviving spouse's half receive a new basis equal to fair market value at the date of death.

89. An estate reports on Form 706 that foreign death taxes were paid to a foreign country with respect to property situated in that country and also included in the U.S. gross estate. How may the estate treat these foreign death taxes?

A. The foreign death taxes must be added back to the gross estate before any other deductions are computed.
B. The foreign death taxes may only reduce the estate's taxable income reported on Form 1041, not the estate tax.
C. The estate may claim a credit against the federal estate tax for the foreign death taxes, subject to statutory limits.
D. The foreign death taxes are entirely nondeductible and provide no federal estate or income tax benefit whatsoever.

90. A nonresident alien individual receives U.S.-source dividend income that is not effectively connected with a U.S. trade or business. How is this income generally taxed?

A. It is subject to a flat 30 percent withholding tax on the gross amount, absent a lower treaty rate, with no offsetting deductions allowed.
B. It is taxed at the same graduated rates applicable to U.S. citizens, after subtracting the standard deduction and personal exemptions.
C. It is entirely exempt from U.S. taxation because the individual has no U.S. trade or business during the year.
D. It is taxed only if the nonresident alien is physically present in the United States for more than 183 days.

91. A U.S. shareholder owns stock in a passive foreign investment company and has never made a qualified electing fund or mark-to-market election. The shareholder receives an excess distribution from the PFIC during the year. Under the default PFIC taxation regime, how is this excess distribution treated?

A. The distribution is entirely tax-free return of capital until the shareholder's basis in the stock is fully recovered.
B. The distribution is taxed as ordinary dividend income in the current year at the shareholder's regular marginal tax rate.

C. The distribution is taxed at preferential long-term capital gain rates regardless of how long the stock was held.
D. The distribution is allocated over the holding period, taxed at the highest rates in effect, plus an interest charge on deferred amounts.

92. A donor establishes and funds an irrevocable trust that pays a fixed or variable annual amount to a noncharitable beneficiary for life, with the remainder interest passing to a qualified charitable organization at the beneficiary's death. Which statement correctly describes this arrangement?

A. The arrangement disqualifies the donor from any income, gift, or estate tax benefit because the charity does not receive an immediate outright gift.
B. The arrangement is a charitable remainder trust, which files Form 5227 annually and allows the donor a current charitable deduction for the remainder interest.
C. The arrangement is treated identically to an outright bequest to charity and requires no separate annual information return of any kind.
D. The arrangement automatically terminates the trust's tax-exempt status because it makes payments to a noncharitable individual beneficiary.

93. A grantor transfers appreciating assets into an irrevocable trust and retains the right to receive a fixed annuity payment for a set term of years, after which the remaining trust assets pass to the grantor's children. The grantor survives the entire annuity term. What is the primary transfer tax result?

A. The full fair market value of the trust assets is included in the grantor's gross estate because the grantor created the trust.
B. The children must pay gift tax on the remainder interest at the same value it had when the trust was funded.
C. Appreciation in the trust assets above the assumed interest rate passes to the children free of any additional gift or estate tax.
D. The arrangement is disregarded entirely for transfer tax purposes because the grantor retained an annuity interest in the trust.

94. A sole proprietor with a substantial net operating loss carryforward dies before the loss is fully utilized. What happens to the unused NOL for federal income tax purposes?

A. The estate automatically inherits the NOL carryforward and may deduct it on the estate's Form 1041 in future years.

B. The surviving spouse may claim the entire remaining NOL on her separate returns for the rest of her lifetime.

C. The NOL is converted into a credit against the estate tax liability reported on the estate's Form 706.

D. The unused NOL expires unused; it cannot be carried over to the decedent's estate or to any beneficiary.

95. An estate holds a large block of stock in a closely held corporation, and the value of that stock exceeds 35 percent of the estate's adjusted gross estate. The corporation redeems a portion of the stock from the estate to help pay death taxes and administration expenses. Under Section 303, how is this redemption generally treated?

A. As a taxable dividend to the estate to the full extent of the corporation's earnings and profits at the time of redemption.

B. As a sale or exchange of stock rather than a dividend, generally limited to the redemption amount needed for death taxes and expenses.

C. As a tax-free reorganization exempt from both income tax and estate tax consequences at the corporate and shareholder level.

D. As a gift from the corporation to the estate, subject to gift tax reporting on a Form 709 filed by the estate.

96. A transferor makes a transfer to an individual who is not related to the transferor by blood, marriage, or adoption. For generation-skipping transfer tax purposes, how is that individual's generation determined?

A. The individual is assigned to a generation based on the age difference between the transferor and the individual, using 12.5-year brackets.

B. The individual is always treated as being in the same generation as the transferor, regardless of the age difference between them.

C. The individual is automatically treated as a skip person two generations below the transferor, regardless of actual age.

D. The individual's generation is determined solely by counting family relationships through the transferor's spouse's family line.

97. A foreign person sells U.S. real property to a U.S. buyer for $500,000. Under the Foreign Investment in Real Property Tax Act, what is generally the buyer's withholding obligation with respect to this transaction?

A. The buyer generally must withhold and remit 15% of the amount realized to the IRS on Form 8288, regardless of the seller's actual gain.
B. The buyer has no withholding obligation because FIRPTA withholding applies only to sales made by U.S. citizens, not foreign persons.
C. The buyer must withhold the seller's entire capital gain tax liability, calculated precisely before closing on the sale.
D. The buyer must withhold only if the foreign seller fails to provide a valid taxpayer identification number at closing.

98. A long-term U.S. lawful permanent resident relinquishes that status and meets the net worth and average income tax liability thresholds that classify him as a 'covered expatriate.' Which filing and tax consequence applies?

A. The individual files a standard Form 1040 for the year and owes tax only on U.S.-source income received after expatriation.
B. The individual is permanently exempt from U.S. tax on all worldwide assets owned at the time of expatriation.
C. The individual files Form 8938 in place of an expatriation return, with no mark-to-market gain recognized.
D. The individual files Form 8854 and is generally treated as selling worldwide assets at fair market value, recognizing mark-to-market gain.

99. An alien individual satisfies the substantial presence test for the year, but was present in the United States fewer than 183 days, maintains a tax home in a foreign country, and can demonstrate a closer connection to that foreign country. Which statement is correct?

A. The individual is automatically taxed as a U.S. resident with no exception available once the substantial presence test is met.
B. The individual must file Form 8938 to claim the exception in lieu of any other statement or attachment.

C. The individual may claim the closer connection exception by timely filing Form 8840 and be treated as a nonresident alien.
D. The individual may claim the exception only if they have never held a green card at any point in their lifetime.

100. An executor establishes a QTIP trust for the surviving spouse and wants the deceased spouse, rather than the surviving spouse, to be treated as the transferor for generation-skipping transfer tax purposes, in order to use the deceased spouse's own GST exemption. Which election accomplishes this?

A. The portability election, made on a timely filed Form 706, to transfer the deceased spouse's unused exclusion amount.
B. The reverse QTIP election, made on Form 706, treating the deceased spouse as the GST transferor despite the marital deduction.
C. The alternate valuation election, made on Form 706, to value estate assets six months after the date of death.
D. The special use valuation election, made on Form 706, to value qualifying farmland at its current use.

Answer Key and Explanations — Practice Exam 11, Part 1: Individuals

1. A — A refund claim generally must be filed within three years of the date the return was filed, or within two years of the date the tax was paid, whichever period expires later. This standard protects taxpayers who paid additional tax, such as through withholding or estimated payments, well after the filing date, giving extra time to claim an overpayment.

2. B — Once a tax liability is assessed, the IRS generally has ten years from the assessment date to collect the balance through enforced means such as liens or levies, a period known as the Collection Statute Expiration Date. Certain events, including bankruptcy, an offer in compromise, or a collection due process hearing, can suspend or extend this ten-year window.

3. D — CP14 is typically the first notice the IRS sends after a return is filed showing a balance due that was not paid in full. It states the amount owed, including any penalties and interest, and requests payment. Later notices such as CP501, CP503, and CP504 follow if the balance remains unpaid.

4. C — Circular 230 prohibits a practitioner who prepares tax returns for compensation from endorsing or otherwise negotiating a client's refund check, including electronic refund deposits arranged for the practitioner's own benefit. This rule prevents practitioners from diverting client funds and preserves public confidence in the integrity of the return preparation process.

5. B — Only certain individuals are eligible to be listed as representatives on Form 2848, including attorneys, CPAs, enrolled agents, enrolled actuaries, and enrolled retirement plan agents. An unenrolled return preparer without an Annual Filing Season Program Record of Completion generally lacks the credentials to represent a client before the IRS using this form.

6. D — Form 14039, Identity Theft Affidavit, alerts the IRS that a taxpayer believes someone else has fraudulently used their Social Security number, such as to file a duplicate return. Submitting this form helps trigger identity verification procedures and protects the taxpayer's account from further unauthorized activity while the matter is investigated.

7. A — A Wage and Income transcript reports the data submitted to the IRS by third-party payers on information returns, such as Forms W-2 and 1099, for a specific tax year. It is the appropriate transcript to verify a client's reported income and withholding when original source documents are unavailable during intake.

8. C — Form 8867 due diligence requirements apply specifically to the Earned Income Tax Credit, the Child Tax Credit and its related credits, the American Opportunity Tax Credit, and Head of Household filing status. A paid preparer must complete and retain this checklist whenever a return claims any of these particular items.

9. B — Form 56 notifies the IRS that a fiduciary, such as an executor, administrator, trustee, or guardian, has been appointed and is stepping into the taxpayer's position for tax purposes. Filing this form lets the IRS send notices and correspondence directly to the fiduciary, and it generally must be filed both when the fiduciary relationship begins and when it later terminates.

10. D — Under Internal Revenue Code section 6511(h), the statute of limitations for filing a refund claim is suspended for any period during which a taxpayer is financially disabled, meaning unable to manage financial affairs due to a medically determinable impairment, provided no guardian or other person is authorized to act on the taxpayer's behalf.

11. C — Line 3 of Form 2848 allows a representative's authority to extend to future tax years or periods, but no more than three future years or periods may be listed, measured from the date the form is signed. This limits how far into the future a single power of attorney authorization can reach.

12. A — Reasonable cause generally requires the taxpayer to show that ordinary business care and prudence was exercised but the taxpayer was nonetheless unable to meet the deadline, such as due to a documented casualty like a fire that destroyed necessary records. Mere ignorance of the law or a shortage of funds from discretionary spending typically does not qualify.

13. D — CP2501 is an informal, preliminary notice the IRS sends when income or payment information reported by third parties does not appear to match what was reported on a filed return. It gives the taxpayer an early opportunity to respond and explain before the more formal CP2000 proposed adjustment process ever begins.

14. C — Circular 230 requires a practitioner who discovers an error or omission on a client's previously filed return to promptly advise the client of the error and of the potential consequences, such as penalties and interest, under the Code. The practitioner is not required to prepare an amended return or notify the IRS directly.

15. B — Circular 230 permits a practitioner to advertise services, including publishing a fee schedule, so long as the practitioner honors those published fees for a reasonable time after publication. Advertising a guaranteed outcome, using unrestricted testimonials, or describing a competitor misleadingly are all prohibited or restricted practices under the solicitation rules.

16. A — Filing Form 4868 by the original due date grants an automatic extension of time to file, typically six months, but does not extend the time to pay any tax owed. Interest accrues on any unpaid balance from the original due date, and the failure-to-pay penalty may also apply unless the taxpayer paid the required percentage of actual liability by then.

17. B — The kiddie tax applies to a dependent child's net unearned income reported on the child's own return. A small initial amount is exempt, the next portion is taxed at the child's rate, and any remaining net unearned income is taxed using the parent's marginal tax rate, preventing families from shifting investment income into a child's lower bracket.

18. C — Under the tax benefit rule, a recovered state income tax refund is included in gross income only to the extent the earlier deduction reduced the taxpayer's federal tax liability. If itemizing produced no tax savings, or the standard deduction would have applied anyway, the refund is not taxable, avoiding a double tax benefit for the same amount.

19. D — Section 104(a)(2) excludes damages received on account of personal physical injuries or physical sickness, so the $80,000 compensatory award is not taxable. Punitive damages, however, are taxable regardless of whether they relate to a physical injury claim, because they are intended to punish the defendant rather than compensate the taxpayer for a loss.

20. A — When a home office sits within the residence, rather than a separate structure, the Section 121 exclusion generally applies to gain on the entire property, since no allocation between business and residential use is required. Gain attributable to depreciation claimed on the office after May 6, 1997, cannot be excluded and must instead be recaptured as unrecaptured Section 1250 gain.

21. D — Section 1256 contracts, including most regulated futures contracts, are marked to market at year-end even if the position remains open. Regardless of the actual holding period, resulting gain or loss is automatically treated as 40% short-term and 60% long-term capital gain or loss, a blended rate commonly known as the 60/40 rule for these instruments.

22. A — Under Section 127, an employer's written educational assistance program can exclude up to an annual statutory limit of employer-paid tuition and related expenses from an employee's wages, regardless of whether the coursework is job-related or leads to a degree. Amounts paid above the annual limit are generally taxable wages unless another exclusion, such as a working-condition fringe benefit, applies.

23. B — Income earned but not yet received before a cash-method taxpayer's death is income in respect of a decedent (IRD). It is not reported on the decedent's final return and does not receive a basis step-up.

Instead, it retains its original character and is taxed to whoever actually receives it, here the estate, in the year of receipt.

24. C — Amounts received from a qualified viatical settlement provider by a terminally ill individual are treated similarly to accelerated death benefits and are excludable from gross income under Section 101(g), provided physician certification requirements are met. Unlike a typical policy sale, there is no requirement that the proceeds be used specifically for medical costs to qualify for the exclusion.

25. D — A length-of-service or safety achievement award of tangible personal property can be excluded from an employee's wages if given as part of a written, nondiscriminatory qualified plan and if the employer's cost stays within the statutory deductible limit. Cash, gift cards, and awards exceeding the dollar limit generally do not qualify for this exclusion and remain taxable.

26. B — Section 267 disallows losses on sales between related parties, including siblings. The seller cannot deduct the $9,000 loss. However, if the related buyer later sells the property at a gain, the buyer may use the previously disallowed loss to offset that gain, though it cannot create or increase a deductible loss for the buyer.

27. A — The IRS has indicated that certain NFTs, when the associated right or asset itself meets the definition of a collectible, are taxed under the collectibles rules. Long-term gain on such an NFT can be subject to a maximum federal rate of 28%, higher than the usual long-term capital gains rates that apply to most other capital assets.

28. C — Section 139 excludes qualified disaster relief payments from gross income when they reimburse reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a federally declared disaster. No itemizing requirement applies, and the exclusion is not conditioned on the taxpayer also claiming or forgoing a separate casualty loss deduction.

29. B — Military pay received by an enlisted member for any month served, even partially, in a designated combat zone is excludable from gross income under Section 112, without a dollar cap. Officers receive a similar exclusion but subject to a monthly dollar limit. No injury or hospitalization is required for the enlisted member's exclusion to apply.

30. A — Qualified foster care payments received from a state or licensed placement agency for caring for a foster individual placed in the taxpayer's home are excludable from gross income under Section 131, provided the payments are made under a foster care program and do not exceed the applicable per-child limits for more than a small number of individuals.

31. C — A lease bonus paid to a landowner for signing an oil and gas lease is ordinary income in the year received, taxed similarly to advance royalty income rather than as a sale of property. Because it substitutes for future royalty income, percentage or cost depletion can sometimes apply to the bonus, but it does not qualify for capital gain treatment.

32. D — When a life insurance policy lapses with an outstanding loan balance, the forgiven loan is treated as a policy distribution. If the loan balance exceeds the taxpayer's basis in the policy, the excess is recognized as taxable income at lapse, even though the taxpayer never received the amount in cash. This rule applies regardless of MEC status.

33. C — A compensation-related below-market loan under Section 7872 is recharacterized: the employer is treated as paying the forgone interest to the employee as additional compensation, taxable as wages, and then the employee is treated as paying that same amount back to the employer as interest, which the employer reports as imputed interest income.

34. B — Under Section 631(c), an owner who disposes of coal or domestic iron ore under a contract retaining an economic interest, without being a co-adventurer in the mining operation, may treat the resulting income as gain from the sale of a capital asset rather than ordinary royalty income, provided the statutory requirements for the disposal are satisfied.

35. A — Courts, including in the Dorrance and Eichler-related litigation, and current IRS guidance have moved away from assigning a zero basis to demutualization stock. Instead, the accepted approach generally treats the exchange under open-transaction, cost-recovery principles, meaning gain is recognized only once sale proceeds exceed the taxpayer's allocable basis, rather than taxing the full proceeds as gain.

36. D — Section 1237 provides a safe harbor allowing certain non-dealer taxpayers to treat gain from selling subdivided lots as capital gain rather than ordinary income, provided the land was held the required period, no substantial improvements were made, and other statutory conditions are satisfied. Without qualifying, active subdividing and marketing of lots could instead suggest dealer status and ordinary income.

37. C — Eligible K-12 educators may deduct up to $300 of unreimbursed classroom expenses, such as books, supplies, and instructional materials, as an above-the-line adjustment to income. This deduction is claimed on Schedule 1 and remains available even to taxpayers who take the standard deduction, since it reduces gross income before any itemization decision is made.

38. A — The above-the-line deduction for self-employed health insurance premiums cannot exceed the net earnings from self-employment, after subtracting the deduction for one-half of self-employment tax, attributable to the specific trade or business under which the plan was established. The taxpayer also cannot claim it for any month she was eligible to participate in a subsidized employer plan.

39. B — When a taxpayer actively participates in an employer-sponsored retirement plan, her traditional IRA deduction phases out over a modified AGI range set annually by the IRS, and is completely disallowed once income exceeds the upper limit. She may still make a nondeductible contribution, but it must be tracked on Form 8606 for basis purposes.

40. D — Since the Tax Cuts and Jobs Act, the moving expense deduction is suspended for most taxpayers through at least 2025, with one narrow exception: active-duty members of the Armed Forces who move pursuant to a military order incident to a permanent change of station may still deduct qualifying, unreimbursed moving costs above the line.

41. D — A penalty charged for withdrawing funds from a time deposit, such as a certificate of deposit, before its maturity date is deductible above the line as an adjustment to income under Section 62. The penalty amount is reported separately by the bank on Form 1099-INT and reduces adjusted gross income regardless of whether the taxpayer itemizes.

42. A — To make a deductible HSA contribution, the taxpayer must be covered by a qualifying high-deductible health plan on the first day of the month and have no other disqualifying health coverage, such as a general-purpose flexible spending account or standard Medicare enrollment. Contribution limits vary by self-only versus family HDHP coverage each year.

43. C — The Child and Dependent Care Credit is computed on a maximum of $3,000 of work-related expenses for one qualifying person, or $6,000 for two or more qualifying persons, before applying the applicable percentage based on adjusted gross income. These dollar ceilings are separate from any employer-provided dependent care benefits the taxpayer received.

44. B — For any single contribution of $250 or more, the donor must obtain a contemporaneous written acknowledgment from the charity before filing her return, stating the amount contributed and whether any goods or services were received in exchange. A canceled check or bank record alone is not sufficient documentation at this threshold.

45. C — Contributions to organizations that are not classified as 50%-limit public charities, such as many veterans' organizations and fraternal societies operating under the lodge system, are generally subject to a lower 30% of AGI ceiling for cash gifts. Any excess above this limit may generally be carried forward for up to five years.

46. D — Under the Tax Cuts and Jobs Act, alimony paid under a divorce or separation instrument executed after December 31, 2018, is no longer deductible by the payer or includible in the recipient's income. Agreements executed before that date generally keep the old deductible treatment, unless later modified to expressly adopt the new rule.

47. A — A contribution to a donor-advised fund is deductible in the year the cash or property is irrevocably transferred to the sponsoring organization, since the taxpayer has completed a gift to a qualified public charity at that point. Subsequent grant recommendations directing the fund to distribute money to specific charities do not trigger any additional deduction.

48. B — The second lowest cost silver plan available to the taxpayer through the Marketplace serves as the benchmark used to compute the allowable Premium Tax Credit, regardless of the plan the taxpayer actually purchases. The credit generally equals the benchmark premium minus the taxpayer's expected contribution based on household income as a percentage of the poverty line.

49. B — Premiums paid for Medicare Part B and Part D coverage are treated as deductible medical expenses for a taxpayer who itemizes, combined with all other qualifying unreimbursed medical costs and subject to the same 7.5%-of-AGI floor. Premium-free Part A generally has no associated cost to deduct, since no premium is actually paid.

50. C — Contributions a self-employed individual makes to her own SEP-IRA are deductible above the line as an adjustment to income, subject to the applicable percentage-of-net-earnings limit and the annual dollar ceiling. This deduction reduces adjusted gross income directly and is available whether or not the taxpayer itemizes deductions on Schedule A.

51. D — Jury duty pay must be reported as other income even when the taxpayer is required to turn it over to her employer in exchange for continued regular wages. To avoid being taxed on income she never actually kept, she claims an above-the-line deduction on Schedule 1 equal to the amount remitted to the employer.

52. A — One-half of the self-employment tax computed on Schedule SE is deductible above the line as an adjustment to income, mirroring the employer-side payroll tax deduction available to a corporate employee through her employer. This deduction reduces adjusted gross income regardless of whether the taxpayer itemizes, and it does not change the self-employment tax liability itself.

53. B — A special rule permits a taxpayer to deduct medical expenses she pays for an individual who would qualify as her dependent except that the person's gross income exceeded the exemption amount, provided all other dependency tests, including support and relationship, are otherwise satisfied for the year, so the income failure alone does not bar the deduction.

54. C — Amounts paid for raffle, lottery, or similar chance-to-win tickets sold by a charity are not deductible as charitable contributions, even though the event benefits a qualified organization, because the payment is considered a wager made for the opportunity to win a prize rather than a gift. This holds even if the taxpayer never wins.

55. A — A Coverdell Education Savings Account permits total contributions of up to $2,000 per beneficiary each year from all contributors combined, and this maximum begins phasing out once the contributor's modified adjusted gross income exceeds the applicable threshold, eventually eliminating the ability to contribute entirely at higher income levels. Funds may later be withdrawn tax-free for qualified education expenses.

56. D — Qualified business income under Section 199A must be earned in a trade or business the taxpayer actually operates, such as a sole proprietorship or pass-through entity; wages earned as a common-law employee are specifically excluded by statute and never generate a deduction, no matter how low the employee's taxable income is.

57. C — For 2023, a single filer's SSTB deduction phases out between $182,100 and $232,100 of taxable income and is eliminated entirely once taxable income exceeds the ceiling. Because her taxable income of $250,000 exceeds this threshold, no QBI deduction is allowed for the specified service business, regardless of W-2 wages paid or property held.

58. A — Under current kiddie tax rules, a child's net unearned income above the annual threshold ($2,500 for 2023) is taxed at the parent's marginal tax rate rather than the child's own rate, computed on Form 8615. Congress restored this parental-rate method after briefly using compressed trust and estate rates under the Tax Cuts and Jobs Act.

59. B — Section 530 of the Revenue Act of 1978 provides relief from retroactive federal employment tax liability for employers who had a reasonable basis for treating workers as independent contractors, consistently treated similarly situated workers the same way, and filed all required information returns. Meeting these conditions can prevent the IRS from reclassifying the workers as employees for prior periods.

60. D — Unemployment compensation is fully includible in gross income for federal tax purposes under current law and is reported on Schedule 1. The temporary $10,200 exclusion enacted for 2020 under pandemic relief legislation was a one-time exception and does not apply to other tax years. Payers report the benefits on Form 1099-G.

61. C — Because the stylist is self-employed rather than an employee, the special employee tip-reporting and FICA withholding rules under Section 6053 do not apply to her. Instead, cash tips she receives are simply part of her business's gross receipts, fully includible in gross income and subject to both income tax and self-employment tax like any other business receipt.

62. A — The Additional Medicare Tax applies to RRTA Tier 1 Medicare-equivalent compensation the same way it applies to FICA wages. An employer must begin withholding an extra 0.9% once an employee's RRTA compensation from that employer exceeds $200,000 in a calendar year, regardless of the employee's filing status or spouse's income.

63. D — Additional Medicare Tax applies once combined Medicare wages exceed the threshold for the couple's filing status, $250,000 for married filing jointly, even if neither employer separately withheld the tax because no single employer's wages to one spouse exceeded $200,000. The couple reconciles combined wages against the joint threshold on Form 8959 and pays any additional tax owed with the return.

64. B — Original issue discount must generally be included in a bondholder's taxable income as it accrues each year, using a constant-yield method, even though no cash is actually received until the bond matures or is sold. This accrual rule prevents taxpayers from deferring interest income simply by holding bonds structured to pay their return at maturity.

65. B — While an approved installment agreement is in effect and the taxpayer stays current with its terms, the failure-to-pay penalty rate is reduced from the standard 0.5% per month to 0.25% per month on the outstanding balance. Interest continues to accrue separately at the statutory rate regardless of the agreement's existence.

66. D — Section 6662 imposes a 20% accuracy-related penalty on the portion of an underpayment attributable to a substantial understatement of income tax, defined as an understatement exceeding the greater of 10% of the correct tax or $5,000. This penalty differs from the far more severe 75% civil fraud penalty, which requires proof of willful intent.

67. A — The 10% additional tax under Section 72(t) generally applies to early retirement plan distributions taken before age 59½. However, distributions attributable to the account owner's permanent and total disability are a recognized statutory exception, so the ordinary income tax still applies but the additional 10% early-distribution tax does not apply to this distribution.

68. C — The nonfarm optional method for computing self-employment tax is subject to a lifetime limit of no more than five taxable years, which need not be consecutive. Because the taxpayer has already used it in four prior years, this would be her fifth and final permitted use of the nonfarm optional method.

69. B — Once taxable income exceeds the upper phase-in threshold, the Section 199A deduction for a non-SSTB business is capped at the greater of 50% of W-2 wages paid, or the sum of 25% of W-2 wages plus 2.5% of the unadjusted basis immediately after acquisition (UBIA) of qualified property used in the business.

70. A — The kiddie tax applies to a child under age 18, or a full-time student age 19 through 23, whose earned income does not exceed half of his or her own support. Since this student is 20, attends school full-time, and her wages fall short of that support test, her unearned income is subject to the kiddie tax.

71. D — Either a worker or the firm that engaged the worker may file Form SS-8 asking the IRS to formally rule on whether the individual is an employee or an independent contractor for federal employment tax purposes. Form 8919 is a different form, used by a worker to report uncollected Social Security and Medicare tax on wages already earned.

72. C — For net operating losses arising in tax years beginning after December 31, 2017, the general rule eliminates the two-year carryback and instead allows the loss to be carried forward indefinitely. However, the NOL deduction in any carryforward year is generally limited to 80% of taxable income computed before the NOL deduction itself, not the full 100%.

73. B — A limited partner's distributive share of partnership income is generally excluded from net earnings from self-employment, because a limited partner's return is viewed as a return on capital investment rather than compensation for services. This exclusion does not apply to any guaranteed payments the limited partner receives for services actually rendered to the partnership, which remain subject to self-employment tax.

74. C — For divorce or separation instruments executed after December 31, 2018, the Tax Cuts and Jobs Act eliminated the alimony deduction for the payer and the corresponding income inclusion for the recipient. Because this decree was executed in 2023, the monthly payments are simply treated as a nontaxable transfer between the former spouses, unlike alimony under pre-2019 divorce agreements.

75. D — A Qualified Charitable Distribution must be transferred directly by the IRA trustee to an eligible charitable organization; the IRA owner may never take constructive receipt of the funds. The owner must be at least 70½, not 65, and the distribution amount is capped by an annually adjusted limit, counting toward the owner's required minimum distribution if one applies.

76. A — A Qualified Personal Residence Trust lets an owner transfer a home to an irrevocable trust while retaining occupancy for a term of years, so the taxable gift is valued using the retained interest, producing a value well below fair market value. If the grantor outlives the term, the residence passes to the remainder beneficiaries free of further transfer tax.

77. A — A taxpayer who reaches the required beginning date may delay the first RMD until April 1 of the following year, but the second year's RMD is still due by December 31 of that same year. Delaying therefore forces two distributions into one tax year, which can push the taxpayer into a higher marginal bracket.

78. B — SECURE 2.0 allows IRA owners who are at least 70½ to make a one-time election, up to $50,000, directing a qualified charitable distribution into a charitable remainder annuity trust, charitable remainder unitrust, or charitable gift annuity, with the entire transferred amount excluded from gross income, expanding the traditional QCD-to-public-charity option.

79. D — Under IRC Section 2032A, an executor may elect to value qualifying farm or closely held business real property based on its actual use rather than its highest and best use, reducing the estate's value by up to a statutory cap. The property must remain in qualified use for a required period, or the tax savings are recaptured.

80. C — In a net gift arrangement, the donee agrees to pay the gift tax as a condition of receiving the property. Because the donor's net economic transfer is reduced by that tax payment, the value of the taxable gift itself is reduced accordingly, and the donor may recognize capital gain if the tax paid exceeds basis.

81. B — Personal use of IRA-owned property by the IRA owner or certain family members is a prohibited transaction under IRC Section 4975, since it is a transaction between the IRA and a disqualified person. The entire IRA loses its tax-exempt status and is treated as distributed at fair market value as of January 1 of that year.

82. D — Without a signed Form 8332 releasing the exemption, the dependency claim, and the related child tax credit, belongs to the custodial parent, defined under the tiebreaker rules as the parent with whom the child resided for the greater number of nights during the year. The noncustodial parent cannot claim the child even if paying more support.

83. A — A Qualified Terminable Interest Property trust lets the client control the ultimate disposition of principal while still qualifying the transfer for the unlimited marital deduction, provided the surviving spouse receives all trust income at least annually for life and the executor makes a timely QTIP election on the estate tax return.

84. C — When a non-spouse beneficiary inherits an HSA, the account loses its HSA status as of the date of death, and the fair market value of the assets becomes taxable income to the beneficiary in that year, reduced by any qualified medical expenses of the decedent paid within one year. A spouse beneficiary, by contrast, treats it as her own HSA.

85. A — The once-per-12-month rollover rule applies on an aggregate basis to all of a taxpayer's traditional and Roth IRAs combined, not separately to each account. Having already used a 60-day rollover involving one IRA within the prior 12 months, the taxpayer cannot complete another 60-day rollover involving any of her IRAs during that same 12-month window.

86. C — A qualified Roth IRA distribution requires both the account owner to be at least 59½, or meet another exception, and satisfaction of the five-year rule, measured from January 1 of the year of the first Roth contribution. Since only three years have passed, the earnings portion remains taxable even though the age requirement alone has been met.

87. B — SECURE 2.0 reduced the excise tax on a missed or shortfall RMD from 50% to 25% of the amount not timely distributed. The penalty drops further, to 10%, if the taxpayer corrects the shortfall by taking the missed distribution and filing the required return within the correction window established under the statute.

88. D — Under IRC Section 1014(b)(6), when one spouse in a community property state dies, both halves of the community property—not just the decedent's half—receive a new basis equal to fair market value at the date of death (or alternate valuation date). This differs from common-law jointly held property, where only the decedent's fractional interest is stepped up.

89. C — IRC Section 2014 allows an estate to claim a credit against federal estate tax for death taxes paid to a foreign country on property situated there and included in the U.S. gross estate, subject to treaty provisions and statutory limits. This credit reduces estate tax liability, unlike the state death tax deduction, which only reduces the taxable estate.

90. A — Fixed, determinable, annual, or periodical (FDAP) income of a nonresident alien—such as dividends not effectively connected with a U.S. trade or business—is taxed on a gross basis at a flat 30 percent rate, or a lower treaty rate, generally collected through withholding. No deductions offset this income, unlike effectively connected income, which is taxed at graduated rates after allowable deductions.

91. D — Under the default Section 1291 regime, an excess distribution from a PFIC without a QEF or mark-to-market election is allocated ratably over the shareholder's holding period. Amounts allocated to prior years are taxed at the highest rate in effect for each year, and an interest charge applies to the resulting deferred tax, reflecting the benefit of tax deferral.

92. B — This describes a charitable remainder trust (CRT), a split-interest trust that pays a noncharitable beneficiary an annuity or unitrust amount for life or a term, with the remainder passing to charity. The trust files Form 5227 annually, and the donor receives a current income and gift tax charitable deduction based on the actuarial value of the remainder interest.

93. C — This describes a grantor retained annuity trust (GRAT). If the grantor survives the annuity term, the remaining trust assets pass to the beneficiaries without additional gift or estate tax, and any appreciation exceeding the Section 7520 assumed interest rate escapes transfer tax. If the grantor dies during the term, however, the trust assets are includible in the estate.

94. D — A decedent's unused net operating loss carryforward is a personal tax attribute that dies with the taxpayer. It cannot be carried forward to the decedent's estate, to the surviving spouse's separate returns, or to any beneficiary, and it may only be used on the decedent's final Form 1040, to the extent income exists to absorb it.

95. B — Section 303 permits a corporation to redeem stock included in a decedent's gross estate, when that stock exceeds 35 percent of the adjusted gross estate, treating the redemption as a sale or exchange rather than a dividend. The favorable treatment is limited to the amount needed for death taxes, funeral costs, and administration expenses, avoiding forced liquidation of the business.

96. A — For a transferee unrelated to the transferor, Section 2651 assigns generation based strictly on age: someone not more than 12.5 years younger than the transferor is the same generation, and each additional 12.5-year bracket below that constitutes one generation lower. This age-based rule prevents transferors from avoiding GST tax by making transfers to unrelated younger individuals or entities.

97. A — Under FIRPTA, a buyer purchasing U.S. real property from a foreign person generally must withhold 15% of the total amount realized on the sale and remit it to the IRS using Form 8288, regardless of the seller's actual gain or loss. Certain exceptions and reduced rates apply, such as for smaller residential purchases intended as the buyer's own residence.

98. D — A covered expatriate under Section 877A must file Form 8854 and is generally subject to a mark-to-market exit tax: worldwide assets are treated as sold for fair market value on the day before expatriation, with any net gain above an annually adjusted exclusion amount recognized and taxed immediately, even though no actual sale occurred.

99. C — An alien who meets the substantial presence test but was present fewer than 183 days during the year, maintains a tax home abroad, and has a closer connection to that foreign country may still be treated as a nonresident alien by timely filing Form 8840, the closer connection exception statement, rather than being taxed as a U.S. resident.

100. B — Ordinarily, property qualifying for the marital deduction in a QTIP trust would make the surviving spouse the transferor for GST purposes upon later distribution. A reverse QTIP election under Section 2652(a)(3), made on Form 706, instead treats the deceased spouse as the transferor, allowing the executor to apply the deceased spouse's own GST exemption to the trust.