PRACTICE EXAM 12: SEE PART 1 — INDIVIDUALS (100 QUESTIONS)

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

1. Under IRC section 7216, a paid preparer wants to disclose a client's tax return information to an unrelated third party for a purpose other than preparing the return. What must the preparer obtain before making the disclosure?

A. The taxpayer's written consent that meets the specific content and format requirements of the regulations
B. Verbal authorization from the taxpayer, documented afterward in the preparer's engagement file notes
C. A signed Form 2848 naming the third party as the taxpayer's authorized representative
D. Prior written approval from the IRS Office of Professional Responsibility for the disclosure

2. An enrolled agent's three-year enrollment renewal cycle is determined by which factor, and what continuing education is generally required over that cycle?

A. The agent's PTIN issuance date; 60 hours completed entirely within the final renewal year
B. The state in which the agent is licensed; 50 hours approved by that state's board
C. The last digit of the agent's Social Security number; 72 hours, including 2 hours of ethics per year
D. The date the agent's Form 2848 authorizations were first filed; 80 hours spread evenly

3. To be eligible for separation-of-liability relief under IRC section 6015, a taxpayer who filed a joint return with an understatement of tax must, at the time relief is requested, satisfy which additional requirement not required for innocent spouse relief under section 6015(b)?

A. The taxpayer must show actual knowledge of the item causing the understatement at signing
B. The taxpayer must have reported the item correctly on an amended return filed later
C. The taxpayer must obtain the other spouse's written consent to allocate the deficiency
D. The taxpayer must be divorced, legally separated, widowed, or have lived apart from the other spouse for the preceding 12 months

4. Circular 230's 'best practices' standard for tax advisors under section 10.33 is best described as which of the following?

A. A mandatory rule whose violation alone results in automatic suspension from practice before the IRS
B. An aspirational standard of conduct that is not, by itself, a basis for formal discipline
C. A requirement that applies only to attorneys and certified public accountants, not enrolled agents
D. A rule limited strictly to written advice on tax shelters and reportable transactions

5. Which group of individuals is generally authorized to engage in unlimited 'practice before the IRS,' representing taxpayers in matters such as audits, appeals, and collection proceedings?

A. Any paid preparer who holds an active PTIN and has filed at least one client return
B. Attorneys, certified public accountants, and enrolled agents in good standing
C. Only attorneys and certified public accountants who are also separately enrolled with the IRS
D. Any individual the taxpayer designates on a completed Form 8821

6. A non-credentialed return preparer holds a current Annual Filing Season Program (AFSP) Record of Completion. What representation right does this record give the preparer?

A. Limited authority to represent clients whose returns the preparer prepared and signed, before revenue agents and customer service representatives

B. Unlimited authority to represent any taxpayer before IRS Appeals and IRS Chief Counsel

C. Authority to represent clients before the US Tax Court in docketed litigation

D. Full representation rights identical to those held by an enrolled agent

7. A preparer's position on a client's return is not disclosed on the return. Under IRC section 6694, what standard must the position generally meet to avoid a preparer penalty for an understatement of tax?

A. The position must merely have a reasonable basis, without any further support required

B. The position must be frivolous on its face but asserted only in good faith

C. The position must have a realistic possibility amounting to more likely than not to be sustained on its merits

D. The position must already have been accepted by the IRS in a prior audit

8. Under the accountable plan substantiation rules, a business traveler generally is not required to keep a documentary receipt for which type of expense below a certain dollar threshold?

A. Any lodging expense incurred while traveling away from home overnight

B. Any expense charged directly to an employer-issued credit card

C. Meal expenses claimed using the standard per diem method exceeding $75

D. Expenses other than lodging that total less than $75

9. During intake, a practitioner explains to a new client that the IRS Taxpayer Bill of Rights includes the right to challenge the IRS's position and be heard. Which additional right is also among the ten rights?

A. The right to a full refund of any tax paid regardless of the amount owed

B. The right to have all penalties automatically waived upon a first request

C. The right to select which specific IRS employee handles the taxpayer's case

D. The right to appeal an IRS decision in an independent forum

10. Under Circular 230, when must a practitioner furnish a client with a copy of a return the practitioner prepared for that client?

A. Upon request, within a reasonable time after the request is made
B. Only after the client has paid the preparer's fee in full
C. Only if the client requests it in writing before the return is filed
D. Automatically, but only for returns showing a balance due to the IRS

11. In a court proceeding involving a factual issue affecting an individual taxpayer's tax liability, what must the taxpayer generally do for the burden of proof to shift from the taxpayer to the IRS under IRC section 7491?

A. Simply request the shift in a written protest filed with IRS Appeals
B. Introduce credible evidence and have maintained required records while cooperating with reasonable IRS requests
C. Demonstrate that the IRS previously lost a similar case in the US Tax Court
D. Show that the taxpayer's adjusted gross income falls below a specified statutory threshold

12. Under Circular 230's fee rules, a practitioner charging a client an unconscionable fee for services rendered before the IRS is best described as which of the following?

A. Permitted, as long as the fee is fully disclosed to the client in writing beforehand
B. Permitted only when the engagement involves an original return claiming a refundable credit
C. Prohibited outright, regardless of any disclosure the practitioner makes to the client
D. Prohibited only for enrolled agents, but permitted for attorneys and certified public accountants

13. The federally authorized tax practitioner privilege under IRC section 7525 protects certain communications between a taxpayer and an enrolled agent. This privilege applies in which context?

A. Any criminal tax investigation conducted by the IRS Criminal Investigation division
B. Communications made specifically for the purpose of preparing an original tax return
C. Noncriminal tax matters before the IRS and noncriminal tax proceedings in federal court

D. Communications with any third party the enrolled agent consults during the engagement

14. Before contacting a taxpayer's employer, bank, or other third party to determine or collect a tax liability, what is the IRS generally required to do under IRC section 7602(c)?

A. Obtain the taxpayer's written consent before making any third-party contact
B. Publish the third party's identity in the Federal Register beforehand
C. Secure prior approval from the US Tax Court for the contact
D. Provide the taxpayer reasonable advance notice that such contacts may be made

15. A practitioner requests an IRS transcript that shows later account activity, such as penalty assessments and payments applied after the original return was filed. Which transcript type provides this information?

A. A Tax Account Transcript, showing basic data plus all post-filing account changes
B. A Wage and Income Transcript, showing amounts reported to the IRS by third-party payers
C. A Return Transcript, showing most line items exactly as originally filed
D. A Verification of Non-filing Letter, confirming no return was filed for the year

16. A practitioner prepares an individual's tax return, and the taxpayer receives a paper refund check from the IRS. Under Circular 230, what is the practitioner prohibited from doing with that check?

A. Advising the taxpayer generally on how to deposit the refund into a bank account
B. Endorsing or otherwise negotiating the refund check issued to the taxpayer
C. Informing the taxpayer of the expected date the refund check will arrive
D. Preparing the original return that resulted in the taxpayer receiving the refund

17. A taxpayer who filed for and remains under the protection of a Title 11 bankruptcy case had $60,000 of unsecured debt discharged during the case. The taxpayer was also insolvent by $35,000 immediately before the discharge. Which statement correctly describes the treatment of the canceled debt?

A. The entire $60,000 is excluded from gross income under the bankruptcy exclusion, which takes priority over the insolvency exclusion, and tax attributes must be reduced.
B. Only $35,000 is excluded under the insolvency exclusion, and the remaining $25,000 is included in gross income as cancellation of debt income.
C. The taxpayer must choose between the bankruptcy exclusion and the insolvency exclusion, electing whichever produces a smaller income inclusion for the year.
D. Neither exclusion applies while a bankruptcy case remains open, so the full $60,000 is included in gross income until the case is closed.

18. A partnership has an existing partner sell his 40% interest to a new partner for a price that reflects the partnership's appreciated real estate. The partnership has a valid election in effect under Section 754. What is the primary effect of this election on the transaction?

A. The partnership must recognize gain immediately on all its assets as though it had sold them to the incoming partner at fair market value.
B. The incoming partner receives an outside basis in the partnership interest equal to the selling partner's original basis, unchanged by the purchase price.
C. The partnership adjusts the incoming partner's share of inside basis in partnership assets to reflect the price paid for the interest.
D. The election permanently changes the partnership's method of accounting from cash to accrual for all future taxable years.

19. During the year, a taxpayer used her lake cabin personally for 40 days and rented it to unrelated tenants at fair rental value for 60 days. The cabin was not used by the taxpayer at any other time. Under the vacation home rules, how must the taxpayer treat the rental activity?

A. The property is treated as used exclusively for rental purposes, and all personal-use days are disregarded because rental days exceeded personal days.
B. The property is treated as a personal residence, and rental expense deductions are limited to the amount of rental income produced.
C. The taxpayer may deduct a full net rental loss because the personal use falls below the 14-day statutory safe harbor threshold.
D. The taxpayer must recharacterize all rental income as personal income because personal use exceeded the 10 percent of rental-days test.

20. A business sells its warehouse to an investor for cash and immediately leases the same building back for a term of three years, with an option to repurchase the property at a fixed price at the end of the lease. The seller continues to bear substantially all the economic risks and rewards of ownership. How does the IRS most likely characterize this arrangement?

A. As a completed sale followed by an unrelated operating lease, with full gain recognized by the seller at closing.
B. As a tax-free like-kind exchange because the seller retains an economic interest in the same property throughout the lease term.
C. As an installment sale, allowing the seller to defer gain recognition over the three-year lease term as payments are received.
D. As a financing transaction rather than a true sale, so the "seller" retains ownership and continues depreciating the property.

21. A taxpayer has accumulated $45,000 of suspended passive activity losses from a rental real estate activity in which she does not materially participate. During the current year, she sells her entire interest in the activity to an unrelated party in a fully taxable transaction. What happens to the suspended losses?

A. The entire $45,000 becomes fully deductible against the taxpayer's income for the year, without regard to its passive or nonpassive character.
B. The suspended losses remain permanently disallowed because passive losses can never offset nonpassive income under any circumstance.
C. Only the portion of suspended losses that exceeds the gain recognized on the sale becomes deductible in the current year.
D. The suspended losses carry forward indefinitely and may only be used against passive income generated by a replacement activity.

22. A taxpayer has $30,000 of adjusted basis in a real estate activity but only $18,000 of amount at risk under Section 465 due to nonrecourse financing that does not qualify as at-risk debt. The activity also generates a loss that would otherwise be allowed under the passive activity rules. In what order are these three loss limitations applied?

A. The passive activity limitation applies first, followed by the at-risk limitation, and finally the basis limitation.

B. Only the basis limitation applies, because the at-risk and passive activity rules apply solely to closely held corporations.

C. The at-risk limitation applies first, followed by the basis limitation, and finally the passive activity limitation.

D. The basis limitation applies first, followed by the at-risk limitation, and finally the passive activity limitation.

23. An employee received unvested employer stock and, within 30 days of the transfer, made a valid election under Section 83(b) to include the stock's fair market value in income immediately rather than waiting for it to vest. Two years later, before vesting, the employee left the company and forfeited the shares back to the employer for no payment. What is the tax consequence of the forfeiture?

A. The employee amends the prior year's return to remove the previously included income, since the election is automatically voided upon forfeiture.

B. The employer must issue a corrected Form W-2 for the election year, and the employee receives a full refund of tax paid.

C. The employee generally may not deduct a loss for the amount previously included in income because of the 83(b) election.

D. The employee recognizes an ordinary loss equal to the fair market value included in income under the election in the year made.

24. An employee exercises an incentive stock option, purchasing shares at the option price when the fair market value is substantially higher, and continues to hold the shares after exercise without selling. How is this exercise treated for regular tax and alternative minimum tax purposes?

A. Ordinary compensation income equal to the bargain element is recognized for both regular tax and alternative minimum tax purposes in the exercise year.

B. No regular taxable income results from the exercise, but the bargain element is a positive adjustment for alternative minimum tax purposes.

C. The bargain element is treated as long-term capital gain for regular tax purposes and is entirely disregarded for alternative minimum tax purposes.

D. The exercise triggers no tax consequence of any kind until the shares are eventually sold in a qualifying or disqualifying disposition.

25. A corporate bond is issued with a stated redemption price at maturity that exceeds its issue price by an amount smaller than the statutory de minimis threshold based on the bond's years to maturity. How must the holder treat the original issue discount?

A. The holder must accrue and report the discount annually as interest income using the constant yield method, exactly as with any other OID bond.

B. The holder must report the entire discount as ordinary interest income in the year of purchase, regardless of the holding period.

C. The holder must treat the discount as tax-exempt interest income because amounts below the de minimis threshold are excluded from gross income.

D. The discount is treated as de minimis and is not required to be accrued annually; it is reported as capital gain when the bond is disposed of.

26. A taxpayer holds an appreciated long position in publicly traded stock and, without closing out the position, enters into a short sale of the identical stock she already owns to lock in the current gain while retaining the original shares. Under Section 1259, how is this transaction treated for federal income tax purposes?

A. No gain is recognized until the short sale is eventually closed out by delivering the original shares

B. The transaction is treated as a constructive sale, and the taxpayer must recognize gain immediately as if the appreciated position had been sold

C. The transaction is treated as a wash sale, and any loss on the short sale is permanently disallowed

D. The short sale proceeds are treated as a nontaxable loan against the appreciated position, deferring all gain recognition

27. A taxpayer who owns standing timber held for investment enters into a contract that disposes of the timber under a pay-as-cut arrangement, retaining an economic interest in the timber until it is severed, with no election filed to treat the cutting as a sale under Section 631(a). How is the resulting gain characterized?

A. The gain qualifies automatically for long-term capital gain treatment under Section 631(b) because an economic interest was retained in the standing timber.

B. The gain is automatically ordinary income because no Section 631(a) election was filed before the timber was cut.

C. The taxpayer must file the Section 631(a) election retroactively before any capital gain treatment becomes available for the transaction.
D. The gain is treated as investment interest income rather than as gain from the disposition of a capital asset.

28. A taxpayer owns a corporate convertible bond and, in accordance with its terms, converts the bond into shares of the issuing corporation's common stock. She receives only stock, with no cash paid to her as part of the conversion. How is this conversion treated for federal income tax purposes?

A. The taxpayer recognizes gain equal to the excess of the stock's fair market value over her basis in the bond
B. The taxpayer recognizes ordinary income equal to the accrued but unpaid interest on the bond as of the conversion date
C. No gain or loss is recognized on the conversion, and the bond's basis and holding period carry over to the new stock
D. The conversion is treated as a taxable exchange, and the taxpayer's basis in the new stock equals its fair market value

29. A father sells stock with a $50,000 adjusted basis and a $90,000 fair market value to his adult daughter for $50,000 cash, intending the $40,000 difference as a gift. The daughter later sells the stock for $45,000. How is the transaction between father and daughter, and the daughter's basis, treated?

A. The father recognizes a $40,000 taxable gift-element gain immediately, and the daughter takes a fair market value basis of $90,000 in the stock.
B. The father recognizes no gain on the part-gift, part-sale transfer, and the daughter's basis for determining gain is $50,000, her cost.
C. The transaction is disregarded entirely for tax purposes, and the daughter is treated as if she inherited the stock upon her father's eventual death.
D. The father must recognize the full $40,000 as ordinary compensation income, and the daughter receives a stepped-up basis equal to fair market value.

30. A mutual fund designates a portion of its long-term capital gains as undistributed and pays tax on those gains itself, reporting the shareholder's proportionate share on Form 2439. What is the effect on a shareholder who owns fund shares in a taxable account?

A. The shareholder ignores the notice entirely, since gains retained and taxed at the fund level are never attributed to individual shareholders.

B. The shareholder reports the full undistributed gain as ordinary dividend income and receives no credit for tax already paid by the fund.

C. The shareholder reports the designated gain as long-term capital gain, claims a credit for the tax the fund paid, and increases stock basis.

D. The shareholder must file an amended prior-year return to include the gain in the year the fund actually realized it internally.

31. A taxpayer sells a portion of her shares in a mutual fund held in a taxable account for several years, making regular purchases through automatic reinvestment. She gives her broker no specific instructions about which shares are being sold. Which basis method applies by default to determine her gain or loss on the sale?

A. The shares are treated as sold under the last-in, first-out method, matching the most recently purchased lots to the sale.

B. The shares are treated as sold under the highest-cost-first method, automatically minimizing the taxpayer's reported gain on the sale.

C. The broker must reject the sale request until the taxpayer affirmatively selects a basis method in writing before the trade settles.

D. The broker applies its default method, typically average cost or first-in, first-out, absent a timely specific identification instruction from the taxpayer.

32. A taxpayer acquired rental property as replacement property in a like-kind exchange under Section 1031. Eighteen months later, she converts the property into her principal residence and later sells it, otherwise meeting the ownership and use tests for the Section 121 exclusion. What additional requirement applies before she may claim the exclusion?

A. She must own the property for at least five years from the date it was acquired in the exchange before the exclusion is available.

B. She is permanently barred from claiming any Section 121 exclusion on property that was ever acquired through a like-kind exchange.

C. She must file an amended Form 8824 electing out of nonrecognition treatment before the residence sale will qualify for the exclusion.

D. No additional requirement applies beyond the standard two-of-five-year ownership and use test that applies to any other principal residence.

33. A decedent's property passes so that one beneficiary receives a life estate and another receives the remainder interest, with the property's basis determined under the uniform basis rules following the decedent's death. How is each beneficiary's basis in their respective interest determined?

A. Only the remainderman receives any basis at all, since a life tenant is never entitled to depreciate or recover basis in the property.
B. Each beneficiary receives an identical full basis equal to the property's entire fair market value at the date of death.
C. The uniform basis is allocated between the life tenant and the remainderman using actuarial tables based on each interest's relative value.
D. The uniform basis is allocated entirely to whichever beneficiary first sells their interest, with the other beneficiary receiving a zero basis.

34. An investor writes a call option on stock she owns and receives a premium from the buyer. The option expires unexercised at the end of its term without the buyer ever exercising it. How does the investor treat the premium she received?

A. The premium is recognized as a short-term capital gain in the year the option lapses, regardless of how long the option was outstanding.
B. The premium is recognized as ordinary income in the year the option lapses, since option premiums never qualify for capital gain treatment.
C. The premium is added to the investor's basis in the underlying shares and is not separately recognized as income at all.
D. The premium is not recognized as income until the underlying shares themselves are eventually sold or otherwise disposed of.

35. A cash-method taxpayer owns Series EE savings bonds and has always deferred reporting the interest until redemption, the default method for these bonds. This year, she decides to elect to report the interest as it accrues annually instead. What is required once this election is made?

A. The election applies only to the bonds owned at the time it is made and automatically reverses after five years unless renewed.

B. The election must be applied consistently to all Series EE and I bonds the taxpayer currently owns and later acquires, absent IRS consent to change back.

C. The election is void unless the taxpayer also files an amended return for every prior year the bonds were held.

D. The election only affects bonds purchased after the election is made and has no effect on bonds already owned.

36. A rancher sells a cow from her breeding herd that was born and raised on the ranch rather than purchased, after holding the animal well beyond the required holding period for breeding livestock. No depreciation was ever claimed on the animal because it was not a purchased asset. How is the gain on the sale treated?

A. The entire gain is ordinary income because no depreciation was claimed, so there is no recapture potential and no capital gain eligibility.

B. The gain is entirely nontaxable because raised livestock with no purchase cost basis produces no gain recognized for tax purposes.

C. The gain must be reported as self-employment income subject to self-employment tax because livestock sales are part of the ranching trade or business.

D. The gain qualifies for Section 1231 treatment, receiving potential long-term capital gain treatment despite the animal having no depreciable purchased basis.

37. A 72-year-old IRA owner directs her IRA custodian to transfer $15,000 directly from her traditional IRA to a qualified public charity during the year. Assuming she meets all eligibility requirements, how is this transfer treated for federal income tax purposes?

A. The $15,000 is included in gross income, and she may then claim a $15,000 itemized charitable deduction on Schedule A.

B. The $15,000 is excluded from gross income as a qualified charitable distribution and may count toward satisfying her required minimum distribution.

C. The $15,000 is included in gross income but qualifies for a nonrefundable credit equal to fifteen percent of the amount transferred.

D. The $15,000 is treated as a taxable IRA distribution followed by a nondeductible gift, producing no tax benefit for the taxpayer.

38. A taxpayer eligible to contribute to a Health Savings Account wants to fund the account using a one-time transfer directly from her traditional IRA rather than making a new out-of-pocket HSA contribution. Which statement correctly describes this qualified HSA funding distribution?

A. The transfer is unlimited in amount and may be repeated annually as long as the taxpayer remains HSA-eligible for the year.

B. The transfer is fully taxable in the year received, then becomes deductible again once contributed into the Health Savings Account.

C. The transfer must first pass through the taxpayer's personal checking account before deposit into the HSA to qualify for tax-free treatment.

D. The transfer is limited to the annual HSA contribution limit, is tax-free, counts toward that limit, and is generally allowed only once per lifetime.

39. A 68-year-old retired taxpayer has modest income consisting mostly of nontaxable Social Security benefits. Her preparer is evaluating whether she qualifies for the Credit for the Elderly or the Permanently and Totally Disabled. Which statement correctly describes this credit?

A. The credit is computed on Schedule R and is reduced by nontaxable Social Security and certain other nontaxable pension income received during the year.

B. The credit is fully refundable and is paid even to taxpayers who owe no federal income tax and have no earned income.

C. The credit is available only to taxpayers who are permanently and totally disabled, regardless of the taxpayer's age or income level.

D. The credit amount is a fixed dollar figure that does not vary based on filing status, age, disability status, or income received.

40. A taxpayer's rental property, held for income production, is damaged by a severe storm that was not declared a federal disaster. Her personal residence in the same storm was undamaged. Regarding the deductibility of the loss on the rental property, which statement is correct?

A. Neither the rental property loss nor a comparable personal-use loss is deductible unless the storm is a federally declared disaster.

B. The rental property loss is deductible only if the taxpayer itemizes and only after applying the ten percent of AGI floor.

C. The rental property loss remains deductible as a business or income-producing casualty loss even though the storm was not a federally declared disaster.

D. The rental property loss is treated identically to a personal-use casualty loss and requires a presidential disaster declaration to be deductible.

41. A married couple, both age 57, are covered by a qualifying family High Deductible Health Plan for the entire year. Assuming both spouses maintain separate HSAs and otherwise qualify, what is the maximum combined HSA contribution they may generally make for 2025, including catch-up amounts?

A. $8,550, since the family contribution limit applies as a single combined cap regardless of each spouse's catch-up eligibility.

B. $9,550, reflecting the family limit plus a single $1,000 catch-up contribution allowed jointly for the household.

C. $17,100, doubling the family contribution limit because each spouse maintains a separate Health Savings Account under the family plan.

D. $8,550 plus $1,000 for each spouse's own age-55 catch-up, deposited into each spouse's separate HSA, totaling $10,550.

42. A taxpayer actively participates in her employer's retirement plan, and her modified AGI exceeds the phase-out range for deducting traditional IRA contributions. She contributes $6,500 to a traditional IRA anyway. What must she do to properly report this contribution?

A. She may not contribute to the IRA at all once her deduction is fully phased out, and any deposit must be withdrawn as excess.

B. She must file Form 8606 to report the contribution as nondeductible and establish basis that avoids double taxation when funds are later distributed.

C. She must report the entire contribution as taxable income in the year made, since a nondeductible contribution has no separate reporting requirement.

D. She may deduct half of the contribution automatically under a proration rule that applies whenever the deduction is partially phased out.

43. A taxpayer's modified AGI for the current year exceeds the applicable threshold for the New Clean Vehicle Credit under Section 30D, but her modified AGI for the preceding year was below the threshold. She purchases a qualifying new clean vehicle during the current year. How does the MAGI limitation apply?

A. The taxpayer is disqualified from the credit entirely because current-year MAGI is the only year that may be tested
B. The taxpayer must average her current-year and prior-year MAGI, and the credit is allowed only if the average falls below the threshold
C. The taxpayer may qualify for the credit by using the lesser of her current-year or preceding-year modified AGI
D. The taxpayer may qualify only by filing an amended prior-year return electing to apply the credit retroactively

44. A taxpayer works as a professional performing artist, providing services to two different employers during the year for modest wages. Her adjusted gross income before this deduction is well under the applicable threshold. Which above-the-line deduction may she potentially claim for her unreimbursed employee business expenses?

A. The qualified performing artist deduction, available to taxpayers meeting income, employer-count, and expense thresholds specific to performing artists.
B. The self-employed health insurance deduction, since performing artists are automatically treated as self-employed regardless of employer withholding.
C. The educator expense deduction, since performing artists are treated as eligible educators for above-the-line purposes under current law.
D. The moving expense deduction, since traveling performers are treated as active-duty military members for above-the-line deduction purposes.

45. A member of the Army Reserve travels 150 miles from home to attend a required weekend drill and incurs unreimbursed mileage, lodging, and meal costs. How are these travel expenses generally treated for federal income tax purposes?

A. They are deductible above the line as an adjustment to income, up to federal per diem and mileage rate limits, since travel exceeds 100 miles.
B. They are deductible only as a miscellaneous itemized deduction subject to the two percent of AGI floor for unreimbursed employee expenses.

C. They are not deductible at all, since unreimbursed employee travel expenses were permanently eliminated for all taxpayers under current law.
D. They are deductible in full as a charitable contribution, since military reserve service is treated as volunteer service to the government.

46. A 24-year-old graduate is financially independent, is not claimed as a dependent on anyone else's tax return, and pays her own qualified tuition at an eligible institution while pursuing her first bachelor's degree. May she claim the American Opportunity Tax Credit on her own return?

A. No, because the American Opportunity Tax Credit may only be claimed by a parent or guardian, never directly by the student.
B. Yes, an eligible student who is not claimed as anyone's dependent may claim the American Opportunity Tax Credit on her own return.
C. No, because only taxpayers over age 30 may claim education credits directly on their own individual income tax return.
D. Yes, but only if she also claims the Lifetime Learning Credit simultaneously for the same academic period and expenses.

47. A part-time graduate student pays tuition, mandatory fees, and separately pays for on-campus room and board for the semester. For purposes of the Lifetime Learning Credit, how are these costs treated?

A. Tuition, fees, and room and board are all qualified expenses eligible for the Lifetime Learning Credit without any restriction.
B. Only room and board qualifies for the credit, since tuition and fees are instead claimed under a separate deduction.
C. Tuition and mandatory fees required for enrollment qualify for the credit, but room and board costs are not qualified expenses.
D. None of the costs qualify, because the Lifetime Learning Credit applies only to undergraduate coursework, not graduate-level study.

48. An elderly homeowner takes out a reverse mortgage on her main home. Under the terms of the loan, no payments are required, and interest accrues on the outstanding balance until the loan becomes due upon her death, sale of the home, or permanent move. When may she deduct the accrued interest as qualified residence interest?

A. Each year, as the interest accrues, whether or not any amount has actually been paid
B. In the year the loan is originated, as a single lump-sum deduction equal to the projected total interest
C. Only if she itemizes and elects to treat the accrued interest as investment interest expense instead
D. Not until the interest is actually paid, which typically occurs when the loan is repaid

49. A taxpayer sells appreciated land with a fair market value of $100,000 and an adjusted basis of $40,000 to a qualified charity for $60,000, well below its fair market value. How is this bargain sale treated for tax purposes?

A. The transaction produces no taxable gain and no charitable deduction, since a below-market sale is treated purely as a gift.
B. The basis is allocated between the sale and gift portions, producing some recognized gain on sale and a deduction for the gift portion.
C. The entire $40,000 basis is allocated to the gift portion, so the full $60,000 of sale proceeds are recognized as taxable gain.
D. The transaction is disregarded for tax purposes because charities are not permitted to purchase property from individual donors at any price.

50. A visually impaired employee pays for a reader to assist her at work so she can perform her job duties effectively. These costs are ordinary and necessary for her to be able to work. How are her impairment-related work expenses treated?

A. They are deductible as unreimbursed business expenses, not subject to the 7.5 percent of AGI floor that applies to medical expenses.
B. They are deductible only as medical expenses, combined with other medical costs and subject to the 7.5 percent of AGI floor.
C. They are not deductible at all, because personal assistance expenses at the workplace are treated as nondeductible personal living expenses.
D. They are deductible above the line without limitation as an adjustment available to all taxpayers with a qualifying disability.

51. A taxpayer breeds and shows dogs as a personal hobby, generating occasional income from stud fees and prize winnings. The activity has never been profitable in any of the past several years, and it is determined to be a not-for-profit activity under Section 183. Under current law, how are the hobby's income and expenses treated on her return?

A. Hobby expenses are deductible as an itemized deduction up to the amount of hobby income reported
B. Hobby income is excluded from gross income as long as related expenses exceed the income received
C. Hobby expenses offset hobby income directly on Schedule 1, with any excess expenses carried to future years
D. Hobby income must be reported as other income, but hobby expenses are not deductible under current law

52. An employer makes contributions to an employee's Health Savings Account through a Section 125 cafeteria plan on a pre-tax salary reduction basis. How do these employer contributions affect the employee's own HSA deduction for the year?

A. The employee may still deduct the full annual HSA contribution limit separately, in addition to the employer's cafeteria plan contributions.
B. The employer contributions are fully taxable to the employee as wages and must be reported as such on Form W-2.
C. The employer contributions reduce the amount the employee may otherwise deduct, since they already receive pre-tax treatment and count toward the limit.
D. The employer contributions have no effect on the employee's HSA at all, since cafeteria plan HSA funding is not permitted under current law.

53. A taxpayer wants to donate only a partial interest in a piece of property to a qualified charity, retaining the other interest for herself or another person. As a general rule, is a charitable deduction allowed for a gift of a partial interest in property?

A. Yes, partial interest gifts are always fully deductible at fair market value regardless of what interest is retained by the donor.
B. No, as a general rule, but exceptions exist, such as a remainder interest in a personal residence or farm, or an undivided portion.
C. No, partial interest gifts are never deductible under any circumstances, including gifts made through a qualified charitable remainder trust.

D. Yes, but only if the retained interest is transferred to a family member rather than kept by the donor personally.

54. A student attends an unaccredited institution that does not participate in federal student aid programs and is not eligible to participate under Title IV of the Higher Education Act. Her family pays qualified tuition to this institution. May they claim the American Opportunity Tax Credit for these payments?

A. No, because the American Opportunity Tax Credit requires enrollment at an eligible institution participating in the Title IV federal student aid programs.
B. Yes, because the American Opportunity Tax Credit applies to payments made to any postsecondary institution regardless of federal aid eligibility.
C. Yes, but only if the family instead claims the Lifetime Learning Credit alongside the American Opportunity Tax Credit for the same expenses.
D. No, because the American Opportunity Tax Credit was permanently repealed and replaced entirely by the Lifetime Learning Credit under current law.

55. A taxpayer contributes $10,000 to a state-approved charitable program and, in exchange, receives a state tax credit equal to 12 percent of the contribution against her state income tax liability. How does this state tax credit affect her federal charitable contribution deduction?

A. Her federal deduction must be reduced dollar-for-dollar by the full value of the state tax credit received, regardless of the credit percentage.
B. Her federal deduction is eliminated entirely, since receiving any state tax credit in return disqualifies the entire payment as a charitable gift.
C. Her federal deduction is unaffected, since state tax credits are never taken into account when computing federal charitable deductions.
D. Her federal deduction is not reduced, because the credit received falls within the 15 percent de minimis safe harbor for state or local credits.

56. In December, a taxpayer pays tuition for an academic period that begins in January of the following year. Assuming all other American Opportunity Tax Credit requirements are met, in which year may the taxpayer claim the credit for this prepaid tuition?

A. The credit may be claimed in either year, at the taxpayer's election, as long as it is not claimed twice for the same expense.

B. The credit may only be claimed in the year the academic period actually begins, regardless of when the tuition payment was made.

C. The credit may never be claimed for prepaid tuition, since payments made before the academic period begins do not qualify at all.

D. The credit may be claimed in the year paid, since expenses for a period beginning within the next three months count as paid that year.

57. A taxpayer holds a private activity bond issued by a state housing authority. The interest is excluded from gross income for regular tax purposes. How is this interest treated when computing alternative minimum taxable income (AMTI)?

A. It remains fully excluded from AMTI in every case, matching its treatment for regular tax purposes

B. It is includible in AMTI only when the bondholder is subject to the Net Investment Income Tax

C. It is added back as a tax preference item in computing AMTI, except for certain bonds issued in 2009 or 2010

D. It is included in AMTI but qualifies for the reduced long-term capital gains tax rate

58. A nonqualified church-controlled organization elects under IRC Section 3121(w) to exclude its employees from Social Security and Medicare coverage under FICA. How does this election affect the employees' own employment tax obligations?

A. The employees owe no Social Security or Medicare tax at all on wages from that employer

B. The employer must instead pay both the employee and employer shares of FICA tax directly to the IRS

C. Each employee becomes subject to self-employment tax on those wages, reported on Schedule SE

D. The employees become eligible to opt into voluntary FICA withholding through a signed Form W-4 election

59. A married taxpayer filing separately earns $140,000 in wages from a single employer during the year, with no other income. At what wage threshold is the employer required to begin withholding Additional Medicare Tax, and does the taxpayer owe the tax based on her separate filing threshold?

A. The employer withholds once wages exceed $200,000, but the taxpayer owes the tax above her $125,000 married-separate threshold

B. The employer withholds once wages exceed $125,000, matching the taxpayer's married-filing-separately threshold exactly

C. Neither withholding nor liability applies until combined household wages from both spouses exceed $250,000 for the year

D. The taxpayer owes no Additional Medicare Tax because married-filing-separately taxpayers are entirely excluded from the tax

60. A nonresident alien individual has substantial investment income for the year, including interest, dividends, and capital gains from U.S. sources. Is this income subject to the 3.8% Net Investment Income Tax?

A. Yes, nonresident aliens are subject to NIIT on all U.S.-source investment income above the applicable threshold

B. No, nonresident aliens are not subject to NIIT under current law, regardless of the investment income amount

C. Yes, but only if the nonresident alien elects to be treated as a resident for the entire tax year

D. No, unless the investment income is effectively connected with a U.S. trade or business the alien conducts

61. A taxpayer files her individual income tax return nine months after the original due date, with no extension on file, and owes a small balance due. Because the return is more than 60 days late, what minimum failure-to-file penalty applies, assuming no reasonable cause exception is established?

A. There is no separate minimum penalty; the penalty is always exactly 5% per month of the unpaid tax

B. The minimum penalty is the lesser of a fixed dollar amount or 100% of the tax required to be shown

C. The minimum penalty is capped at $50, regardless of how small the unpaid balance due happens to be

D. The minimum penalty applies only if the failure to file is later determined to be fraudulent

62. A parent wants to report her child's unearned income directly on the parent's own tax return using the Form 8814 election, instead of the child filing a separate return. Which condition must be satisfied for this election to be available?

A. The child must be under age 24 and have earned income exceeding half of her own support

B. The child's total income for the year must consist entirely of wages reported on a Form W-2

C. The parent must be the custodial parent under a decree that assigns the dependency exemption

D. The child's income must consist only of interest, dividends, and capital gain distributions within specified dollar limits

63. A taxpayer's Section 199A qualified business income deduction includes both a QBI component from her sole proprietorship and a separate component attributable to qualified REIT dividends and qualified publicly traded partnership income. How does the REIT/PTP component differ from the QBI component in its computation?

A. It is computed identically to the QBI component and is subject to the same wage and property limitations

B. It is excluded from the deduction entirely unless taxable income falls below the phase-in threshold

C. It equals 20% of the combined REIT dividends and PTP income, without any W-2 wage or UBIA limitation

D. It is limited to 20% of taxable income minus net capital gain, with no separate income component allowed

64. A taxpayer sells equipment used in her sole proprietorship for a gain, after having claimed depreciation deductions on the equipment over several years. Under Section 1245, how much of the recognized gain must be treated as ordinary income rather than capital gain?

A. Gain is treated as ordinary income up to the depreciation previously claimed, with any excess as capital gain

B. All of the gain is treated as capital gain, since business equipment is a Section 1231 asset

C. Gain is treated as ordinary income only if the equipment was sold within one year of purchase

D. Half of the gain is automatically treated as ordinary income, and the remaining half as capital gain

65. The IRS issues a disaster relief announcement under Section 7508A for taxpayers located in a federally declared disaster area, postponing various tax filing and payment deadlines that would otherwise fall within the disaster period. What must an affected taxpayer generally do to receive this deadline postponement?

A. File Form 4868 to formally request the disaster postponement before the original deadline

B. Nothing separate; the IRS automatically identifies taxpayers with an address of record in the disaster area

C. Attach a written disaster declaration statement to the affected return when it is eventually filed

D. Call the IRS disaster hotline within 30 days of the disaster declaration to register for relief

66. A taxpayer purchases a taxable corporate bond above its stated redemption value and elects to amortize the resulting bond premium under Section 171. What effect does this election have on her reporting of interest income each year?

A. The amortized premium for the year offsets and reduces the taxable interest income reported from the bond

B. The amortized premium is deducted as a miscellaneous itemized deduction separate from the bond's interest income

C. The amortized premium increases the taxpayer's basis in the bond each year until the bond matures

D. The amortized premium has no effect on interest income and is instead treated as a capital loss

67. A parent lends her adult child $50,000 interest-free to help purchase a home, with no interest charged and no note reflecting market repayment terms. Under the below-market loan rules of Section 7872, how is this arrangement generally treated for tax purposes?

A. The loan is disregarded entirely because loans between family members are exempt from Section 7872

B. The parent recognizes a taxable gain equal to the full principal amount in the year the loan is made

C. Interest is imputed at the applicable federal rate, treated as a gift and as taxable interest income to the parent

D. The child must recognize the entire $50,000 as taxable income in the year the proceeds are received

68. A 40-year-old taxpayer withdraws $15,000 from her traditional IRA and uses the full amount to pay qualified higher education expenses for her daughter, who is enrolled at least half-time at an eligible institution. How does this exception affect the 10% additional tax on early distributions?

A. The exception applies only if the taxpayer herself, rather than a dependent, is the student incurring expenses

B. The distribution remains subject to the 10% additional tax because the exception applies only to 401(k) plans

C. The exception eliminates both regular income tax and the 10% additional tax on the entire distribution

D. The distribution is exempt from the 10% additional tax, though it remains includible in gross income

69. A taxpayer's return understates tax liability enough to trigger the Section 6662 accuracy-related penalty. She argues that she reasonably relied in good faith on the advice of a competent tax professional after providing complete and accurate information. What is the effect of establishing this defense?

A. The defense reduces the accuracy-related penalty rate from 20% to 10% but does not eliminate it entirely

B. The reasonable cause and good faith defense can eliminate the accuracy-related penalty entirely if properly established

C. The defense only applies to the failure-to-file penalty and has no bearing on accuracy-related penalties

D. The defense automatically converts the accuracy-related penalty into a lesser estimated tax underpayment penalty instead

70. A taxpayer owns several residential rental properties, collects rent, and handles routine landlord responsibilities such as arranging repairs and screening tenants, but is not a real estate dealer. Is the net rental income from these properties generally subject to self-employment tax?

A. Yes, all rental real estate income is automatically subject to self-employment tax regardless of activity level

B. Yes, but only the portion of rental income exceeding the Social Security wage base is subject to the tax

C. No, but only if the taxpayer also qualifies as a real estate professional under the passive activity rules

D. No, rental real estate income is generally excluded from self-employment tax unless the taxpayer is a real estate dealer

71. A single, noncorporate taxpayer's sole proprietorship generates a large net business loss for the year that exceeds the applicable excess business loss threshold under Section 461(l). What happens to the portion of the loss that exceeds this threshold?

A. The excess loss is permanently disallowed and may never be deducted in any future tax year

B. The excess loss is deducted in full against wage income but not against any other income type

C. The excess loss is disallowed for the current year and treated as a net operating loss carryforward

D. The excess loss reduces only the taxpayer's self-employment tax liability rather than her income tax liability

72. A single retiree receives Social Security benefits along with other taxable income for the year. Her combined income, consisting of AGI plus tax-exempt interest plus half of her benefits, exceeds the applicable base amounts under the provisional income formula. What is the maximum percentage of her Social Security benefits that can be included in taxable income?

A. Up to 85% of Social Security benefits may be included once provisional income exceeds the higher threshold

B. Up to 50% of Social Security benefits may be included in taxable income, and this cap can never be exceeded

C. 100% of Social Security benefits become taxable once provisional income exceeds any base amount at all

D. Social Security benefits are entirely excluded from taxable income regardless of the taxpayer's other income sources

73. A taxpayer has $30,000 of credit card debt cancelled by a lender during the year. Immediately before the cancellation, her total liabilities exceeded the fair market value of her total assets by $20,000. How much of the cancelled debt must she include in gross income?

A. The full $30,000 must be included in gross income, since insolvency provides no exclusion for cancelled debt

B. None of the $30,000 is included, because any degree of insolvency fully exempts cancelled debt from income

C. Only $10,000 is included in income, since the amount by which she was insolvent is excluded

D. Exactly half of the cancelled debt, $15,000, is automatically excluded regardless of the extent of insolvency

74. A taxpayer redeems Series EE savings bonds purchased in her own name and uses the entire redemption proceeds, including accrued interest, to pay qualified higher education tuition and fees during the same year. Her modified AGI falls within the applicable phase-out range for this exclusion. How is the interest treated?

A. The interest is fully taxable because the exclusion applies only to Series I bonds, not Series EE bonds

B. The interest is fully excluded automatically, without regard to the taxpayer's modified AGI for the year

C. The interest is excluded only if the bonds were purchased before the taxpayer turned 24 years of age

D. A portion of the interest is excluded, phased out based on where modified AGI falls within the range

75. A 55-year-old taxpayer separates from service with a state government employer and takes a full distribution from her governmental 457(b) deferred compensation plan. Compared to a similar distribution from a 401(k) plan, how is the 457(b) distribution treated for early withdrawal penalty purposes?

A. Subject to the same 10% early withdrawal penalty as a 401(k) plan distribution

B. Not subject to the 10% early withdrawal penalty, regardless of the participant's age at distribution

C. Subject to a reduced 5% early withdrawal penalty unique to governmental deferred compensation plans

D. Subject to the 10% penalty only if the participant is under age 55 at separation from service

76. An employee with 18 years of service at a public school district participates in the district's 403(b) tax-sheltered annuity plan. In addition to the standard elective deferral limit and the age-50 catch-up, which additional catch-up contribution may this employee be eligible to make under a provision unique to 403(b) plans?

A. An additional catch-up of up to $3,000 per year, subject to a $15,000 lifetime cap, based on 15 years of service

B. An additional catch-up of up to $6,500 per year with no lifetime limit, based on years of service

C. An additional catch-up equal to 10% of compensation, available after 20 years of service with one employer

D. An additional catch-up of up to $1,000 per year, available only to employees over age 60 with long tenure

77. A small business owner with 22 employees establishes a SIMPLE IRA plan for the upcoming year. Under SECURE 2.0 Act provisions available to employers with 25 or fewer employees, which enhancement may the employer elect for the plan?

A. Increased elective deferral and catch-up contribution limits for employees, along with a higher employer nonelective contribution percentage

B. Automatic conversion of all employee accounts from SIMPLE IRAs to safe harbor 401(k) accounts after three years

C. Elimination of the two-year rollover restriction that otherwise applies to SIMPLE IRA distributions

D. Permission to allow employees to take unlimited penalty-free withdrawals during the plan's first two years of operation

78. An employer offers an Individual Coverage Health Reimbursement Arrangement (ICHRA) to an employee, who declines it and instead wants to purchase a Marketplace policy using the premium tax credit. How does the ICHRA offer generally affect the employee's premium tax credit eligibility?

A. The ICHRA offer has no effect on premium tax credit eligibility as long as the employee declines the arrangement

B. The employee automatically qualifies for the premium tax credit regardless of the ICHRA's affordability

C. The employee may claim the premium tax credit only if the ICHRA reimbursement is less than $1,000 annually

D. The employee is generally barred from the premium tax credit unless the ICHRA is deemed unaffordable and the employee opts out

79. A client funds an irrevocable life insurance trust with annual cash gifts intended to qualify for the annual gift tax exclusion, but the trust document provides only a future interest to the trust beneficiaries. Which drafting technique allows these transfers to qualify as present-interest gifts eligible for the exclusion?

A. Designating the trust as a grantor trust for income tax purposes so all income is taxed to the grantor
B. Including a Crummey withdrawal power giving beneficiaries a limited-time right to withdraw each contribution
C. Electing to treat the trust as a qualified terminable interest property trust on a timely filed gift tax return
D. Naming the trust as an irrevocable grantor retained annuity trust with a fixed-term annuity payment

80. A 40-year-old taxpayer opened her first Roth IRA two years ago and now withdraws $10,000 of earnings to help purchase her first home. She has never owned a home before. How is this withdrawal treated?

A. Fully tax-free and penalty-free because the funds are used for a first-time home purchase
B. Subject to both income tax and the 10% penalty because the five-year holding period has not been met
C. Subject to income tax on the earnings but exempt from the 10% penalty under the first-time homebuyer exception
D. Exempt from income tax but still subject to the 10% early withdrawal penalty

81. A participant with a vested 401(k) account balance of $90,000 wants to take the maximum loan permitted under the plan's terms. Under the general statutory limit, what is the maximum amount the participant may borrow?

A. $90,000, since plan loans may not exceed the participant's full vested account balance
B. $45,000, the lesser of $50,000 or 50% of the vested account balance
C. $50,000, regardless of the participant's vested account balance, since $50,000 is a flat statutory cap
D. $10,000, the statutory minimum loan amount available regardless of vested balance

82. An IRA owner names her 10-year-old grandchild directly as the sole primary beneficiary on the account's beneficiary designation form, with no trust involved. If the IRA owner dies while the grandchild is still a minor, what practical complication commonly arises regarding administration of the inherited account?

A. The distribution automatically defaults to the estate because minors cannot be named as IRA beneficiaries

B. The custodian must liquidate the entire account within 60 days and hold proceeds in an escrow account

C. A court-appointed guardian or conservator is typically needed to manage the inherited IRA until the minor reaches majority

D. The account converts automatically into a 529 plan for the minor's benefit until age 18

83. A 28-year-old ABLE account beneficiary is employed and does not participate in an employer-sponsored retirement plan. Beyond the standard annual ABLE contribution limit tied to the gift tax annual exclusion, what additional contribution may this beneficiary make under the ABLE to Work provision?

A. An additional contribution up to the lesser of the beneficiary's compensation or the federal poverty line for a one-person household

B. An additional contribution equal to the beneficiary's full annual compensation, with no upper dollar limit

C. An additional employer-matching contribution of up to 3% of compensation, mirroring a workplace retirement plan match

D. An additional contribution of exactly $6,500, matching the IRA catch-up contribution amount for the year

84. A client in the top income tax bracket asks whether distributions from a traditional IRA and a 401(k) plan will be subject to the 3.8% net investment income tax (NIIT), in addition to ordinary income tax. What should the practitioner explain?

A. Retirement plan distributions are always included in net investment income and are fully subject to the 3.8% NIIT

B. Retirement plan distributions are subject to the NIIT only if the client's modified AGI exceeds $1,000,000

C. Retirement plan distributions are subject to the NIIT at a reduced rate of 1.9% instead of the full 3.8%

D. Retirement plan distributions are not net investment income and are excluded from the NIIT, regardless of the client's income level

85. A married couple lives in a state that imposes its own state-level estate tax with an exemption amount well below the federal exemption, and that state does not offer portability of a deceased spouse's unused exemption. Which planning implication follows for this couple?

A. The federal portability election automatically applies to the state exemption as well, so no additional planning is needed

B. Neither spouse's estate will owe any state estate tax as long as the federal exemption is not exceeded

C. The state exemption amount automatically rises to match the federal exemption once portability is elected federally

D. Each spouse's estate plan may need a credit shelter trust or similar mechanism to use the first spouse's state exemption

86. A 60-year-old employee is still actively working for the same employer and wants to move a portion of her vested 401(k) balance into an IRA without leaving her job or taking a loan. Assuming the plan document permits it, which option allows this?

A. A hardship withdrawal, since active employees may only access plan funds by demonstrating immediate financial need

B. A qualified domestic relations order distribution, which is available to any employee regardless of marital status

C. An in-service withdrawal, which many plans allow for employees who have reached age 59½ while still employed

D. A required minimum distribution, since the employee has already reached the age at which RMDs must begin

87. A Coverdell Education Savings Account beneficiary turns 30 years old during the year with unused funds still remaining in the account. Absent a special needs exception, what generally happens to the remaining balance under the Coverdell rules?

A. The remaining balance must generally be distributed within 30 days or rolled to an eligible family member's Coverdell account

B. The remaining balance may stay in the account indefinitely with no distribution requirement at any age

C. The remaining balance automatically converts into a Roth IRA in the beneficiary's name without penalty

D. The remaining balance is forfeited to the account custodian and is not available to the beneficiary or family

88. An individual debtor files a bankruptcy petition. Under which chapter of the Bankruptcy Code does the individual's bankruptcy estate become a separate taxable entity required to file its own Form 1041, distinct from the debtor?

A. Chapter 13 only, since Chapter 13 filings always create a distinct taxable estate for the debtor

B. Chapter 7 or Chapter 11, since these cases create a separate taxable entity apart from the debtor

C. Chapter 12 only, since family farmer reorganization cases create a separate taxable entity for the debtor

D. Every bankruptcy chapter, since any filing automatically creates a separate taxable entity for the debtor

89. An executor of a decedent's estate and the trustee of the decedent's revocable trust wish to combine the trust's income tax reporting with the estate's for administration convenience. Which election allows a qualified revocable trust to be treated as part of the decedent's estate for income tax purposes?

A. The Section 663(b) election, filed annually by the trustee on Form 1041-T for distributions

B. The Section 645 election, filed jointly by the executor and trustee on Form 8855

C. The Section 642(c) election, filed by the trustee alone on Schedule I of Form 1041

D. The Section 6166 election, filed by the executor alone on Form 706 within nine months

90. A complex trust's fiduciary wants a distribution made shortly after the close of the trust's tax year to instead be treated, for income tax purposes, as if it had been made on the last day of the preceding tax year. Within how many days after year-end must the distribution be made for this treatment to be available?

A. 65 days

B. 90 days

C. 30 days

D. 105 days

91. For federal income tax purposes on Form 1041, what personal exemption amount may a decedent's estate deduct, regardless of the amount of income it distributes during the year?

A. $100, the same exemption allowed to a complex trust
B. $300, the same exemption allowed to a simple trust
C. $0, since estates are not entitled to any exemption
D. $600, an exemption unique to a decedent's estate

92. In the final year of a decedent's estate, the estate's deductions exceed its gross income, and no beneficiary receives a distribution large enough to absorb the excess. What happens to these excess deductions under Section 642(h)?

A. They are permanently lost and may not be used by the estate or any beneficiary
B. They must be carried back two years on the estate's prior Form 1041 returns
C. They pass through to the beneficiaries succeeding to the estate's property and are deductible by them
D. They are automatically converted into a net operating loss carried forward by the estate

93. A U.S. citizen works abroad and wants to qualify for the foreign earned income exclusion using the physical presence test rather than the bona fide residence test. Under this test, the taxpayer must be physically present in a foreign country or countries for at least how many full days during any period of 12 consecutive months?

A. 330 full days
B. 183 full days
C. 270 full days
D. 365 full days

94. As a general rule, a nonresident alien filing Form 1040-NR may not claim the standard deduction. Which of the following individuals is a recognized exception permitted to claim the standard deduction under a specific treaty provision?

A. A nonresident alien from Canada claiming the standard deduction under NAFTA successor treaty provisions

B. A nonresident alien employed by a foreign government claiming diplomatic immunity from taxation

C. A nonresident alien student or business apprentice from India eligible under the U.S.-India tax treaty

D. A nonresident alien who elects to be treated as a U.S. resident for the entire year

95. A married couple resides in a community property state and files separate individual income tax returns rather than a joint return. Neither spouse elects any exception. Under the community property income-splitting rules, how must most income earned by either spouse during the marriage generally be reported?

A. Entirely by the spouse who actually earned the income, with no splitting required

B. Entirely by the higher-earning spouse, who reports both spouses' combined income

C. In whatever proportion the couple mutually agrees upon and reports consistently

D. One-half by each spouse, regardless of which spouse actually earned the income

96. A complex trust has two beneficiaries. One beneficiary is entitled under the trust instrument to receive mandatory annual distributions of trust income, and the other beneficiary received an additional discretionary distribution from accumulated income during the year. The trust's distributable net income is insufficient to cover both distributions in full. Under the tier system, how is DNI allocated between the two beneficiaries?

A. DNI is allocated proportionately between the two beneficiaries based solely on the dollar amount each one received

B. DNI is allocated first to the beneficiary entitled to the mandatory income distribution, before any remainder reaches the discretionary distribution

C. DNI is allocated entirely to the discretionary distribution, since mandatory distributions are funded from trust corpus instead

D. DNI is allocated equally between the two beneficiaries regardless of whether a distribution is mandatory or discretionary

97. For purposes of computing distributable net income (DNI) for a trust, how are capital gains realized by the trust generally treated?

A. Allocated to corpus and excluded from DNI, unless allocated to income or distributed
B. Always included in full in DNI and taxed to the income beneficiaries
C. Automatically excluded from the trust's own taxable income entirely, with no reporting required
D. Split evenly between DNI and corpus regardless of the trust instrument's terms

98. A taxpayer paid foreign income taxes during the year and is deciding whether to claim a foreign tax credit on Form 1116 or instead deduct the foreign taxes as an itemized deduction on Schedule A. Which statement correctly describes this election?

A. The taxpayer may credit some foreign taxes and deduct others within the same tax year
B. The election applies to all foreign taxes paid for the year; mixing credit and deduction is not allowed
C. The election is binding for all future tax years once made and cannot ever be changed
D. The deduction option is only available to taxpayers who also itemize state and local taxes

99. A decedent dies on March 1, 2025. Regarding the requirement to pay quarterly estimated income tax, what special exception applies to the decedent's estate under Section 6654(l)?

A. The estate is permanently exempt from paying estimated tax for as long as it remains open
B. The estate must begin paying estimated tax immediately in its very first quarter of existence
C. The estate is exempt from estimated tax for any tax year ending within two years of death
D. The estate is exempt from estimated tax only if its taxable income is under $1,000

100. A nonresident alien who is not a U.S. citizen dies owning U.S.-situated real estate and stock in U.S. corporations, but has no other connection to the United States. Regarding the estate tax applicable exclusion amount available to shelter this U.S.-situated property, which statement is correct?

A. The full basic exclusion amount available to U.S. citizens and residents applies equally to this estate
B. No exclusion amount whatsoever is available, and the entire U.S.-situated property is subject to estate tax
C. The exclusion amount is determined by treaty in every case, with no statutory default amount
D. A far smaller unified credit applies, equivalent to sheltering only about $60,000 of property value

Answer Key and Explanations — Practice Exam 12, Part 1: Individuals

1. A — Section 7216 and its regulations generally prohibit a preparer from disclosing or using tax return information for purposes beyond preparing the return unless the taxpayer first gives knowing, voluntary written consent meeting specific regulatory content and format requirements, including the intended use and recipient. Verbal consent, a Form 2848, or OPR approval do not satisfy this separate disclosure-consent requirement.

2. C — Enrolled agent renewal cycles are staggered based on the last digit of the agent's Social Security number, with renewal windows assigned across three groups. Over each three-year cycle, an agent must complete a minimum of 72 hours of IRS-approved continuing education, including at least 2 hours of ethics or professional conduct content in each of the three years.

3. D — Separation-of-liability relief allocates a deficiency between spouses as if they had filed separately, but it is only available to a requesting spouse who, when relief is requested, is divorced, legally separated, widowed, or has lived apart from the other joint filer for the twelve months immediately preceding the request; actual knowledge of the item can disqualify the requester.

4. B — Section 10.33 sets out best practices, such as communicating clearly, advising clients on the merits of tax positions, and acting fairly and with integrity. These standards are aspirational rather than mandatory, so failing to follow them does not, by itself, trigger discipline the way violating a specific mandatory Circular 230 duty would.

5. B — Practice before the IRS includes preparing and filing documents, corresponding with the IRS, and representing a taxpayer at conferences, hearings, or meetings. Attorneys, certified public accountants, and enrolled agents in good standing have unlimited representation rights across all IRS matters. Holding a PTIN alone, or being named on Form 8821, does not confer these representation rights.

6. A — An AFSP Record of Completion gives a non-credentialed preparer limited representation rights: the preparer may represent clients before IRS revenue agents, customer service representatives, and similar employees, but only for returns the preparer actually prepared and signed. It does not extend to Appeals, Collections, Chief Counsel, or Tax Court, unlike the unlimited rights of enrolled agents.

7. C — For an undisclosed position, IRC section 6694 generally requires the preparer to have reasonably believed the position would more likely than not be sustained on its merits. A merely reasonable basis is insufficient unless the position is adequately disclosed on the return, in which case a lower substantial-authority standard applies instead.

8. D — IRS recordkeeping rules generally require a documentary receipt to substantiate expenses of $75 or more. An exception applies to expenses under $75, other than lodging, which do not require a receipt, though the taxpayer must still record the amount, time, place, and business purpose. Lodging expenses require a receipt regardless of amount.

9. D — The Taxpayer Bill of Rights groups existing taxpayer protections into ten categories, including the right to be informed, quality service, pay no more than the correct tax, challenge the IRS's position, and appeal a decision in an independent forum such as IRS Appeals or the courts. It does not guarantee refunds or automatic penalty waivers.

10. A — Circular 230 section 10.28 requires a practitioner to return a client's records necessary for compliance and, upon request, to furnish the client a copy of a return or claim for refund the practitioner prepared, within a reasonable time. This obligation is not conditioned on the client having paid the preparer's fee or filing a formal written request in advance.

11. B — Section 7491 shifts the burden of proof on a factual issue to the IRS, but only if the taxpayer introduces credible evidence, has complied with substantiation requirements, has maintained all records required by the Code, and has cooperated with reasonable IRS requests for information, meetings, and witnesses. Merely requesting the shift is not sufficient.

12. C — Circular 230 flatly prohibits a practitioner from charging an unconscionable fee for representing a client in a matter before the IRS. Unlike the more nuanced contingent-fee rules, which permit contingent fees in certain limited situations, the unconscionable-fee prohibition applies outright and cannot be cured through client disclosure, and it applies equally to attorneys, CPAs, and enrolled agents.

13. C — Section 7525 extends a limited privilege, similar to the attorney-client privilege, to communications between a taxpayer and a federally authorized tax practitioner, but only regarding tax advice given for noncriminal tax matters before the IRS and noncriminal tax proceedings in federal court. It does not apply to criminal matters or to the preparation of a return itself.

14. D — IRC section 7602(c) generally requires the IRS to give a taxpayer reasonable advance notice before contacting third parties, such as employers, banks, or neighbors, to determine or collect a tax liability. The IRS must also periodically provide the taxpayer a record of the third parties actually contacted. Consent is not required, only advance notice.

15. A — A Tax Account Transcript shows basic return data along with later account activity, including penalty and interest assessments, payments, and adjustments made after filing. A Return Transcript shows most original line items as filed but does not reflect later changes. A Wage and Income Transcript reports third-party income documents instead of account activity.

16. B — Circular 230 section 10.31 prohibits a practitioner who prepares tax returns from endorsing or otherwise negotiating a refund check issued to a client, to prevent practitioners from diverting or mishandling client refunds. Merely advising a client about depositing a refund, informing them of an expected arrival date, or preparing the original return are not prohibited by this rule.

17. A — Under Section 108, when a taxpayer is both in a Title 11 case and insolvent, the bankruptcy exclusion controls and takes priority over the insolvency exclusion. The full amount of discharged debt is excluded from gross income regardless of the extent of insolvency, but the taxpayer must reduce specified tax attributes, such as net operating losses, by the excluded amount.

18. C — A Section 754 election allows a partnership to make a special basis adjustment under Section 743(b) when an interest is sold or transferred. The adjustment is limited to the transferee partner and aligns that partner's share of inside asset basis with the outside basis reflected in the purchase price, preventing gain or loss duplication.

19. B — Because personal use exceeded the greater of 14 days or 10 percent of the days rented at fair rental value, the property is treated as a personal residence under Section 280A. Deductions allocable to the rental use are limited to the gross rental income, with disallowed excess expenses carried forward to later years.

20. D — When the seller retains the substantial risks and benefits of ownership, such as a repurchase option and continued economic exposure, the IRS looks past the form of the transaction and treats a sale-leaseback as a secured financing arrangement. The proceeds are treated as a loan, and the original owner continues to claim depreciation.

21. A — A complete disposition of an entire interest in a passive activity to an unrelated party in a fully taxable transaction releases all suspended losses from that activity. The freed losses become fully deductible against any income, including active and portfolio income, for the year of disposition, no longer limited to passive income sources.

22. D — Loss limitations for an activity apply in a fixed sequence: basis first, then the at-risk rules, and finally the passive activity loss rules. A loss must clear each hurdle before reaching the next, so the taxpayer here is limited to $18,000 of loss before any passive activity restriction is even considered.

23. C — A Section 83(b) election is not reversed by a later forfeiture. Absent a narrow statutory exception, no loss deduction is allowed for the amount the employee already included in income when the election was made, other than a limited capital loss for any amount actually paid for the now-forfeited shares.

24. B — Exercising an incentive stock option generally produces no regular taxable income at the time of exercise. However, the spread between the exercise price and the stock's fair market value is an adjustment added back for alternative minimum tax purposes, potentially creating AMT liability in the exercise year even though no regular tax is currently due.

25. D — When original issue discount falls below the statutory de minimis threshold, generally 0.25 percent of the redemption price multiplied by the number of complete years to maturity, the holder is not required to accrue it as interest income each year. Instead, the discount is generally recognized as capital gain upon sale, redemption, or maturity.

26. B — Section 1259's constructive sale rules apply when a taxpayer holding an appreciated position enters into a short sale of identical or substantially identical property, known as 'shorting against the box.' The taxpayer must recognize gain immediately, as though the position were sold at fair market value on the date of the constructive sale, even though the original shares remain unsold.

27. A — Section 631(b) provides automatic capital gain treatment, without any election, for gain from disposing of timber held for the required period under a contract where the owner retains an economic interest until severance. This differs from Section 631(a), which requires an affirmative election to treat the owner's own cutting of timber as a sale.

28. C — Converting a convertible bond into stock under the bond's original conversion privilege is not a taxable event. No gain or loss is recognized because the exchange represents a continuation of the same investment rather than a sale or disposition. The taxpayer's basis in the bond, and its holding period, carry over directly to the stock received in the conversion.

29. B — In a part-gift, part-sale transfer to a family member, the transferor recognizes gain only if the sale price exceeds his adjusted basis; here it does not, so no gain results. The recipient's basis for computing future gain is the amount paid, and no loss may later be claimed if the property is later sold below that carried-over amount.

30. C — A regulated investment company may retain and pay tax on long-term capital gains rather than distributing them. Shareholders report their share of the designated gain as long-term capital gain on Form 2439, claim a credit for the tax the fund already paid on their behalf, and increase their basis in the fund shares.

31. D — When a taxpayer sells covered mutual fund shares without specifically identifying which lots are sold, the broker applies its default basis method, commonly average cost or first-in, first-out, to compute gain or loss. A taxpayer wishing to use a different result must make a timely specific identification before or at the time of sale.

32. A — Property acquired as replacement property in a like-kind exchange is subject to a special five-year holding period requirement before the Section 121 exclusion becomes available, in addition to the usual ownership and use tests. This rule prevents converting investment property into a quickly sold, tax-excluded residence right after a Section 1031 exchange.

33. C — Under the uniform basis rules, the property receives a single stepped-up basis determined at the decedent's death, which is then divided between the life tenant and the remainderman using IRS actuarial tables that reflect the relative value of each interest, based on factors such as age and applicable interest rates.

34. A — When a call option written by an investor lapses unexercised, the premium received is treated as a short-term capital gain in the year of lapse, regardless of how long the option itself was outstanding, because the gain arises from the closing of the option position rather than a sale of the stock.

35. B — A taxpayer who elects to report savings bond interest annually as it accrues, instead of deferring it to redemption, must apply that method to all similar bonds currently owned and later acquired. Changing back to the deferral method afterward generally requires IRS permission, since the election is intended to bind future reporting consistently.

36. D — Raised breeding livestock held for the required holding period qualifies as Section 1231 property even though it was never purchased and no depreciation was claimed. Gain on its sale is eligible for favorable Section 1231 treatment, potentially taxed as long-term capital gain, since Section 1231 does not require the property to have been a depreciable purchased asset.

37. B — A qualified charitable distribution lets a traditional IRA owner age seventy and a half or older transfer funds directly from the IRA to a qualified charity. The amount is excluded from gross income, no itemized deduction is separately claimed for it, and the transfer counts toward satisfying that year's required minimum distribution, up to the annual QCD limit.

38. D — A qualified HSA funding distribution permits a one-time, trustee-to-trustee transfer directly from a traditional or Roth IRA into a Health Savings Account. The transferred amount is not included in income, but it counts against the taxpayer's annual HSA contribution limit for that year, and this special funding transfer is generally allowed only once during the taxpayer's lifetime.

39. A — The Credit for the Elderly or the Permanently and Totally Disabled is figured on Schedule R for qualifying taxpayers age sixty-five or older, or those permanently and totally disabled with qualifying disability income. The initial base amount is reduced dollar-for-dollar by nontaxable Social Security, certain nontaxable pensions, and by excess adjusted gross income above set thresholds, and it is nonrefundable.

40. C — The post-2017 rule limiting personal casualty losses to federally declared disasters applies only to personal-use property. Losses on business or income-producing property, such as a rental, remain deductible as ordinary casualty losses regardless of any disaster declaration, are not subject to the $100 floor or ten percent AGI limitation, and are reported on Form 4684 accordingly.

41. D — For 2025 the family HDHP contribution limit is $8,550, shared between spouses as they allocate. Each spouse age fifty-five or older may add a $1,000 catch-up contribution, but a catch-up amount must be deposited into that spouse's own HSA rather than the other spouse's account. Combined, the household may contribute up to $10,550.

42. B — A taxpayer may still contribute to a traditional IRA even when the deduction is fully phased out because of active plan participation and income level. The contribution becomes a nondeductible contribution, and Form 8606 must be filed to establish basis in the IRA. This basis is tracked and later recovered tax-free when distributions occur.

43. C — The New Clean Vehicle Credit's modified AGI limitation allows a taxpayer to qualify using whichever is lower: modified AGI for the year the vehicle is placed in service, or modified AGI for the immediately preceding year. This lookback rule lets a taxpayer whose income exceeds the threshold in the purchase year claim the credit based on the lower prior-year figure.

44. A — Qualifying performing artists may deduct unreimbursed employee business expenses above the line under a narrow provision requiring at least two employers during the year, employee-related expenses exceeding a small percentage of income from that work, and adjusted gross income below a modest statutory threshold. Meeting all conditions allows the deduction on Schedule 1 without itemizing.

45. A — A member of the Armed Forces reserve component who travels more than 100 miles away from home in connection with reserve duties may deduct the related unreimbursed travel expenses above the line as an adjustment to income. The deduction is limited to the applicable federal per diem rate and standard mileage rate, and is claimed on Form 2106.

46. B — Education credits, including the American Opportunity Tax Credit, are generally claimed by whoever claims the student as a dependent. When no one claims the student as a dependent, the student herself may claim the credit on her own return, provided she otherwise meets the eligibility requirements, including the degree-seeking and enrollment status conditions.

47. C — For the Lifetime Learning Credit, qualified education expenses include tuition and fees required for enrollment or attendance at an eligible institution. Room and board, along with other personal living expenses, transportation, and insurance, are not qualified expenses even though the student may have paid them directly to the school as part of a combined billing statement.

48. D — Interest on a reverse mortgage accrues over the life of the loan but is generally not deductible as it accrues, since most taxpayers use the cash method of accounting. The interest becomes deductible only in the year it is actually paid, which usually happens when the loan is satisfied through repayment, sale of the home, or the borrower's death.

49. B — A bargain sale to charity is split into a sale portion and a gift portion based on the ratio of the sale price to fair market value. The taxpayer's basis is allocated proportionally between the two portions, producing recognized capital gain on the sale portion, and a charitable contribution deduction based on the value of the gift portion.

50. A — Impairment-related work expenses are ordinary and necessary business expenses that an employee with a physical or mental disability incurs to be able to work. Unlike ordinary medical expenses, these costs are deducted as unreimbursed employee business expenses and are not reduced by the 7.5 percent of AGI floor that applies to the medical expense deduction.

51. D — Under Section 183, an activity not engaged in for profit is a hobby, and hobby income must still be included in gross income as other income. However, the Tax Cuts and Jobs Act suspended miscellaneous itemized deductions subject to the 2% floor through 2025, so hobby expenses are not deductible at all, unlike expenses of a genuine trade or business.

52. C — Contributions an employer makes to an employee's HSA through a cafeteria plan are made on a pre-tax basis and are excluded from the employee's wages. These amounts count toward the employee's overall annual HSA contribution limit, reducing the amount the employee may separately deduct for contributions made directly, to prevent a double tax benefit for the same dollars.

53. B — Generally, a charitable contribution deduction is disallowed for a gift of less than the donor's entire interest in property. Recognized exceptions include a remainder interest in a personal residence or farm, a gift of an undivided portion of the taxpayer's entire interest, and a qualified conservation contribution, each of which allows a deduction despite retaining some interest.

54. A — Both the American Opportunity Tax Credit and the Lifetime Learning Credit require that qualified expenses be paid to an eligible educational institution, generally one eligible to participate in federal student aid programs under Title IV of the Higher Education Act. Tuition paid to an institution that does not meet this eligibility standard does not qualify for either credit.

55. D — Under current regulations, a state or local tax credit received in return for a charitable contribution generally reduces the federal charitable deduction dollar-for-dollar. However, a de minimis safe harbor allows the deduction to remain unreduced when the credit received does not exceed 15 percent of the contribution amount, so her deduction here is not reduced at all.

56. D — The prepaid expense rule allows qualified tuition and related expenses paid during one calendar year for an academic period that begins within the first three months of the following calendar year to be treated as paid in the year of payment. This permits the American Opportunity Tax Credit to be claimed in the earlier, payment year rather than deferred.

57. C — Interest on private activity bonds is exempt from regular tax but counts as an AMT tax preference item, added back when computing alternative minimum taxable income. Congress carved out an exception for certain private activity bonds issued in 2009 and 2010 under the American Recovery and Reinvestment Act, which remain exempt for AMT purposes as well.

58. C — When a nonqualified church-controlled organization elects out of FICA under Section 3121(w), its employees are treated as self-employed for Social Security purposes on wages from that employer. Each affected employee must pay SECA self-employment tax on those wages, reported on Schedule SE, rather than having FICA withheld by the employer.

59. A — Employers withhold Additional Medicare Tax once an employee's wages from that employer exceed $200,000, regardless of filing status. However, a taxpayer's actual liability threshold depends on filing status; for married filing separately, that threshold is only $125,000. Here, wages of $140,000 exceed $125,000, so tax is owed even though withholding never applied.

60. B — Nonresident aliens are not subject to the Net Investment Income Tax under current law, because NIIT applies only to U.S. citizens, resident aliens, and certain estates and trusts. This exemption holds true regardless of how much U.S.-source investment income the nonresident alien earns, or whether the income is effectively connected with a U.S. trade or business.

61. B — When a return is filed more than 60 days after its due date, the failure-to-file penalty cannot be less than a specific minimum dollar amount, adjusted annually for inflation, or 100% of the tax required to be shown on the return, whichever amount is smaller. This minimum applies even when the computed percentage penalty would otherwise be less.

62. D — The Form 8814 parental election is available only when a child's income consists entirely of interest, dividends, and capital gain distributions, no estimated tax payments or backup withholding were made in the child's name, and the total falls within specified dollar limits. If these conditions are not met, the child must file her own return.

63. C — Qualified REIT dividends and qualified publicly traded partnership income form a separate component of the Section 199A deduction, equal to 20% of that combined amount. Unlike the qualified business income component, this REIT/PTP component is not subject to the W-2 wage or unadjusted basis limitations, and it is not affected by the SSTB phase-out rules.

64. A — Section 1245 recaptures depreciation claimed on personal property used in a trade or business by treating recognized gain as ordinary income up to the total depreciation previously deducted on that property. Any remaining gain beyond the recaptured depreciation amount is treated as Section 1231 gain, which generally qualifies for favorable long-term capital gain tax rates.

65. B — Under Section 7508A, the IRS postpones affected filing and payment deadlines for taxpayers in a federally declared disaster area. Taxpayers with an IRS address of record within the disaster area are identified and granted relief automatically, without needing to contact the IRS. Taxpayers located outside the area but still affected may call the IRS disaster hotline to request relief.

66. A — When a taxpayer elects to amortize bond premium under Section 171, the amortized amount for each year offsets and reduces the taxable interest income reported from that bond, rather than being claimed as a separate deduction. The bond's basis is also reduced by the amortized premium each year until maturity.

67. C — Under Section 7872, a below-market gift loan is treated as if the lender charged interest at the applicable federal rate. The imputed interest is treated as a gift from the lender to the borrower, and simultaneously as taxable interest income received by the lender, even though no interest actually changed hands.

68. D — A distribution from a traditional IRA used to pay qualified higher education expenses for the taxpayer, spouse, child, or grandchild is exempt from the 10% additional tax on early distributions. The distribution is still fully includible in gross income and subject to regular income tax; only the additional penalty tax is avoided.

69. B — Section 6664(c) provides a reasonable cause and good faith defense to the accuracy-related penalty imposed under Section 6662. A taxpayer who reasonably relied on competent professional tax advice, after supplying complete and accurate information to the preparer, may have the entire accuracy-related penalty abated rather than merely reduced, provided the reliance was reasonable given all the facts and circumstances.

70. D — Net rental income from real estate is generally excluded from self-employment tax, even when the owner actively manages the properties, because rental activities are not automatically treated as a trade or business for SE tax purposes. This exclusion does not apply to taxpayers who qualify as real estate dealers holding property primarily for sale to customers.

71. C — Section 461(l) limits the amount of business loss a noncorporate taxpayer may deduct against nonbusiness income in a single year. Any loss exceeding the threshold is disallowed for the current year but is not lost; it is treated as part of a net operating loss carryforward available in future tax years.

72. A — Under the provisional income formula, up to 85% of a taxpayer's Social Security benefits may be included in taxable income once combined income exceeds the higher base amount for the taxpayer's filing status. Below that level, up to 50% may be taxable, and benefits are entirely tax-free for taxpayers with sufficiently low provisional income.

73. C — Cancellation of debt income can be excluded from gross income to the extent the taxpayer is insolvent immediately before the cancellation. Since the taxpayer was insolvent by $20,000, that amount of the $30,000 cancelled debt is excluded, leaving only the remaining $10,000 in excess of insolvency includible in gross income.

74. D — The education savings bond program allows qualifying Series EE and Series I bond interest to be excluded from income when proceeds are used for qualified higher education expenses. However, the exclusion phases out as modified AGI rises within an annually adjusted range, so a taxpayer within that range excludes only a partial amount.

75. B — Distributions from a governmental Section 457(b) plan are never subject to the 10% early withdrawal penalty under IRC Section 72(t), regardless of the participant's age when the distribution occurs. This differs from 401(k) and 403(b) plans, where early distributions before age 59½ generally trigger the penalty absent a specific statutory exception.

76. A — Employees with at least 15 years of service with certain 403(b)-eligible employers, such as schools and hospitals, may make an additional catch-up contribution of up to $3,000 per year, subject to a $15,000 aggregate lifetime cap. This 15-year rule is unique to 403(b) plans and applies independently of, and in addition to, the age-50 catch-up.

77. A — SECURE 2.0 permits employers with 25 or fewer employees to offer increased SIMPLE IRA elective deferral and catch-up limits, roughly 10% higher than the standard amounts, and to raise the employer nonelective contribution from 2% to as much as 10% of compensation. Employers with 26 to 100 employees may offer this only if they also provide enhanced matching.

78. D — Being offered an Individual Coverage HRA generally disqualifies an employee from the Marketplace premium tax credit, similar to an offer of affordable employer coverage. However, if the ICHRA is determined unaffordable relative to the employee's household income under the applicable safe harbor, the employee may decline the ICHRA and still qualify for the premium tax credit.

79. B — A Crummey withdrawal power gives each trust beneficiary a limited, noncumulative right to withdraw a contribution for a short period, typically 30 to 60 days, after it is made. Because the beneficiary could immediately access the funds, this present right converts what would otherwise be a future-interest gift into a present interest eligible for the annual exclusion.

80. C — A Roth IRA distribution is a qualified, fully tax-free distribution only after the five-year holding period is satisfied and a triggering event, such as reaching age 59½, occurs. Here, the five-year period has not been met, so the earnings portion is taxable. However, the up-to-$10,000 first-time homebuyer exception still waives the 10% early withdrawal penalty on that amount.

81. B — The general statutory limit on qualified plan loans is the lesser of $50,000 or 50% of the participant's vested account balance. With a $90,000 vested balance, 50% equals $45,000, which is less than the $50,000 cap, so $45,000 is the maximum loan available; balances under $10,000 may be borrowed in full under a de minimis exception.

82. C — Minors generally lack the legal capacity to directly manage an inherited retirement account. When a minor is named outright as beneficiary, custodians typically require a court-appointed guardian or conservator to act on the minor's behalf until state law recognizes the minor as an adult, adding cost, delay, and court oversight that a trust or UTMA custodian could avoid.

83. A — Under the ABLE to Work provision, an employed ABLE beneficiary who does not contribute to an employer retirement plan may add an amount above the standard annual limit, up to the lesser of the beneficiary's compensation for the year or the federal poverty line for a one-person household, expanding savings capacity for working individuals with disabilities.

84. D — Distributions from qualified retirement plans and traditional IRAs are specifically excluded from the definition of net investment income and are never subject to the 3.8% NIIT, even though they are included in modified adjusted gross income, which can push other investment income, such as dividends or capital gains, above the NIIT threshold.

85. D — Federal portability allows a surviving spouse to use a deceased spouse's unused federal exclusion, but many states with their own estate tax do not recognize portability. Without planning, the first spouse's state exemption is lost at death. A credit shelter or bypass trust can preserve and use that exemption rather than wasting it.

86. C — Many 401(k) plans permit an in-service withdrawal once a participant reaches age 59½, even though the employee remains actively employed and has not separated from service. This allows the participant to roll a portion of the vested balance into an IRA for additional investment flexibility without a hardship, loan, or QDRO being involved.

87. A — A Coverdell ESA must generally be distributed within 30 days after the beneficiary turns 30, unless the beneficiary has special needs. Any earnings on a balance not used for qualified education expenses become taxable and subject to a 10% penalty, though the funds may instead be rolled over to a Coverdell for an eligible family member to avoid this result.

88. B — A separate bankruptcy estate as a distinct taxable entity, filing Form 1041, arises only in individual Chapter 7 or Chapter 11 cases under Section 1398. Chapter 12 and Chapter 13 cases do not create this separate entity; the individual debtor continues reporting all income on their own Form 1040 throughout the proceeding.

89. B — Section 645 allows a qualified revocable trust to elect, jointly with the executor on Form 8855, to be treated and taxed as part of the decedent's estate rather than as a separate trust. This combines reporting on one Form 1041, letting the trust share the estate's more favorable tax attributes and administration flexibility.

90. A — Under the Section 663(b) 65-day rule, a trustee or executor may elect on Form 1041 to treat any distribution made within the first 65 days of a new tax year as though it had been distributed on the last day of the immediately preceding tax year, helping reduce the entity's own taxable income.

91. D — A decedent's estate is allowed a $600 personal exemption on Form 1041 for every tax year of administration, regardless of whether income is currently distributed to beneficiaries. This differs from a simple trust, required to distribute all income currently, which claims only $300, and a complex trust, which claims just $100.

92. C — Under Section 642(h), when a decedent's estate terminates, any unused net operating loss and capital loss carryovers, along with deductions (other than the personal exemption) exceeding gross income in the final year, pass through to the beneficiaries succeeding to the estate's property, who may claim them on their own individual income tax returns.

93. A — The physical presence test for the foreign earned income exclusion requires a taxpayer to be physically present in one or more foreign countries for at least 330 full days during any 12 consecutive month period, which need not align with the calendar or tax year. Unlike bona fide residence, intent to remain abroad is irrelevant.

94. C — Nonresident aliens generally cannot claim the standard deduction on Form 1040-NR and must itemize allowable deductions instead. A specific exception exists under the U.S.-India income tax treaty for Indian students and business apprentices, who may claim the standard deduction on the same basis as U.S. citizens, a benefit not extended to other nonresident aliens.

95. D — In a community property state, income earned by either spouse during the marriage is generally treated as community income belonging equally to both spouses. When spouses file separate returns, each must generally report one-half of the total community income under Section 66, regardless of which spouse actually earned it, absent a qualifying exception.

96. B — Under the trust distribution tier system, first-tier beneficiaries, those entitled to mandatory income distributions, are allocated distributable net income before any remaining DNI carries out to second-tier beneficiaries who receive discretionary distributions. If DNI is insufficient to cover both tiers, first-tier distributions absorb DNI first, and second-tier distributions may carry out little or no taxable income.

97. A — Capital gains are generally allocated to trust corpus (principal) and excluded from distributable net income, remaining taxable to the trust itself. An exception applies when the gains are allocated to income under the trust instrument or applicable state law, are actually distributed to a beneficiary, or the trust is terminating, in which case they enter DNI.

98. B — A taxpayer generally may choose annually between claiming a foreign tax credit or deducting foreign income taxes as an itemized deduction, but the choice applies uniformly to all qualified foreign taxes paid or accrued for that year. A taxpayer cannot credit some foreign taxes while deducting others in the same tax year; the election is annual, not permanent.

99. C — Under Section 6654(l), a decedent's estate is not required to make estimated income tax payments for any tax year ending before the date that is two years after the decedent's date of death. This temporary exception recognizes the practical difficulty of estimating a newly created estate's tax liability during its early administration period.

100. D — A nonresident alien decedent's U.S. estate tax exposure is limited to U.S.-situated property, reported on Form 706-NA, but the applicable unified credit is far smaller than that available to citizens or residents, equivalent to sheltering only about $60,000 in property value, absent a more generous applicable estate tax treaty provision.