PRACTICE EXAM 13: 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 the "dependent taxpayer test," a taxpayer who can be claimed as a dependent on another person's return is subject to which restriction when preparing their own return?

A. The taxpayer must use Married Filing Separately status regardless of marital circumstances
B. The taxpayer may not claim the standard deduction under any circumstances
C. The taxpayer must file a return regardless of gross income earned during the year
D. The taxpayer may not claim any dependents of their own, even if all other dependency tests are met

2. For federal income tax filing status purposes, a couple whose divorce proceeding has not yet resulted in a final decree by December 31 is treated as which of the following?

A. Married, and must file either Married Filing Jointly or Married Filing Separately for the year
B. Unmarried, and eligible to file as Single if living in separate residences all year
C. Legally separated, and required to file Married Filing Separately with no other option
D. Unmarried, and eligible for Head of Household status if a dependent child is present

3. An alien who does not meet the substantial presence test for the current year, but who meets it for the following year and satisfies a minimum-days-present requirement in the current year, may make which election to be treated as a US resident for part of the current year?

A. The green card test election
B. The closer connection exception
C. The first-year choice election
D. The bona fide residence election

4. A domestic adoption is in progress, and the child cannot yet be issued a Social Security number because the adoption is not final. Which statement correctly describes the Adoption Taxpayer Identification Number (ATIN)?

A. It permanently replaces the need for the child to ever obtain a Social Security number
B. It is a temporary number issued via Form W-7A that expires after two years
C. It may be used by the adopting parents to claim the Earned Income Tax Credit
D. It is issued automatically by the adoption agency without any application to the IRS

5. A taxpayer applying for an ITIN using Form W-7 wants to avoid mailing original identity documents, such as a passport, to the IRS. Which type of authorized preparer can review and certify copies of these documents on the taxpayer's behalf?

A. An Enrolled Retirement Plan Agent
B. A Registered Tax Return Preparer
C. A Volunteer Income Tax Assistance (VITA) preparer
D. A Certifying Acceptance Agent (CAA)

6. Which statement correctly describes the scope of an enrolled actuary's authority to practice before the IRS?

A. Practice is limited to matters involving certain employee retirement plan provisions of the Internal Revenue Code

B. Practice is unlimited and equivalent to that of an attorney, CPA, or enrolled agent

C. Practice is limited to preparing individual income tax returns for compensation

D. Practice is limited to representing taxpayers solely in US Tax Court proceedings

7. Under Circular 230, a practitioner who is aware that a matter before the IRS is proceeding slower than necessary must do which of the following?

A. Withdraw from representation immediately to avoid personal liability for the delay

B. Not unreasonably delay the prompt disposition of the matter

C. Notify the Office of Professional Responsibility within 30 days of discovering the delay

D. Request an extension of time from the client before continuing further work

8. A business has consistently treated a class of workers as independent contractors, filed all required Forms 1099-NEC, and had a reasonable basis for the classification, such as long-standing industry practice. Under Section 530 relief, what is the effect of meeting these requirements?

A. The business is automatically exempt from ever paying employment taxes on any worker

B. The workers are reclassified as statutory employees regardless of the facts

C. The business may retain independent contractor treatment even if the IRS later disputes the classification

D. The business must still pay a reduced penalty rate under the voluntary classification program

9. When determining whether a worker is an employee or an independent contractor, the IRS common law test organizes relevant facts into which three categories of evidence?

A. Behavioral control, financial control, and the relationship of the parties

B. Hours worked, tools provided, and geographic location of the work

C. Contract length, payment frequency, and the worker's business license status

D. Industry custom, worker's age, and the presence of a written job description

10. A worker is uncertain whether they were properly classified as an independent contractor and wants the IRS to make an official determination of their status for federal employment tax purposes. Which form should be filed to request this determination?

A. Form 8919, Uncollected Social Security and Medicare Tax on Wages
B. Form W-9, Request for Taxpayer Identification Number and Certification
C. Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes
D. Form 8952, Application for Voluntary Classification Settlement Program

11. Under IRC section 6107, a paid tax return preparer who does not retain a completed copy of each return prepared must instead retain which alternative record, and for how long?

A. A signed engagement letter for each client, retained for one year
B. Copies of client-provided source documents only, retained for two years
C. A list of client Social Security numbers only, retained permanently
D. A list containing each taxpayer's name, identification number, and tax year, retained for three years

12. A taxpayer received investment property as a gift several years ago and has not yet sold it. For how long should the taxpayer retain records establishing the donor's basis and the property's fair market value at the time of the gift?

A. Three years from the date the gift was received
B. Until the period of limitations expires for the year the property is eventually sold
C. Seven years from the date the gift was received, regardless of when sold
D. Records are unnecessary because the IRS maintains historical basis data for gifted property

13. A practitioner is preparing a client's individual return under an existing engagement letter when the client mentions receiving an IRS audit notice and asks the practitioner to handle the examination. What is the best practice regarding the engagement letter at this point?

A. No action is needed, since the original engagement letter automatically covers any future representation work

B. The practitioner should issue a new or amended engagement letter defining the scope of the representation services
C. The practitioner must decline the audit representation, since return preparers cannot also represent clients in exams
D. The practitioner should verbally confirm the added scope, since written documentation is optional for representation services

14. During intake for a new client, a practitioner reviews the client's prior-year return and notices unused amounts that may carry forward, such as a capital loss or a passive activity loss. Why is this review step important?

A. Carryover amounts from a prior year may affect the current year's taxable income and must be tracked forward
B. Carryover amounts automatically expire if not claimed within the same year they originated
C. Carryover amounts may only be used if the prior return was prepared by the same practitioner
D. Carryover amounts are reported solely by the IRS and require no tracking by the preparer

15. A child meets every requirement to be the qualifying child of her mother, who chooses not to claim the child as a dependent for the year. The child's grandmother, who does not live with the child, wants to claim the child as a qualifying relative instead. Can the grandmother do so?

A. Yes, because the mother did not actually claim the child, the child is available to any other relative
B. Yes, but only if the grandmother provided more than half of the child's total support for the year
C. No, because a person who is a qualifying child of any taxpayer cannot be claimed as anyone else's qualifying relative
D. No, unless the mother signs a written release specifically allowing the grandmother to claim the child

16. A practitioner wants to view a client's IRS account activity, including payments, penalties, and prior return information, without waiting for a mailed transcript. The practitioner has a valid Form 2848 or Form 8821 on file with the IRS for this client. Which IRS online tool allows the practitioner to retrieve this information immediately?

A. The Get Transcript Online tool, available only directly to the taxpayer, not to third-party practitioners

B. The Where's My Refund tool, which provides only current-year refund status information

C. The Interactive Tax Assistant, which answers general tax law questions but does not access account data

D. The Transcript Delivery System within e-Services, which provides instant online access to a client's transcripts

17. A minister employed by a congregation receives an annual salary plus a designated housing allowance under IRC Section 107, using the full allowance to pay rent, utilities, and furnishings for a home he does not own. How is the housing allowance treated for federal income tax and self-employment tax purposes?

A. Excluded from gross income for income tax purposes but included in net earnings from self-employment for self-employment tax purposes

B. Excluded from both gross income and net earnings from self-employment, since ministers are treated as ordinary employees

C. Fully taxable as wages for both income tax and self-employment tax purposes, with no exclusion available

D. Excluded from self-employment tax but fully taxable as wages for regular income tax purposes

18. A taxpayer participates in a dividend reinvestment plan (DRIP) through her brokerage, under which all cash dividends paid on her stock are automatically used to purchase additional shares of the same company rather than being paid to her directly. How must the taxpayer treat these dividends?

A. The dividends are not taxable until the reinvested shares are eventually sold by the taxpayer

B. The dividends are taxable income in the year credited, and the reinvested amount becomes basis in the new shares

C. The dividends are treated as a tax-free stock dividend since no cash was actually received

D. The dividends are taxable only to the extent they exceed the taxpayer's original cost basis in the stock

19. A taxpayer holds a savings account at a financial institution that became insolvent and was placed into receivership during the year. Interest was credited to the account before the insolvency, but withdrawals were frozen by the receiver, and the taxpayer could not access any funds by year-end. How should the taxpayer report this interest?

A. Report the full amount of frozen interest as taxable income in the year it was credited to the account

B. Report the interest as tax-exempt income since the funds were never actually received by the taxpayer

C. Exclude the frozen interest from income until the year the funds become withdrawable from the account

D. Report half of the frozen interest currently and defer the remaining half until funds are released

20. A retired railroad employee receives annual Railroad Retirement benefits consisting of a Tier 1 component and a Tier 2 component. Which statement correctly describes how these two components are taxed for federal income tax purposes?

A. Both Tier 1 and Tier 2 benefits are taxed exactly like private pension distributions, with no Social Security-style treatment

B. Both Tier 1 and Tier 2 benefits are entirely tax-exempt, regardless of the recipient's other income

C. Tier 2 benefits follow Social Security taxation rules, while Tier 1 benefits are taxed as an employer pension

D. Tier 1 benefits are taxed under the Social Security rules, while Tier 2 benefits are taxed as an employer pension

21. A taxpayer received Social Security benefits in a prior year and included a portion in taxable income. This year, the Social Security Administration determined the taxpayer was overpaid and required repayment of an amount exceeding the total benefits received this year. If the repayment exceeds $3,000, which option is available to the taxpayer?

A. Claim either an itemized deduction for the repayment or a credit computed under the claim-of-right provisions of Section 1341, whichever produces the better result

B. The taxpayer must amend the prior year's return to remove the previously reported benefits, since no current-year relief is permitted

C. The taxpayer must simply reduce this year's Social Security benefits reported to zero, with no further adjustment allowed

D. No deduction or credit is available because Social Security repayments are treated as nondeductible personal expenses

22. A landlord requires new tenants to pay first month's rent, last month's rent, and a separate security deposit that will be refunded at the end of the lease if the property is undamaged. All three amounts are received in the same year. Which statement correctly describes the current-year income treatment?

A. All three amounts, including the refundable security deposit, are included in the landlord's income when received

B. None of the three amounts are includible until the lease actually ends and any refund obligation is resolved

C. The first and last month's rent are included in income upon receipt, but the refundable security deposit is not

D. Only the last month's rent is included currently, while the first month's rent is deferred until that month

23. During the year, an employee embezzled $25,000 from her employer without the employer's knowledge or consent. The embezzlement was not discovered until the following year. How must the employee treat the embezzled funds for the year in which they were taken?

A. The funds are not taxable income until the employee is convicted or otherwise held legally accountable for the theft

B. The funds are includible in gross income for the year taken, regardless of their illegal source or later repayment obligation

C. The funds are excluded from income entirely because the employee never obtained legal title to embezzled property

D. The funds are taxable only if the employer fails to discover and pursue recovery within the same tax year

24. A casual gambler wins $2,500 playing a slot machine and separately wins $6,500 in a poker tournament during the same year. Which statement correctly describes the payer's Form W-2G reporting obligation for these winnings?

A. Neither payout requires a Form W-2G, since combined annual winnings must exceed $10,000 before reporting is triggered

B. Both payouts require Form W-2G, since any single gambling payout above $600 automatically triggers reporting for every game

C. Only the poker tournament winnings require Form W-2G, since slot machine jackpots are never subject to information reporting

D. Both payouts require Form W-2G, since each exceeds its respective reporting threshold under the separate game-specific dollar limits

25. A self-employed sole proprietor has $80,000 of business debt secured by real property used in her sole proprietorship cancelled by the lender. The debt qualifies as qualified real property business indebtedness under Section 108(c), and the taxpayer elects to apply the exclusion. What is the primary consequence of this election?

A. The cancelled debt is excluded from gross income, but the taxpayer must reduce the basis of the business real property by the excluded amount

B. The cancelled debt is excluded from gross income permanently, with no corresponding adjustment required to any asset's basis

C. The cancelled debt remains fully taxable as ordinary income, since the exclusion applies only to farm indebtedness

D. The cancelled debt is excluded from income only if the taxpayer is also insolvent at the time of cancellation

26. Under a divorce decree executed in 2018, a taxpayer pays substantially decreasing alimony to a former spouse, with a large payment in the first year followed by sharply reduced payments in the second and third years. Which statement correctly describes the potential consequence under the front-loading recapture rule?

A. Recapture never applies to pre-2019 divorce decrees, since only post-2018 agreements are subject to the front-loading limitations

B. The recapture rule applies only when payments increase rather than decrease over the first three post-separation years

C. Recapture requires the recipient to amend all three prior returns rather than making any adjustment in a later year

D. Excess front-loaded payments may be recaptured, requiring the payor to report income and allowing the recipient a deduction in the third year

27. A company undergoing a layoff makes payments to terminated employees from an employer-financed supplemental unemployment benefit (SUB) plan, tied to the employees' continued unemployment and paid in addition to state unemployment compensation. How are these SUB plan payments treated?

A. The payments are treated identically to state unemployment compensation and reported on Form 1099-G by the state agency

B. The payments are treated as wages subject to income tax withholding, reported on Form W-2 rather than as unemployment compensation

C. The payments are entirely excluded from income since they are linked to a period of involuntary unemployment

D. The payments are taxable only to the extent they exceed the employee's state unemployment compensation for the same period

28. An employee purchases shares through her employer's tax-qualified employee stock purchase plan (ESPP) at a discount from fair market value. She sells the shares two years after the option was granted but only eleven months after purchasing them. How does this sale affect the tax treatment of her gain?

A. The sale automatically qualifies for entirely tax-free treatment because ESPP purchases are always taxed only upon original grant

B. The sale is treated as a qualifying disposition because more than two years passed since the shares were purchased

C. The sale is a disqualifying disposition, and a portion of the gain is treated as ordinary compensation income

D. The sale is a disqualifying disposition, causing the entire gain to be recharacterized as short-term capital gain

29. An estate is required to file Form 706 and reports a parcel of real property at its fair market value on the date of death. The sole beneficiary later sells the property. Under the basis consistency rules, which statement correctly describes the beneficiary's initial basis?

A. The beneficiary's initial basis in the property must match the value reported on the estate's Form 706, as reported to the beneficiary on Form 8971

B. The beneficiary may independently select any basis figure supported by a reasonable appraisal, regardless of the estate's reported value

C. The beneficiary's basis is automatically the decedent's original adjusted basis, since Form 706 valuations do not bind heirs

D. The beneficiary's basis is limited to the lesser of the estate's reported value or the property's original purchase price

30. A taxpayer owned rental property for several years but, due to a preparer error, never claimed any depreciation deduction on her returns despite the property being depreciable business-use property throughout that period. When the taxpayer eventually sells the property, how must adjusted basis be calculated?

A. Basis is reduced only by depreciation actually claimed on filed returns, so the omitted years require no basis adjustment

B. Basis is unaffected by depreciation entirely, since only cost and improvements determine adjusted basis at the time of sale

C. Basis is increased by the omitted depreciation as a correction, offsetting the effect of the preparer's original error

D. Basis is reduced by the depreciation that was allowable each year, whether or not it was actually claimed on a return

31. A retired public safety officer receiving a governmental pension elects to have amounts directly withheld from the pension and paid to an insurer for accident, health, or long-term care insurance premiums. Under the HELPS Act provision, how much of these premiums may the retiree exclude from gross income annually?

A. The full amount of premiums paid may be excluded, with no dollar limitation, provided payments go directly to the insurer

B. No exclusion is available; retired public safety officers must deduct premiums as an itemized medical expense instead

C. Up to $3,000 of premiums may be excluded annually, provided the payments are made directly from the pension to the insurer

D. Up to $3,000 may be excluded, but only if the retiree also itemizes deductions and forgoes the standard deduction

32. An employee became disabled and received benefits under a disability income policy for which she personally paid 100% of the premiums with after-tax dollars, with no contribution or reimbursement from her employer. How are the disability benefits she receives treated for income tax purposes?

A. The benefits are fully taxable as ordinary income, since disability payments are always taxed regardless of who paid the premiums

B. The benefits are entirely excluded from gross income, since the employee paid all premiums with after-tax dollars

C. Half of the benefits are taxable and half are excluded, reflecting a standard proration rule for disability income

D. The benefits are taxable only to the extent they exceed the total premiums the employee paid over the life of the policy

33. A parent corporation distributes all the stock of a subsidiary to its shareholders in a transaction that qualifies as a tax-free spin-off under Section 355. A shareholder's basis in the parent stock before the distribution was $10,000. How must this basis be treated after the spin-off?

A. The full $10,000 basis remains entirely in the parent stock, and the subsidiary shares received take a zero basis

B. The shareholder recognizes gain equal to the fair market value of the subsidiary shares received, establishing a new cost basis

C. The subsidiary shares take a carryover basis from the subsidiary's own books, unrelated to the parent stock's original basis

D. The $10,000 basis is allocated between the parent and subsidiary shares based on their relative fair market values at distribution

34. While renovating a house she owns, a taxpayer discovers a sealed metal box containing $8,000 in old currency hidden in the wall by a previous owner decades ago. No one has come forward to claim the money, and the taxpayer has undisputed possession of it. How must she treat this discovery for federal income tax purposes?

A. The find is entirely excluded from income because it is treated as an inheritance from the unknown prior owner

B. The find is includible in income only when and if she actually spends or deposits the currency

C. The find is includible in gross income at its fair market value in the year she reduces it to undisputed possession

D. The find is treated as a nontaxable gift from the previous property owner who hid the money

35. A tenant pays her landlord $8,000 to cancel the remaining three years of a commercial lease early so the tenant can relocate her business. The landlord has no adjusted basis allocable to the lease itself. How must the landlord treat the $8,000 payment?

A. As a nontaxable return of capital that reduces the landlord's basis in the underlying real property

B. As ordinary income to the landlord in the year received, since it represents a substitute for future rental payments

C. As long-term capital gain, since the payment relates to the landlord's real property investment

D. As tax-exempt income, because lease cancellation payments are treated the same as security deposits

36. A partner abandons her interest in a general partnership, formally notifying the other partners that she is walking away with no sale or exchange to any party. The partnership has no liabilities, and the partner receives no consideration whatsoever for the abandoned interest. How is her loss characterized?

A. As an ordinary loss, because a genuine abandonment with no sale, exchange, or debt relief is not a capital transaction

B. As a long-term capital loss, since a partnership interest is always treated as a capital asset upon disposition

C. As a short-term capital loss, regardless of how long the partner actually held the partnership interest

D. As a nondeductible personal loss, since abandoning a partnership interest voluntarily forfeits any tax benefit

37. For the 2025 tax year, the One Big Beautiful Bill Act (OBBBA) changed the annual dollar limitation on the itemized deduction for state and local taxes (SALT) from its prior flat amount. For most taxpayers below the applicable modified AGI threshold, what is the new SALT deduction cap?

A. $10,000, unchanged from the Tax Cuts and Jobs Act

B. $20,000, doubled solely for married couples filing jointly

C. $40,000, subject to a phase-down for higher-income taxpayers

D. Unlimited, with no dollar cap of any kind

38. A taxpayer itemizes deductions and pays an annual state vehicle registration fee calculated based on the vehicle's value, assessed yearly as a percentage of that value. A portion of the total fee is instead a flat administrative charge unrelated to value. Which portion, if any, may the taxpayer deduct as an itemized tax?

A. None of the fee, because vehicle registration charges are never deductible
B. The flat administrative portion only, since it is fixed and predictable
C. The entire fee, including both the value-based and flat portions
D. Only the portion based on the vehicle's value, assessed annually

39. A legally blind taxpayer purchases a trained guide dog to assist with daily mobility and pays ongoing costs for the dog's food, grooming, and veterinary care. How should these costs be treated for federal income tax purposes?

A. Nondeductible personal expenses, since pets are never deductible
B. Deductible medical expenses, including the animal's upkeep and veterinary care
C. Deductible only as a miscellaneous itemized deduction subject to a floor
D. Deductible business expenses if the taxpayer is self-employed only

40. A taxpayer owns a vacant parcel of land held purely as an investment; it is not used personally and is not part of any trade or business. A wildfire not attributable to a federally declared disaster destroys valuable timber on the land, causing a loss. Is the loss deductible?

A. Yes, because the federal-disaster-declaration requirement applies only to personal-use property
B. No, because casualty losses on any property require a federal disaster declaration
C. Yes, but only if the taxpayer also itemizes medical expenses that year
D. No, because vacant land can never sustain a deductible casualty loss

41. A taxpayer's rare coin collection is stolen from her home in December of Year 1, but she does not discover the theft until she opens the display case in March of Year 2. Assuming no reimbursement claim is pending, in which year is the theft loss deductible?

A. Year 1, the year the theft actually occurred
B. Either year, at the taxpayer's irrevocable election
C. Year 2, the year the taxpayer discovered the theft
D. The year the police report is officially closed

42. A taxpayer deducted $4,000 of unreimbursed medical expenses as an itemized deduction last year and received a tax benefit from the deduction. This year, her insurer unexpectedly reimburses $1,500 of those same expenses following a delayed claims review. How must the taxpayer treat the reimbursement this year?

A. Ignore the reimbursement entirely, since the original expense was paid in a prior year
B. Include the reimbursement in gross income this year, up to the prior tax benefit
C. Amend last year's return to retroactively remove the original deduction
D. Reduce this year's standard deduction by the full amount reimbursed

43. A taxpayer donates $150 to a qualified public charity's annual campaign. In appreciation, the charity mails her a coffee mug bearing its logo, costing the organization only a few dollars and falling within the IRS's low-cost article guidelines. How does receiving the mug affect her charitable deduction?

A. It does not reduce her deduction, because the benefit is treated as insubstantial
B. It reduces her deduction dollar-for-dollar by the mug's retail value
C. It disqualifies the entire $150 payment from being deductible
D. It converts the payment into a nondeductible quid pro quo purchase

44. A taxpayer has $9,000 of investment interest expense but only $3,000 of ordinary investment income this year. She also has $10,000 of qualified dividends that would otherwise be taxed at preferential capital gains rates. What may she do to increase her deductible investment interest expense?

A. Nothing; qualified dividends can never affect the investment interest limitation
B. Automatically deduct the full $9,000 regardless of income type
C. Reclassify the interest expense itself as a capital loss
D. Elect to treat some or all qualified dividends as investment income

45. A self-employed taxpayer qualifies for the 20% Qualified Business Income deduction but chooses to claim the standard deduction rather than itemize. Does taking the standard deduction affect her ability to claim the QBI deduction?

A. Yes, the QBI deduction is only available to taxpayers who itemize
B. Yes, choosing the standard deduction cuts the QBI deduction in half
C. No, but she forfeits QBI only if her income exceeds the threshold
D. No, the QBI deduction is available whether or not she itemizes

46. A married taxpayer pays qualified tuition for her dependent son and wants to claim the American Opportunity Tax Credit. She and her husband file separate federal income tax returns for reasons unrelated to abuse or abandonment. May she claim the credit?

A. No, education credits are disallowed for married filing separately status
B. Yes, but only half of the otherwise available credit amount
C. Yes, as long as her modified AGI is under the phase-out
D. No, unless her husband signs a written consent form

47. A student pays her fall semester tuition using funds she borrowed through a federal student loan. She will not begin repaying the loan for several years. For purposes of claiming an education credit, in which year are the tuition expenses treated as paid?

A. The year the taxpayer finally repays the loan in full
B. Spread evenly across every year of the loan's repayment period
C. The year the tuition was actually paid using loan funds
D. The year the loan proceeds were first disbursed to the lender

48. Under the SECURE 2.0 Act, the nonrefundable Retirement Savings Contributions Credit (Saver's Credit) is scheduled to be replaced by a different federal incentive for lower-income retirement savers beginning with tax years after December 31, 2026. What is that replacement generally called?

A. The Retirement Enhancement Rebate, a new refundable credit claimed on Form 1040
B. The Saver's Match, a federal contribution matched into the saver's account
C. The Automatic Enrollment Credit, available only to employers offering plans
D. The Universal Savings Credit, replacing both IRA and 401(k) plan incentives

49. A taxpayer married in June, and both spouses had separate Marketplace coverage with advance Premium Tax Credit payments before the wedding. Filing a joint return for the full year could otherwise increase their combined household income enough to trigger a larger excess-APTC repayment. What relief may they elect on Form 8962?

A. Automatic full forgiveness of any excess advance payments for the year of marriage

B. A one-time waiver of the requirement to file Form 8962 that year

C. Permission to file as unmarried individuals solely for Premium Tax Credit purposes

D. The alternative calculation for year of marriage, using pre-marriage monthly amounts

50. A married couple files separate federal returns. The wife itemizes her deductions on her own return. Her husband would prefer to claim the standard deduction on his separate return instead. Is he permitted to do so?

A. No, his standard deduction is zero, so he must also itemize

B. Yes, each spouse independently chooses standard or itemized deductions

C. No, but he may claim half of her itemized total instead

D. Yes, as long as their combined income is below a threshold

51. A taxpayer settles an employment discrimination lawsuit and includes the taxable portion of the settlement in gross income. She also pays substantial attorney fees and court costs directly connected to the claim. How may she treat those legal fees for federal tax purposes?

A. As a nondeductible personal expense, since legal fees are never deductible

B. As an above-the-line adjustment to income, limited to the taxable award included

C. As a miscellaneous itemized deduction subject to the 2% AGI floor

D. As a reduction to the basis of any property received in settlement

52. A working couple employs a housekeeper who spends part of each day caring for their four-year-old son and the remainder of the day cleaning the house and doing laundry unrelated to childcare. How should the housekeeper's wages be treated for the Child and Dependent Care Credit?

A. The full wage amount qualifies, since any household employee counts automatically

B. None of the wages qualify unless the housekeeper is licensed as a caregiver

C. The wages must be allocated, with only the childcare portion qualifying

D. Only wages paid on days when general housework was performed qualify

53. A small business with average annual gross receipts under $1 million and fewer than 31 full-time employees spends $8,000 to make its restroom facilities accessible to customers with disabilities, in compliance with the Americans with Disabilities Act. Which federal tax credit may the business claim for these eligible access expenditures?

A. The Work Opportunity Tax Credit, based on wages paid to newly hired employees with disabilities

B. A full itemized deduction for the entire $8,000 expenditure, with no separate credit available

C. The Employer-Provided Childcare Credit, since it applies broadly to workplace facility improvements

D. The Disabled Access Credit under Section 44, equal to 50% of eligible expenditures between $250 and $10,250

54. A grandparent contributes $10,000 to a Section 529 qualified tuition program for her grandchild's future college expenses. Assuming she itemizes deductions, may she deduct this contribution on her federal income tax return?

A. No, federal law provides no deduction for contributions to a 529 plan

B. Yes, up to $10,000 annually as an itemized deduction on Schedule A

C. Yes, as an above-the-line adjustment to her adjusted gross income

D. Yes, but only if the beneficiary is her own dependent child

55. A taxpayer pays health insurance premiums through her employer's Section 125 cafeteria plan, with the premiums deducted from her paycheck on a pre-tax basis. May she also claim these same premiums as an itemized medical expense deduction on Schedule A?

A. Yes, pre-tax premiums may always be deducted again as medical expenses

B. Yes, but only the employer's matching portion is deductible again

C. No, premiums paid on a pre-tax basis cannot also be itemized

D. No, but she may deduct them above the line instead

56. A taxpayer hosts a foreign exchange student in her home for eight months under a written agreement with a qualified charitable organization sponsoring the mutual exchange program. She receives no compensation and pays out-of-pocket for the student's food and incidental expenses. How much may she deduct as a charitable contribution?

A. Nothing, since hosting a student is a personal, nondeductible expense
B. Up to $50 for each month the student lived in the home
C. The full amount of every out-of-pocket expense, with no monthly limit
D. Only the cost of the student's food, capped at $250 total

57. A taxpayer included $50,000 of income on a prior-year return under a claim of right, but in the current year is legally required to repay $12,000 of that amount because it was later determined she was not entitled to keep it. Under the claim-of-right rules of IRC Section 1341, which computation may the taxpayer use for the repayment?

A. Amend the prior-year return to remove the income and claim a refund based on the original tax rates
B. Deduct the repayment only as a miscellaneous itemized deduction subject to the 2% AGI floor
C. Carry the repayment forward as a net operating loss to future tax years exclusively
D. Deduct the repayment in the current year or claim a credit for the tax attributable to it in the earlier year, whichever produces the lower tax

58. A member of a multi-member LLC taxed as a partnership actively manages the LLC's trade or business and materially participates in daily operations, receiving a distributive share of ordinary business income. For self-employment tax purposes, how is this member generally treated?

A. Automatically exempt from self-employment tax because LLC members are treated identically to limited partners
B. Subject to self-employment tax only on any guaranteed payments received, never on the distributive share
C. Treated similarly to a general partner, with the distributive share subject to self-employment tax because of active management and material participation
D. Exempt from self-employment tax unless the LLC elects corporate taxation under Form 8832

59. A taxpayer has $180,000 in wages from her employer and a $30,000 net loss from her self-employment consulting activity for the year. For Additional Medicare Tax purposes, how are the wages and self-employment results treated?

A. The wages and self-employment loss are computed separately; the loss cannot reduce wages when applying the $200,000 threshold

B. The self-employment loss offsets the wages dollar-for-dollar before comparing the net amount to the threshold

C. The taxpayer nets both amounts on Schedule SE, and Additional Medicare Tax applies only if the combined net figure exceeds $250,000

D. The self-employment loss creates a carryforward that reduces Additional Medicare Tax liability in the following year

60. A retired taxpayer receives a $40,000 taxable distribution from her traditional IRA during the year, along with $15,000 of interest and dividend income from a taxable brokerage account. Which of these amounts is included in net investment income for Net Investment Income Tax purposes?

A. Both the IRA distribution and the brokerage interest and dividends

B. Only the $15,000 of interest and dividends; the IRA distribution is specifically excluded from net investment income

C. Only the IRA distribution, because qualified plan distributions are treated as passive investment income

D. Neither amount, because both are excluded once the taxpayer has reached retirement age

61. A taxpayer paid foreign income tax on foreign-source income and wants to claim the foreign tax credit against her U.S. regular tax liability. How is the general foreign tax credit limitation computed?

A. The credit is limited to the smaller of the foreign tax paid or 50% of total U.S. tax liability

B. The credit is limited to U.S. tax liability multiplied by the ratio of foreign-source taxable income to total taxable income

C. The credit is limited to a flat $10,000 per year regardless of income levels

D. The credit is limited to the foreign tax paid divided by the applicable AMT exemption amount

62. A taxpayer's general business credit for the year exceeds the amount she can currently use because of the tax liability limitation. How may the unused credit generally be applied?

A. Carried back one year and, if still unused, carried forward up to 20 years

B. Carried forward indefinitely but never carried back to a prior year

C. Carried back three years and forward five years, matching the net operating loss rules

D. Forfeited entirely in the year it cannot be used, with no carryback or carryforward allowed

63. A taxpayer takes a return position that has a reasonable basis but is not supported by substantial authority. She attaches Form 8275 to adequately disclose the position and the relevant facts. If the position is later disallowed, how does this disclosure affect the substantial-understatement accuracy-related penalty?

A. The disclosure has no effect; the penalty still applies at the full rate regardless

B. The disclosure eliminates the underlying tax deficiency itself, not just the penalty

C. The disclosure generally protects the taxpayer from the substantial-understatement penalty for that item, since a reasonable basis plus adequate disclosure is sufficient

D. The disclosure converts the potential accuracy-related penalty into a larger fraud penalty automatically

64. An individual owns several rental properties and collects rental income but does not sell real estate to customers in the ordinary course of a trade or business. How is this rental income generally treated for self-employment tax purposes?

A. Always subject to self-employment tax because rental activities are inherently active businesses

B. Subject to self-employment tax only if the taxpayer owns more than three rental properties

C. Subject to self-employment tax only if the properties are commercial rather than residential

D. Excluded from net earnings from self-employment, since rental income avoids self-employment tax unless the owner is a dealer

65. A 45-year-old taxpayer begins taking a series of substantially equal periodic payments from her traditional IRA under the exception to the 10% additional tax on early distributions. What is required to maintain the exception?

A. Payments must continue for exactly three years, after which they may be modified without consequence

B. Payments must stop immediately once the taxpayer reaches age 50 to preserve the exception

C. Payments must continue for at least five years or until the taxpayer reaches age 59½, whichever is longer, or the exception is retroactively lost

D. Payments must be modified annually based on market performance to qualify for the exception

66. A taxpayer operating a farming business incurs a net operating loss for the current tax year. Unlike most other post-2017 net operating losses, which are generally carried forward only, how may this farming loss be treated?

A. It must be carried forward exactly 10 years with no carryback option available

B. It is disallowed entirely, since farming losses can no longer offset other income

C. It automatically expires if not used within two years, with no election required

D. The taxpayer may elect a two-year carryback for the farming loss before carrying any remaining amount forward

67. A regulated investment company retains and pays tax on a portion of its long-term capital gains instead of distributing them, and reports the taxpayer's share of the gain and tax paid on Form 2439. How does the shareholder treat this on her individual return?

A. The shareholder ignores the amount entirely since no cash was actually received

B. The shareholder reports her share of the undistributed capital gain as income and claims a credit for the tax the fund already paid on her behalf

C. The shareholder must amend the return in the following year once cash is eventually distributed

D. The shareholder deducts the amount as an itemized deduction rather than reporting it as income

68. A taxpayer filed a joint return with her former spouse. The IRS later determines there was an understatement of tax attributable entirely to erroneous items her former spouse failed to report, and she establishes she had no knowledge or reason to know of the understatement when she signed the return. Which provision may relieve her of liability for that portion of the tax?

A. Innocent spouse relief under IRC Section 6015
B. The kiddie tax election under Form 8814
C. The claim-of-right adjustment under Section 1341
D. The qualified joint venture election under Section 761(f)

69. A taxpayer exercises an incentive stock option and sells the acquired stock in the same calendar year, rather than holding it. How does this same-year sale affect the alternative minimum tax preference normally associated with ISO exercises?

A. The AMT preference still applies in full, identical to a taxpayer who holds the shares
B. The AMT preference is cut exactly in half when the shares are sold in the same year
C. The AMT preference converts into a permanent AMT credit regardless of the sale
D. No AMT preference item results, because a disqualifying disposition in the same year eliminates the adjustment

70. A landowner rents farmland to a tenant farmer under a crop-share arrangement, receiving a percentage of the crops produced as rent, but the landowner does not materially participate in the farming operation's management or physical work. How is this crop-share rental income treated for self-employment tax purposes?

A. Always subject to self-employment tax because it derives from agricultural production
B. Subject to self-employment tax only if the landowner also owns the farm equipment used
C. Excluded from self-employment tax because the landowner does not materially participate in the farming operation
D. Subject to self-employment tax at half the normal rate under a special farm-rental provision

71. The accuracy-related penalty under Section 6662 can apply based on negligence, which is a separate ground from substantial understatement of tax. Which of the following best describes negligence for this purpose?

A. A failure to make a reasonable attempt to comply with tax law, including failing to keep adequate books and records

B. Any return position that results in additional tax being assessed after an audit, regardless of the taxpayer's diligence

C. Only conduct involving an intentional and knowing attempt to evade tax through deceit

D. Any mathematical or clerical error identified during IRS processing of the return

72. A retired taxpayer who is 66 years old wants to claim the Credit for the Elderly or the Disabled. How is the credit's base amount generally affected by other income the taxpayer receives?

A. The base amount is unaffected by any other income the taxpayer receives during the year

B. The base amount is reduced by certain nontaxable pension and Social Security income and further reduced once AGI exceeds specified thresholds

C. The base amount doubles automatically once the taxpayer begins receiving Social Security benefits

D. The base amount is only available if the taxpayer has zero other sources of income

73. A calendar-year individual taxpayer did not make a fourth-quarter estimated tax payment. Instead, she files her completed income tax return and pays the entire balance due by January 31 of the following year. How does this affect the estimated tax underpayment penalty for the fourth installment?

A. The penalty still applies in full because no exception exists for late fourth-quarter payments

B. No underpayment penalty applies to the fourth installment, because filing and paying in full by January 31 satisfies this specific exception

C. The penalty is reduced by half but not eliminated entirely under this exception

D. The exception only applies to taxpayers who are farmers or fishermen, never to other individuals

74. A taxpayer worked part of the year for a railroad employer, paying Railroad Retirement Tax Act Tier 1 tax, and also worked for a separate non-railroad employer during the same year, paying regular Social Security tax. Combined, these withholdings exceed the maximum Social Security equivalent for the year. How does the taxpayer treat the excess?

A. The excess cannot be claimed as a credit because RRTA and FICA taxes cannot be combined

B. The taxpayer must request a refund of the excess directly from the railroad employer only

C. The taxpayer may claim a credit for the combined excess of RRTA Tier 1 and regular Social Security tax withheld by the different employers

D. The excess is instead applied as a credit against the Additional Medicare Tax rather than refunded

75. A taxpayer, age 34, participates in her employer's SIMPLE IRA plan and made her first salary deferral contribution 14 months ago. She now takes a full distribution from the SIMPLE IRA to cover unplanned expenses, with no exception to the early distribution penalty available. What additional tax applies to the taxable portion of this distribution?

A. A 25% additional tax applies because the distribution occurs within the first two years of plan participation

B. A 10% additional tax applies, the same rate that applies to early distributions from a traditional IRA

C. A 20% mandatory withholding tax applies in place of any additional early distribution tax

D. No additional tax applies because SIMPLE IRA distributions are exempt from early withdrawal penalties

76. Beginning with the 2024 tax year, under changes enacted by the SECURE 2.0 Act, how are designated Roth accounts within employer-sponsored plans such as 401(k) and 403(b) plans treated for required minimum distribution purposes during the original account owner's lifetime?

A. They remain subject to lifetime RMDs using the same Uniform Lifetime Table as traditional accounts

B. They are subject to lifetime RMDs only if the account balance exceeds $250,000 at year-end

C. They are subject to lifetime RMDs beginning at age 73, one year later than traditional accounts

D. They are no longer subject to required minimum distributions during the original owner's lifetime

77. A taxpayer becomes covered under a self-only high-deductible health plan for the first time on December 1 of the current year. Under the 'last-month rule,' she contributes the full annual HSA contribution limit for the year despite having only one month of eligibility. What condition must she satisfy to avoid having part of that contribution recaptured as taxable income with a 10% additional tax?

A. She must remain an eligible individual under an HDHP through December 31 of the following year

B. She must use the entire HSA balance for qualified medical expenses by the following April 15

C. She must switch to family HDHP coverage no later than June 30 of the following year

D. She must notify the HSA trustee in writing within 60 days of making the contribution

78. A parent maintains a 529 college savings plan for an 8-year-old child who currently attends a private elementary school. What is the maximum amount that may be withdrawn from the 529 plan each year, federal tax-free, to pay the child's tuition at an elementary or secondary school?

A. $5,000 per year, regardless of the type of institution attended
B. $10,000 per year, limited specifically to tuition expenses
C. $15,000 per year, matching the annual gift tax exclusion amount
D. There is no annual dollar limit for elementary or secondary tuition

79. A Health Savings Account owner dies, and her surviving spouse is named as the sole beneficiary on the HSA beneficiary designation. How is the HSA treated for tax purposes upon the account owner's death?

A. The HSA becomes the surviving spouse's own HSA, and no amount is included in income at that time
B. The full fair market value of the HSA is immediately includible in the surviving spouse's gross income
C. The HSA must be liquidated within one year, with proceeds taxed as ordinary income to the spouse
D. The HSA is treated as inherited property receiving a stepped-up basis, similar to a traditional IRA

80. A 401(k) plan participant took a $30,000 plan loan eleven months ago and has a current outstanding balance of $25,000 on that loan. She now wants to take a second loan from the same plan. Under the plan loan limits, how does the earlier loan affect the maximum amount available for the new loan?

A. The prior loan is disregarded once its outstanding balance falls below $30,000
B. The prior loan has no effect since it is a separate loan from a different request
C. The $50,000 limit is reduced by the highest outstanding loan balance during the preceding 12 months
D. The new loan is capped at the outstanding balance of the prior loan, or $25,000

81. A widow elected portability and holds a deceased spousal unused exclusion (DSUE) amount from her first husband's estate. She later remarries, and her second husband subsequently dies. Under the 'last deceased spouse' rule, what happens to the DSUE amount from her first husband after her second husband's death?

A. She may combine both DSUE amounts and apply the larger combined total to future transfers
B. The DSUE amount from the first husband is preserved indefinitely regardless of remarriage
C. She may choose which deceased spouse's DSUE amount to apply at the time of her own death
D. She may only use the DSUE amount from her most recently deceased spouse, the second husband

82. A self-employed consultant establishes a SEP plan and wants to make employer contributions for herself and her three eligible employees. Which requirement must the contribution formula satisfy to comply with SEP nondiscrimination rules?

A. The contribution must be made using the same uniform percentage of compensation for every eligible employee
B. The contribution may favor the business owner as long as employees receive at least 3% of pay
C. The contribution must total exactly 25% of the employer's net self-employment earnings each year
D. The contribution formula may vary by employee based on job title or length of service

83. An IRA owner's beneficiary designation names her three children as primary beneficiaries 'per stirpes.' One child predeceases the IRA owner, leaving two children of his own. Under a per stirpes designation, how is that predeceased child's one-third share distributed?

A. It is distributed equally among the two surviving siblings, increasing each of their shares
B. It passes to the predeceased child's own two children, divided equally between them
C. It reverts to the IRA owner's probate estate to be distributed under the will
D. It is forfeited and the account balance is reduced by that one-third share

84. A retired taxpayer has substantial dividend and capital gain income and is deciding whether to take an additional distribution from her traditional IRA this year. She is concerned about the 3.8% Net Investment Income Tax (NIIT). How does an additional traditional IRA distribution affect her NIIT exposure?

A. The distribution is directly included in net investment income and taxed at the 3.8% rate

B. IRA distributions are entirely excluded from gross income and from the NIIT calculation

C. The distribution itself is not investment income, but it raises MAGI, exposing more investment income to the NIIT

D. The distribution lowers her MAGI, which reduces the amount of investment income subject to the NIIT

85. Under SECURE 2.0, most new 401(k) and 403(b) plans established after December 29, 2022 must satisfy an automatic enrollment and automatic escalation requirement beginning with plan years starting in 2025. What is the minimum initial automatic deferral percentage required under this mandate?

A. At least 3%, but not more than 10%, of eligible compensation

B. Exactly 6% of eligible compensation, with no permitted range

C. At least 5%, but not more than 15%, of eligible compensation

D. A flat 4% of eligible compensation for all newly enrolled participants

86. A transferor makes a direct gift to her grandchild. The grandchild's parent, who is the transferor's child, died before the gift was made. How does this affect the generation-skipping transfer (GST) tax treatment of the gift to the grandchild?

A. The gift is still treated as a direct skip subject to full GST tax

B. The gift qualifies for a reduced GST tax rate of half the maximum rate

C. Under the predeceased parent exception, the grandchild moves up a generation, avoiding GST tax

D. The gift becomes subject to GST tax only if it exceeds the annual exclusion amount

87. An employer's cafeteria plan offers a health care flexible spending account (FSA). The employer wants to help employees avoid forfeiting unused funds at year-end. Which combination of relief options may the plan offer to employees under current rules?

A. Both the full carryover amount and the 2.5-month grace period simultaneously, without restriction

B. Either a limited carryover of unused funds or a 2.5-month grace period, but not both

C. An unlimited carryover of all unused funds into the following plan year only

D. A mandatory cash refund of unused funds paid directly to the employee each January

88. For the Net Investment Income Tax (NIIT) under Section 1411, how does the income threshold that triggers the 3.8% surtax for a non-grantor trust generally compare to the threshold that applies to an individual taxpayer?

A. The trust threshold is identical to the threshold used by a single individual filer.
B. The trust threshold adjusts each year to match the married-filing-jointly threshold amount.
C. The trust threshold is higher than any individual filing threshold, reflecting fiduciary complexity.
D. The trust threshold is far lower, set at the level where trusts enter the top bracket.

89. A grantor establishes an irrevocable trust for a beneficiary who has not yet reached age 21, under which trust income and principal may be spent for the beneficiary before age 21, with all undistributed assets required to pass to the beneficiary outright no later than age 21. Unlike a trust relying on Crummey withdrawal powers, how does this arrangement satisfy the 'present interest' requirement for the annual gift tax exclusion?

A. The beneficiary must be given 30 days each year to withdraw the annual contribution before it is added to trust corpus.
B. The trustee must distribute all trust income currently to the beneficiary's custodial account each calendar year without exception.
C. Section 2503(c) itself treats the future transfer as a present interest because of the age-21 distribution and spending terms.
D. The grantor must retain no power to remove or replace the trustee administering the trust for the beneficiary's benefit.

90. A trust beneficiary, who is not the trust's grantor, holds an unrestricted power exercisable solely by that beneficiary to withdraw trust corpus for their own benefit at any time. Under Section 678, how is this beneficiary treated for federal income tax purposes with respect to the portion of the trust subject to that power?

A. The beneficiary is disregarded entirely, and the trust itself remains the sole taxpayer on all trust income.
B. The beneficiary is treated as the owner of that portion and reports its income directly on their own return.

C. The beneficiary is treated as a second-tier beneficiary who reports income only when a distribution actually occurs.
D. The beneficiary is treated as making an annual gift to the trust equal to the value of the unexercised power.

91. A U.S. citizen is married to a nonresident alien who has no U.S.-source income. To file a joint federal income tax return with the citizen spouse, which of the following must the couple do?

A. Jointly elect under Section 6013(g) to treat the nonresident alien spouse as a U.S. resident for the entire tax year.
B. Nothing further; a nonresident alien spouse may always join a joint return without any special election being made.
C. Obtain a private letter ruling from the IRS approving the nonresident spouse's participation in the couple's joint tax return.
D. Wait until the nonresident alien spouse independently satisfies the substantial presence test before any joint return may be filed.

92. A nonresident alien individual visiting the United States wins money playing blackjack at a licensed casino. The winnings are not effectively connected with a U.S. trade or business. How are these winnings generally treated for U.S. withholding tax purposes?

A. The casino must withhold 30 percent of the winnings as fixed, determinable, annual, or periodical income.
B. The winnings are exempt only if the nonresident alien is a resident of a treaty country with the U.S.
C. The casino must withhold 24 percent backup withholding unless the nonresident alien provides a valid W-8BEN form.
D. Winnings from blackjack, baccarat, craps, roulette, or big-six wheel are statutorily exempt from nonresident alien withholding.

93. An individual is considered a tax resident under the domestic law of both the United States and a foreign country with which the U.S. has an income tax treaty. Applying the treaty's tie-breaker provisions, which factor is generally considered FIRST in determining the individual's treaty residence?

A. The location of the individual's permanent home available to them in each country

B. The individual's citizenship, which controls automatically if either country claims residence
C. The country where the individual's employer is headquartered
D. A coin-flip election made jointly by the tax authorities of both countries

94. A U.S. service member maintains a financial account at a banking facility operated on a U.S. military installation overseas under an agreement with the Department of Defense. Regarding FBAR (FinCEN Form 114) reporting for that specific account, which statement is correct?

A. The account must be reported on FBAR only if its balance exceeds $25,000 at any time during the year.
B. The account is reportable, but the filing deadline is extended to one year after the service member's next reassignment.
C. The account is reportable only if the service member also maintains a civilian account at a foreign bank.
D. The account is specifically excepted from FBAR reporting because it is maintained at a U.S. military banking facility.

95. An executor is administering a decedent's estate and must select the estate's first tax year for Form 1041 purposes. Unlike most trusts, which generally must adopt a calendar year, how may the estate choose its accounting period?

A. The estate must adopt a calendar year unless the decedent's final Form 1040 used a fiscal year.
B. The estate may elect any fiscal year, with its first return due three and a half months after that year ends.
C. The estate must obtain IRS pre-approval through a private letter ruling before adopting a fiscal year.
D. The estate is required to match its accounting period to the primary beneficiary's individual tax year.

96. Two siblings each create an irrevocable trust for the benefit of the other's children, using nearly identical terms, funded with equivalent amounts on the same day, apparently to remove assets from each of their own estates while retaining an indirect economic benefit through the reciprocal arrangement. Under the reciprocal trust doctrine, how might the IRS treat these trusts?

A. The IRS must respect each trust exactly as written, since the trusts were created by two separate, unrelated grantors

B. The trusts are automatically void for gift tax purposes because reciprocal transfers between family members are prohibited

C. The IRS may uncross the trusts and treat each sibling as the grantor of the trust they indirectly benefit from, for estate inclusion purposes

D. The reciprocal arrangement converts both trusts into grantor trusts for income tax purposes only, with no estate tax effect

97. A taxpayer dies in June, survived by a spouse who remarries in November of the same year, before the calendar year ends. Regarding the decedent's final federal income tax return, which filing status applies?

A. The decedent's executor may still elect to file jointly with the surviving spouse's new spouse for that year.

B. The decedent's final return must be filed jointly with the original surviving spouse regardless of the remarriage.

C. The decedent's final return must be filed as married filing separately, since the surviving spouse remarried that year.

D. The decedent's final return is automatically converted to single filing status once the surviving spouse remarries.

98. A foreign person sells U.S. real property to an individual buyer who will use the property as a personal residence. The amount realized on the sale is $250,000. Under FIRPTA withholding rules, how does this sale price affect the buyer's withholding obligation?

A. The buyer must withhold the standard 15 percent regardless of the property's use or the sale price involved.

B. The buyer must withhold at a reduced 10 percent rate because the amount realized is under $500,000.

C. The buyer must withhold 30 percent because personal residence purchases carry a heightened FIRPTA withholding rate.

D. The buyer has no FIRPTA withholding obligation because the price is at or below the $300,000 residence exemption.

99. A U.S. individual has foreign-source passive investment income, such as foreign dividends and interest, and separately has foreign-source income from an active foreign trade or business. When computing the foreign tax credit limitation on Form 1116, how must these two categories of income generally be treated?

A. All foreign-source income is combined into a single limitation calculation regardless of the income's underlying category.

B. Each income category, or 'basket,' is subject to its own separate foreign tax credit limitation computation.

C. Only the passive category income is eligible for the foreign tax credit; general category income is not.

D. The taxpayer selects a single basket each year and applies all foreign taxes paid against that basket only.

100. A donor establishes a charitable remainder annuity trust (CRAT), naming themselves as the noncharitable income beneficiary for life, with the remainder passing to a qualified charity. Regarding the annual payout the trust must make to the donor, which requirement applies?

A. The annual payout must be at least 5 percent, and no more than 50 percent, of the trust's value.

B. The annual payout must exactly match the trust's actual net income earned for that specific year.

C. The annual payout is fixed by the IRS at a flat 7 percent regardless of the trust's asset value.

D. The annual payout may be set at any percentage the donor chooses, with no statutory minimum or maximum.

Answer Key and Explanations — Practice Exam 13, Part 1: Individuals

1. D — The dependent taxpayer test denies dependency status to anyone who can themselves be claimed as a dependent by another taxpayer, regardless of whether that other taxpayer actually claims them. This prevents a chain of dependency claims across generations. It applies independently of the standard deduction, filing requirement, and filing status rules, which rest on separate provisions.

2. A — Marital status for federal tax purposes is determined as of December 31 under state law. A couple remains legally married until a court issues a final decree of divorce or separate maintenance; a pending, incomplete proceeding does not change that status. Such taxpayers must file jointly or separately, though the abandoned-spouse exception may still allow Head of Household filing.

3. C — The first-year choice election lets an alien who fails the substantial presence test for the current year, but expects to meet it the following year, elect resident status for part of the current year. The alien must be present at least 31 consecutive days and meet a specified presence percentage, with the election made by statement attached to the return.

4. B — An Adoption Taxpayer Identification Number, obtained via Form W-7A, is a temporary nine-digit number the IRS issues for a child in a domestic adoption who cannot yet receive a Social Security number. It remains valid for two years and cannot be used to claim the Earned Income Tax Credit, which requires a valid Social Security number for the qualifying child.

5. D — A Certifying Acceptance Agent is authorized under an IRS agreement to review original identity and foreign-status documents, verify their authenticity, and certify copies for submission with Form W-7. This lets the applicant retain original documents, such as a passport, instead of mailing them to the IRS, streamlining the ITIN application process for many taxpayers.

6. A — Enrolled actuaries hold limited practice rights before the IRS, restricted to matters arising under specific Internal Revenue Code sections governing employee retirement plans, such as actuarial certifications and funding determinations. Unlike attorneys, CPAs, and enrolled agents, who hold unlimited representation rights, an enrolled actuary generally cannot represent a client on general individual income tax matters unrelated to retirement plans.

7. B — Circular 230 requires a practitioner to avoid unreasonably delaying the prompt disposition of any matter before the IRS. This duty exists independent of whether the delay benefits or harms the client and is separate from the competence, fee, and disclosure obligations found elsewhere in the regulations. Violating it can subject the practitioner to discipline by the Office of Professional Responsibility.

8. C — Section 530 of the Revenue Act of 1978 provides a safe harbor allowing a business to continue treating workers as independent contractors, avoiding retroactive reclassification and related employment tax assessments, if it consistently treated similarly situated workers as contractors, filed required information returns, and had a reasonable basis, such as industry practice, for the classification.

9. A — The IRS common law test evaluates worker status using three categories of evidence: behavioral control, examining the right to direct how work is performed; financial control, examining the business aspects of the relationship; and the relationship of the parties, examining how the worker and business perceive their arrangement, including written contracts and any employee-type benefits provided.

10. C — Form SS-8 may be filed by either a worker or the business that engaged them to request an official IRS determination of the worker's status as an employee or independent contractor for federal employment tax and withholding purposes. The IRS reviews the submitted facts and issues a determination letter binding for the requesting party going forward.

11. D — IRC section 6107 requires a paid preparer to retain either a completed copy of each return prepared or, alternatively, a list showing each taxpayer's name, identification number, and taxable year, along with the type of return. Whichever record is kept must be retained for three years following the close of the return period in which the return was filed.

12. B — Records establishing basis in property received as a gift must be kept until the period of limitations expires for the year the property is eventually sold or otherwise disposed of, since that basis determines the gain or loss reported in that later year. This can mean holding records for many years beyond the year the gift was received.

13. B — An engagement letter should define the specific scope of services provided, so when a client's needs expand beyond the original engagement, such as adding IRS examination representation, best practice is to issue a new or amended engagement letter clearly defining the added scope, fee arrangement, and responsibilities before beginning the additional work.

14. A — Reviewing the prior-year return during intake helps a practitioner identify unused carryover items, such as capital losses, passive activity losses, or charitable contribution carryovers, that continue affecting taxable income in later years until fully absorbed or otherwise limited. Missing these amounts can produce an inaccurate current-year return that omits amounts the taxpayer is entitled to claim.

15. C — A person who meets the tests to be a qualifying child of any taxpayer cannot be claimed as a qualifying relative by another person, even if that qualifying child is not actually claimed. This rule prevents shifting a dependency claim to a more distant relative simply because the closer relative chooses not to claim an otherwise available qualifying child.

16. D — The Transcript Delivery System, accessed through the IRS e-Services platform, lets tax professionals with a valid Form 2848 or Form 8821 authorization on file retrieve a client's account transcripts, wage and income transcripts, and other records instantly online, rather than waiting for records to arrive through a paper request process.

17. A — IRC Section 107 excludes a properly designated housing allowance from gross income to the extent it covers actual housing costs and does not exceed fair rental value. Ministers, however, are treated as self-employed for Social Security purposes, so the excluded allowance is added back into net earnings from self-employment and remains subject to self-employment tax.

18. B — Dividends used to automatically purchase additional shares under a reinvestment plan are still constructively received and taxable in the year credited, just as if paid in cash. The reinvested amount is not lost, it becomes the taxpayer's cost basis in the newly acquired shares, preventing any double taxation when those shares are eventually sold.

19. C — Interest credited to an account is normally taxable when made available without restriction, but this constructive receipt principle does not apply when a bank's insolvency freezes withdrawals. Because the funds are genuinely unavailable to the depositor, the interest is not reportable until the receiver actually permits withdrawals and the funds become accessible again.

20. D — Railroad Retirement benefits are split into two tiers for tax purposes. Tier 1 mirrors Social Security benefits and is taxed using the same income-based formula that determines how much of ordinary Social Security is includible. Tier 2, by contrast, functions like an employer-provided pension and is taxed under the regular annuity rules for pension income.

21. A — When a taxpayer must repay Social Security benefits previously included in income and the repayment exceeds $3,000, the claim-of-right doctrine under Section 1341 allows a choice: deduct the repayment as a miscellaneous itemized item, or instead compute a tax credit based on the reduction in tax that would have resulted had the benefits never been reported originally.

22. C — A security deposit that the landlord is obligated to refund at the end of the lease if the property is undamaged is not includible in income when received, since it remains the tenant's property until forfeited. Advance rent payments, including a final month's rent paid upfront, are taxable immediately upon receipt regardless of accounting method.

23. B — Gross income under Section 61 includes income from all sources, legal or illegal, and embezzled funds are taxable to the wrongdoer in the year taken because the taxpayer exercises complete dominion and control over the money despite lacking legal title. A later obligation to repay or potential criminal prosecution does not change this current-year inclusion.

24. D — Casinos and other payers must issue Form W-2G once winnings reach game-specific thresholds, generally $1,200 for slot machine jackpots and $5,000 for net poker tournament winnings, among other limits that vary by wager type. Because each payout here exceeds its applicable threshold, the payer must issue a Form W-2G for both winnings.

25. A — Section 108(c) allows a taxpayer, other than a C corporation, to elect to exclude cancelled qualified real property business indebtedness from income, but the exclusion is not free, it requires a corresponding reduction to the basis of the depreciable real property securing the debt, up to the excluded amount, effectively deferring rather than eliminating the tax effect.

26. D — The alimony recapture rule applies to divorce or separation instruments executed before 2019 when payments decrease substantially during the first three post-separation years, suggesting disguised property settlements rather than true support. If triggered, the payor must report the recaptured excess as income in year three, while the recipient claims a matching deduction.

27. B — Supplemental unemployment benefit plan payments financed by the employer are treated as wages for federal income tax purposes because they are paid from an employer plan tied to continued employment status, not from the state unemployment insurance fund. Withholding applies and the payments are reported on Form W-2 rather than a Form 1099-G.

28. C — A qualifying ESPP disposition requires holding the shares more than two years from the grant date and more than one year from the purchase date. Because this sale occurred only eleven months after purchase, it is disqualifying, and the discount received at purchase must be reported as ordinary compensation income rather than entirely as capital gain.

29. A — When an estate is required to file Form 706, the basis consistency rules mandate that a beneficiary's initial basis in inherited property cannot exceed the value the estate reported for federal estate tax purposes. The estate reports this value to both the IRS and the beneficiary on Form 8971, binding the heir to that figure.

30. D — Adjusted basis must be reduced by depreciation that was allowable under the applicable method, whether or not the taxpayer actually claimed it on a filed return. This prevents a taxpayer from inflating basis and understating gain simply by neglecting to deduct depreciation in earlier years; a taxpayer who missed deductions may instead consider correcting them through an accounting method change.

31. C — The HELPS Act allows an eligible retired public safety officer to exclude up to $3,000 annually from a governmental pension when that amount is used to pay premiums for accident, health, or long-term care insurance, provided the premiums are deducted directly from the pension distribution and paid straight to the insurance provider rather than reimbursed.

32. B — Disability benefits paid from a policy the taxpayer purchased entirely with her own after-tax dollars are excluded from gross income because she received no tax benefit for the premiums and effectively already paid tax on the money used to fund the coverage. This differs from employer-paid premium arrangements, where the resulting disability benefits are typically taxable.

33. D — In a tax-free spin-off under Section 355, the shareholder recognizes no gain, and no new basis is created out of nowhere. Instead, the shareholder's original basis in the parent stock is allocated between the retained parent shares and the newly received subsidiary shares in proportion to each block's relative fair market value on the distribution date.

34. C — Found property, sometimes called treasure trove, is includible in gross income at its fair market value in the year the finder reduces it to undisputed possession, under a longstanding tax regulation addressing such discoveries. The resulting income is ordinary income, not capital gain, since no sale or exchange of a capital asset has taken place.

35. B — A payment received to cancel a lease is treated as a substitute for the rental payments the landlord would otherwise have collected over the remaining lease term, so it is taxed as ordinary income in the year received rather than as capital gain. This holds true even though the underlying property itself is a capital asset.

36. A — A true abandonment, where a partner walks away from her interest with no sale, exchange, or transfer of consideration to anyone, and no partnership liabilities are shifted to relieve her of debt, is not a sale or exchange for tax purposes. Because no capital transaction occurred, the resulting loss is ordinary rather than capital.

37. C — The OBBBA raised the SALT deduction cap from $10,000 to $40,000 beginning in 2025, with the higher limit gradually phased down for taxpayers whose modified AGI exceeds a specified threshold, though it never falls below $10,000. The increased cap is scheduled to apply through 2029 before reverting, and it is indexed for inflation each year during that period.

38. D — Only the ad valorem portion of a vehicle registration fee—the part charged annually based on the vehicle's value—qualifies as a deductible personal property tax on Schedule A. A flat administrative or weight-based charge that does not vary with value is a nondeductible fee, not a tax, so it must be separated out before claiming the itemized deduction.

39. B — The cost of buying, training, and maintaining a guide dog or other service animal to assist a person with a visual, hearing, or other physical disability qualifies as a deductible medical expense under Section 213. This includes ongoing upkeep such as food, grooming, and veterinary care, not just the acquisition cost, subject to the AGI floor.

40. A — The TCJA limitation restricting personal casualty and theft loss deductions to federally declared disasters applies only to property held for personal use. Property held for investment, such as vacant land not used in a trade or business, is not personal-use property, so a casualty loss on it remains deductible without regard to any federal disaster declaration.

41. C — A theft loss is deductible in the year the taxpayer discovers the loss, not the year the theft actually took place, since the taxpayer generally cannot know a deduction is available until the theft is discovered. Any reasonable prospect of recovery, such as an open insurance or restitution claim, would further postpone the year the loss becomes deductible.

42. B — Under the tax benefit rule, a reimbursement received in a later year for medical expenses deducted in a prior year must be included in gross income in the year received, but only to the extent the earlier deduction actually reduced the taxpayer's tax liability. No amended return is required; the recovery is simply reported as other income.

43. A — When a donor receives only a token benefit—such as an inexpensive item bearing the charity's name or logo that falls within the IRS's low-cost article and insubstantial-benefit guidelines—the full payment remains deductible as a charitable contribution. The nominal item is disregarded entirely, unlike quid pro quo benefits with real market value, which must reduce the deductible amount.

44. D — A taxpayer may elect on Form 4952 to treat qualified dividends, and net capital gain, as investment income for purposes of the investment interest expense limitation. Doing so increases the deduction allowed in the current year but forfeits the preferential capital gains tax rate on the amount elected, so the taxpayer must weigh the trade-off carefully.

45. D — The Section 199A qualified business income deduction is not an itemized deduction; it is taken as a separate deduction from adjusted gross income regardless of whether the taxpayer itemizes or claims the standard deduction. A taxpayer may therefore claim both the standard deduction and the full QBI deduction on the same return, subject to the usual limitations.

46. A — Neither the American Opportunity Tax Credit nor the Lifetime Learning Credit may be claimed by a taxpayer whose filing status is married filing separately, regardless of income level or which spouse actually paid the qualified expenses. This filing-status restriction applies uniformly to both education credits and cannot be waived by spousal consent or allocation.

47. C — Qualified education expenses paid with borrowed funds, such as a student loan, are treated as paid in the year the school was actually paid with the loan proceeds, not the year the loan is later repaid. This allows the credit to be claimed in the year the tuition is incurred and paid, independent of the repayment schedule.

48. B — SECURE 2.0 replaces the Saver's Credit with the Saver's Match beginning in 2027, under which the federal government deposits a matching contribution directly into the taxpayer's IRA or retirement plan rather than reducing the taxpayer's tax liability through a nonrefundable credit. This shift benefits lower-income savers who owed little or no tax previously.

49. D — The alternative calculation for year of marriage allows a couple to use their separate household income and family size figures for the months before the wedding, rather than the full-year combined amounts, when reconciling advance Premium Tax Credit payments on Form 8962. This can meaningfully reduce excess advance payment repayment for the marriage year.

50. A — When spouses file married filing separately, if one spouse itemizes deductions, the other spouse's standard deduction is automatically reduced to zero. The other spouse must therefore also itemize, even if his or her itemized deductions are minimal, rather than being allowed to fall back on the standard deduction that year.

51. B — Attorney fees and court costs paid in connection with certain unlawful discrimination claims, including employment discrimination, are deductible above the line as an adjustment to gross income under Section 62(a)(20), rather than as a miscellaneous itemized deduction. The deduction is limited to the amount of the judgment or settlement includible in the taxpayer's gross income.

52. C — When a household employee's time is split between caring for a qualifying person and performing unrelated general household services, the wages must be reasonably allocated between the two functions. Only the portion attributable to the actual care of the qualifying person counts as a work-related expense eligible for the Child and Dependent Care Credit.

53. D — Section 44 provides a Disabled Access Credit for eligible small businesses, generally those with $1 million or less in gross receipts or 30 or fewer full-time employees, equal to 50% of eligible access expenditures exceeding $250 but not more than $10,250, for a maximum credit of $5,000, to help offset the cost of complying with the ADA.

54. A — Contributions to a Section 529 qualified tuition program are never deductible on the federal income tax return, whether the contributor itemizes or not. Some states allow a state income tax deduction or credit for contributions to that state's own 529 plan, but no comparable federal benefit exists; only qualified distributions receive favorable federal tax treatment.

55. C — Premiums paid through a pre-tax cafeteria plan are already excluded from the employee's taxable wages, so deducting them again as an itemized medical expense would create an impermissible double tax benefit. Only premiums paid with after-tax dollars may be included among unreimbursed medical expenses subject to the AGI floor on Schedule A.

56. B — Unreimbursed expenses paid to maintain a student living in the taxpayer's home under a written agreement with a qualified organization sponsoring a mutual exchange program are deductible as a charitable contribution, limited to $50 for each month the student is a member of the household, provided the student is not the taxpayer's dependent or relative.

57. D — Section 1341 applies when a taxpayer repays more than $3,000 of income reported in an earlier year under a claim of right. The taxpayer may deduct the repayment currently, or recompute the prior year's tax as if the income were never received and claim the difference as a credit, whichever produces the lower tax.

58. C — An LLC member who actively manages the business and materially participates in operations is generally treated like a general partner for self-employment tax purposes, not a passive limited partner. Because the member's distributive share stems from active involvement rather than mere capital investment, that share, along with any guaranteed payments, is included in net earnings from self-employment.

59. A — Wages and self-employment income are computed separately for Additional Medicare Tax purposes. Wages are compared to the threshold first, and any self-employment loss cannot reduce or offset wage income when applying that threshold. A net self-employment loss simply results in no Additional Medicare Tax on the self-employment side, but wages remain fully subject to the tax above the threshold.

60. B — Net investment income for NIIT purposes generally includes interest, dividends, capital gains, rental and royalty income, and similar passive income. Distributions from qualified retirement plans, including IRAs and 401(k) plans, are specifically excluded from net investment income even though they remain taxable for regular income tax purposes, so only the brokerage account's interest and dividends count toward NIIT.

61. B — The general foreign tax credit limitation prevents the credit from offsetting U.S. tax on U.S.-source income. It is computed by multiplying total U.S. tax liability before the credit by a fraction equal to foreign-source taxable income divided by total taxable income, capping the credit at the U.S. tax attributable to the foreign-source income.

62. A — Unused general business credit amounts are not simply lost in the year the tax liability limitation prevents their use. The taxpayer first carries the excess credit back one year to offset that year's tax liability, and any amount still unused after the carryback may then be carried forward for up to twenty years.

63. C — When a return position has a reasonable basis but lacks substantial authority, adequately disclosing the position and relevant facts on Form 8275 generally protects the taxpayer from the substantial-understatement accuracy-related penalty for that specific item if it is later disallowed. Full disclosure combined with a reasonable basis substitutes for the higher substantial-authority standard otherwise required.

64. D — Rental income from real property is generally excluded from net earnings from self-employment and is not subject to self-employment tax, regardless of how actively the landlord manages the properties. The exclusion does not apply to a real estate dealer who holds property primarily for sale to customers in the ordinary course of business.

65. C — The substantially equal periodic payment exception under Section 72(t) allows penalty-free early IRA distributions if payments continue for at least five years or until the taxpayer reaches age 59½, whichever period is longer. Modifying or stopping the payment schedule before that requirement is satisfied retroactively triggers the 10% additional tax, plus interest, on all previously exempted distributions.

66. D — Most net operating losses generated after 2017 may only be carried forward, with no carryback allowed. Farming losses are a specific exception: a taxpayer with a farming trade or business may elect a two-year carryback for the farming portion of an NOL before carrying any remaining unused amount forward to future tax years.

67. B — When a regulated investment company retains capital gains and pays tax on them rather than distributing the cash, it reports each shareholder's allocable share of the gain and the tax paid on Form 2439. The shareholder includes the undistributed gain in income but also claims a credit for the tax the fund already paid, avoiding double taxation.

68. A — Innocent spouse relief under Section 6015 can relieve a taxpayer of liability for an understatement of tax on a joint return attributable to the other spouse's erroneous items, when the requesting spouse establishes she had no actual or constructive knowledge of the understatement when she signed the return and holding her liable would be inequitable.

69. D — Exercising an incentive stock option normally creates an AMT preference equal to the bargain element between the exercise price and fair market value at exercise. However, if the taxpayer sells the stock in the same year as exercise, this is a disqualifying disposition, and no separate AMT adjustment applies because the transaction is taxed under regular income tax rules instead.

70. C — Rental income received under a crop-share farm lease is excluded from net earnings from self-employment when the landowner does not materially participate in the production or management of the farming operation. Without material participation, the arrangement is treated as passive rental income rather than an active farming trade or business, so no self-employment tax applies.

71. A — For accuracy-related penalty purposes, negligence is a separate ground from substantial understatement of tax. It includes any failure to make a reasonable attempt to comply with the tax law, such as failing to keep adequate books and records or failing to exercise ordinary and reasonable care in preparing a return, even without any intent to deceive the IRS.

72. B — The Credit for the Elderly or the Disabled begins with a statutory base amount that depends on filing status. That base amount is first reduced by certain nontaxable Social Security and pension income received, and then reduced further, dollar for dollar, once the taxpayer's adjusted gross income exceeds the applicable threshold, often eliminating the credit for higher-income retirees.

73. B — Normally, failing to make a required fourth-quarter estimated payment triggers an underpayment penalty for that installment. However, a specific exception eliminates the fourth-installment penalty if the taxpayer files her completed income tax return and pays the entire remaining balance due by January 31 of the following year, treating the return itself as satisfying that final payment obligation.

74. C — When a taxpayer works for both a railroad employer subject to Railroad Retirement Tax Act Tier 1 withholding and a separate employer subject to regular Social Security tax in the same year, and the combined withholding exceeds the annual maximum, the taxpayer may claim a credit for the combined excess on her individual income tax return.

75. A — A distribution from a SIMPLE IRA taken within the first two years of an employee's initial participation is subject to a 25% additional tax on the taxable amount, rather than the standard 10% penalty that applies to early distributions from other IRAs, unless a specific statutory exception applies to the withdrawal.

76. D — Effective for 2024 and later years, SECURE 2.0 eliminates the pre-death required minimum distribution requirement for designated Roth accounts held in employer plans, aligning their treatment with Roth IRAs. The original account owner no longer must take lifetime distributions from a Roth 401(k) or Roth 403(b), though beneficiaries remain subject to post-death distribution rules.

77. D — Under the last-month rule, an individual who is HSA-eligible only in December may contribute the full annual limit, but must remain an eligible individual under a high-deductible health plan for the entire testing period, which runs through December 31 of the following year. Losing eligibility during that period causes the excess portion to become taxable income.

78. B — Federal law permits tax-free 529 plan distributions of up to $10,000 per beneficiary per year to pay tuition at an elementary or secondary public, private, or religious school. This limit applies specifically to tuition costs; it does not extend to other K-12 expenses such as books, supplies, or tutoring, which remain nonqualified for this purpose.

79. A — When a surviving spouse is the named beneficiary of a Health Savings Account, the account is treated as the surviving spouse's own HSA upon the owner's death. No amount is included in income at that time, and the surviving spouse may continue to use the funds for qualified medical expenses tax-free, unlike a non-spouse beneficiary.

80. C — For purposes of the general plan loan limit, the maximum a participant may borrow is the lesser of $50,000 or 50% of the vested balance, but that $50,000 ceiling is further reduced by the highest outstanding loan balance during the preceding 12 months. This aggregation rule prevents participants from circumventing the limit through multiple simultaneous loans.

81. D — Portability allows a surviving spouse to use a deceased spouse's unused exclusion amount, but only the DSUE from the most recently deceased spouse may be applied. Once the second husband dies, the widow may generally use only his DSUE amount going forward for her own lifetime gifts or estate, losing access to the first husband's unused exclusion.

82. A — SEP plans must use a uniform contribution formula, meaning the employer contributes the same percentage of compensation for every eligible employee, including the self-employed owner. This uniform percentage requirement, rather than individualized formulas, satisfies the nondiscrimination standard and prevents the plan from disproportionately favoring highly compensated individuals over rank-and-file employees participating in the plan.

83. B — A per stirpes designation directs that a deceased beneficiary's share passes down to that beneficiary's own descendants, rather than being redistributed among the surviving named beneficiaries. Here, the predeceased child's one-third share is divided equally between his two children, preserving the original branch's share within the family line rather than reallocating it to the siblings.

84. C — Distributions from traditional IRAs and other qualified retirement plans are not themselves treated as net investment income for NIIT purposes. However, because the distribution increases modified adjusted gross income, it can push a taxpayer's MAGI further above the applicable threshold, exposing more of her existing dividend and capital gain income to the 3.8% surtax.

85. A — SECURE 2.0 requires most 401(k) and 403(b) plans established after December 29, 2022 to automatically enroll eligible employees beginning with the 2025 plan year, at an initial deferral rate of at least 3% but not more than 10% of compensation. The rate must then automatically escalate by 1% annually until it reaches at least 10%, capped at 15%.

86. C — Under the predeceased parent exception, when the grandchild's parent who is a lineal descendant of the transferor has died before the transfer, the grandchild is treated as moving up to occupy the deceased parent's generation for GST purposes. As a result, the gift is treated as though made to a child, avoiding generation-skipping transfer tax entirely.

87. B — A health care FSA may offer employees relief from the use-it-or-lose-it rule through either a limited dollar carryover of unused funds into the next plan year or a 2.5-month grace period to incur additional expenses, but current rules do not permit a plan to offer both features to the same participants simultaneously.

88. D — A trust's NIIT threshold equals the dollar amount at which trusts and estates enter the top marginal income tax bracket, a figure far below the $200,000/$250,000 thresholds available to individuals. Because trusts reach compressed brackets quickly, undistributed net investment income becomes subject to the 3.8% surtax at a comparatively low income level.

89. C — Section 2503(c) is a statutory exception: because the trust permits spending for the minor before age 21 and requires all remaining property to pass to the beneficiary at 21, Congress deems the gift a present interest automatically. No Crummey withdrawal notice or window is needed to qualify for the annual exclusion.

90. B — Section 678 provides that a person other than the grantor who holds an unrestricted power to vest trust corpus or income in themselves is treated as the owner of that portion for income tax purposes. The beneficiary reports the underlying income, deductions, and credits directly, much like a grantor under the grantor trust rules.

91. A — Under Section 6013(g), a U.S. citizen or resident married to a nonresident alien may jointly elect to treat the nonresident spouse as a U.S. resident for the full tax year. The election subjects the couple to tax on worldwide income and remains in effect until validly revoked, terminated by death, or ended by divorce.

92. D — Congress created a specific statutory exception for winnings from blackjack, baccarat, craps, roulette, and the big-six wheel, exempting nonresident aliens from the usual 30 percent FDAP withholding on gambling income. Winnings from other games, such as slot machines or keno above stated thresholds, generally remain subject to withholding and reporting requirements.

93. A — Most U.S. income tax treaties containing a tie-breaker provision, modeled on the OECD framework, first look to where the individual has a permanent home available. If a permanent home exists in both countries, the analysis proceeds to the individual's closer personal and economic ties, then habitual abode and citizenship, as successive tie-breakers.

94. D — FinCEN's FBAR instructions specifically except accounts maintained at a U.S. military banking facility operated by a U.S. financial institution under Defense Department authority. Because these facilities are treated as domestic institutions for this purpose, accounts held there fall outside the definition of a foreign financial account requiring FBAR disclosure, even though the facility sits outside the United States.

95. B — Unlike most trusts, which must use a calendar year, an estate may adopt any fiscal year the executor selects when filing its first Form 1041. Once chosen, that year generally must be used consistently, and the estate's return is due three and a half months after the close of that period.

96. C — Under the reciprocal trust doctrine, when two grantors create interrelated trusts for each other's benefit that leave each grantor in approximately the same position as if they had named themselves beneficiary, the IRS may uncross the trusts. Each grantor is then treated as grantor of the trust benefiting them, pulling those assets into that grantor's own estate.

97. C — Because the surviving spouse remarried before the close of the year, the decedent's final return can no longer be filed jointly with that spouse. The decedent's return must instead be filed as married filing separately, while the surviving spouse may file jointly with the new spouse for that same year.

98. D — FIRPTA provides a full withholding exemption when the buyer acquires the property for use as a personal residence and the amount realized does not exceed $300,000, provided the buyer signs the required affidavit. Above that threshold but at or below $1,000,000, a reduced 10 percent rate may apply instead of the standard 15 percent rate.

99. B — The foreign tax credit limitation is computed separately for different categories, or 'baskets,' of foreign-source income, most commonly passive category income and general category income. Foreign taxes and income within one basket cannot offset the limitation of another basket, preventing a taxpayer from averaging high-tax and low-tax foreign income together.

100. A — A charitable remainder annuity trust must pay the noncharitable beneficiary a fixed amount at least annually, equal to at least 5 percent but not more than 50 percent of the trust's initial fair market value. The trust must also satisfy the 10 percent minimum remainder interest test at the time of funding.