PRACTICE EXAM 9: 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. Mr. Delgado's wife died in March of the current year. In November of the same year, he remarried. For the current tax year, which filing status combination is correct?

A. Mr. Delgado files a joint return with his new spouse; the executor of his deceased wife's estate files a separate return for her using Married Filing Separately status.
B. Mr. Delgado files as a Qualifying Surviving Spouse for the year, and his deceased wife's final return is also filed jointly with him.
C. Mr. Delgado files a joint return combining his deceased wife's estate income with that of his new spouse for the year.
D. Mr. Delgado must file as Single because he was unmarried for part of the year, while his wife's executor files jointly with the new spouse.

2. A taxpayer's mother lives independently and received $14,000 in Social Security benefits, none of which was taxable, plus $3,200 in taxable interest income for the year. For purposes of the qualifying relative gross income test, which amount is counted as the mother's gross income?

A. $17,200, representing the sum of both the Social Security benefits and the interest income combined.
B. $3,200, because nontaxable Social Security benefits are excluded from gross income for this test.

C. $14,000, because Social Security benefits alone determine whether the gross income test is satisfied.
D. $0, because any taxpayer receiving Social Security benefits is automatically exempt from the gross income test.

3. A paid tax return preparer reasonably expects to prepare and file 15 or more individual income tax returns during the calendar year. Under the IRS e-file mandate for specified tax return preparers, which of the following is a recognized administrative exemption from the requirement to e-file those returns?

A. The preparer may always opt out simply by attaching a signed statement to each paper return filed
B. No exemptions exist under any circumstance once the 15-return threshold is reasonably expected to be met
C. The preparer is automatically exempt for any client who requests a refund by paper check
D. The preparer received IRS approval of an undue hardship waiver based on lack of internet access

4. David, age 17, is claimed as a dependent by his parents. He has no unearned income and earned $13,850 in wages during the year from a part-time job, an amount exceeding the base standard deduction floor for dependents. Which statement correctly describes his filing requirement?

A. David has no filing requirement of his own because dependents are never required to file separate returns.
B. David must file because his earned income exceeds $1,300, regardless of any standard deduction computation.
C. David must file because his gross income exceeds his standard deduction, which equals the greater of $1,300 or earned income plus $450, capped at the regular standard deduction.
D. David must file only if his parents elect to report his wage income on their own return using Form 8814.

5. A taxpayer obtained an Individual Taxpayer Identification Number (ITIN) several years ago but has not used it on any federal tax return for three consecutive tax years. What is the status of that ITIN?

A. The ITIN remains permanently valid regardless of usage, identical in effect to a Social Security number.

B. The ITIN automatically converts into a Social Security number once the taxpayer becomes a resident alien.

C. The ITIN expires and must be renewed before it can be used again on a federal tax return.

D. The ITIN is permanently voided, and the taxpayer must reapply from scratch for an entirely new ITIN.

6. A taxpayer purchased a home several years ago and has since made significant capital improvements. How long should the taxpayer retain records documenting the purchase price and cost of improvements?

A. For as long as needed to establish basis, generally until the period of limitations expires for the year the home is sold.

B. For exactly three years from the date each improvement was completed, regardless of when the home is later sold.

C. Only until the mortgage on the home is paid off in full, at which point records may be discarded.

D. For a fixed six-year period beginning on the original purchase date, after which the records are routinely destroyed.

7. A client terminates a representation and requests the return of all records necessary for compliance with federal tax obligations. The practitioner is owed an outstanding fee for services already rendered. Under Circular 230, what must the practitioner do?

A. Retain all client records indefinitely until the outstanding fee is paid in full, including originals and copies.

B. Return only records the client can prove were originally provided by the client, keeping all work product permanently.

C. Return the records only after obtaining written authorization from the IRS Office of Professional Responsibility.

D. Return records necessary for the client to comply with federal tax obligations, even amid a fee dispute, subject to state law exceptions.

8. Before beginning work on a new client's individual return, a practitioner provides a written document defining the scope of services to be performed, the fee arrangement, and each party's responsibilities. What is this document commonly called?

A. Form 2848, Power of Attorney and Declaration of Representative.

B. An engagement letter.

C. Form 8821, Tax Information Authorization.

D. A consent to disclose tax return information under IRC section 7216.

9. A taxpayer receives a CP12 notice from the IRS after filing a return. What does this notice communicate?

A. The IRS is proposing additional tax based on third-party income reported that was omitted from the return.

B. The taxpayer's identity could not be verified, and the return has been suspended pending phone verification.

C. The IRS intends to levy the taxpayer's assets unless the balance due is paid within ten days.

D. The IRS corrected one or more errors on the return, resulting in a changed refund amount, and explains the adjustment.

10. A taxpayer receives Letter 12C from the IRS while a return is being processed. What action does this letter request?

A. Immediate full payment of an already-assessed balance to avoid a Notice of Federal Tax Lien.

B. Confirmation, by phone only, of the taxpayer's identity before any return processing can continue.

C. Submission of missing information or documentation, such as a schedule or withholding verification, needed to finish processing the return.

D. A formal written protest filed with the Office of Appeals within 30 days of the letter's date.

11. A US taxpayer owns a foreign life insurance policy with a cash surrender value of $18,000, which she could access during the year. Combined with a foreign checking account, her aggregate foreign financial account value exceeds $10,000. Does the life insurance policy factor into the FBAR filing determination?

A. Yes, a foreign life insurance or annuity policy with a cash value is treated as a financial account reportable on the FBAR.

B. No, life insurance policies are never considered financial accounts for FBAR purposes under any circumstance.

C. Only term life insurance policies lacking cash value are reportable; policies with cash value are excluded entirely.

D. The policy is reportable only if the issuing insurer happens to be a bank rather than an insurance company.

12. A practitioner provides a client formal written advice regarding a proposed tax transaction. Under Circular 230's standards for written advice, what is the practitioner generally required to do?

A. Guarantee in writing that the IRS will not challenge the position taken in the transaction

B. Base the advice on reasonable factual and legal assumptions, reasonably consider all relevant facts, and reach a conclusion supported by the law and facts

C. Avoid any written communication entirely and limit all tax advice to verbal conversations only

D. Obtain prior written approval from the IRS Office of Professional Responsibility before issuing the advice

13. A married couple has a child placed with them for legal adoption during the current year, though the adoption has not yet been finalized by year-end. The child lived with them as a member of the household after placement. For dependency purposes, how is this child treated?

A. The child is treated as the couple's own child for relationship-test purposes, regardless of whether the adoption is legally finalized.

B. The child cannot be claimed as a dependent by the couple until the adoption decree is legally finalized.

C. The child may only ever be claimed as a qualifying relative, never as a qualifying child, prior to finalization.

D. The child must live with the couple for a minimum of two full years before qualifying for dependent status.

14. A practitioner is asked to represent two clients whose interests in the same IRS matter are directly adverse to each other. Under Circular 230, in what circumstance, if any, may the practitioner undertake this representation?

A. Never; Circular 230 categorically bars representing any two clients in the same proceeding under all circumstances.

B. Only if the practitioner reasonably believes competent representation can be provided to each client and both clients give informed, written consent.

C. Only if the IRS Office of Professional Responsibility pre-approves the dual representation in writing beforehand.

D. Only if one of the two clients agrees in advance to waive all rights to representation during the proceeding.

15. A taxpayer's marriage ceremony was performed, but under state law the marriage was void from its inception due to a legal impediment. How is the taxpayer's filing status treated for federal tax purposes?

A. The taxpayer must file as Married Filing Jointly or Married Filing Separately simply because a ceremony took place.

B. The taxpayer automatically qualifies for Head of Household status regardless of meeting any other requirement.

C. The taxpayer is treated as unmarried, because federal filing status follows the marital status determined under applicable state law.

D. The taxpayer must obtain an IRS private letter ruling before any filing status can be determined.

16. A taxpayer files as Married Filing Separately and lived with her spouse at any time during the year. What gross income filing threshold applies to her, regardless of her age?

A. The same threshold that applies to Single filers under age 65, adjusted annually for inflation.

B. Twice the Married Filing Jointly threshold, divided proportionally between both spouses' separate incomes.

C. The threshold is waived entirely if the couple lived together for fewer than six months of the year.

D. A minimal filing threshold of $5, since taxpayers who lived with a spouse and file separately do not get the higher standard thresholds.

17. Marguerite purchased a corporate bond in the secondary market for $9,200. The bond has a stated redemption price at maturity of $10,000, and the difference is attributable entirely to market discount rather than original issue discount. She held the bond to maturity and received the full $10,000. How is the $800 gain characterized for tax purposes?

A. entirely as long-term capital gain on the bond
B. entirely as tax-exempt income to the bondholder
C. ordinary income up to accrued market discount, any excess as capital gain
D. as investment interest expense, subject to the applicable limitation

18. Ridgeline Corp occasionally allows employees to make personal photocopies on the office copier and, twice a year, gives each employee a modestly priced box of holiday chocolates. The value of these items is small, and accounting for them individually would be administratively impractical. How should the employees treat these items?

A. included in wages subject to income tax withholding only
B. excluded from gross income as de minimis fringe benefits
C. included in wages and subject to FICA but not income tax
D. deductible as an itemized miscellaneous expense by the employee

19. Devonte works for a retailer that sells merchandise to the public at an average gross profit percentage of 30%. The retailer allows Devonte to purchase merchandise at a 40% discount off the retail price. What is the tax treatment of Devonte's employee discount?

A. the discount exceeding the employer's 30% gross profit percentage is taxable wages
B. the entire discount is excluded because it is offered to all employees
C. the entire discount is taxable because it exceeds 20%
D. the discount is excluded up to $1,600 annually regardless of percentage

20. Owen operates a hardware supply business and extended trade credit of $18,000 to a customer for inventory purchases. During the year, the customer filed for bankruptcy protection, and Owen's accountant determined that only $11,000 of the debt is collectible, with the remaining $7,000 clearly uncollectible. Owen has documented the partial worthlessness. How should Owen treat the $7,000?

A. no deduction is allowed until the debt is entirely worthless
B. it must be reported as a nonbusiness bad debt short-term loss

C. it is deductible only if Owen itemizes deductions that year
D. it is deductible now as a partially worthless business bad debt

21. Priya owns all the stock of an S corporation and has zero remaining stock basis after prior years' losses. This year, the corporation passed through an additional $25,000 ordinary loss. Priya personally loaned the corporation $30,000 during the year, properly documented as bona fide debt. To what extent may Priya deduct the current-year loss?

A. none of the loss, because stock basis is already zero
B. only $10,000, limited to half of the loan amount
C. the full loss, but only against future capital gains
D. the full $25,000 loss, limited by her $30,000 debt basis

22. Salvador owns a corporate bond that is convertible into the issuing company's common stock under terms fixed at issuance. This year, he exercises the conversion feature and receives 50 shares of stock in exchange for the bond, with no cash changing hands. What is the tax consequence of the conversion?

A. Salvador recognizes short-term capital gain equal to the stock's value
B. no gain or loss is recognized, and the stock takes a carryover basis
C. Salvador recognizes ordinary income equal to the bond's accrued interest
D. the conversion is fully taxable as if the bond were redeemed for cash

23. Fatima is the individual inventor of a patented device and transfers all substantial rights to the patent to an unrelated manufacturer in exchange for royalty payments based on future sales. Fatima had held the patent for only eight months before the transfer. How is her resulting gain characterized?

A. short-term capital gain because the holding period was under a year
B. ordinary income because royalty-based payments are compensation for services
C. long-term capital gain regardless of Fatima's actual holding period
D. self-employment income subject to both income tax and SE tax

24. Bertram purchased a nonqualified deferred annuity contract for $80,000. Before ever annuitizing the contract, he sells it to an unrelated buyer for its $95,000 cash surrender value. How should Bertram report the $15,000 difference?

A. ordinary income, because gain on the sale of an annuity contract is not capital gain
B. long-term capital gain if he held the contract more than one year
C. short-term capital gain regardless of the holding period
D. entirely excludable income under the return-of-investment rule

25. Wyatt owns an office building used in his sole proprietorship, subject to a mortgage that qualifies as qualified real property business indebtedness. The lender agrees to reduce the outstanding principal by $40,000. Wyatt is solvent and elects to exclude the discharged amount under the qualified real property business indebtedness provision. What is the required consequence of this election?

A. the $40,000 is reported as tax-exempt income with no further adjustment
B. Wyatt must amend three prior years' depreciation schedules
C. the $40,000 becomes taxable ratably over the next five years
D. Wyatt must reduce the building's adjusted basis by the $40,000 excluded

26. Consuela sold 100 shares of stock at a $3,000 loss on October 3. On October 20, within the 30-day window, she purchased a call option giving her the right to buy 100 shares of the same stock at a fixed price. How does the wash sale rule apply to this transaction?

A. it does not apply because no shares were directly repurchased
B. it applies only if the option is exercised before year-end
C. it applies because the option to acquire substantially identical stock counts as a replacement
D. it applies only to options traded on registered exchanges

27. Roland receives $14,000 in Social Security disability benefits for the year. Under the offset provisions, $5,000 of what would otherwise have been paid as Social Security was instead paid directly to Roland as workers' compensation, reducing his SSA check accordingly. For purposes of determining the taxable portion of his Social Security benefits, how is the $5,000 offset amount treated?

A. it is entirely excluded because workers' compensation is nontaxable
B. it is treated as a Social Security benefit includible in the taxability computation
C. it is treated as separate self-employment income
D. it is added directly to wages without regard to the base amounts

28. Yusuf, age 40, first becomes eligible for a self-only high-deductible health plan on December 1 of the current year. Using the last-month rule, he contributes the full annual HSA contribution limit for the year rather than a prorated amount. Which condition must Yusuf satisfy to avoid recapturing the extra contribution into income with a 10% additional tax?

A. remain HDHP-eligible for the entire testing period through December 31 of the following year
B. exhaust the entire HSA balance before the next tax filing deadline
C. convert the HSA into a traditional IRA within 60 days
D. obtain family coverage before the following April 15 deadline

29. Two years ago, Camille placed a laptop computer in service and used it 70% for her consulting business, claiming accelerated depreciation under the general MACRS rules because business use exceeded 50%. This year, her business use dropped to 35%. What is the required consequence for the current year?

A. no adjustment is required because the asset is fully depreciated
B. Camille must file an amended return for the placed-in-service year
C. Camille may continue using the same accelerated depreciation method going forward
D. she must recapture the excess depreciation claimed above straight-line as ordinary income

30. The state condemned a strip of Nolan's investment land to widen an adjacent highway and paid him a total award that separately identified $30,000 as compensation for the land taken and $12,000 as severance damages for the decline in value of his remaining adjacent acreage. How should Nolan treat the $12,000 severance damages?

A. as ordinary income in the year the award is received
B. as a reduction to the adjusted basis of his remaining retained land
C. as an itemized casualty loss deduction

D. as a separately taxable Section 1231 gain

31. Theodora sells land with a $40,000 adjusted basis and a $100,000 fair market value to a qualified charity for $60,000, intending the $40,000 price discount to also qualify as a charitable contribution. How must Theodora allocate her basis between the sale and gift portions of the transaction?

A. proportionately, based on the ratio of the sale price to the total fair market value
B. entirely to the sale portion, leaving zero basis for the gift portion
C. entirely to the gift portion, producing no gain on the sale
D. equally, fifty percent to each portion regardless of value

32. Julius contributes real estate with a $70,000 adjusted basis and a $110,000 fair market value to a newly formed partnership in exchange for a 25% capital and profits interest, with no partnership investment company issue present. What gain must Julius recognize on this contribution?

A. $40,000 of long-term capital gain immediately
B. $40,000 of ordinary income immediately
C. no gain is recognized, and the partnership takes a carryover basis
D. gain equal to the appreciation, deferred over five years

33. Estelle purchased a taxable corporate bond in the secondary market for $10,600, paying a premium over its $10,000 stated redemption price because the bond carries a higher-than-market coupon rate. She properly elects to amortize the bond premium. What is the effect of this election each year she holds the bond?

A. the premium is added to her taxable interest income annually
B. the premium creates a nondeductible capital loss carryforward
C. the premium is deducted entirely in the year of purchase
D. the premium offsets her taxable interest income and reduces her bond basis

34. Priscilla is a licensed real estate agent whose compensation is based substantially on sales output rather than hours worked, and her written agreement with the brokerage specifies she will not be treated as an employee for federal tax purposes. She receives a Form 1099-NEC. How is Priscilla classified for tax purposes?

A. a statutory nonemployee, treated as self-employed and subject to self-employment tax
B. a common-law employee despite receiving a 1099-NEC
C. a statutory employee reporting income on Schedule C without SE tax
D. exempt from both income tax and self-employment tax on commissions

35. Marcus, age 45, borrowed $20,000 from his 401(k) plan under a properly documented loan meeting the repayment requirements. After making payments for a year, he stops repaying, and the loan goes into default under the plan's terms. What is the tax consequence of the default?

A. the outstanding balance is treated as a tax-free plan distribution
B. Marcus must repay the full balance within 30 days to avoid taxation
C. the outstanding balance is a deemed taxable distribution, potentially subject to the 10% penalty
D. the plan must forgive the loan with no tax consequence to Marcus

36. Two years ago, Rosalind purchased vacant land directly from the seller under a purchase-money note held by that same seller, and she still owns the land. This year, facing financial difficulty, Rosalind negotiates with the original seller, who agrees to reduce the outstanding note balance by $15,000. No other creditor is involved. How is the $15,000 reduction treated?

A. as cancellation of debt income reportable on Form 1099-C
B. as a reduction of the land's purchase price and adjusted basis, not income
C. as a taxable gift from the seller to Rosalind
D. as ordinary income spread over the note's remaining term

37. Prior to 2023, the affordability of employer-sponsored coverage for Premium Tax Credit purposes was tested only against the cost of self-only coverage for the employee. Under the current 'family glitch' fix, how is affordability now determined for family members seeking a Premium Tax Credit?

A. Affordability is tested using the cost of self-only coverage for each family member individually, not the employee's cost

B. Affordability is no longer tested at all once any family member is offered any employer coverage

C. Affordability is tested using the cost of self-only coverage for the employee, unchanged from prior law

D. Affordability is tested using the cost of covering the entire family under the employer's plan, not just self-only coverage

38. In addition to contributions to traditional and Roth IRAs and employer retirement plans, contributions to which type of account also qualify the account owner for the Retirement Savings Contributions Credit (Saver's Credit)?

A. Contributions made by the designated beneficiary to their own ABLE account

B. Contributions made by a parent to a custodial UTMA account for a minor child

C. Contributions made to a 529 college savings plan on behalf of a grandchild

D. Contributions made to a health savings account by a self-employed taxpayer

39. A taxpayer incurs $12,000 of qualified adoption expenses, of which $9,000 is reimbursed tax-free under her employer's adoption assistance program excludable under Section 137. For purposes of the Adoption Credit, how must she treat the reimbursed expenses?

A. She may claim the Adoption Credit on the full $12,000 because the credit and the exclusion apply to separate provisions

B. She may claim the Adoption Credit only on the $3,000 of expenses not reimbursed under the employer program

C. She may claim the Adoption Credit on the $9,000 reimbursed amount only, since the exclusion already covers other costs

D. She forfeits the Adoption Credit entirely because any employer reimbursement disqualifies all qualified adoption expenses for the year

40. A working couple pays $2,500 for their eight-year-old son to attend a day camp during summer break so both parents can work, and separately pays $1,800 for him to attend a two-week overnight sleepaway camp. For Child and Dependent Care Credit purposes, how are these expenses treated?

A. Both the day camp and the overnight camp costs qualify in full because both allow the parents to work

B. Neither cost qualifies because camp expenses are considered educational rather than custodial care

C. Only the day camp cost qualifies; overnight camp costs are never treated as work-related care expenses

D. Only the overnight camp cost qualifies because it provides more extensive supervised care than day camp

41. A taxpayer claims a dependent who does not meet the age requirement to be a qualifying child for the standard Child Tax Credit, but the dependent otherwise meets all other dependency requirements. Which nonrefundable credit may the taxpayer claim for this dependent instead?

A. The standard $2,000 Child Tax Credit, applied without regard to the dependent's age

B. The Earned Income Tax Credit, computed as though the dependent were a qualifying child

C. The Credit for Other Dependents, a smaller nonrefundable credit available for dependents who do not qualify for the Child Tax Credit

D. The Additional Child Tax Credit, refundable in full regardless of the dependent's age

42. Beyond the Earned Income Tax Credit, the Child Tax Credit family of credits, and the American Opportunity Tax Credit, preparer due diligence requirements under Form 8867 also apply when a paid preparer determines a client's eligibility for which filing status?

A. Married filing separately

B. Head of household

C. Qualifying surviving spouse

D. Single filing status

43. A taxpayer who itemizes deductions had $4,000 of gambling winnings, reported as other income, and $7,000 of gambling losses during the year. What amount of gambling losses may she deduct on Schedule A?

A. $4,000, because gambling losses are deductible only up to the amount of gambling winnings reported for the year

B. $7,000, because all documented gambling losses are fully deductible regardless of winnings reported
C. $3,000, representing the excess of losses over winnings, treated similarly to a capital loss carryover
D. $0, because gambling losses are never deductible under current law regardless of winnings reported

44. A first-time homebuyer purchases a principal residence and obtains a Mortgage Credit Certificate (MCC) issued by a state or local housing finance agency. How does an MCC generally benefit the homebuyer for federal tax purposes?

A. It allows the homeowner to deduct 100% of mortgage interest paid regardless of the acquisition debt limit
B. It provides a tax-free grant applied directly to the down payment, unrelated to the homeowner's tax return
C. It exempts the homeowner from including any mortgage interest as an itemized deduction in future years
D. It allows a portion of mortgage interest paid to be claimed as a nonrefundable tax credit rather than only as an itemized deduction

45. A taxpayer's personal residence, with an adjusted basis of $180,000, is destroyed by a fire. Her insurance company pays $210,000 in reimbursement. How must she treat the $30,000 excess of proceeds over adjusted basis?

A. The excess is automatically nontaxable because it relates to a personal-use residence rather than investment property
B. The excess is added to her itemized casualty loss deduction as a negative adjustment reducing other deductions
C. The excess must be reported as ordinary income in the year the insurance proceeds are received
D. The excess is a taxable casualty gain, which she may defer under Section 1033 by acquiring qualifying replacement property

46. A taxpayer discovers she was the victim of a Ponzi-type investment fraud and has no reasonable prospect of recovering her losses. Under the IRS safe harbor for theft losses arising from fraudulent investment arrangements, how is her loss generally treated?

A. As a personal casualty loss subject to the federally declared disaster requirement and the $100/10%-of-AGI floors

B. As a nondeductible capital loss because investment fraud losses are excluded from the theft loss provisions entirely

C. As a theft loss deductible in the discovery year, at a safe-harbor percentage of the investment, without proving actual theft or fraud

D. As a miscellaneous itemized deduction subject to the 2%-of-AGI floor suspended under current law

47. A taxpayer borrows funds and pays interest during the construction of a new main home, which she will occupy once completed. Under what condition may this construction-period interest be treated as deductible home acquisition debt interest?

A. The interest never qualifies as acquisition debt interest until the home is fully paid off and refinanced

B. The home must become her qualified residence within 24 months after construction begins for the interest to qualify

C. The interest qualifies automatically regardless of when or whether the home is ever occupied as a residence

D. The interest qualifies only if construction is completed within six months of the loan's origination date

48. A single taxpayer, age 68, does not itemize deductions and instead claims the standard deduction. Beyond the regular standard deduction amount for her filing status, what additional benefit does her age entitle her to claim?

A. An additional standard deduction amount added because she has reached age 65 by the end of the tax year

B. An automatic increase in her itemized deduction limitations that only applies once she reaches age 65

C. A separate refundable credit paid directly to taxpayers who reach age 65 in lieu of the standard deduction

D. No additional benefit exists; the standard deduction amount is identical for all adult filers regardless of age

49. Qualified dividend income taxed at preferential capital gains rates generally requires the taxpayer to satisfy a minimum holding period for the underlying stock. For purposes of the Section 199A qualified business income deduction, how are qualified REIT dividends treated with respect to this holding period requirement?

A. Qualified REIT dividends must satisfy an even longer holding period than ordinary qualified dividend income requires
B. Qualified REIT dividends are disqualified from the QBI deduction entirely because REIT shares rarely meet the holding period test
C. Qualified REIT dividends must satisfy the identical holding period rule that applies to qualified dividend income
D. Qualified REIT dividends are not subject to any minimum holding period requirement for QBI deduction purposes

50. A taxpayer owes both regular tax and tentative minimum tax under the alternative minimum tax system, and she has foreign tax credits available. How does the Foreign Tax Credit interact with her alternative minimum tax liability?

A. The Foreign Tax Credit may only offset regular tax and provides no benefit whatsoever against tentative minimum tax
B. The Foreign Tax Credit is permanently disallowed in any year the taxpayer is subject to alternative minimum tax
C. The Foreign Tax Credit is allowed in full against both regular tax and tentative minimum tax liability
D. The Foreign Tax Credit against tentative minimum tax is capped at 90 percent of the tentative minimum tax owed

51. A taxpayer paid income tax to a foreign country that the United States has designated as a country supporting international terrorism, with which the U.S. does not conduct normal diplomatic relations. Under Section 901(j), how does this affect her Foreign Tax Credit?

A. No Foreign Tax Credit is allowed for income taxes paid to a country on the restricted list under Section 901(j)
B. The credit is allowed in full, since Section 901(j) applies only to estate and gift taxes, not income taxes
C. The credit is allowed but capped at 50 percent of the tax paid to the restricted country
D. The credit is allowed in full only if the taxpayer files a special waiver request with the IRS first

52. A parent pays her son's qualified tuition using a tax-free distribution from a Section 529 college savings plan and wants to also claim the American Opportunity Tax Credit for the same academic year. What coordination rule applies?

A. The 529 distribution and the credit may both apply to the exact same tuition dollars without any adjustment required

B. The same tuition expenses cannot be used for both the tax-free 529 distribution and the credit; expenses must be allocated

C. Claiming the American Opportunity Tax Credit automatically converts the entire 529 distribution into taxable income for the year

D. The 529 distribution must be repaid to the plan before the American Opportunity Tax Credit may be claimed

53. A 15-year-old works part-time and contributes toward household costs, but the amount she contributes toward her own support is well under half of her total support for the year, with her parents providing the remainder. For Child Tax Credit purposes, which requirement does this fact pattern address?

A. The support test, which requires that a qualifying child not have provided more than half of her own support for the year

B. The relationship test, which requires the child to be related to the taxpayer by blood, marriage, or adoption

C. The residency test, which requires the child to live with the taxpayer for more than half the year

D. The joint return test, which disqualifies a child who files a joint return with a spouse for the year

54. A married couple claims the Credit for Other Dependents for an elderly parent who qualifies as their dependent but does not meet the Child Tax Credit's age test. Their modified AGI exceeds the threshold at which the Child Tax Credit family of credits begins to phase out. How does this phase-out affect the Credit for Other Dependents?

A. The Credit for Other Dependents is entirely unaffected by MAGI and never phases out regardless of income

B. The Credit for Other Dependents phases out at a lower MAGI threshold than the standard Child Tax Credit

C. The Credit for Other Dependents phases out using the same MAGI threshold and reduction formula as the Child Tax Credit

D. The Credit for Other Dependents is refundable in full once the taxpayer's MAGI exceeds the phase-out threshold

55. A taxpayer's household includes a nonrefundable Credit for Other Dependents and a nonrefundable Foreign Tax Credit, both potentially subject to distinct carryforward provisions under the Internal Revenue Code if unused in the current year. Which statement correctly describes the carryforward treatment of these two credits?

A. Only the Credit for Other Dependents may be carried forward; the Foreign Tax Credit has no carryforward provision

B. The unused Foreign Tax Credit may generally be carried back one year and forward ten years; the Credit for Other Dependents has no carryforward

C. Both credits carry forward indefinitely under identical statutory carryforward rules

D. Neither credit has a carryforward provision, so any unused amount of either credit simply expires

56. A taxpayer donates a qualified conservation easement on real property to a qualified land trust. Compared to the standard 5-year carryforward that applies to most excess charitable contributions, what carryforward period applies to the excess amount of a qualified conservation contribution?

A. No carryforward is permitted; any excess conservation contribution amount is permanently lost after the current year

B. A 3-year carryforward period, shorter than the standard rule applicable to most other charitable contributions

C. A 5-year carryforward period, identical to the standard rule applicable to most other charitable contributions

D. A 15-year carryforward period, longer than the standard rule applicable to most other charitable contributions

57. An individual investor holds a working interest in an oil and gas property and elects to currently deduct intangible drilling costs (IDC) rather than capitalize and amortize them. For AMT purposes, what portion of these costs is treated as a tax preference item?

A. The excess of currently deducted IDC over 120-month amortization, but only to the extent that excess exceeds 65% of net income from the oil and gas properties

B. The full amount of intangible drilling costs deducted currently, with no reduction for amortization or any net income limitation applied

C. None of the IDC deduction, since intangible drilling costs are treated identically for regular tax and AMT purposes in every case

D. Only the intangible drilling costs allocable to unsuccessful dry holes, while costs for producing wells are fully deductible with no adjustment

58. When computing Alternative Minimum Taxable Income (AMTI), several itemized deductions allowed for regular tax must be added back. Which of the following itemized deductions is NOT an AMT adjustment and remains fully deductible in computing AMTI?

A. State and local income and property taxes claimed as an itemized deduction on Schedule A

B. Miscellaneous itemized deductions that were subject to the 2%-of-AGI floor before their suspension

C. Charitable contributions to qualified organizations claimed as an itemized deduction on Schedule A

D. Home mortgage interest on a home equity loan not used to buy, build, or improve the home

59. A railroad employee subject to Railroad Retirement Tax Act (RRTA) Tier 1 taxes earns $230,000 in RRTA compensation from a single employer during the year. How does Additional Medicare Tax apply to this compensation?

A. The employer withholds Additional Medicare Tax once total wages from all of the employee's jobs combined exceed $200,000

B. RRTA compensation is entirely exempt from Additional Medicare Tax because it is not subject to regular FICA Medicare tax

C. The employee owes Additional Medicare Tax only if RRTA compensation combined with a spouse's wages exceeds $250,000

D. The employer withholds Additional Medicare Tax on RRTA compensation exceeding $200,000 from that employer, the same threshold used for FICA wages

60. A self-employed individual has net nonfarm profit of only $1,200 for the year, well below the amount needed to earn the maximum Social Security credits for the year. What does the nonfarm optional method under Schedule SE allow this taxpayer to do?

A. Exclude all self-employment income from tax entirely for any year in which net nonfarm profit falls below $400
B. Report a set percentage of gross nonfarm income as SE earnings, subject to a dollar cap, for up to five taxable years total
C. Automatically defer self-employment tax to the following year whenever net nonfarm profit is unusually low
D. Substitute the prior year's actual net profit figure for the current year whenever current profit is lower

61. A taxpayer pays her 19-year-old son cash wages to provide childcare for her younger children in her home while she works. The son is not a student and works regularly throughout the year. How are these wages treated for FICA purposes?

A. Fully subject to Social Security and Medicare tax, identical to wages paid to any unrelated household employee
B. Subject to FICA only once the wages exceed the annual household employee cash wage threshold for the year
C. Exempt from FICA only if the son is also claimed as the taxpayer's dependent on her income tax return
D. Exempt from Social Security and Medicare tax because the employee is the taxpayer's own child under age 21

62. A married couple made joint estimated tax payments throughout the year but later decide to file separate returns for that same year. How are the jointly made estimated tax payments allocated between the two separate returns?

A. The full amount of the joint payments must be applied entirely to whichever spouse had the higher individual income
B. Joint estimated payments cannot be used on separate returns and are instead treated as a nondeductible personal loan

C. The spouses may allocate the payments in any proportion they agree on, or the IRS will allocate based on each spouse's separate tax liability

D. The payments are automatically split fifty-fifty between the two spouses regardless of each spouse's income or tax liability

63. A minister who has filed a timely and approved Form 4361 exemption from self-employment tax on religious grounds also works a separate secular part-time job unrelated to any ministerial duties. How does the exemption apply to income from that secular job?

A. The exemption has no effect on the secular job; wages from that job remain fully subject to FICA withholding

B. The exemption automatically extends to the secular job because the minister has one combined self-employment tax exemption

C. The secular wages become subject to self-employment tax instead of FICA once the minister's exemption is approved

D. The minister must file a second Form 4361 to keep the secular job subject to normal FICA withholding

64. A service member serves in an area that has not been formally designated a combat zone by executive order, but the Department of Defense has designated the operation as a qualifying contingency operation. How are the combat zone tax benefits affected?

A. No combat zone tax benefits apply unless the area is separately designated a combat zone by executive order

B. Qualifying contingency operation designation extends the same combat zone tax benefits to service in that operation

C. Only the filing deadline extension applies to contingency operations, while the pay exclusion does not

D. Contingency operation service qualifies for combat zone benefits only after 180 continuous days of service there

65. A licensed notary public performs notarial acts and receives fees for notarizing documents, separate from any other business activity. How are these notary fees treated for self-employment tax purposes?

A. Notary fees are subject to self-employment tax the same as any other self-employment income

B. Notary fees are exempt from self-employment tax, even though they are reported as taxable income on Schedule C

C. Notary fees are entirely excluded from gross income because notaries perform a public function

D. Notary fees are subject to self-employment tax only if the notary is also an attorney

66. A taxpayer purchased a principal residence in 2009 and claimed the first-time homebuyer credit under the rules applicable to purchases made in 2009 and 2010, rather than the 2008 version of the credit. Assuming the taxpayer continues living in the home, what repayment obligation applies?

A. The credit must be repaid in equal installments over 15 years, identical to the 2008 credit

B. The credit must be repaid in full with the current year's return, plus accrued interest

C. No repayment is required at all, as long as the home remains the taxpayer's principal residence for at least 36 months

D. Repayment is required only if the taxpayer's income exceeds the original eligibility phase-out threshold in a later year

67. An individual sells commercial real property held for several years and used in a trade or business, recognizing gain attributable to straight-line depreciation previously claimed on the building. How is this portion of the gain taxed?

A. As unrecaptured Section 1250 gain, taxed at a maximum rate of 25%, computed on the applicable worksheet

B. As ordinary income subject to the taxpayer's marginal tax rate, with no capital gain treatment available

C. As a 28%-rate gain identical to the treatment applied to collectibles and qualified small business stock

D. As fully excluded gain, since depreciation recapture on real property is not taxed under current law

68. A taxpayer has a minimum tax credit carryforward from a prior year available to use in the current year. In the current year, regular tax liability is $50,000 and tentative minimum tax is $38,000. How much minimum tax credit may the taxpayer use this year, before any other limitation?

A. The full carryforward amount, with no relationship to the current year's tentative minimum tax figure

B. None, because a minimum tax credit can only be used in a year when AMT is actually owed

C. Exactly $38,000, since the credit is limited to the exact amount of tentative minimum tax for the year

D. Up to $12,000, the amount by which regular tax liability exceeds tentative minimum tax for the year

69. A taxpayer's return includes net capital gain along with 28%-rate gain from the sale of collectibles. Which computation method must the taxpayer use to figure the tax, instead of the Qualified Dividends and Capital Gain Tax Worksheet?

A. The Tax Computation Worksheet, used whenever taxable income exceeds the threshold for the tax tables

B. The Schedule D Tax Worksheet, which separately accounts for gain taxed at the 28% and 25% rates

C. The Foreign Earned Income Tax Worksheet, used whenever any capital gain is present on the return

D. The regular tax tables, since 28%-rate gain does not receive any preferential capital gain treatment

70. A taxpayer materially participates in an S corporation's non-lending trade or business and also makes a loan to that same S corporation, charging it interest. How is the interest income the taxpayer receives on this loan treated for Net Investment Income Tax purposes?

A. It is fully included in net investment income because interest income is always investment income

B. It is excluded from net investment income only if the S corporation is a passive activity for the taxpayer

C. It is included in net investment income at a reduced rate reflecting the taxpayer's ownership percentage

D. It is excluded from net investment income under the self-charged interest rule, to the extent allocable to the material participation activity

71. A taxpayer claims a percentage depletion deduction on an interest in a mineral property for regular tax purposes. For AMT purposes, what adjustment applies to this depletion deduction, if any?

A. No adjustment applies; percentage depletion is fully allowed for both regular tax and AMT in every case

B. The entire percentage depletion deduction is disallowed and must be added back to taxable income

C. The excess of percentage depletion claimed over the property's adjusted basis is a tax preference item
D. Depletion is recalculated entirely using the cost depletion method, with the difference carried forward five years

72. A service member serves in a designated combat zone for the entire year and also owns a rental property back home that generates net rental income during that period. How is the rental income treated for federal income tax purposes?

A. It remains fully taxable, since the combat zone pay exclusion applies only to military compensation, not to unrelated income sources
B. It is excluded from income to the same extent as the service member's military pay for the year
C. It is excluded only up to the enlisted pay cap that applies to the military pay exclusion
D. It qualifies for the combat zone filing extension but is taxed at a reduced combat zone rate

73. An employer fails to timely deposit federal employment taxes withheld from employees' wages. The deposit is made 12 calendar days after the original due date, which falls within the 6-to-15-day late range under the tiered deposit penalty structure. What penalty rate applies to this late deposit?

A. 2% of the underpayment, the rate applicable to deposits made 1 to 5 days late
B. 15% of the underpayment, the rate applicable only after IRS notice and demand
C. 5% of the underpayment, the rate applicable to deposits made 6 to 15 days late
D. 10% of the underpayment, the rate applicable to deposits made more than 15 days late

74. A calendar-year taxpayer computes an estimated tax underpayment for the year, but her total tax liability shown on the return, minus withholding, is only $850 for the year. Under the estimated tax penalty provisions, what is the result?

A. The full penalty applies regardless of the dollar amount owed, since there is no minimum threshold under current law
B. No estimated tax penalty applies, because the underpayment penalty generally does not apply when the amount owed after withholding is under $1,000
C. The taxpayer must still file Form 2210 and pay a reduced flat $50 penalty for any underpayment under $1,000

D. The $1,000 threshold applies only to farmers and fishermen, so this taxpayer's underpayment is fully penalized

75. A 52-year-old taxpayer covered by a self-only high-deductible health plan wants to fund a Health Savings Account by transferring funds directly from a traditional IRA, without first taking a taxable distribution, and understands this option can generally be used only once during the taxpayer's lifetime. Which statement correctly describes this transaction?

A. This is a one-time qualified HSA funding distribution, capped at the annual HSA contribution limit, excluded from income, and conditioned on maintaining HDHP eligibility for a testing period.
B. The taxpayer must first take a taxable IRA distribution, then contribute the after-tax proceeds to the HSA and claim a separate itemized deduction for that contribution.
C. The transfer is treated as a taxable Roth conversion, with the contribution limit based on the IRA account balance rather than the HSA annual contribution limit.
D. The transfer is unlimited in amount, may be repeated every year, and does not require the taxpayer to keep high-deductible health plan coverage afterward.

76. A taxpayer has not finalized a divorce but obtained a decree of separate maintenance under state law by December 31, and has not remarried. For federal filing status purposes, how is the taxpayer treated?

A. The taxpayer is still considered married for the entire year and must choose between filing a joint return or a married filing separately return with the former spouse.
B. The taxpayer automatically qualifies for head of household status for the year regardless of whether any dependent lived in the taxpayer's home.
C. The taxpayer must file as a qualifying surviving spouse for the year, since a decree of separate maintenance is treated identically to a spouse's death.
D. The taxpayer is treated as unmarried for the entire year under the decree of separate maintenance and cannot file a joint return with the former spouse.

77. Parents want to leave an inheritance to their adult child who receives Supplemental Security Income and Medicaid due to a permanent disability, without disqualifying the child from those means-tested government benefits. Which planning tool best accomplishes this goal?

A. Naming the child as outright beneficiary of a payable-on-death account, since means-tested benefit programs count only earned income and disregard any inherited assets.

B. Establishing a Uniform Transfers to Minors Act custodial account, so a court-appointed custodian manages the inheritance until the child reaches the age of majority.

C. Funding a properly drafted third-party special needs trust that holds the inheritance for the child's supplemental benefit without counting as a resource for eligibility.

D. Distributing the inheritance directly to the child as a lump sum, then having the child spend it down quickly to fall below the resource limit.

78. A parent maintains a 529 education savings plan for a child who later becomes disabled and now qualifies for an ABLE account. The parent wants to redirect a portion of the unused 529 balance toward the child's disability-related expenses without an income tax penalty. Which statement correctly describes this option?

A. Section 529 funds can never be moved to an ABLE account; the parent must take a nonqualified distribution and pay income tax plus a 10% penalty on the earnings.

B. A 529 plan balance may be rolled directly into an ABLE account for the same beneficiary or an eligible family member, up to the annual ABLE contribution limit, tax-free.

C. The funds may fund disability expenses only if the child first withdraws them, reports the earnings as taxable income, and then re-contributes the after-tax amount to the ABLE account.

D. A 529 plan may be rolled into an ABLE account only if the ABLE account predates the 529 plan, limited to the child's lifetime gift tax exemption amount.

79. A married participant in an employer's ERISA-covered 401(k) plan wants to name their adult child from a prior relationship as the primary beneficiary of the entire account balance, rather than the current spouse. What must occur for this designation to be valid?

A. The participant may freely name any beneficiary without spousal involvement, because 401(k) plans follow the identical beneficiary rules that govern IRAs.

B. The designation becomes automatically valid once the participant completes the plan's beneficiary form, since federal law gives the participant sole authority over plan beneficiaries.

C. The participant needs only the plan administrator's approval, since spousal consent applies solely to defined benefit pension plans and not to 401(k) plans.

D. The spouse must provide written consent, notarized or witnessed by a plan representative, waiving rights to the account before the non-spouse designation becomes effective.

80. A taxpayer and former spouse filed an accurate joint return reporting the correct tax liability, but the former spouse diverted the funds set aside to pay the balance due and the tax remains unpaid. The taxpayer does not qualify for relief under IRC Section 6015(b) or 6015(c), which apply only to understated tax. What relief may still be available?

A. Equitable relief under IRC Section 6015(f), which can extend to an accurately reported but unpaid liability whenever holding the requesting spouse liable would be unfair.
B. Injured spouse relief claimed on Form 8379, which lets the taxpayer reclaim an allocable share of a refund seized to satisfy the other spouse's separate debt.
C. Separation of liability relief under IRC Section 6015(c), which reallocates an understated amount of tax between spouses according to each spouse's own return items.
D. No relief is available for an accurately reported joint liability that goes unpaid, because innocent spouse provisions apply only to understatements of tax.

81. A high-net-worth client wants to make a substantial gift to a favorite charity for a fixed term of years while ultimately passing the remaining trust principal to her children at a reduced gift tax cost, and is willing to give up any income interest for herself. Which trust structure best fits this goal?

A. A charitable remainder annuity trust, which pays the client a fixed income stream for life or a term of years before the remainder passes to charity.
B. A charitable lead trust, which pays an income stream to the charity for a fixed term of years before the remaining principal passes to the children.
C. A qualified personal residence trust, which transfers a personal residence to the children at a discounted gift value while the client retains occupancy rights.
D. A grantor retained annuity trust, which pays the client a fixed annuity for a term of years before the remainder passes to the children.

82. A 58-year-old self-employed consultant with no employees has consistent high net earnings from self-employment and already contributes the maximum allowed to a solo 401(k) but wants to shelter significantly more income from current tax before retiring in seven years. Which retirement plan option would allow the largest additional tax-deferred contribution?

A. Increasing contributions to a SIMPLE IRA, which permits a higher combined employee and employer contribution limit than a solo 401(k) for someone with no employees.
B. Opening a Coverdell Education Savings Account in the consultant's own name, since the account can also accumulate tax-deferred retirement savings for its owner.
C. Establishing a SEP IRA alongside the existing solo 401(k), since the two plans have entirely separate and independently stackable contribution limits for the same income.
D. Establishing a defined benefit or cash balance plan, which calculates contributions actuarially by age and income and can permit deductible amounts well beyond solo 401(k) or SEP limits.

83. An elderly client wants a simple, low-cost way to pass a single bank savings account directly to a designated individual at death, avoiding probate, without the expense of drafting a revocable living trust or naming the account in a will. Which arrangement best accomplishes this?

A. A qualified terminable interest property election, which allows the account to pass to a surviving spouse while still qualifying for the marital deduction.
B. A generation-skipping dynasty trust, which holds the account for multiple generations of beneficiaries while avoiding transfer tax at each generational level.
C. A payable-on-death designation, sometimes called a Totten trust, added directly to the account, which transfers the balance automatically to the named beneficiary at death.
D. An irrevocable life insurance trust, which removes the account's value from the taxable estate while the client retains a right to withdraw principal.

84. Two unrelated co-owners of a closely held business want to ensure that if one owner dies, the surviving owner can purchase the deceased owner's interest at a predetermined price, funded automatically without needing to liquidate business assets. Which planning tool best accomplishes this?

A. A cross-purchase buy-sell agreement funded by life insurance policies each owner buys on the other, providing tax-free proceeds to purchase the deceased owner's interest.
B. An irrevocable life insurance trust naming the business as trustee, which removes policy proceeds from each owner's individual taxable estate at death.
C. A qualified personal residence trust structured to hold the business interest, letting the surviving owner acquire it at a discounted valuation.
D. A split-dollar life insurance arrangement between the business and its lender, requiring the surviving owner to repay premiums before receiving any proceeds.

85. A self-employed taxpayer's solo 401(k) plan document permits after-tax, non-Roth, non-pretax employee contributions in addition to the standard elective deferral, up to the overall annual additions limit, and also permits in-plan Roth conversions. The taxpayer wants to maximize tax-free retirement growth beyond the regular elective deferral limit. Which strategy accomplishes this?

A. Contribute only pretax elective deferrals up to the standard limit, since after-tax employee contributions to a solo 401(k) are never permitted.
B. Contribute the maximum SEP IRA amount instead, since a SEP IRA is the only vehicle allowing contributions beyond the standard elective deferral limit.
C. Make after-tax employee contributions up to the overall annual additions limit, then convert those amounts in-plan to the Roth source for future tax-free growth.
D. Contribute only the maximum catch-up amount, since catch-up contributions are automatically treated as after-tax Roth amounts once the taxpayer turns fifty.

86. A client wants to lock in tomorrow's tuition rates at eligible in-state public universities today, accepting less investment flexibility and a narrower range of eligible institutions in exchange for protection against future tuition inflation. Which Section 529 plan type best matches this goal?

A. A prepaid tuition plan, which allows purchase of future tuition credits at today's rates, primarily at in-state public institutions, shielding the client from tuition inflation.
B. A 529 college savings plan, which invests contributions in market-based portfolios and offers a wide selection of eligible institutions nationwide and abroad.
C. A Coverdell Education Savings Account, which allows investment in individual stocks and bonds but caps annual contributions well below a prepaid plan's typical cost.
D. A custodial UTMA account, which can fund education expenses and locks in today's asset value but offers no tuition inflation protection whatsoever.

87. A married taxpayer separated from her spouse but not yet divorced elects to file a married filing separately return for the year, and paid qualified tuition expenses for a dependent enrolled at least half-time in a degree program. Can the taxpayer claim the American Opportunity Credit or Lifetime Learning Credit on this return?

A. Yes, both credits remain fully available on a married filing separately return, using the identical income phase-out thresholds that apply to joint filers.

B. Yes, but only the American Opportunity Credit is available on a married filing separately return; the Lifetime Learning Credit requires joint filing.

C. Yes, but the credit amount is automatically cut in half whenever the return is filed as married filing separately rather than jointly.

D. No, neither the American Opportunity Credit nor the Lifetime Learning Credit may be claimed on a married filing separately return, regardless of income.

88. A U.S. individual owns shares in a foreign mutual fund that is classified as a passive foreign investment company (PFIC), and has made no special election. Under the default excess distribution regime, how are gains on disposition and excess distributions taxed?

A. The entire gain or distribution is taxed as long-term capital gain in the year received, with no interest charge imposed regardless of the length of the holding period.

B. The gain or excess distribution is allocated ratably over the shareholder's holding period; amounts allocated to prior years are taxed at the highest rate in effect for that year plus an interest charge, while the current year's portion is ordinary income.

C. The gain or distribution is exempt from federal tax entirely because PFIC shares held directly by individuals fall outside the reach of Subpart F and GILTI rules.

D. The gain or distribution is taxed as self-employment income subject to both income tax and self-employment tax in the year the shares are sold.

89. A U.S. person transfers appreciated tangible business property to a newly formed foreign corporation in exchange for stock, in a transaction that would otherwise qualify as a nonrecognition transfer under Section 351. Which statement correctly describes the reporting and tax result?

A. No reporting is required because Section 351 nonrecognition treatment automatically extends to outbound transfers to foreign corporations without any additional filing obligation.

B. The transferor must file Form 926 to report the exchange, and under Section 367, gain (though not loss) on the appreciated property may still have to be recognized despite the transaction otherwise qualifying under Section 351.

C. The transferor must file Form 8865 instead of Form 926, since transfers of business property to any foreign entity are reported exclusively on the foreign partnership form.

D. The transfer is reported on Form 5471, and the built-in gain is permanently exempt from U.S. tax because the corporation receiving the property is foreign.

90. A U.S. person acquires a 55 percent interest in a foreign partnership during the year, giving that person control of the partnership as defined for reporting purposes. Which category of Form 8865 filer applies, and what does that category generally require?

A. The person is a Category 4 filer, which only requires reporting the acquisition transaction itself, with no ongoing information about the partnership's income or balance sheet.
B. The person is a Category 2 filer, since control is measured only when combined ownership among all U.S. persons reaches 50 percent, not when one person alone does.
C. The person is exempt from Form 8865 filing entirely, because partnership interests, unlike corporate stock, are not subject to information reporting for foreign entities.
D. The person is a Category 1 filer as a U.S. person controlling the foreign partnership, which generally requires reporting comprehensive financial and operational information comparable to a domestic Form 1065 filing.

91. A decedent incurred substantial unreimbursed medical expenses shortly before death, and the estate pays those expenses within one year after the date of death. Which statement correctly describes the executor's option for deducting these expenses?

A. The expenses may be deducted in full on both the decedent's final Form 1040 and the estate's Form 706, since medical expense deductions are not subject to a double-deduction restriction.
B. The expenses may only be deducted on the estate's Form 1041 income tax return as an administration expense, regardless of when the medical services were actually provided.
C. The executor may elect under Section 213(c) to treat the expenses as paid by the decedent at the time incurred and deduct them on the decedent's final Form 1040, but this election waives any deduction of the same expenses on Form 706.
D. The expenses are never deductible for federal tax purposes once the taxpayer has died, because the medical expense deduction terminates automatically as of the date of death.

92. A sole proprietor who reported business income on Schedule C dies partway through the tax year. Regarding the decedent's final Form 1040, which statement is correct?

A. The final return reports the business income and expenses attributable to the period before death, and self-employment tax applies only to net earnings realized while the decedent was alive; amounts received afterward are income in respect of a decedent.

B. The final return must report the entire year's business income regardless of when it was received, since a decedent's tax year cannot be shortened by death under any circumstance.

C. The final return excludes all self-employment tax entirely, because self-employment tax obligations are automatically extinguished and forgiven upon the taxpayer's death.

D. The final return reports only wage income, because Schedule C business income earned by a sole proprietor is instead reported exclusively on the estate's Form 1041.

93. An estate is contesting a creditor's claim that, if ultimately allowed, would be deductible under Section 2053 as a claim against the estate. Which statement correctly describes how the executor should generally handle this deduction?

A. The executor must deduct the full disputed amount on the original Form 706, regardless of resolution, because contested claims are treated identically to claims that are fixed and certain.

B. The executor may never deduct the claim under any circumstances, because contested creditor claims are permanently barred from Section 2053 treatment even after resolution and payment.

C. Because Section 2053 generally limits the deduction to amounts actually paid, the executor cannot deduct the disputed claim until it is resolved and paid, but may file a protective claim for refund to preserve the right to the deduction once finality occurs.

D. The executor must immediately pay the disputed claim in full before filing Form 706, because Section 2053 deductions are only available for claims paid before the return's due date.

94. A trust holds assets for a non-skip person's life estate, after which the trust terminates and all remaining beneficiaries are skip persons. When this taxable termination occurs, who is primarily liable for paying the resulting GST tax?

A. The transferor who originally funded the trust remains primarily liable for the tax on the taxable termination, even though that person has no continuing interest or control over the trust.

B. The skip person beneficiaries who ultimately receive the trust property are primarily liable, in the same manner they would be liable for tax on a taxable distribution.

C. No GST tax is due upon a taxable termination, because the tax applies only to direct skips and taxable distributions, not to the termination of an intervening interest.

D. The trustee is primarily liable for paying the GST tax on a taxable termination, in contrast to a taxable distribution, where the transferee-beneficiary who receives the property bears primary liability for the tax.

95. A donor transfers property into an irrevocable trust under which all income is accumulated and neither income nor principal may be distributed to the beneficiary until the trust terminates in ten years. For gift tax purposes, how is this transfer treated with respect to the annual exclusion?

A. The gift qualifies fully for the annual exclusion up to the statutory per-donee limit, because irrevocable trust transfers are always treated as present interests regardless of distribution restrictions.
B. The entire gift to the trust is a future interest because the beneficiary has no present right to use, possess, or enjoy the trust income or principal, so none of the transfer qualifies for the annual gift tax exclusion.
C. Only the principal portion of the gift is treated as a future interest, while the accumulated income portion automatically qualifies as a present interest eligible for the annual exclusion.
D. The gift qualifies for the annual exclusion only if the trustee is a bank or other corporate fiduciary, since individual trustees cannot hold future-interest property for exclusion purposes.

96. An estate has distributable net income (DNI) for the year consisting partly of tax-exempt municipal bond interest and partly of taxable dividend income, and distributes cash to a beneficiary equal to the full amount of DNI. Under the conduit principle governing Form 1041, how is this distribution treated?

A. The distribution carries out DNI to the beneficiary in the same proportion of tax-exempt and taxable character it had at the estate level, so the beneficiary reports the taxable dividend portion as income while excluding the tax-exempt interest portion.
B. The entire distribution is treated as taxable dividend income to the beneficiary, because tax-exempt interest loses its exempt character the moment it passes through an estate to a beneficiary.
C. The entire distribution is treated as tax-exempt to the beneficiary, because any distribution that includes some tax-exempt income converts the full distribution to a tax-exempt character.
D. The estate, not the beneficiary, continues to be taxed on the full distributed amount, because DNI distributions from an estate do not carry out income character to beneficiaries.

97. An executor elects to exclude a portion of the value of land subject to a qualified conservation easement from the decedent's gross estate under Section 2031(c). Which statement correctly describes this exclusion?

A. The election allows exclusion of the entire value of the encumbered land from the gross estate, with no percentage limitation, dollar cap, or reduction based on the easement's relative value.

B. The election substitutes for the charitable deduction entirely, so an estate that uses Section 2031(c) may not also claim any charitable deduction connected with the conservation easement.
C. The election is available only for easements donated by the executor after death and never for easements the decedent had already granted during lifetime before death occurred.
D. The election allows exclusion of up to 40 percent of the encumbered land's value, subject to a dollar cap and a reduction if the easement's value is less than 30 percent of the land's value, and applies in addition to any charitable deduction otherwise allowed for the easement.

98. A transferor makes an outright direct skip gift to a grandchild during the year but does not file a Form 709 election out of automatic allocation. Regarding the transferor's GST exemption, what is the default result?

A. No GST exemption is allocated unless the transferor files a separate, affirmative election specifically requesting allocation, since automatic allocation applies only to generation-skipping transfers made in trust, never to outright transfers.
B. The full amount of the transferor's remaining lifetime GST exemption is permanently forfeited, because failing to file an election is treated as an irrevocable waiver of exemption for all future transfers.
C. The transferor's available GST exemption is automatically allocated to the direct skip to the extent necessary to produce a zero inclusion ratio, unless the transferor files an affirmative election out of automatic allocation on a timely filed Form 709.
D. The direct skip is automatically taxed at the maximum GST rate regardless of available exemption, because outright gifts to grandchildren are categorically excluded from exemption allocation.

99. A decedent held an installment obligation from a prior sale of investment property, with gain not yet fully recognized at death. The estate collects payments on the note after the decedent's death. How is the deferred gain on those payments treated?

A. The note receives a stepped-up basis to fair market value at death, eliminating all remaining deferred gain on later payments.
B. The remaining deferred gain is income in respect of a decedent, reported by the estate or beneficiary using the decedent's same gross profit ratio and installment method, keeping its original character.
C. The remaining payments become entirely exempt from income tax once made to the estate, since installment obligations lose their tax character at the holder's death.
D. The estate must recognize the entire remaining deferred gain immediately in the year of death, regardless of the installment payment schedule.

100. A U.S. shareholder owns stock in a foreign corporation that meets the technical definition of both a passive foreign investment company (PFIC) and a controlled foreign corporation (CFC) for the same period, and the shareholder is a 'U.S. shareholder' who must report the corporation on Form 5471. How does the overlap between the PFIC and CFC regimes generally apply?

A. Under the CFC overlap rule, a U.S. shareholder subject to Form 5471 reporting is generally excepted from the PFIC excess distribution regime for the overlap period, because Subpart F and GILTI already tax the shareholder's share of the corporation's income.
B. The shareholder must apply both regimes fully and simultaneously, reporting the same income twice, once under Subpart F on Form 5471 and again under the PFIC excess distribution regime on Form 8621.
C. The PFIC regime automatically overrides the CFC regime whenever both apply, so the shareholder reports exclusively on Form 8621 and has no Form 5471 filing obligation for that corporation.
D. Neither regime applies once a corporation qualifies as both a PFIC and a CFC, because the overlapping classifications cancel out any U.S. information reporting or income inclusion requirement.

Answer Key and Explanations — Practice Exam 9, Part 1: Individuals

1. A — Marital status is determined as of year-end or date of death. Since Mr. Delgado remarried before December 31, he may file jointly with his new spouse. His deceased wife remained married to him only until her death, so her final return must be filed Married Filing Separately by her executor, not jointly with the new spouse.

2. B — The gross income test counts only taxable income; nontaxable Social Security benefits are excluded from gross income under IRC rules. Only the $3,200 of taxable interest counts toward the qualifying relative gross income limit, leaving the mother well under the threshold and eligible to be claimed as a dependent if other tests are met.

3. D — Specified tax return preparers who reasonably expect to file 11 or more (10 or more for some purposes) individual returns generally must e-file them. Recognized exceptions include an approved administrative exemption for undue hardship, such as limited internet access, and specific taxpayer opt-out elections, but simply preferring paper filing or a client's refund method does not qualify.

4. C — A dependent's standard deduction equals the greater of $1,300 or earned income plus $450, capped at the regular standard deduction for the filing status. Since David's earned income of $13,850 is high enough that his standard deduction equals the full single amount, he must file because his gross income equals or exceeds that computed standard deduction.

5. C — An ITIN not used on a federal return at least once in the preceding three consecutive tax years expires automatically on December 31 of the third year. The taxpayer must submit Form W-7 to renew the same ITIN before it can be used again; a new number is not typically assigned upon renewal.

6. A — Records establishing a home's basis, including purchase documents and receipts for capital improvements, must be kept until the period of limitations expires for the year in which the property is eventually sold, since those figures are needed to compute gain or loss. A fixed retention period unrelated to the sale date is insufficient.

7. D — Circular 230 requires a practitioner, upon a client's request, to promptly return records necessary for the client to comply with federal tax obligations, even when a fee dispute is unresolved, unless applicable state law authorizes retention pending payment. Withholding records outright as leverage over an unpaid fee is not permitted.

8. B — An engagement letter is a written agreement establishing the scope of services, fee structure, and mutual responsibilities before work begins, protecting both practitioner and client by setting clear expectations. It differs from Form 2848 or Form 8821, which authorize representation or information sharing with the IRS, and from a section 7216 consent, which governs disclosure of tax data.

9. D — A CP12 notice informs the taxpayer that the IRS identified and corrected a miscalculation or similar error on the filed return, resulting in a different refund amount than originally claimed. It explains the specific adjustment made and gives the taxpayer a limited window to dispute the correction if they disagree.

10. C — Letter 12C is issued when the IRS needs additional information or documentation, such as a missing form, schedule, or verification of withholding or estimated payments, to finish processing a return that has already been filed. Prompt response with the requested items allows processing to continue promptly without further unnecessary delay or a stalled refund.

11. A — FinCEN defines a reportable foreign financial account to include a foreign life insurance or annuity policy that has a cash surrender value. Because this policy carries cash value, it counts toward the aggregate $10,000 FBAR threshold along with the checking account, and both must be disclosed on FinCEN Form 114.

12. B — Circular 230's written advice standards require a practitioner to base advice on reasonable factual and legal assumptions, reasonably consider all relevant facts known or that should be known, and not rely unreasonably on representations of others. The advice must reflect the practitioner's honest, informed conclusion about the law's application to the facts, not merely a favorable-sounding result.

13. A — For dependency purposes, a legally adopted child, and a child lawfully placed with the taxpayer for legal adoption, is treated the same as the taxpayer's own child for the relationship test even if the adoption has not yet become final. Finalization of the decree is not a prerequisite to satisfying this test.

14. B — Circular 230's conflict-of-interest provisions permit a practitioner to represent clients whose interests are directly adverse only if the practitioner reasonably believes competent and diligent representation can still be provided to each affected client, the representation is not otherwise prohibited by law, and each client knowingly gives informed consent, confirmed in writing at the time.

15. C — Filing status for federal tax purposes is determined by state law. If a marriage is void from its inception under the state's law, no valid marriage exists, and the taxpayer is treated as unmarried for the year, even though a ceremony occurred, allowing Single or Head of Household status if other requirements are otherwise met.

16. D — A taxpayer who is Married Filing Separately and lived with her spouse at any point during the year faces a filing threshold of just $5 of gross income, rather than the higher age-based thresholds available to other filing statuses. This low threshold applies regardless of the taxpayer's age or blindness status.

17. C — Accrued market discount on a bond purchased below its redemption price is treated as ordinary income, not capital gain, when the bond is disposed of or matures, under the market discount rules. Any gain beyond the accrued market discount amount is capital gain. This differs from original issue discount, which accrues annually regardless of disposition.

18. B — De minimis fringe benefits are excluded from an employee's gross income because their value is so small and provided so infrequently that accounting for them would be unreasonable or administratively impracticable. Occasional personal photocopying and modest periodic gifts of property, like holiday treats, qualify. Cash and cash equivalents, however, never qualify for this exclusion regardless of the amount involved.

19. A — A qualified employee discount on merchandise is excluded from income only up to the employer's average gross profit percentage on the property sold to customers. Because Devonte received a 40% discount but the employer's gross profit percentage is only 30%, the extra 10 percentage points of discount is additional taxable compensation includible in his wages for the year.

20. D — Unlike nonbusiness bad debts, which require total worthlessness before any deduction is allowed, a business bad debt may be deducted as an ordinary loss in the year it becomes either partially or wholly worthless. Because Owen's trade receivable arose from his business and is documented as partially uncollectible, he may deduct the $7,000 portion now.

21. D — When an S corporation shareholder's stock basis is exhausted, losses may still be deducted to the extent of the shareholder's basis in bona fide debt owed directly to them by the corporation. Because Priya's $30,000 loan created sufficient debt basis, she may deduct the full $25,000 loss this year, reducing her debt basis accordingly for future years.

22. B — Converting a bond into stock pursuant to a conversion privilege that existed under the bond's original terms is a nonrecognition event; no gain or loss is realized at conversion. The stock received takes a substituted basis equal to the bond's adjusted basis, and the holding period of the bond carries over to the new stock received.

23. C — Under the special rule for patents transferred by their individual inventor, gain from transferring all substantial rights is automatically treated as long-term capital gain, even if the inventor's actual holding period was shorter than a year and even when payments are structured as royalties contingent on productivity or use of the patent.

24. A — When a nonqualified annuity contract is sold outright to another party rather than surrendered to or annuitized by the issuing insurer, the gain represents ordinary income rather than capital gain. Courts have held that the investment character allowing capital treatment applies only to amounts received from the issuing company, not proceeds from a sale to a third party.

25. D — The qualified real property business indebtedness exclusion allows a solvent taxpayer to exclude discharged debt secured by business real property from income, but only up to specified limits. As a required tradeoff, the excluded amount is not simply forgiven tax-free; it must reduce the adjusted basis of the depreciable real property securing that debt.

26. C — The wash sale rule disallows a loss when the taxpayer acquires a contract or option to buy substantially identical stock within 30 days before or after the loss sale, not just an outright share repurchase. Because Consuela's call option gives her the right to acquire the identical stock, the loss is disallowed and added to the option's basis.

27. B — When workers' compensation reduces the Social Security benefit a taxpayer would otherwise receive, the offset amount is treated as if it were a Social Security benefit for purposes of the provisional income formula that determines how much of the total benefit is taxable, even though the funds were actually disbursed through the workers' compensation program instead.

28. A — The last-month rule allows a taxpayer who is HSA-eligible on December 1 to contribute the full annual limit despite having coverage for only part of the year. In exchange, the taxpayer must remain eligible for the entire testing period, running through December 31 of the following year, or the extra amount is recaptured into income plus a 10% additional tax.

29. D — Listed property, such as a computer, must be used more than 50% for business to qualify for accelerated depreciation. Once business use falls to 50% or below in a later year, the taxpayer must recapture, as ordinary income, the excess of accelerated depreciation previously claimed over what straight-line depreciation would have allowed, and switch to straight-line prospectively.

30. B — Severance damages compensate a landowner for the decrease in value of property retained after a partial condemnation, rather than for property actually taken. When properly identified and allocated in the award, such damages are not immediately taxable income; instead, they reduce the adjusted basis of the retained land, with any excess over basis taxed as gain.

31. A — In a bargain sale to charity, the property's adjusted basis must be allocated between the sale and gift portions in proportion to their respective shares of the fair market value. Here, the sale represents 60% of value, so 60% of basis, or $24,000, offsets the $60,000 sale price, producing $36,000 of recognized gain.

32. C — Contributions of property to a partnership in exchange for a partnership interest generally trigger no recognized gain or loss, provided the investment company rules do not apply. The partnership takes a carryover basis in the contributed property, and Julius takes a substituted basis in his partnership interest equal to his prior basis in the property.

33. D — When a taxpayer elects to amortize bond premium on a taxable bond, a portion of the premium offsets and reduces the interest income reported each year rather than being separately deducted. The amortized amount also reduces the bond's adjusted basis annually, so less gain, or a larger loss, is realized when the bond is later sold or matures.

34. A — Licensed real estate agents and certain direct sellers who meet the qualified real estate agent test, including compensation tied to output rather than hours and a written agreement stating they will not be treated as employees, are classified as statutory nonemployees. Their earnings are treated as self-employment income, fully subject to both income tax and self-employment tax.

35. C — When a participant fails to make required payments on a qualified plan loan according to its terms, the outstanding balance is treated as a deemed distribution in the year of default. This amount is includible in gross income and, because Marcus is under 59½ with no exception applying, is also subject to the additional 10% early distribution penalty.

36. B — When the original seller of property, still held by the purchaser, later reduces the purchase-money debt owed directly to that seller, the reduction is treated as an adjustment to the purchase price rather than cancellation of debt income. Rosalind must reduce her adjusted basis in the land by $15,000, deferring any tax effect until a later disposition.

37. D — Effective 2023, Treasury regulations fixed the 'family glitch' by testing affordability of employer coverage for family members against the cost of covering the whole family under the employer plan, not merely the employee's self-only premium. This change made more family members eligible for Premium Tax Credit subsidies when family coverage costs exceeded the affordability percentage of household income.

38. A — The ABLE Act extended Saver's Credit eligibility to contributions the designated beneficiary personally makes to their own ABLE account, subject to the same adjusted gross income limits and applicable percentage table used for IRA and employer-plan contributions. UTMA custodial accounts, 529 plans, and HSA contributions are unrelated savings vehicles and do not generate this nonrefundable credit.

39. B — The Adoption Credit and the Section 137 employer-assistance exclusion cannot both apply to the identical qualified adoption expenses claimed on the same return. Expenses reimbursed tax-free through an employer's adoption assistance program are excluded from credit-eligible costs, leaving only the unreimbursed $3,000 balance available for the credit, subject to the applicable dollar limitation and income-based phase-out.

40. C — Day camp costs can qualify as work-related care expenses for the Child and Dependent Care Credit because the child returns home each night, but overnight camp costs are specifically excluded under the regulations regardless of the reason for attendance. Only the $2,500 day camp expense is eligible, subject to the applicable dollar cap.

41. C — The Credit for Other Dependents provides a smaller nonrefundable credit for dependents, such as a child age 17 or older or a qualifying relative, who meet the general dependency tests but do not satisfy the age requirement for the standard Child Tax Credit. Unlike the Additional Child Tax Credit, this credit is entirely nonrefundable and has no earned income computation.

42. B — Since 2018, Form 8867 due diligence requirements extend to a fourth item: determining a client's eligibility to file as head of household. The preparer must make reasonable inquiries, apply the knowledge requirement, and retain documentation supporting that status, just as with the EITC, Child Tax Credit family, and American Opportunity Tax Credit determinations.

43. A — Gambling losses are deductible as an itemized deduction only to the extent of gambling winnings included in income for the year, and only for taxpayers who itemize; losses cannot create a net deduction or offset other income. With $4,000 of winnings, her deductible loss is capped at $4,000, leaving $3,000 nondeductible.

44. D — A Mortgage Credit Certificate lets an eligible first-time homebuyer convert a specified percentage of mortgage interest paid into a nonrefundable federal tax credit, subject to an annual dollar cap, rather than claiming that portion only as an itemized deduction. Any remaining mortgage interest not converted to the credit may still be claimed as an itemized deduction if the taxpayer itemizes.

45. D — When insurance reimbursement exceeds a damaged or destroyed property's adjusted basis, the excess is a realized casualty gain, generally treated as a capital gain. A taxpayer may elect to defer recognition under Section 1033's involuntary conversion rules by purchasing qualifying replacement property within the statutory replacement period rather than reporting the gain currently.

46. C — Revenue Procedure 2009-20 provides a safe harbor allowing victims of specified fraudulent investment arrangements, such as Ponzi schemes, to deduct a set percentage of their qualified investment as a theft loss in the discovery year without independently proving theft occurred. Because it is profit-motivated, this loss is not subject to the personal casualty floors or disaster-area requirement.

47. B — Interest paid during the construction period may be treated as home acquisition debt interest if the newly built home becomes the taxpayer's qualified residence within 24 months after construction begins. If the home is not occupied as a residence within that window, the construction-period interest generally fails to qualify as deductible acquisition debt interest.

48. A — Taxpayers who are age 65 or older, or blind, are entitled to an additional standard deduction amount added on top of the regular standard deduction for their filing status. A taxpayer who is both 65 or older and blind may claim two additional amounts, further increasing the total standard deduction.

49. D — Unlike qualified dividend income, which requires meeting a specific minimum holding period to receive preferential capital-gains-rate treatment, qualified REIT dividends receive the 20% QBI deduction component without any comparable holding period test at all. This distinction makes REIT dividends administratively simpler to qualify for the deduction than ordinary qualified dividend income.

50. C — The Foreign Tax Credit is allowed in computing both regular tax liability and the alternative minimum tax's tentative minimum tax, since the prior law limiting the credit to 90% of tentative minimum tax was repealed. This means foreign taxes paid can offset AMT exposure just as they offset regular tax.

51. A — Section 901(j) denies the Foreign Tax Credit for income taxes paid to certain countries designated by the U.S. government, such as those subject to specific sanctions or without normal diplomatic relations. Taxpayers with income from these restricted countries generally may only deduct, rather than credit, taxes paid there, and income is reported in a separate basket.

52. B — Qualified education expenses used to justify a tax-free Section 529 plan distribution cannot also be counted toward the American Opportunity Tax Credit; the same dollar of tuition cannot generate both benefits. Taxpayers must allocate expenses between the two, often using otherwise-taxable distribution amounts or separate expenses to support the credit claim.

53. A — A qualifying child for Child Tax Credit purposes must not have provided more than half of her own support during the year. Because this child's own contribution falls well below that threshold, with her parents providing the remainder, she satisfies the support test, distinct from the separate relationship, residency, and joint-return tests.

54. C — The Credit for Other Dependents is part of the same Child Tax Credit family and phases out using the identical modified adjusted gross income threshold and $50-per-$1,000-of-excess reduction formula that applies to the standard Child Tax Credit. Both credits are reduced together once household MAGI exceeds the applicable threshold for the taxpayer's filing status.

55. B — The Foreign Tax Credit that exceeds the annual limitation may generally be carried back one year and forward up to ten years under Section 904(c). The Credit for Other Dependents, by contrast, has no statutory carryforward provision; any amount that cannot be used because tax liability is too low in the current year is simply lost.

56. D — Qualified conservation contributions receive favorable treatment: individuals may deduct up to 50% of AGI (100% for qualifying farmers and ranchers), and any excess amount may be carried forward for 15 years, substantially longer than the standard 5-year carryforward that applies to most other excess charitable contributions under the general percentage limitations.

57. A — Excess intangible drilling costs is a specific AMT preference item under IRC Section 57. It equals the amount deducted currently in excess of what would be allowed under 120-month straight-line amortization, but the addback applies only when that excess exceeds 65% of the taxpayer's net income from the oil and gas properties for the year.

58. C — Charitable contributions are one of the few itemized deductions allowed in full for both regular tax and AMT purposes; no addback adjustment applies. By contrast, state and local taxes, certain home equity interest, and miscellaneous itemized deductions subject to the former 2% floor must be added back when computing alternative minimum taxable income.

59. D — Additional Medicare Tax applies to RRTA Tier 1 compensation the same way it applies to FICA wages. Each employer must withhold the additional 0.9% once an employee's RRTA compensation from that employer exceeds $200,000 in the year, regardless of the employee's filing status or income from other sources or employers.

60. B — The nonfarm optional method lets an eligible self-employed taxpayer with low net earnings report two-thirds of gross nonfarm income, up to an annually indexed dollar limit, as self-employment earnings for Social Security credit purposes. This method is available for no more than five taxable years during the taxpayer's lifetime, and strict eligibility tests apply.

61. D — Wages paid by a parent to their own child who is under age 21 for household work are exempt from Social Security and Medicare tax, regardless of the amount paid or whether the child is claimed as a dependent. Income tax withholding and reporting rules still apply; only the FICA exemption is specific to this parent-child relationship.

62. C — When spouses who made joint estimated tax payments file separate returns for the same year, they may divide the payments between the two returns in any manner they agree upon. Absent an agreement, the IRS allocates the payments in proportion to each spouse's separate tax liability, determining each spouse's balance due or refund.

63. A — A minister's Form 4361 exemption applies only to earnings from the performance of ministerial services, such as performing sacerdotal functions or conducting religious worship. It has no bearing on income earned from unrelated secular employment. Wages from a non-ministerial job remain fully subject to ordinary Social Security and Medicare withholding as with any other employee.

64. B — Service in an area designated by the Department of Defense as a qualifying contingency operation receives the same combat zone tax treatment as service in a formally designated combat zone, including the military pay exclusion and the filing and payment deadline extensions, even though no executive order names the area itself a combat zone.

65. B — Fees received for performing notarial acts are specifically excluded from net earnings from self-employment under the Internal Revenue Code, even though they remain taxable income reported on Schedule C. This narrow statutory exception means notary fees are not subject to self-employment tax, unlike other self-employment income the same individual might earn from a separate trade or business.

66. C — Unlike the 2008 first-time homebuyer credit, which functions as a 15-year interest-free loan requiring installment repayment, credits claimed for homes purchased in 2009 or 2010 generally require no repayment at all. Repayment is triggered only if the home stops being the taxpayer's principal residence within 36 months of the purchase date.

67. A — Gain attributable to straight-line depreciation on real property used in a trade or business is unrecaptured Section 1250 gain. Rather than being taxed as ordinary income, it is subject to a maximum capital gains rate of 25%, computed using the Unrecaptured Section 1250 Gain Worksheet found in the Schedule D instructions.

68. D — The minimum tax credit is limited each year to the amount by which regular tax liability exceeds tentative minimum tax; it cannot reduce regular tax below the tentative minimum tax figure.

Here, regular tax of $50,000 exceeds tentative minimum tax of $38,000 by $12,000, so only $12,000 of credit is usable this year.

69. B — When a return includes 28%-rate gain, such as gain from collectibles or Section 1202 stock, or unrecaptured Section 1250 gain, the taxpayer must use the Schedule D Tax Worksheet rather than the simpler Qualified Dividends and Capital Gain Tax Worksheet. This worksheet applies the correct 0%, 15%, 20%, 25%, and 28% rates to each layer of gain.

70. D — Under the self-charged interest rule, interest income received by a taxpayer who materially participates in the borrower's non-passive trade or business is excluded from net investment income, to the extent the interest is allocable to that trade or business. This prevents interest that functions as compensation for active participation from being swept into the NIIT base.

71. C — Excess depletion is a specific AMT preference item. It is measured as the amount by which the percentage depletion deduction claimed for regular tax purposes exceeds the adjusted basis of the depletable property at year-end (before the depletion deduction), and that excess must be added back when computing alternative minimum taxable income.

72. A — The combat zone tax benefits apply specifically to military pay earned while serving in the designated combat zone; they do not extend to income from unrelated sources such as rental property. That rental income remains fully subject to federal income tax, even though the deadline for filing and paying may itself be extended under the combat zone rules.

73. C — The failure-to-deposit penalty uses a tiered structure based on lateness: 2% for deposits 1 to 5 days late, 5% for deposits 6 to 15 days late, 10% for deposits more than 15 days late or made after certain IRS notices, and 15% for amounts still unpaid 10 days after notice and demand. A 12-day-late deposit falls in the 5% tier.

74. B — Under Section 6654(e)(1), no estimated tax underpayment penalty applies if the tax shown on the return, reduced by withholding, is less than $1,000. Because this taxpayer's remaining liability after withholding is only $850, she falls below this de minimis threshold and owes no underpayment penalty, regardless of how the shortfall arose during the year.

75. A — A qualified HSA funding distribution allows a trustee-to-trustee transfer from a traditional IRA directly into an HSA, generally limited to once per lifetime and capped at the HSA annual contribution limit for the taxpayer's coverage category. The amount is excluded from gross income, but the taxpayer must remain HDHP-eligible for a testing period or face recapture as income plus penalty.

76. D — Under IRC Section 7703, a taxpayer who obtains a final decree of separate maintenance under state law by year-end is treated as unmarried for the full tax year, the same as if legally divorced. A joint return cannot be filed with the former spouse, and the taxpayer must file as single or, if otherwise qualifying, head of household.

77. C — A third-party special needs trust holds assets for a disabled beneficiary's supplemental needs, such as items Medicaid or SSI does not cover, while the principal is not treated as an available resource.

This preserves eligibility for means-tested government benefits, unlike an outright bequest, custodial account, or direct lump-sum distribution, which would count as assets or income.

78. B — SECURE 2.0 permits a direct rollover from a Section 529 plan into an ABLE account for the same designated beneficiary or a qualifying family member, without triggering income tax on earnings. The rolled amount counts toward the beneficiary's annual ABLE contribution limit, and the 529 account must have been open for more than fifteen years.

79. D — ERISA requires that a married participant's spouse be the automatic beneficiary of a qualified plan account unless the spouse provides written consent to a different beneficiary. This consent must be notarized or witnessed by a plan representative. Without valid spousal consent, a non-spouse beneficiary designation is not effective, unlike IRA beneficiary designations, which impose no such requirement.

80. A — Traditional innocent spouse relief and separation of liability under Section 6015(b) and (c) apply only to understated tax. Equitable relief under Section 6015(f) is broader and can cover an underpayment where tax was correctly reported but not paid, if the facts and circumstances make it inequitable to hold the requesting spouse responsible for the unpaid balance.

81. B — A charitable lead trust pays an income stream to a designated charity for a fixed term, and whatever principal remains at the end of the term passes to the client's chosen beneficiaries, such as children. This reduces the gift tax value of the remainder interest, the reverse of a charitable remainder trust, which benefits family first.

82. D — A defined benefit or cash balance plan bases the allowable contribution on an actuarial calculation tied to the participant's age, income, and years remaining until retirement, rather than a fixed dollar limit. For an older, high-earning self-employed individual, this can allow a substantially larger deductible contribution each year than a solo 401(k) or SEP IRA permits.

83. C — A payable-on-death, or Totten trust, designation added to a bank account lets the balance transfer automatically and directly to the named beneficiary outside of probate upon the owner's death. It requires no trust document or attorney drafting, unlike a revocable living trust, and the owner retains full control and access to the funds during life.

84. A — In a cross-purchase buy-sell agreement, each owner personally purchases and owns a life insurance policy on each other owner. At death, the surviving owner receives income-tax-free proceeds and uses them to buy the deceased owner's business interest at the price fixed in the agreement, giving each owner an increased basis in the acquired interest.

85. C — This is the mega backdoor Roth strategy. After-tax employee contributions can be made up to the overall annual additions limit, well beyond the elective deferral cap, and the plan's in-plan Roth conversion feature then moves those after-tax dollars into the Roth source, where earnings grow and are eventually distributed tax-free.

86. A — A prepaid tuition plan lets a purchaser lock in current tuition rates for future enrollment, typically limited to in-state public colleges and universities, protecting against future tuition increases.

This differs from a 529 college savings plan, which grows contributions through market investments and applies to a broader range of eligible institutions but carries investment risk.

87. D — Married taxpayers who file separately are statutorily barred from claiming either the American Opportunity Credit or the Lifetime Learning Credit, no matter how low their income or how much qualified tuition was paid. To claim either education credit, the couple generally must file a joint return, unless the taxpayer instead qualifies for head of household status.

88. B — Absent a qualified electing fund or mark-to-market election, PFIC gain and excess distributions are spread ratably across the shareholder's holding period. Amounts allocated to prior years are taxed at the highest rate in effect for that year and carry an interest charge for the tax deferral, while the current year's portion is taxed as ordinary income.

89. B — Section 367 prevents outbound transfers of appreciated property to foreign corporations from escaping U.S. taxation through Section 351 nonrecognition alone. The transferor must file Form 926 to disclose the exchange, and built-in gain, though not loss, on the property transferred can still be recognized despite the transaction otherwise qualifying as a nonrecognition exchange.

90. D — A person who owns more than 50 percent of a foreign partnership's capital, profits, or deductions after acquisition is a Category 1 controlling filer for Form 8865 purposes. That status generally requires the same detailed financial, income, and balance sheet information a domestic partnership would report on Form 1065, not merely notice of the acquisition.

91. C — Section 213(c) lets an executor elect to treat medical expenses paid by the estate within one year after death as though paid by the decedent when incurred, allowing a deduction on the final Form 1040. Making this election, however, requires waiving any deduction for those same expenses as a claim against the estate on Form 706.

92. A — A decedent's tax year closes at death, so the final Form 1040 reports only the income, including Schedule C business earnings, actually received or accrued before that date, and self-employment tax applies solely to earnings realized during life. Amounts the business generates or collects afterward become income in respect of a decedent, taxable to whoever receives them.

93. C — For most estates, Section 2053 limits deductions for claims and expenses to amounts actually paid, so a claim the estate is still contesting cannot yet be deducted on Form 706. The executor may file a protective claim for refund before the statute of limitations expires, preserving the right to the deduction once the dispute is finally resolved and paid.

94. D — GST tax liability shifts depending on the type of taxable event: the trustee bears primary liability for tax on a taxable termination, the transferee-beneficiary bears liability on a taxable distribution, and the transferor bears liability on a direct skip made outside a trust. This termination ends the non-skip person's interest, leaving only skip persons, triggering trustee liability.

95. B — The annual gift tax exclusion applies only to present interests, meaning the donee must have an unrestricted, immediate right to use, possess, or enjoy the property or its income. Because the trust here withholds all income and principal for ten years, the beneficiary has no present enjoyment of any part of the transfer, so no portion qualifies for the exclusion.

96. A — Under the conduit principle, a distribution equal to DNI carries out income to the beneficiary in the same proportion of taxable and tax-exempt character that DNI held at the estate level. The beneficiary reports the taxable dividend share as income and excludes the tax-exempt interest share, while the estate claims a distribution deduction limited to the taxable portion.

97. D — Section 2031(c) permits exclusion of up to 40 percent of the encumbered land's value, subject to a statutory dollar cap and a reduced percentage if the easement's value is less than 30 percent of the land's unrestricted value. This exclusion applies separately from, and in addition to, any charitable deduction claimed for the easement.

98. C — Automatic allocation rules assign a transferor's available GST exemption to a direct skip in an amount sufficient to produce a zero inclusion ratio, without requiring an affirmative election on Form 709. A transferor who wants a different result, such as preserving exemption for later transfers, must timely file an election out of automatic allocation for that specific transfer.

99. B — Deferred gain on an installment note held at death is income in respect of a decedent, so it is never stepped up in basis and retains the character it would have had to the decedent. The estate or beneficiary who collects the remaining payments reports the gain using the same gross profit ratio the decedent used under the installment method.

100. A — The overlap rule under Section 1297(d) generally exempts a U.S. shareholder who must report a foreign corporation on Form 5471 as a CFC from also applying the PFIC excess distribution regime for that same period. This prevents duplicate taxation, since Subpart F and GILTI inclusions already capture the shareholder's allocable share of the corporation's income for those years.