PRACTICE EXAM 14: 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. Two individuals validly married each other in a state that legally permits their marriage but subsequently established their permanent home in a different state that does not recognize that type of marriage under its own law. For federal income tax filing status purposes, how does the IRS treat this couple?

A. The couple must file as unmarried individuals because their domicile state controls
B. The couple is treated as married because the marriage was valid where it was performed
C. The couple may elect either married or unmarried status at their own discretion
D. The couple must obtain a separate federal registration before being treated as married

2. An enrolled agent is asked to represent both spouses in an IRS examination of their jointly filed return, but the spouses' interests may diverge if the examination raises an issue affecting one spouse differently than the other. Under Circular 230, may the EA represent both spouses in this matter?

A. Yes, but only if the EA reasonably believes she can competently represent both and each spouse gives informed written consent
B. No, an enrolled agent may never represent more than one taxpayer in the same IRS examination under any circumstances

C. Yes, without any special requirement, since both spouses filed the same joint return and share identical interests throughout

D. Yes, but only if the EA first obtains written permission from the IRS examining officer before proceeding further

3. A client's employer closed permanently in December, and despite the client's repeated attempts to contact former management, no Form W-2 has arrived by mid-February of the following year. The client has retained final pay stubs showing year-to-date wages and withholding. Which form allows the client to file a timely return using estimated wage and withholding figures?

A. Form 8919

B. Form 843

C. Form 1040-X

D. Form 4852

4. In an examination of an individual's return, under what circumstance does the burden of proof on a factual issue shift from the taxpayer to the IRS under IRC section 7491?

A. Whenever the taxpayer simply disagrees with the examiner's proposed factual adjustment

B. Whenever the taxpayer requests an appeals conference before the assessment is finalized

C. When the taxpayer maintains required records, cooperates with IRS requests, and provides credible evidence

D. Whenever the taxpayer's return was prepared by a paid, credentialed tax practitioner

5. A taxpayer generated a net operating loss several years ago that is being carried forward and used to offset income in the current tax year. How long should the taxpayer retain the records supporting that net operating loss?

A. Three years from the date the loss was originally generated on the return

B. Six years from the date the loss was originally generated on the return

C. Until the statute of limitations expires for the year the loss is fully absorbed

D. Indefinitely, no matter when the loss is eventually fully absorbed

6. A custodial parent previously signed Form 8332 releasing the dependency claim for a child to the noncustodial parent for all future years. The custodial parent now wants to revoke that release and reclaim the child going forward. When does the revocation first become effective?

A. Immediately for the current tax year, once the custodial parent signs it

B. Retroactively for any prior year the noncustodial parent already claimed the child

C. Only after the noncustodial parent consents in writing to the revocation itself

D. For the tax year after the year written notice of revocation is given

7. A taxpayer dies during the year, and a personal representative is appointed to administer the estate. The estate begins earning interest and dividend income after the date of death. What taxpayer identification number must the estate use to report this post-death income?

A. A new Employer Identification Number obtained for the estate

B. The decedent's Social Security number, continued for estate reporting

C. The personal representative's own Social Security number

D. An Individual Taxpayer Identification Number issued to the estate

8. A taxpayer asks a preparer to direct deposit her federal refund into the same checking account used in each of the past several years. What limitation does the IRS impose on electronic refund deposits made to a single financial account or routing number?

A. No more than one single electronic refund per calendar year is allowed

B. No more than three electronic refunds may be deposited into the same account

C. No more than five electronic refunds may be deposited into one account yearly

D. There is no limit as long as the account belongs to the taxpayer

9. An enrolled agent's credential authorizes unlimited practice before the IRS at the administrative level. Which statement correctly describes the enrolled agent's authority to represent a client in litigation before the United States Tax Court?

A. The enrolled agent generally cannot represent the client in Tax Court unless separately admitted to practice before that court

B. The enrolled agent's credential automatically includes full authority to litigate any case in Tax Court

C. The enrolled agent may represent the client in Tax Court only for cases involving less than $50,000

D. The enrolled agent may represent the client in Tax Court only if a supervising attorney co-signs the petition

10. A practitioner formerly employed by the IRS now represents a client in a matter before the agency. Under Circular 230's restrictions on former government employees, what is the practitioner prohibited from doing?

A. Charging the client a fee based on a percentage of any refund

B. Representing any client whose return the practitioner personally did not prepare

C. Advertising former IRS employment in any promotional material given to clients

D. Representing a client in a matter the practitioner substantially worked on for the government

11. A US citizen has been a bona fide resident of Puerto Rico for the entire tax year and excludes Puerto Rico-source wages from federal gross income under the applicable Code section. During the year, the taxpayer also had $3,000 of self-employment income earned from services performed in Puerto Rico. Which statement correctly describes the federal filing obligation regarding that self-employment income?

A. The self-employment income is fully excluded, creating no federal filing requirement

B. The self-employment income remains subject to federal self-employment tax despite the wage exclusion

C. The self-employment income is excluded only if also reported on a territorial return

D. The self-employment income triggers federal filing only if it exceeds fifty thousand dollars

12. A tax preparation firm participates in IRS e-file and employs several individual preparers. Which statement correctly distinguishes the firm's Electronic Filing Identification Number (EFIN) from an individual preparer's Preparer Tax Identification Number (PTIN)?

A. The EFIN and PTIN are simply two different names for one number

B. The PTIN identifies the firm's e-file business, while the EFIN identifies the preparer

C. The EFIN identifies the firm authorized to transmit returns, while the PTIN identifies the preparer

D. Only firms employing more than ten individual preparers must obtain an EFIN

13. A taxpayer has made regular annual contributions to a Roth IRA for many years and also converted funds from a traditional IRA into the Roth account. Why is it important for the taxpayer to retain records of these contribution and conversion amounts?

A. To establish the account's basis so future distributions can be correctly classified under the Roth ordering rules

B. Because the custodian is legally prohibited from tracking any of this information

C. Because contributions to a Roth IRA are deductible and must be substantiated annually

D. Because the records determine the required minimum distribution age for the account

14. An individual works for a qualified church-controlled organization that has elected exemption from the employer's share of Social Security and Medicare taxes. The individual's church employee income for the year totals $250, with no other self-employment activity. What is the significance of this income for federal filing purposes?

A. It is excluded from self-employment tax entirely because the employer elected out of FICA

B. It is subject to self-employment tax because it exceeds the special $108.28 church employee income threshold

C. It is subject to self-employment tax only if it exceeds the standard $400 threshold for other self-employed individuals

D. It is subject to self-employment tax only if the individual is an ordained minister

15. A new client wants to register for an IRS Online Account to view tax records and payment history going forward. What does the IRS require to verify the client's identity during registration for this account?

A. A notarized copy of the client's most recently filed tax return mailed to the IRS

B. In-person appearance at a Taxpayer Assistance Center as the sole verification method

C. A phone call to the IRS toll-free line providing the client's SSN and address

D. Identity verification through the IRS's Secure Access process, typically a government-issued photo ID plus a self-taken photo

16. A client age 74 states that her IRA custodian transferred funds directly from her traditional IRA to a qualified charity during the year, and she wants to exclude this amount from income as a qualified charitable distribution. What documentation should the practitioner obtain to substantiate this treatment?

A. A copy of the client's prior-year return showing itemized charitable deductions claimed
B. A verbal confirmation from the client that funds were eventually used for charity
C. A custodian statement or Form 1099-R plus confirmation the funds moved directly to the charity
D. Nothing further, since all IRA distributions after age seventy and a half qualify automatically

17. Priscilla submitted information to the IRS Whistleblower Office that led to the successful collection of unpaid tax, interest, and penalties from a noncompliant corporation. The IRS later paid her an award under IRC Section 7623(b) equal to a percentage of the proceeds collected. How must Priscilla report this award for federal income tax purposes?

A. As ordinary income in the year the award is received
B. As a nontaxable return of the taxpayer's own funds
C. As long-term capital gain if held over one year
D. As tax-exempt income under the informant exclusion

18. Derrick works as a gate agent for a commercial airline. Under the airline's employee travel policy, he is permitted to fly standby on any available seat at no charge, provided the flight is not full and he does not displace a paying customer. This year Derrick took several personal standby flights at no cost. How should the value of these flights be treated for tax purposes?

A. Included in wages at the flight's regular ticket price
B. Included in wages up to the airline's cost of fuel
C. Excluded as a no-additional-cost service fringe benefit
D. Excluded only if Derrick itemizes deductions that year

19. Tanya's employer provides her with a company car that she uses for both business deliveries and personal errands. Her employer properly values Tanya's personal use of the vehicle each year using an IRS-approved method and includes that amount on her Form W-2. How is the value of Tanya's personal use of the company car treated for tax purposes?

A. Excluded entirely as a working condition fringe benefit
B. Included in wages subject to income and employment tax
C. Deferred until the vehicle is eventually sold or traded
D. Reported only on Schedule C as self-employment income

20. A taxpayer purchased rental real estate entirely with a nonrecourse loan secured only by the property itself, with no personal liability for any deficiency. When the taxpayer stopped making payments, the lender foreclosed and the property was worth less than the outstanding loan balance at that time. How does the taxpayer determine gain or loss on this foreclosure?

A. Amount realized is limited to the property's fair market value
B. Amount realized excludes any portion treated as canceled debt
C. Ordinary cancellation-of-debt income is reported separately from any gain
D. Amount realized equals the full amount of debt canceled

21. A 58-year-old taxpayer with a Health Savings Account withdraws $3,500 during the year to pay premiums on a qualified long-term care insurance contract. Under the IRS's age-based premium table for the year, the maximum amount treated as a qualified medical expense for someone her age is $2,200. How is this distribution treated?

A. Fully tax-free because long-term care premiums are always qualified
B. $2,200 tax-free; the remaining $1,300 taxable and subject to penalty
C. Fully taxable because insurance premiums are never qualified expenses
D. $2,200 taxable; the remaining $1,300 excluded as a qualified expense

22. Four individuals transfer property to a newly formed corporation solely in exchange for corporate stock, immediately owning 100% of the corporation's outstanding stock. One of the transferors also receives a small amount of cash in addition to stock. The transfer otherwise qualifies for nonrecognition treatment under Section 351. How is that transferor's cash receipt treated?

A. It is entirely tax-free as part of a qualifying exchange
B. It reduces the corporation's basis in the property received
C. Gain is recognized to the extent of the cash received
D. It converts the entire exchange into a fully taxable sale

23. Renata works as a graduate teaching assistant at the university where she is also pursuing her Ph.D. In exchange for teaching two undergraduate sections each semester, the university reduces her tuition by $18,000 for the year under its qualified tuition reduction program available to employees. How is this tuition reduction treated for Renata's federal income tax purposes?

A. Excluded from income because she performs qualifying teaching activities
B. Excluded only if the reduction is below the annual gift tax limit
C. Fully taxable as compensation because she is a graduate student
D. Taxable only on the portion exceeding $5,250 for the year

24. Barrett sold undeveloped land under an installment contract, reporting gain over several years as payments were received. After the buyer defaulted, Barrett repossessed the land. At the time of repossession, Barrett had already recognized $15,000 of gain from payments collected, and his repossession costs were minimal. How is Barrett's gain on the repossession generally computed?

A. No further gain is recognized once the seller reacquires the same property
B. Gain equals the fair market value of the land on the date of repossession
C. All originally deferred gain is recaptured immediately as ordinary income
D. Gain is capped at payments received before repossession not yet taxed

25. An investor purchased a zero-coupon municipal bond at original issue for less than its stated redemption price at maturity, with the difference representing original issue discount. The bond's interest is exempt from federal income tax. How is this original issue discount treated for federal tax purposes each year it accrues?

A. Excluded from gross income as tax-exempt interest, not currently taxed
B. Included currently in gross income like taxable bond OID
C. Deferred entirely and taxed as capital gain only at maturity
D. Taxable in the year of purchase as imputed interest income

26. After winning an employment discrimination lawsuit against her former employer, Jocelyn received a settlement that included $40,000 designated as back pay for wages she would have earned had she not been wrongfully terminated two years earlier. The employer issued Jocelyn a Form W-2 reporting this amount. How is the back pay treated?

A. Excluded from income as compensation for personal injury
B. Taxable wages subject to income and employment tax withholding
C. Taxable only as miscellaneous income, exempt from payroll taxes
D. Allocated retroactively across the two prior tax years affected

27. Malik's position was eliminated in a company-wide layoff, and he received a lump-sum severance payment calculated as two weeks of pay for every year of service. The severance was paid in a single check separate from his final regular paycheck. How is this severance payment treated for tax purposes?

A. Excluded from income as damages for loss of employment
B. Taxable but exempt from Social Security and Medicare tax
C. Partially excluded up to the annual gift tax limit
D. Fully taxable wages subject to income and employment taxes

28. An employer reimburses employees for business travel expenses but does not require employees to submit receipts or return any excess reimbursement over actual expenses substantiated, meaning the arrangement fails to qualify as an accountable plan. How should the reimbursements employees receive under this arrangement be treated?

A. Excluded from income as ordinary business expense reimbursements
B. Excluded up to the federal per diem rate for the area
C. Included in wages and subject to employment tax withholding
D. Deferred until the employee substantiates the expenses on Schedule A

29. A taxpayer sold a personal sailboat, used exclusively for family recreation and never for business or investment purposes, for $8,000 less than its original purchase price. How is this loss treated on the taxpayer's federal income tax return?

A. Deductible as a capital loss, limited to $3,000 per year
B. Nondeductible because losses on personal-use property are disallowed
C. Deductible in full against ordinary income in the year sold
D. Deductible only if the taxpayer itemizes deductions that year

30. A taxpayer's brokerage firm was unable to obtain a valid taxpayer identification number for him and, under IRS rules, began withholding 24% of his interest and dividend payments as backup withholding. How should the taxpayer treat the interest and dividend income and the amount withheld on his federal income tax return?

A. Report full gross income, claiming the withholding as a tax payment credit
B. Report only the net amount received after backup withholding
C. Exclude the income entirely because backup withholding already satisfies the tax
D. Report the withheld amount as a nondeductible penalty on Schedule A

31. A taxpayer redeemed a certificate of deposit before its maturity date and, as a result, forfeited three months of accrued interest as an early withdrawal penalty imposed by the bank. The bank reported the full interest earned and the penalty separately on Form 1099-INT. How should the taxpayer treat these two amounts?

A. Net the penalty against the interest and report only the difference
B. Ignore both amounts because early withdrawal penalties are not reportable
C. Report full interest income and deduct the penalty above the line
D. Report full interest income with no deduction available for the penalty

32. An employee was granted restricted stock units (RSUs) that convert into actual shares of employer stock only when they vest according to a schedule, with no shares or voting rights transferred beforehand. This year, 500 units vested and converted into shares worth $40 each. Which statement correctly describes the tax treatment?

A. No income is recognized until the shares are eventually sold
B. Income is recognized only if a Section 83(b) election is filed
C. Income is recognized ratably each year during the vesting period
D. Ordinary income equal to fair market value is recognized at vesting

33. A taxpayer won a state lottery jackpot and elected to receive the prize as 20 equal annual payments rather than a discounted lump sum. How should the taxpayer report the lottery winnings for federal income tax purposes?

A. Include each annual payment as ordinary income when received
B. Include the entire discounted present value in the year won
C. Include the payments as capital gain spread over 20 years
D. Include only half of each payment, since lotteries are wagers

34. A taxpayer received a bill from a contractor for $12,000 for home renovation work but disputed the amount in good faith, contending that defective work justified a lower charge. After negotiation, the contractor agreed to settle the account for $8,000. How is the $4,000 reduction treated?

A. Fully taxable as cancellation-of-debt income in the year settled
B. Taxable only to the extent the taxpayer was solvent at settlement
C. Reported on Form 1099-C regardless of the dispute's legitimacy
D. Not COD income because the original debt amount was disputed in good faith

35. A taxpayer purchased a nonqualified deferred annuity with after-tax funds several years ago and has never begun receiving annuity payments. This year, before annuitizing the contract, she withdraws $10,000, which is less than the contract's total accumulated earnings. How is this withdrawal taxed?

A. Excluded entirely as a tax-free return of the taxpayer's own principal
B. Fully taxable as ordinary income under the last-in, first-out rule

C. Taxed under an exclusion ratio based on the taxpayer's life expectancy
D. Taxed as long-term capital gain since the contract is several years old

36. Two years after selling a piece of equipment to a buyer under a note that remains outstanding, the seller-financer agrees to reduce the remaining principal balance by $6,000 because the equipment developed problems the seller had not disclosed. The buyer still owns and uses the equipment. How is this $6,000 reduction treated?

A. Taxable cancellation-of-debt income reportable by the buyer in that year
B. Taxable to the seller as a reduction in future interest income
C. A purchase price adjustment that reduces the buyer's basis in the equipment
D. Tax-exempt income to the buyer under the seller-financed debt exception

37. A taxpayer's elderly mother resides in a nursing home primarily because she requires the constant medical and nursing care available there, rather than for personal or family reasons. For purposes of the medical expense deduction, how is the cost of her stay treated?

A. Only the portion of the cost attributable to medical services is deductible; meals and lodging are excluded.
B. The full cost of meals, lodging, and medical care qualifies as a deductible medical expense.
C. None of the cost qualifies, since nursing home care is generally considered custodial, not medical.
D. The cost qualifies only if her only reason for being there is custodial, not medical.

38. Under an employer's qualified educational assistance program described in Section 127, what is the maximum amount of benefits, which may include payments toward an employee's student loans, that an employee can exclude from gross income each year?

A. $2,500 annually, and only direct tuition charges qualify; student loan payments never qualify.
B. $10,000 annually, with no separate dollar limit for student loan payment assistance.
C. There is no dollar limit, provided the education relates to the employee's current job.
D. $5,250 annually, covering tuition, fees, books, and certain qualifying student loan payments.

39. A taxpayer who itemizes deductions elects to deduct state and local general sales taxes instead of state and local income taxes. Rather than keeping every receipt throughout the year, how may she determine the deductible amount?

A. She may use the IRS's optional sales tax tables, based on income and family size, plus certain big-ticket items.

B. She must reconstruct the exact amount from bank and credit card statements; no estimation method is allowed.

C. She may deduct a flat $10,000 regardless of actual sales tax paid under the SALT cap rule.

D. She may not deduct sales tax unless she resides in a state that has no income tax.

40. A taxpayer pays her mortgage lender a $150 late payment charge after missing a payment deadline, and separately pays a $2,000 prepayment penalty when she pays off the loan early. Assuming neither charge is for a specific additional service, how are these amounts treated?

A. Neither charge is deductible, because both are penalties rather than true interest on the debt.

B. Only the late payment charge is deductible; the prepayment penalty must be capitalized into the home's basis.

C. Both the late payment charge and the prepayment penalty are deductible as home mortgage interest.

D. Only the prepayment penalty is deductible; the late payment charge is treated as a nondeductible fee.

41. A taxpayer contributes $1,000 to a qualified public charity. Her employer separately makes a $1,000 matching contribution to the same charity under the company's employee matching gift program. How much may the taxpayer deduct as a charitable contribution on her own return?

A. $2,000, since the employer's matching gift is made because of her own contribution.

B. $1,000, but only if the employer issues her a Form W-2 reflecting the match.

C. Nothing, because the employer, not the taxpayer, is treated as the donor of both amounts.

D. $1,000, representing only the amount she personally contributed to the charity.

42. A taxpayer travels out of town for a week to perform volunteer construction work for a qualified charity, with no significant element of personal pleasure, recreation, or vacation involved in the trip. Which of the following is true regarding her unreimbursed travel costs?

A. Her airfare and lodging are deductible as a charitable contribution, since there is no significant personal element.

B. None of her travel costs are deductible, because charitable deductions never extend to overnight travel.

C. Only her lodging is deductible; airfare is treated as a nondeductible personal commuting expense.

D. Her travel costs are deductible only if the charity reimburses her and later returns the funds.

43. A physician diagnoses a taxpayer with obesity as a specific disease and directs her to enroll in a weight-loss program. Which of the following costs related to this diagnosis may she include as deductible medical expenses?

A. Her health club membership dues, since the club is where she attends the weight-loss program sessions.

B. The cost of special low-calorie diet foods she purchases in place of her normal groceries.

C. The fees she pays to enroll and participate in the physician-directed weight-loss program itself.

D. Any weight-loss related cost, including gym dues and diet foods, without any restriction.

44. Prior to its expiration, Section 222 allowed certain taxpayers to claim an above-the-line deduction for qualified tuition and fees as an alternative to the education credits. For current tax years, which statement correctly describes this deduction?

A. It remains fully available and may be claimed in place of the American Opportunity Tax Credit.

B. It expired after 2020 and was not renewed, leaving only the AOTC and LLC as options.

C. It was replaced by an expanded Lifetime Learning Credit with a higher income phase-out range.

D. It is still available, but only for graduate-level tuition and mandatory enrollment fees.

45. A taxpayer's 17-year-old dependent daughter marries during the year and files a joint return with her spouse solely to claim a refund of tax withheld from her part-time job, with neither spouse owing any tax if they had filed separately. Does this joint return disqualify her as a qualifying child for the Child Tax Credit?

A. Yes, filing any joint return automatically disqualifies a dependent as a qualifying child.

B. No, because the joint return was filed only to claim a refund, not due to any tax liability.

C. Yes, but only because she is married; age no longer matters once a taxpayer marries.

D. No, because the Child Tax Credit has no restriction at all on a qualifying child's filing status.

46. A taxpayer sells her principal residence after owning and using it as her main home for only 14 months, short of the two-year ownership-and-use requirement, because her employer requires her to relocate to a distant city for a new job assignment. May she claim any portion of the Section 121 home sale gain exclusion?

A. No, the full two-year ownership and use requirement must be met before any exclusion is available, with no exceptions

B. Yes, but only if she rents out the home for the remainder of the two-year period before selling it

C. Yes, she may claim a reduced exclusion prorated based on the portion of the two-year period she actually satisfied

D. Yes, she may claim the full exclusion regardless of how long she owned and used the home before selling

47. A working couple pays for after-school care for their son throughout the year. He turns 13 in August, after which he is no longer a qualifying person for the Child and Dependent Care Credit. How are the care expenses treated for purposes of the credit?

A. Only the expenses paid for care provided before he turned 13 count toward the credit.

B. None of the year's expenses qualify, since he did not remain a qualifying person all year.

C. All of the year's expenses qualify, since he was a qualifying person for part of the year.

D. Only expenses paid after he turned 13 qualify, since those reflect his final months as a dependent.

48. The Retirement Savings Contributions Credit applies a tiered applicable percentage to a taxpayer's eligible retirement contributions, rather than a single flat rate. Which of the following correctly describes this structure?

A. The percentage is always 50% for any eligible taxpayer, regardless of income level.

B. The percentage increases as AGI rises, rewarding higher-income savers with a larger credit rate.

C. The percentage is fixed at 20% for all filing statuses and every income level.

D. The percentage is 50%, 20%, or 10% of contributions, decreasing as AGI increases within limits.

49. A taxpayer's personal-use property covered by insurance is damaged in a casualty. She chooses not to file an insurance claim for the damage, even though the loss is covered under her policy, in hopes of avoiding a premium increase. How does this affect her casualty loss deduction?

A. It has no effect; failing to file a claim never limits the deductible casualty loss.
B. Her deduction is reduced by the amount of reimbursement she could have received, had she filed a claim.
C. She may deduct the full loss, but only if she itemizes rather than claiming the standard deduction.
D. She may deduct the full loss only if the casualty occurred in a federally declared disaster area.

50. A taxpayer holds a Mortgage Credit Certificate issued by her state housing finance agency and pays $8,000 of mortgage interest during the year. Her certificate rate produces a $2,000 mortgage interest credit for the year. How must she treat her itemized mortgage interest deduction on Schedule A?

A. She must reduce her itemized mortgage interest deduction by the $2,000 credit, deducting only the remaining $6,000
B. She may deduct the full $8,000 of mortgage interest paid in addition to claiming the full mortgage credit
C. She may not itemize any mortgage interest at all in a year she claims the mortgage interest credit
D. She must instead reduce the credit amount by whatever portion of interest she chooses to itemize separately

51. A self-employed sole proprietor with substantial net self-employment earnings establishes a one-participant 401(k) for the year and wants to contribute both as "employee" and as "employer" to maximize her total deductible retirement contribution. Which statement correctly describes how these two contribution components combine?

A. Only the employee elective deferral portion is deductible; the employer profit-sharing portion is never deductible in this plan type
B. The employer profit-sharing contribution must be reduced dollar-for-dollar by any employee elective deferral made in that same year

C. Both the employee elective deferral and employer profit-sharing contribution are deductible and combine toward the overall annual additions limit

D. She may make either the employee deferral or the employer contribution in a given year, but never both together

52. A self-employed taxpayer establishes a SIMPLE IRA plan for her one-person business and makes an elective deferral contribution as the plan's employee, separate from any employer matching contribution she also makes. How is her elective deferral contribution treated on her individual return?

A. It is nondeductible, since only employer contributions to a SIMPLE IRA reduce taxable income.

B. It is deductible, but only up to the same limit that applies to a SEP-IRA contribution.

C. It is a Schedule C business expense that reduces her net self-employment earnings directly.

D. It is deductible as an adjustment to income on her individual return, subject to the elective deferral limit.

53. A 40-year-old taxpayer takes a distribution from her Health Savings Account and uses the funds for a nonqualified expense unrelated to medical care. Beyond including the distribution in gross income, what additional tax consequence applies?

A. No additional tax applies as long as the funds are used within 60 days for any purpose.

B. A 10% additional tax applies, the same penalty that applies to early retirement account withdrawals.

C. A 6% excise tax applies annually until the distributed amount is repaid to the account.

D. A 20% additional tax applies to the nonqualified portion of the distribution, on top of income tax.

54. A taxpayer with a chronic heart condition attends a medical conference focused on research and treatment options for her specific illness, on her physician's recommendation. Which of the following costs from this trip may she include as deductible medical expenses?

A. Her meals and lodging at the conference hotel, in addition to the registration fee.

B. Only her lodging costs, since registration fees for conferences are never medical expenses.

C. Her conference registration fee and transportation costs, but not her meals or lodging.

D. None of the costs qualify, since attending a conference is considered educational, not medical.

55. A taxpayer lives in a home titled solely in her domestic partner's name and is not listed as a borrower on the mortgage note, but she makes the monthly mortgage payments herself and holds an equitable interest in the property under state law. May she deduct the mortgage interest she pays?

A. Yes, because she is an equitable owner of the property and personally makes the interest payments.
B. No, only the person whose name is on both the title and the mortgage note may deduct interest.
C. Yes, but only if her partner formally gifts her a portion of the mortgage interest deduction in writing.
D. No, mortgage interest may only be deducted by someone listed as a co-borrower on the note itself.

56. A married couple files a joint return. One spouse earns $90,000 in wages during the year; the other spouse has no compensation and stays home caring for their children. Assuming income limits are met, may the non-working spouse make a deductible contribution to her own traditional IRA?

A. No, an individual with no compensation of her own may never contribute to a traditional IRA.
B. Yes, a spousal IRA contribution is permitted based on the working spouse's compensation on a joint return.
C. Yes, but only up to half of the working spouse's total IRA contribution for that year.
D. No, the working spouse must instead contribute to a joint account titled in both names.

57. A business places newly acquired qualified property in service during 2024. Under the Section 168(k) bonus depreciation phase-down enacted by the Tax Cuts and Jobs Act, what percentage of the property's cost may the business deduct as bonus depreciation for the year placed in service?

A. 60 percent, reflecting the bonus depreciation percentage as phased down from the original 100 percent rate
B. 100 percent, since bonus depreciation remains unchanged at full expensing for all qualified property acquired
C. 80 percent, the rate that applied to property placed in service during the immediately preceding year
D. 40 percent, the rate scheduled to apply two years after the year this property was placed in service

58. A retired general partner continues to receive periodic payments from her former partnership after fully retiring from partnership activities. The payments are made under a written plan providing for payments to partners generally, or a class of partners, because of retirement, continuing until the partner's death, and the partner performs no further services for the partnership. How are these retirement payments treated for self-employment tax purposes?

A. The payments are subject to self-employment tax because they represent a continuing distributive share of partnership profits
B. The payments are subject to self-employment tax only until the retired partner reaches full Social Security retirement age
C. The payments are excluded from net earnings from self-employment and are not subject to self-employment tax at all
D. The payments are subject to self-employment tax at half the normal rate because the partner is no longer active

59. A crew member works aboard a fishing boat with a normal operating crew of fewer than 10 individuals and is compensated with a share of the boat's catch based on the amount of fish caught, rather than a fixed wage. Under the special employment tax rules for fishing crews, how is this crew member generally treated for self-employment tax purposes?

A. The crew member is treated as a common-law employee, and the boat operator must withhold FICA tax from wages
B. The crew member is treated as self-employed, and the share-of-catch income is subject to self-employment tax reporting
C. The crew member is exempt from both self-employment tax and FICA tax because fishing income is specifically excluded
D. The crew member's status depends entirely on whether a written employment contract exists between the boat owner and crew

60. An employer fails to file correct Forms 1099-NEC with the IRS by the required due date but corrects the failure within 30 days after that due date. Under the tiered information return penalty structure of Section 6721, what per-return penalty generally applies to this timely-corrected failure?

A. $330 per return, the standard penalty rate that applies regardless of when the failure is later corrected
B. $660 per return, since any uncorrected information return failure is automatically treated as intentional disregard
C. $130 per return, the mid-tier rate for corrections made after 30 days but before August 1

D. $60 per return, the lowest tier rate that applies specifically to failures corrected within 30 days

61. A partner in a partnership receives two types of guaranteed payments during the year: one for personal services rendered to the partnership, and another for the use of capital she has invested in the partnership. For Net Investment Income Tax purposes, how are these two guaranteed payments generally treated?

A. Both guaranteed payments are excluded from net investment income because guaranteed payments are never treated as investment income

B. Both guaranteed payments are included in net investment income because they arise from the partner's ownership interest itself

C. The guaranteed payment for services is included in net investment income, while the payment for capital is excluded entirely

D. The guaranteed payment for services is excluded from net investment income, while the payment for capital is included

62. A 20-year-old taxpayer is enrolled as a full-time student for five months of the year and contributes $1,500 to a Roth IRA from earnings at a part-time job. She is not claimed as a dependent on anyone else's return. Can she claim the Retirement Savings Contributions Credit (Saver's Credit) for this contribution?

A. No, because an individual who was a full-time student during any part of five months in the year is ineligible

B. Yes, because the credit is available to any taxpayer who is not claimed as a dependent, regardless of student status

C. Yes, but only if her earned income exceeds the maximum contribution limit allowed for a Roth IRA that year

D. No, because Roth IRA contributions never qualify for the Saver's Credit, unlike traditional IRA or 401(k) contributions

63. A married couple filing jointly paid $550 in foreign taxes during the year, all attributable to passive foreign-source dividend and interest income reported to them on qualified payee statements such as Form 1099-DIV. They want to claim the foreign tax credit without the complexity of a detailed limitation computation. What filing option is available to them?

A. They may not claim any foreign tax credit unless Form 1116 is completed, regardless of the amount of tax paid

B. They may elect the credit without filing Form 1116, since their foreign tax is $600 or less and all passive

C. They must instead deduct the foreign taxes on Schedule A, since amounts under $1,000 cannot be claimed as a credit

D. They may claim the credit without Form 1116 only if they also elect to itemize deductions for the entire year

64. A taxpayer's return reflects a claimed value for a donated property that is later determined to be 220% of the correct value, resulting in an underpayment of tax attributable to the overstatement. Under the accuracy-related penalty rules for valuation misstatements, which penalty rate applies to this level of overstatement?

A. A 10% penalty applies, since the overstatement is below the threshold required for either valuation misstatement category

B. A 20% penalty applies, because any valuation overstatement above 100% of correct value is treated identically under the rules

C. A 40% penalty applies, because a claimed value of 200% or more of correct value is a gross misstatement

D. A 75% penalty applies, because a valuation overstatement of this size is automatically treated as civil tax fraud

65. An employer withholds payroll taxes from employees' wages but fails to remit the withheld "trust fund" portion to the IRS. The IRS seeks to assert the Trust Fund Recovery Penalty under Section 6672 against an individual at the company. What must the IRS establish to hold that individual personally liable?

A. The individual must have personally signed every payroll tax return the company filed during the period at issue

B. The individual must be a majority shareholder owning more than fifty percent of the company's outstanding stock

C. The individual must be an enrolled agent or CPA who both prepared and filed the payroll tax returns

D. The individual must have been a responsible person who willfully failed to collect, account for, or pay the tax

66. A publishing business elects to currently deduct its circulation expenditures in full for regular tax purposes, as permitted for costs of establishing, maintaining, or increasing circulation of a newspaper or magazine. How must these circulation expenditures be treated when computing alternative minimum taxable income (AMTI)?

A. Circulation expenditures require no AMT adjustment, since the regular tax treatment is also accepted for AMT purposes

B. Circulation expenditures must be capitalized and amortized ratably over three years for AMT purposes, creating a timing adjustment

C. Circulation expenditures are permanently disallowed for AMT purposes and can never be deducted or amortized in any year

D. Circulation expenditures must be capitalized and amortized over fifteen years for AMT purposes, matching intangible asset amortization rules

67. The IRS determines that a portion of a taxpayer's underpayment resulted from civil tax fraud, while a separate portion of the same underpayment resulted from ordinary negligence unrelated to any fraudulent intent. How do the accuracy-related penalty and the civil fraud penalty apply to these two portions of the underpayment?

A. The 75% civil fraud penalty applies to the entire underpayment, and the accuracy-related penalty cannot apply at all that year

B. Both penalties apply fully to the entire underpayment amount, since the two penalties are designed to be cumulative and additive

C. The 75% fraud penalty applies to the fraudulent portion, and the 20% accuracy-related penalty applies to the negligent portion

D. Neither penalty applies to either portion, because a single underpayment cannot be split between two different penalty provisions

68. A taxpayer submitted a specific written request to the IRS asking how a particular transaction should be reported, received erroneous written advice in response, and reported the transaction exactly as the IRS instructed. The IRS later assesses a penalty related to the resulting underpayment. What relief is available to the taxpayer?

A. The penalty may be abated because it resulted from reasonably relying on erroneous written advice the IRS itself provided

B. No relief is available, because taxpayers are always responsible for penalties regardless of any advice the IRS itself gives

C. The penalty is automatically abated for any taxpayer who requests advice from the IRS, whether written or oral advice

D. Relief is available only if the taxpayer also files an amended return correcting the position within thirty days of assessment

69. A married couple's Child Tax Credit for their two qualifying children exceeds the tax liability they can offset with the nonrefundable portion of the credit. They had $22,500 of earned income for the year. How is the refundable Additional Child Tax Credit generally computed for the excess amount?

A. It equals 20% of total earned income for the year, without regard to any minimum earned income floor amount

B. It equals the full excess credit amount, since the Additional Child Tax Credit has no earned income computation limit

C. It equals 15% of earned income exceeding $2,500, subject to the applicable per-child refundable credit cap for the year

D. It equals 15% of total earned income including the first $2,500, with no separate per-child dollar cap applied

70. A self-employed U.S. citizen operates a consulting business entirely from a foreign country and properly excludes her net self-employment earnings from gross income using the foreign earned income exclusion. How does this exclusion affect her self-employment tax liability?

A. The exclusion eliminates self-employment tax entirely, since excluded foreign earned income is not includible in gross income at all

B. The exclusion has no effect on self-employment tax, which is computed on full net earnings from self-employment regardless

C. The exclusion reduces self-employment tax proportionally, matching the percentage of net earnings excluded from regular taxable income

D. The exclusion suspends self-employment tax until the taxpayer returns to the United States and resumes domestic self-employment

71. A taxpayer's foreign tax credit for the current year exceeds the limitation amount allowed based on her U.S. tax attributable to foreign-source income, leaving a portion of foreign tax paid unused as a credit this year. What happens to this unused foreign tax credit amount?

A. The unused credit is permanently lost and cannot be applied to any other tax year, before or after this year

B. The unused credit may only be carried forward, for a maximum of five years following the year it arose

C. The unused credit may only be carried back one year, with no carryforward allowed under current law provisions

D. The unused credit may be carried back one year and carried forward up to ten years to use against tax

72. A taxpayer files a claim for refund or credit for an amount that is later determined to be excessive, and the IRS finds the excessive portion of the claim lacked a reasonable basis. Assuming no underlying return position penalty otherwise applies, what penalty may the IRS assert against the taxpayer?

A. A 20% penalty on the excessive portion of the claim, unless the taxpayer shows reasonable cause for the claim

B. A flat $5,000 penalty regardless of the size of the excessive refund or credit amount claimed by the taxpayer

C. No penalty applies to erroneous refund claims, since claims are simply denied or reduced without further penalty consequences

D. A 75% penalty automatically applies, treating any excessive refund claim as presumptive evidence of civil tax fraud

73. A taxpayer files a purported tax return that omits information necessary to determine tax liability and reflects a position the IRS has identified as frivolous, apparently intended to delay or impede tax administration. What penalty applies under the frivolous return provisions?

A. A penalty equal to 20% of the understatement of tax shown or omitted from the frivolous document filed

B. A penalty equal to 75% of the tax due, identical to the civil fraud penalty for false returns

C. No specific penalty exists for frivolous returns beyond the standard accuracy-related and failure-to-file penalties already discussed

D. A flat $5,000 penalty for filing a specified frivolous submission, separate from any other applicable penalties assessed

74. A taxpayer operates a trading business in financial instruments and makes a substantial number of trades, materially participating in the activity on a regular, continuous, and substantial basis. Although the activity is a non-passive trade or business for regular tax purposes, how is income from this trading business treated for Net Investment Income Tax purposes?

A. It is entirely excluded from net investment income, because material participation in a trade or business always excludes its income

B. It is excluded from net investment income only if the taxpayer has made a valid mark-to-market accounting election for trading

C. It is included in net investment income under a special rule applying to trading in financial instruments or commodities

D. It is included in net investment income only to the extent it exceeds the taxpayer's other trade or business income

75. Under a provision enacted by the SECURE 2.0 Act, an employer amends its 401(k) plan to permit participants to elect that employer matching contributions be treated as Roth contributions instead of pre-tax contributions. Which statement correctly describes the resulting tax treatment?

A. The Roth-designated employer match is included in the employee's gross income for the year contributed and must be fully vested at the time it is made.

B. The Roth-designated employer match remains excluded from current income and is taxed only when the employee later takes a nonqualified distribution.

C. The Roth-designated employer match is included in income only if the employee also designates their own elective deferrals as Roth contributions.

D. The Roth-designated employer match is permanently excluded from income because employer contributions are treated as after-tax amounts under SECURE 2.0.

76. A retired teacher receives a pension from a state teacher retirement system that did not withhold Social Security taxes. The teacher is also entitled to a spousal Social Security benefit based on her husband's earnings record. Under current law, how is her spousal Social Security benefit treated?

A. The spousal benefit is permanently reduced by two-thirds of the noncovered pension amount under the Government Pension Offset.

B. The spousal benefit is no longer reduced on account of the noncovered pension, following repeal of the Government Pension Offset.

C. The spousal benefit is reduced only if her own Social Security retirement benefit exceeds the noncovered pension amount.

D. The spousal benefit is eliminated entirely because receipt of a noncovered government pension disqualifies a worker from spousal benefits.

77. A married couple, both age 57, are covered under the same family high-deductible health plan. Each spouse is eligible to make the $1,000 additional HSA catch-up contribution. How must the catch-up contributions be made?

A. Each spouse must make their catch-up contribution to an HSA established in that spouse's own name.

B. Either spouse may contribute both catch-up amounts to a single jointly titled family HSA account.

C. The catch-up contributions must be combined and deposited entirely into the older spouse's HSA account.

D. The couple may split the combined catch-up amount between the two accounts in any proportion they choose.

78. A taxpayer contributes $500 more than the allowable HSA limit for the year and does not withdraw the excess contribution, along with any earnings on it, before the due date of the tax return, including extensions. What is the consequence?

A. The excess amount is disallowed as a deduction but no additional tax or penalty applies to the account.

B. The excess contribution automatically carries forward and reduces the following year's contribution limit dollar for dollar.

C. The custodian is required to forfeit the excess contribution back to the employer without further tax consequence.

D. A 6% excise tax applies each year to the excess amount remaining in the account until it is corrected.

79. A taxpayer enrolls in Medicare Part B this year and wants to know which year's income determines whether an Income-Related Monthly Adjustment Amount (IRMAA) surcharge applies to the premium. Which income figure is used?

A. Modified adjusted gross income reported on the tax return for the same year Medicare coverage begins.

B. Modified adjusted gross income averaged over the three tax years immediately preceding enrollment in Medicare.

C. Modified adjusted gross income reported on the tax return filed two years before the current premium year.

D. Modified adjusted gross income reported on the most recently filed return, regardless of which tax year it covers.

80. A single retiree receives $20,000 in Social Security benefits and has $30,000 of other taxable income plus $2,000 of tax-exempt interest for the year. Applying the provisional income formula, what is the maximum percentage of her Social Security benefits that could be subject to federal income tax?

A. None of the benefits are taxable because her other income falls below the applicable base amount threshold.

B. Up to 85% of her Social Security benefits may be included in taxable income under current law.

C. Exactly 50% of her Social Security benefits must be included in taxable income, with no higher tier possible.

D. All of her Social Security benefits are fully taxable because her provisional income exceeds the upper threshold.

81. A parent establishes a Section 529 college savings plan for a child and separately establishes a custodial account under the Uniform Transfers to Minors Act for the same child. The child later turns 25. How does control of the two accounts differ at that point?

A. The parent, as 529 account owner, keeps control of the 529 funds indefinitely, while the UTMA account already transferred to the child at majority.

B. Both accounts automatically transfer full legal control to the child once the child reaches age 25, with no distinction between them.

C. The 529 plan terminates and its funds automatically pass to the child at age 25, identical to the UTMA account's treatment.

D. The UTMA custodial account remains under the parent's control indefinitely, while the 529 account transfers to the child at age 21.

82. A sole proprietor with no employees wants to make the maximum allowable contribution to her SEP-IRA using the plan's stated 25% contribution formula. Before applying the percentage, what adjustment must she make to her net self-employment earnings?

A. No adjustment is required; the 25% rate applies directly to gross self-employment income before any other deductions.

B. Net earnings must first be reduced by the deduction for one-half of self-employment tax and by the SEP contribution itself.

C. Net earnings must be reduced only by the deduction for one-half of self-employment tax, with no further adjustment needed.

D. Net earnings must be increased by any Section 179 depreciation deductions claimed before applying the stated contribution percentage.

83. As part of a divorce settlement, a Qualified Domestic Relations Order awards $40,000 of a 40-year-old plan participant's 401(k) balance to his ex-spouse. Rather than rolling the funds into her own IRA, the ex-spouse elects to take the $40,000 as an immediate cash distribution. How does the 10% additional tax on early distributions apply to this withdrawal?

A. It applies in full, since the ex-spouse is under age fifty-nine and a half at the time of distribution

B. It applies only to the portion of the distribution that exceeds the annual gift tax exclusion amount for the year

C. It does not apply, because the QDRO exception applies to the alternate payee even on a cash distribution

D. It applies only if the original plan participant, rather than the alternate payee, actually requested the distribution

84. A participant in a governmental 457(b) plan is three years from the plan's normal retirement age and has underutilized elective deferral limits in prior years. Which special catch-up provision may allow her to contribute significantly more than the standard elective deferral limit?

A. The age-50 catch-up provision, which permits an additional fixed contribution amount identical to that allowed in 401(k) plans.
B. The saver's catch-up provision, which doubles the deferral limit automatically for any participant over age 45.
C. The long-service catch-up provision, which applies uniformly to participants with at least ten years of plan participation.
D. The special three-year catch-up provision, which may permit deferrals up to twice the standard annual limit in the years before normal retirement age.

85. An employee wants to maximize payroll tax savings on her HSA contributions. Her employer offers HSA contributions through a Section 125 cafeteria plan as an alternative to making contributions directly and claiming the above-the-line deduction on her personal return. What is the key advantage of the cafeteria plan approach?

A. Cafeteria plan contributions increase the employee's annual HSA contribution limit beyond the amount allowed for direct personal contributions.
B. Cafeteria plan contributions are deductible on the employee's return, while direct personal contributions provide no tax benefit at all.
C. Cafeteria plan contributions avoid both income tax and FICA tax, while direct personal contributions only avoid income tax.
D. Cafeteria plan contributions can be withdrawn for nonmedical purposes without penalty, unlike contributions made directly by the employee.

86. A 75-year-old employee continues working full-time for the same employer that sponsors her 401(k) plan and owns none of the company's stock. She has a balance in that employer's plan only. Under the still-working exception, when must her required minimum distributions from that plan begin?

A. Required minimum distributions must still begin by April 1 following the year she turns 73, regardless of employment status.
B. Required minimum distributions may be delayed until April 1 following the year she actually retires from that employer.
C. Required minimum distributions must begin immediately because the still-working exception applies only to traditional and Roth IRAs.

D. Required minimum distributions may be delayed indefinitely, with no required beginning date ever applying to her account.

87. An account owner wants to move funds from one Section 529 plan to a different state's 529 plan for the same beneficiary, without changing the designated beneficiary and without triggering income tax or penalty. How frequently may this type of direct plan-to-plan rollover be completed for the same beneficiary?

A. As often as the account owner wishes, provided each rollover is completed within 60 days of the withdrawal.
B. Only once during the beneficiary's lifetime, after which any further transfer is treated as a nonqualified distribution.
C. Twice per calendar year, matching the frequency allowed for investment reallocations within the same 529 plan.
D. No more than once within any rolling 12-month period for the same beneficiary, to remain a tax-free rollover.

88. A U.S. individual directly owns stock in a single passive foreign investment company (PFIC) with a year-end aggregate value of $18,000. She received no distributions from the PFIC and made no QEF or mark-to-market election. Under these facts, is she required to file Form 8621 for the year?

A. No, because the value of her PFIC stock falls below the $25,000 de minimis filing threshold
B. No, because Form 8621 is required only when a PFIC makes an excess distribution during the year
C. Yes, because Form 8621 must be filed annually by any shareholder regardless of stock value
D. Yes, because the $25,000 threshold applies only to indirect PFIC ownership through another entity

89. A U.S. citizen qualifies for the foreign earned income exclusion under the bona fide residence test and also incurs substantial housing expenses while working abroad. Regarding the foreign housing cost amount under Section 911(c), which statement is correct?

A. Housing expenses are automatically included within the same dollar limit as the foreign earned income exclusion
B. The housing cost amount may only be excluded, never claimed as an above-the-line deduction, regardless of employment status

C. The housing cost amount is computed separately from the foreign earned income exclusion, subject to its own base and limit

D. A taxpayer must forfeit the foreign earned income exclusion entirely in order to claim any housing cost benefit

90. A taxpayer dies owning a rental real estate activity with $40,000 of suspended passive activity losses accumulated over prior years. At death, the basis step-up attributable to the activity is $15,000. How much of the suspended loss, if any, may be deducted on the decedent's final Form 1040?

A. The entire $40,000 suspended loss, since death always fully releases all suspended passive losses

B. Only $25,000, the amount by which the suspended loss exceeds the basis step-up allowed

C. None of the loss, because suspended passive losses are permanently forfeited upon the taxpayer's death

D. Only $15,000, an amount equal to the basis step-up received at the taxpayer's death

91. A donor funds an irrevocable trust that pays a fixed dollar amount annually to a qualified charity for a term of fifteen years, after which the remaining trust principal passes to the donor's children. For gift tax purposes, how is the donor's charitable contribution deduction determined?

A. It equals the present value of the charity's guaranteed annuity interest, computed using IRS actuarial tables

B. It equals the full fair market value of all property transferred into the trust at funding

C. No charitable deduction is allowed because the children, not the charity, receive the trust's remainder interest

D. It equals the present value of the children's remainder interest rather than the charity's income interest

92. During the administration of an estate, a casualty loss occurs to estate property that is not compensated by insurance. The executor wants to know how this loss may be deducted. Which statement is correct?

A. The loss may be deducted on both the estate's Form 1041 and Form 706 in full without any offset

B. The loss must be deducted on the beneficiaries' individual income tax returns rather than by the estate itself

C. The loss is deductible only on Form 706 and is never available as a Form 1041 deduction

D. The loss may be deducted on Form 1041 or as a Form 706 estate tax deduction, but not both

93. A trust holds shares of stock in an S corporation, and the trustee has discretion to accumulate income or distribute it among multiple beneficiaries rather than paying all income currently to a single income beneficiary. For the trust to remain a qualifying S corporation shareholder under these facts, which election should the trustee make?

A. A qualified subchapter S trust (QSST) election, since QSSTs permit discretionary accumulation among multiple beneficiaries

B. An electing small business trust (ESBT) election, since ESBTs permit multiple beneficiaries and discretionary distributions

C. No election is available, because trusts with multiple discretionary beneficiaries can never hold S corporation stock

D. A grantor trust election, which alone automatically qualifies any trust to hold S corporation stock indefinitely

94. An estate's executor sells the decedent's principal residence eight months after the date of death, at a price slightly above its fair market value on that date. The estate has never used the home as its own residence. Which statement best describes the tax treatment of any gain?

A. The estate may exclude up to $250,000 of gain under Section 121, the same as the decedent could have

B. The gain is fully excluded because the property received a stepped-up basis equal to its date-of-death value

C. The gain is tax-exempt income in respect of a decedent and is never subject to income tax

D. The estate may not claim the Section 121 home sale exclusion, though gain is limited by the stepped-up basis

95. For purposes of valuing a retained annuity interest, a life estate, or a remainder interest in property transferred to a trust, the applicable federal actuarial factors are based on which published rate?

A. The applicable federal rate (AFR) for long-term obligations published monthly by the IRS for below-market loans

B. The prevailing prime rate published by federal banking regulators as of the date the trust is funded

C. The Section 7520 rate, equal to 120 percent of the federal midterm rate, published monthly by the IRS

D. The estate's own fiduciary accounting income rate as determined under the trust's governing state law statute

96. An estate's governing instrument permanently sets aside a portion of gross income for a qualified charitable purpose during the year, though the amount is not actually paid to the charity until a later year. Regarding the estate's charitable deduction for that year, which statement is correct?

A. The estate may deduct the permanently set-aside amount currently, unlike the rule generally applicable to individual taxpayers

B. No deduction is allowed until the year the funds are actually disbursed to the charitable organization

C. The set-aside amount is deductible only if the estate has been in existence for at least five years

D. The deduction is disallowed entirely because charitable set-asides are permitted solely for trusts, never for estates

97. For federal estate and gift tax purposes, whether a decedent is classified as a 'resident' or a 'nonresident alien' is determined by which standard, as distinguished from the tests used for federal income tax residency?

A. Domicile, based on the decedent's physical presence in the United States combined with an intent to remain indefinitely

B. The substantial presence test, counting days of physical presence over the current and two preceding calendar years

C. Possession of a valid U.S. green card at any time during the year, regardless of actual physical presence

D. The decedent's citizenship at birth, which permanently fixes residency status for both estate tax and income tax purposes

98. A trust has two beneficiaries whose interests are economically independent of each other, such that a distribution to one beneficiary has no effect on the amount ultimately available to the other. For purposes of computing distributable net income allocated to each beneficiary, which rule applies?

A. The tier system, under which all first-tier income beneficiaries share DNI before any second-tier distributions are counted

B. The trust must aggregate all beneficiaries' distributions and allocate DNI using a single blended proration formula

C. The separate share rule, treating each substantially independent economic interest as a separate trust for DNI purposes

D. No special allocation rule applies, and DNI is allocated solely according to each beneficiary's percentage of trust principal

99. A nonresident alien individual had no wages subject to U.S. income tax withholding during the year but did have other U.S.-source income requiring a Form 1040-NR filing. By what date must this nonresident alien's return generally be filed?

A. April 15 of the following year, the same deadline that applies to all resident individual taxpayers

B. June 15 of the following year, later than the deadline applying to wage-earning nonresident aliens

C. March 15 of the following year, matching the deadline applicable to calendar-year corporate taxpayers

D. December 31 of the same tax year, since no extension period is available to nonresident aliens

100. A trust beneficiary holds a Crummey withdrawal right permitting withdrawal of $30,000 contributed to the trust in a given year, but the beneficiary allows the right to lapse unexercised. The beneficiary has no other withdrawal or appointment powers over the trust. Regarding gift tax consequences of the lapse, which statement is correct?

A. The entire $30,000 lapse is treated as a taxable gift from the beneficiary to the trust's remaindermen

B. No portion of the lapse has any gift tax consequence, regardless of the amount that lapses unexercised

C. The lapse is entirely disregarded because Crummey withdrawal rights are, by definition, never treated as general powers

D. The lapse is a taxable release only to the extent it exceeds the greater of $5,000 or 5 percent

Answer Key and Explanations — Practice Exam 14, Part 1: Individuals

1. B — The IRS applies the state-of-celebration rule: a marriage valid in the state or foreign jurisdiction where it was entered into is recognized for all federal tax purposes, regardless of whether the couple's current domicile state recognizes that marriage. Domicile state law is irrelevant to the federal determination, so the couple must use married filing status.

2. A — Circular 230 permits representation of clients with potentially differing interests only if the practitioner reasonably believes she can provide competent and diligent representation to each affected client, the representation is not otherwise prohibited by law, and each affected client gives informed consent, confirmed in writing, to the representation after full disclosure of the conflict.

3. D — Form 4852, Substitute for Form W-2, Wage and Tax Statement, lets a taxpayer file a timely return when an employer fails to furnish a W-2 despite the taxpayer's reasonable efforts to obtain one. The taxpayer estimates wages and withholding using pay stubs or other reliable records and attaches the form explaining the missing statement.

4. C — Under IRC section 7491, the burden of proof shifts to the IRS on a factual issue only if the taxpayer complies with substantiation requirements, maintains all records required by the Code, cooperates with reasonable IRS information requests, and introduces credible evidence supporting the taxpayer's position on that particular factual issue raised during the examination.

5. C — Records substantiating a net operating loss must be kept not only for the origin year but also until the assessment statute of limitations expires for every later year in which any portion of the loss is claimed. Discarding records once the origin year's own statute closes would leave later carryforward deductions unsupported and unverifiable.

6. D — A revocation of a prior Form 8332 release is not immediate. The custodial parent must provide the noncustodial parent with written notice of the revocation, and the release does not terminate until the tax year beginning after the calendar year in which that notice is given, allowing the noncustodial parent advance planning time.

7. A — An estate is a separate taxable entity from the decedent and cannot use the decedent's Social Security number to report income earned after death. The personal representative must apply for a new Employer Identification Number for the estate using Form SS-4, and that EIN is used on Form 1041 to report the post-death income.

8. B — To curb fraud and misdirected refunds, the IRS limits electronic deposits of tax refunds to no more than three into a single financial account or onto a single routing number within one tax year. Any refunds beyond that limit are automatically converted and mailed to the taxpayer as a paper check instead of deposited.

9. A — Enrollment as an enrolled agent authorizes representation before the IRS at the administrative level but does not itself confer authority to practice before the United States Tax Court. Tax Court admission requires passing a separate examination administered by that court, or being a licensed attorney, before an enrolled agent may litigate a case there.

10. D — Circular 230's former-government-employee restriction bars a practitioner from representing anyone in a particular matter in which the practitioner personally and substantially participated while employed by the federal government, including the IRS. This revolving-door rule prevents practitioners from using insider involvement in a specific government matter for a later client's private benefit.

11. B — The Puerto Rico source income exclusion removes qualifying wages from federal gross income, but net earnings from self-employment performed in Puerto Rico remain subject to federal self-employment tax. A bona fide resident with self-employment income above the applicable threshold must still file a federal return reporting and paying that self-employment tax amount.

12. C — An EFIN is assigned to a firm or individual after IRS acceptance into the e-file program and identifies the entity authorized to electronically transmit returns to the IRS. A PTIN is assigned to each individual preparer and must appear on every return that preparer completes for compensation. The two numbers serve separate identification purposes.

13. A — Roth IRA distributions follow ordering rules that treat contributions and converted amounts as recovered before earnings. Without records of contribution and conversion amounts, the taxpayer cannot demonstrate that a distribution represents a tax-free return of basis rather than a potentially taxable and penalized withdrawal of earnings taken before the account fully qualifies.

14. B — Church employee income earned from an organization that elected out of the employer's FICA obligation becomes subject to self-employment tax once it reaches a special $108.28 threshold, far lower than the general $400 self-employment threshold. Because the $250 earned here exceeds $108.28, the income is subject to federal self-employment tax reporting.

15. D — Registering for an IRS Online Account requires identity verification through the IRS's Secure Access process, which generally involves submitting a government-issued photo identification along with a self-taken photo matched through a trusted third-party identity verification provider. This process confirms the individual's identity before granting access to the taxpayer's online tax records.

16. C — A qualified charitable distribution requires a direct trustee-to-charity transfer, which Form 1099-R alone does not distinguish from a regular taxable distribution. The practitioner should obtain the custodian's transaction statement or transfer confirmation showing funds moved directly to the qualified charity, supporting the exclusion from income the client wants to claim on the return.

17. A — IRS whistleblower awards under Section 7623(b) are fully includible in gross income as ordinary income in the year received, regardless of the character of the underlying tax collected. No capital gain treatment or exclusion applies, and legal fees incurred pursuing the claim may be deductible above the line, but the award itself remains ordinary taxable income.

18. C — A no-additional-cost service, such as standby airline travel offered to employees in the same line of business at no substantial extra cost to the employer, is excludable from wages under Section 132(a)(1). Because Derrick's flights did not displace paying customers and cost the airline nothing extra, the benefit is fully tax-free regardless of the ticket's retail value.

19. B — Personal use of an employer-provided vehicle is a taxable fringe benefit. The employer must value that personal use using an approved method, such as the cents-per-mile or annual lease value rule, and include the resulting amount in the employee's wages, subject to income tax and employment tax withholding, unlike the business-use portion, which remains excludable.

20. D — For a nonrecourse foreclosure, the entire outstanding debt canceled by the foreclosure is treated as the amount realized on the disposition, regardless of the property's actual fair market value. There is no separate cancellation-of-debt income component, unlike a recourse foreclosure, where amount realized is capped at fair market value and any excess canceled debt is reported separately.

21. B — Qualified long-term care insurance premiums are qualified HSA medical expenses only up to the IRS's annual age-based limit. Amounts paid within that limit, here $2,200, are tax-free. Any premium payment above the limit, the remaining $1,300, is treated as a nonqualified distribution, includible in income and generally subject to the 20% additional tax.

22. C — Under Section 351, a transfer of property to a controlled corporation solely in exchange for stock is generally nonrecognition. However, when a transferor also receives cash or other property ('boot') in addition to stock, gain is recognized, but only to the extent of the boot received, not the entire realized gain, and never a loss.

23. A — Graduate-level tuition reductions are generally taxable compensation unless the graduate student performs teaching or research activities for the educational institution. Section 117(d)(5) creates a specific exception allowing a qualified tuition reduction for graduate teaching or research assistants to be excluded from income, unlike the standard rule limiting graduate reductions to taxable treatment for most other graduate employees.

24. D — When a seller repossesses real property sold under the installment method, gain on repossession is limited to the cash payments received before repossession that have not yet been included in income, reduced by repossession costs, capped by the original deferred gross profit. The seller does not simply recognize the full remaining deferred gain or the property's current value.

25. A — Original issue discount on a tax-exempt municipal bond is treated the same as stated interest on the bond: it accrues and increases the bond's basis each year, but it is excluded from gross income as tax-exempt interest, unlike OID on a taxable corporate or Treasury bond, which must be included currently in the holder's gross income.

26. B — Back pay awarded to compensate for lost wages in an employment discrimination settlement is taxable as wages, subject to income tax and employment tax withholding, and reported on Form W-2, even though it relates to earlier years. It is fully taxed in the year received rather than allocated back to the years the wages would have been earned.

27. D — Severance pay is compensation for past employment and is fully taxable as wages, regardless of whether it is paid in a lump sum separate from regular payroll. It remains subject to federal income tax withholding as well as Social Security and Medicare tax, just like any other wage payment reported on Form W-2.

28. C — Reimbursements paid under a nonaccountable plan, one that does not require substantiation and return of excess amounts, do not qualify for exclusion from income. The full reimbursement is treated as additional wages, included on the employee's Form W-2, and subject to income tax withholding and employment taxes, regardless of whether the funds were actually spent on business expenses.

29. B — Losses realized on the sale of property held purely for personal use, such as a sailboat used only for family recreation, are not deductible under the tax code. Unlike gains on personal-use property, which are taxable, losses receive no offsetting deduction because the property was never held for business or investment purposes.

30. A — Backup withholding does not reduce the amount of interest or dividend income the taxpayer must report; the full gross amount remains taxable. The 24% withheld is instead treated like other federal income tax withholding and is claimed as a payment credit on the taxpayer's return, reducing any balance due or increasing a refund.

31. C — The taxpayer must include the full amount of interest earned, as reported in Box 1 of Form 1099-INT, in gross income. The early withdrawal penalty, reported separately in Box 2, is not netted against the interest but instead is deductible as an adjustment to income above the line, regardless of whether the taxpayer itemizes deductions.

32. D — Unlike restricted stock, RSUs represent an unfunded promise to deliver shares and are not eligible for a Section 83(b) election because no property is transferred until vesting. When RSUs vest and shares are actually delivered, the employee recognizes ordinary compensation income equal to the fair market value of the shares received at that time.

33. A — A lottery winner who elects installment payments reports each annual payment as ordinary income in the year it is actually received, rather than including the entire present value of the prize in the year the ticket won. Lottery winnings are gambling income, not capital gain, regardless of the payout structure chosen by the winner.

34. D — Under the contested liability doctrine, when a debtor disputes the amount owed in good faith and the parties settle for a lesser amount, the reduction is treated as reflecting the amount that was always actually owed rather than a cancellation of debt. No cancellation-of-debt income arises because the settled amount, not the original bill, represents the true liability.

35. B — Nonperiodic withdrawals taken from a nonqualified deferred annuity before annuitization are taxed under a last-in, first-out rule, meaning earnings are treated as withdrawn first and are fully taxable as ordinary income until all accumulated earnings are exhausted. The exclusion ratio used for periodic annuity payments does not apply to these pre-annuitization withdrawals.

36. C — When a seller who financed the original sale later reduces the amount the buyer still owes on that same property, the reduction is treated as a purchase price adjustment rather than cancellation-of-debt income. The buyer simply reduces the property's basis by the amount forgiven, and no income is recognized by the buyer as a result.

37. B — When a person is in a nursing home mainly for medical reasons, the cost of meals, lodging, and medical care all qualify as deductible medical expenses. If the individual is there mainly for personal or custodial reasons, only the portion of the cost specifically attributable to medical or nursing care, not the full amount, is deductible.

38. D — Section 127 allows an employee to exclude up to $5,250 per year of employer-provided educational assistance from gross income, covering tuition, fees, books, supplies, and equipment. This annual limit also applies to employer payments made directly toward an employee's qualified education loans, since Congress extended Section 127 to cover student loan repayment assistance.

39. A — Rather than tracking every receipt, a taxpayer electing the general sales tax deduction may use the IRS's published optional sales tax tables, which estimate the amount based on income level, family size, and state of residence, and then add actual sales tax paid on certain large purchases such as a vehicle or boat.

40. C — A late payment charge on a home mortgage is deductible as interest if it was not imposed for a specific service connected with the loan, such as preparing a statement. A prepayment penalty charged for paying off the mortgage early is likewise treated as deductible home mortgage interest in the year it is paid.

41. D — A taxpayer may deduct only the amount she personally contributes to a qualified charity. An employer's matching gift, even though prompted by the employee's own donation, is a separate contribution made by the employer, deductible by the employer, and does not increase the amount the employee herself may claim as a charitable deduction.

42. A — Unreimbursed travel expenses, including airfare and lodging, incurred while performing genuine volunteer services away from home for a qualified charity are deductible as a charitable contribution, provided there is no significant element of personal pleasure, recreation, or vacation in the trip. The value of the volunteer's own time or services is never deductible.

43. C — When obesity is diagnosed by a physician as a specific disease, the fees paid to participate in a weight-loss program directed at treating that diagnosed condition are deductible medical expenses. General health club dues for improving overall fitness and the cost of special diet foods substituting for normal nutrition remain nondeductible, even under a physician's recommendation.

44. B — The above-the-line tuition and fees deduction under Section 222 expired for tax years beginning after 2020 and Congress did not renew it. Taxpayers paying qualified education expenses today must instead choose between the American Opportunity Tax Credit and the Lifetime Learning Credit, since the standalone above-the-line deduction is no longer part of current law.

45. B — A dependent generally fails the qualifying child test if she files a joint return with her spouse. However, an exception applies when the joint return is filed solely to claim a refund of withheld tax or estimated payments, and neither spouse would owe any tax computed separately. Under this exception, the daughter still qualifies for the Child Tax Credit.

46. C — A taxpayer who fails to meet the full two-year ownership-and-use test because of a qualifying unforeseen circumstance, such as a work-related relocation meeting the safe harbor distance test, a health-related move, or certain other specified events, may still claim a reduced Section 121 exclusion, prorated based on the fraction of the two-year period she actually satisfied before the sale.

47. A — A child generally ceases to be a qualifying person for the Child and Dependent Care Credit upon turning 13. Only work-related care expenses incurred while the child was under age 13, meaning before his birthday, count toward the credit for that year; expenses for care provided after the birthday do not qualify.

48. D — The Saver's Credit does not apply one flat rate. Instead, the applicable percentage is 50%, 20%, or 10% of eligible contributions, depending on which AGI bracket the taxpayer falls into for their filing status, with the percentage decreasing as AGI rises, until the credit phases out completely above the top threshold.

49. B — If a taxpayer fails to file a timely insurance claim for damage that is covered under her policy, the casualty loss deduction must be reduced by the reimbursement she reasonably could have received had she filed the claim. A taxpayer cannot voluntarily forgo an available insurance recovery and still deduct the full unreimbursed amount.

50. A — A taxpayer claiming the Mortgage Interest Credit under a Mortgage Credit Certificate must reduce her itemized mortgage interest deduction by the amount of credit claimed for the year, since the same interest cannot generate both a deduction and a credit. Here, she deducts $6,000, the $8,000 paid minus the $2,000 credit claimed, as itemized interest expense on Schedule A.

51. C — A one-participant 401(k) permits the self-employed owner to contribute both as employee, through an elective deferral up to the annual limit, and as employer, through a profit-sharing contribution generally limited to a percentage of adjusted net self-employment earnings. Both components are separately deductible and combine toward the single overall annual additions limit that caps total contributions.

52. D — A self-employed individual's elective deferral to her own SIMPLE IRA is deductible as an adjustment to income on her individual return, up to the annual elective deferral limit for SIMPLE plans, which differs from the SEP-IRA contribution limit. This deduction is separate from, and in addition to, any employer matching or nonelective contribution she makes.

53. D — A distribution from a Health Savings Account not used for a qualified medical expense is included in gross income and, unless an exception applies, such as reaching age 65 or death, is also subject to a 20% additional tax on the nonqualified amount. This penalty is steeper than the 10% additional tax that applies to early IRA withdrawals.

54. C — A taxpayer may deduct the registration fee and transportation costs of attending a medical conference relating to a chronic disease affecting herself, her spouse, or a dependent, when attendance is for the diagnosis or treatment of that disease. However, the costs of meals and lodging while attending the conference are not deductible medical expenses.

55. A — Home mortgage interest is deductible by the person who is legally or equitably liable for the debt and actually makes the payments. A taxpayer who is not on the note but holds an equitable or beneficial ownership interest in the property under state law, and who personally pays the mortgage, may still deduct the interest she pays.

56. B — A spousal IRA allows a taxpayer with little or no compensation of her own to make a contribution to her own traditional IRA, based on the working spouse's compensation, as long as the couple files a joint return and combined compensation supports both contributions. Deductibility still depends on active participant status and applicable income limits.

57. A — Bonus depreciation under Section 168(k) was 100% for qualified property placed in service through 2022, then phases down 20 percentage points each year: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026, before generally expiring for property placed in service after 2026 absent further legislative extension of the provision.

58. C — Under IRC Section 1402(a)(10), periodic retirement payments a retired partner receives from a partnership are excluded from net earnings from self-employment when paid under a written plan covering partners generally, the payments continue until the partner's death, and the retired partner performs no further services for the partnership, so no self-employment tax applies.

59. B — A crew member on a fishing boat with a normal operating crew of fewer than ten individuals, compensated by a share of the catch rather than wages, is not treated as a common-law employee under FICA. Instead, the share-of-catch income is treated as self-employment income, reportable on Schedule C and subject to self-employment tax.

60. D — Section 6721 imposes a tiered per-return penalty for failing to file correct information returns. The lowest tier, $60 per return, applies when the employer corrects the failure within 30 days of the due date. Higher tiers apply for later corrections, up to $660 per return with no cap for intentional disregard of the filing requirement itself.

61. D — Guaranteed payments for services are treated like compensation and are excluded from net investment income, similar to wages and self-employment earnings. Guaranteed payments for the use of a partner's capital, however, function as a return on investment and are included in net investment income, subject to the Net Investment Income Tax when the applicable MAGI threshold is exceeded.

62. A — The Retirement Savings Contributions Credit is unavailable to an individual who was a full-time student during any part of five calendar months of the tax year, regardless of dependency status. This student exclusion, along with the exclusions for dependents and taxpayers under age 18, applies even though the contribution itself is otherwise a qualifying retirement contribution.

63. B — Taxpayers may claim the foreign tax credit without filing Form 1116 if total creditable foreign taxes are $300 or less ($600 for married filing jointly), all foreign income is passive and reported on a qualifying payee statement, and no election to carry back or forward unused credit is needed for that year.

64. C — A claimed value that is 200% or more of the correct value is a gross valuation misstatement, subject to a 40% accuracy-related penalty on the resulting underpayment. A claimed value between 150% and 200% of correct value is instead a substantial valuation misstatement, carrying the lower 20% accuracy-related penalty rate.

65. D — The Trust Fund Recovery Penalty under Section 6672 may be asserted against any "responsible person," someone with authority over the company's finances and a duty to collect and pay withheld trust fund taxes, who "willfully" fails to do so. Neither stock ownership, return-signing, nor professional credentials alone establishes liability; responsibility and willfulness together are the controlling elements here.

66. B — Although a taxpayer may currently deduct circulation expenditures in full for regular tax purposes, this election is not recognized for alternative minimum tax purposes. Instead, circulation expenditures must be capitalized and amortized ratably over three years when computing alternative minimum taxable income, creating a timing preference adjustment that reverses as the amortization deductions are later claimed.

67. C — The civil fraud penalty and the accuracy-related penalty are not stacked on the same portion of an underpayment. The 75% civil fraud penalty applies only to the portion of the underpayment attributable to fraud, while the 20% accuracy-related penalty applies separately to the portion attributable to negligence or other accuracy-related grounds.

68. A — Under Section 6404(f), a penalty may be abated when it results from a taxpayer's reasonable reliance on erroneous written advice furnished by the IRS in response to the taxpayer's specific written request, provided the taxpayer gave the IRS accurate and complete facts. This relief applies only to written, not oral, IRS advice.

69. C — The refundable Additional Child Tax Credit is generally computed as 15% of the taxpayer's earned income exceeding $2,500, up to the per-child refundable credit limit for the year. This earned-income-based formula determines how much of the otherwise nonrefundable Child Tax Credit a taxpayer with insufficient tax liability can still receive as a refund.

70. B — The foreign earned income exclusion applies only for regular income tax purposes and does not reduce net earnings from self-employment for self-employment tax purposes. A self-employed U.S. citizen or resident working abroad still computes self-employment tax on the full amount of net self-employment earnings, even though that same income is excluded from gross income for income tax.

71. D — When a taxpayer's foreign tax credit exceeds the limitation for the current year, the unused portion is not lost. It may be carried back one year and, if still unused, carried forward for up to ten years, applied in each year subject to that year's own foreign tax credit limitation.

72. A — Under Section 6676, a taxpayer who files a claim for refund or credit of an excessive amount is subject to a penalty equal to 20% of the excessive portion, unless the taxpayer had a reasonable basis for the claim. This penalty is separate from other accuracy-related or fraud penalties that might also apply.

73. D — Under Section 6702, a taxpayer who files a frivolous tax return or other specified frivolous submission, generally intended to delay or impede tax administration, is subject to a flat $5,000 penalty. This penalty applies regardless of the amount of tax involved and is imposed in addition to any other applicable civil penalties.

74. C — Net investment income generally excludes income from a non-passive trade or business in which the taxpayer materially participates. However, a special statutory rule carves out trading in financial instruments or commodities from this exclusion, so income from such a trading business is included in net investment income regardless of the taxpayer's level of participation.

75. A — SECURE 2.0 allows plans to let participants designate employer matching or nonelective contributions as Roth. Because these amounts are taxed immediately, the employee recognizes ordinary income in the contribution year, and the contribution must be fully vested when made — unlike traditional pre-tax matching contributions, which can vest over time and remain untaxed until distributed.

76. B — The Social Security Fairness Act, enacted in January 2025, repealed the Windfall Elimination Provision and Government Pension Offset retroactive to benefits payable after December 2023. Individuals receiving pensions from employment not covered by Social Security, such as many state teacher systems, now receive spousal, survivor, and their own retirement benefits without reduction for the noncovered pension.

77. A — HSA catch-up contributions are individual, not family, amounts. Each spouse age 55 or older must maintain a separate HSA in their own name to receive their own $1,000 catch-up contribution; the funds cannot be deposited into the other spouse's account or a jointly titled account, since HSAs cannot legally be jointly owned.

78. D — Excess HSA contributions not withdrawn, along with attributable earnings, by the extended due date of the return are subject to a 6% excise tax under IRC Section 4973. This excise tax applies annually to the lesser of the excess contribution or the account's fair market value until the excess is properly corrected.

79. C — The Social Security Administration determines IRMAA surcharges using modified adjusted gross income from the tax return filed two years prior to the premium year, since that is generally the most recent return available when premiums are set. A taxpayer may request a redetermination if income has since dropped due to a qualifying life event.

80. B — Provisional income equals other income plus tax-exempt interest plus half of Social Security benefits. For a single filer, once provisional income exceeds $34,000, up to 85% of benefits become taxable. Here, provisional income totals $42,000 ($30,000 + $2,000 + $10,000), exceeding that threshold, so up to 85%, not a fixed 50% or 100%, is includible.

81. A — Unlike a UTMA custodial account, which legally transfers to the beneficiary at the state's age of majority (typically 18 or 21), a 529 plan account owner retains control over investment decisions, distributions, and even the named beneficiary indefinitely, regardless of the beneficiary's age, unless the owner voluntarily relinquishes that control.

82. B — A self-employed SEP contribution is a circular calculation: net self-employment earnings must first be reduced by the deduction for one-half of self-employment tax and by the SEP contribution itself before the stated percentage is applied. This adjustment effectively caps the deductible contribution at roughly 20% of net self-employment earnings rather than the full 25%.

83. C — Distributions to an alternate payee under a Qualified Domestic Relations Order are exempt from the 10% additional tax on early distributions, regardless of the alternate payee's age and even when taken as an outright cash distribution rather than rolled over. The distribution remains subject to ordinary income tax, but the early-withdrawal penalty specifically does not apply in this case.

84. D — Governmental 457(b) plans may offer a special catch-up during the three years before a participant's normal retirement age, allowing deferrals up to twice the standard annual elective deferral limit, to the extent of unused limits from prior years. A participant cannot use this provision and the age-50 catch-up in the same year.

85. C — Both methods produce the same income tax result, but contributions made through a Section 125 cafeteria plan are also exempt from Social Security and Medicare (FICA) tax, since they reduce salary before payroll taxes apply. Direct personal contributions deducted above the line reduce income tax only, not FICA tax already withheld on wages.

86. B — The still-working exception allows a participant in an employer's qualified plan, other than a 5% owner, to delay required minimum distributions from that specific employer's plan until April 1 following the year of actual retirement, rather than the general required beginning date. The exception does not apply to IRAs or to plans of prior employers.

87. D — A rollover between 529 plans for the same beneficiary is tax-free, but only one such rollover is permitted within any 12-month period. A second rollover for the same beneficiary within that window is treated as a nonqualified distribution, subject to income tax and the 10% additional tax on the earnings portion.

88. A — A U.S. shareholder is generally exempt from filing Form 8621 for a tax year if the aggregate value of all directly and indirectly owned PFIC stock does not exceed $25,000 ($50,000 for married filing jointly) at year end, and no excess distribution, disposition, or reporting-triggering election occurred during that year.

89. C — The Section 911(c) foreign housing cost exclusion or deduction is computed independently of the foreign earned income exclusion under Section 911(a). It equals qualified housing expenses exceeding an IRS base amount, subject to a location-adjusted limit, and applies in addition to, rather than as part of, the separately dollar-limited foreign earned income exclusion available to qualifying taxpayers.

90. B — Suspended passive activity losses are allowed as a deduction on the decedent's final income tax return, but only to the extent the losses exceed the amount of any step-up in basis the activity received because of death. Here, $40,000 minus the $15,000 basis increase leaves $25,000 deductible on the final return.

91. A — This is a charitable lead annuity trust. Because the charity's annuity interest is a fixed, guaranteed payment stream, its present value can be actuarially determined under IRS tables, and the donor receives a gift tax charitable deduction equal to that value, while the remaining value represents a taxable gift to the children.

92. D — A casualty loss incurred during estate administration may be claimed as an income tax deduction on the estate's Form 1041 or as an estate tax deduction on Form 706, but not both. The executor must file a statement waiving the income tax deduction if the estate tax deduction is chosen instead.

93. B — A qualified subchapter S trust (QSST) requires all income be distributed currently to a single beneficiary, so it does not fit these facts. An electing small business trust (ESBT), by contrast, permits multiple beneficiaries and discretionary accumulation of income, making it the appropriate election for a trust structured this way to hold S stock.

94. D — The Section 121 exclusion for gain on the sale of a principal residence is a personal exclusion available only to an individual who owned and used the home; it does not extend to an estate. However, because the property received a stepped-up basis at death, any resulting taxable gain on a prompt sale is typically minimal.

95. C — Actuarial valuations of annuities, life estates, remainders, and similar term interests use the Section 7520 rate, which is set monthly at 120 percent of the applicable federal midterm rate. This rate, combined with IRS actuarial tables, determines the present value used to compute gift and estate tax charitable and split-interest deductions.

96. A — Unlike individuals, who may deduct charitable contributions only when amounts are actually paid, an estate (and certain trusts) may deduct amounts of gross income permanently set aside for a qualified charitable purpose pursuant to the governing instrument, even though payment to the charity does not occur until a later tax year.

97. A — For federal estate and gift tax purposes, residency turns on domicile: physical presence in a place combined with no present intention of leaving, determined from all facts and circumstances. This differs from federal income tax residency, which relies on objective statutory tests such as the green card test or the substantial presence test.

98. C — When a trust has substantially separate and independent shares for different beneficiaries, the separate share rule requires each share to be treated as a distinct trust solely for purposes of computing distributable net income. This prevents a distribution to one beneficiary from distorting the DNI, and resulting tax character, allocated to another beneficiary's share.

99. B — A nonresident alien who did not have wages subject to U.S. income tax withholding during the year generally must file Form 1040-NR by June 15 of the following calendar year, rather than April 15.

Nonresident aliens who did have withholding-subject wages instead follow the standard April 15 individual filing deadline.

100. D — Under the so-called '5 and 5' rule, the lapse of a withdrawal power is treated as a release of a general power of appointment, and therefore a taxable gift, only to the extent the lapsed amount exceeds the greater of $5,000 or 5 percent of the trust's value. Amounts below that threshold are not treated as gifts.