

# Enrolled Agent Practice Exams for Part 1, Part 2, and Part 3: 600 Questions for the IRS Special Enrollment Examination

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## Exam Format and Expectations

Hello and thank you for your purchase. We are here for all of your studying needs on your way to becoming an IRS Enrolled Agent Exam. Please be sure to email us at [BovaBooks@gmail.com](mailto:BovaBooks@gmail.com) for any questions you may have.

Our main goal when developing our study material is to focus your studying on the core concepts you need to know on test day. We develop our material exactly in line with the topics in the Exam Content Outline, so you no longer have to waste time sieving through unnecessary material. Here is a breakdown of what to expect from each part of the exam:

- The examination is multiple-choice, and you get 210 minutes (3.5 hours) for each part of the exam not including pre-exam activities.
- Be sure to answer every question since there is no penalty for guessing.
- There are 100 questions on each part of the exam.
- 15 of the questions are not scored, however, you will not know which these are so answer all of them as if they are real.

The distribution of questions for each part is as follows:

### Part 1

1. Preliminary Work and Taxpayer Data - 16 Questions
2. Income and Assets – 20 Questions
3. Deductions and Credits – 20 Questions
4. Taxation – 18 Questions
5. Advising the Individual Taxpayer – 13 Questions
6. Specialized Returns for Individuals – 13 Questions

### Part 2

1. Business Entities and Considerations – 35 Questions
2. Business Tax Preparation – 44 Questions
3. Specialized Returns and Taxpayers – 21 Questions

### Part 3

1. Practices and Procedures – 31 Questions
2. Representation before the IRS – 29 Questions
3. Specific Areas of Representation – 24 Questions
4. Filing Process – 16 Questions

## Content Outline Part 1 - Individuals

### 1. Preliminary Work and Taxpayer Data

#### 1.1 Preliminary work to prepare tax returns

- a) Use of prior years' returns for comparison, accuracy, and carryovers for current year's return
- b) Taxpayer biographical information (e.g., date of birth, marital status, dependents, identity protection PIN, state issued photo ID)
- c) Residency status and/or citizenship (e.g., citizen, visas, green cards, resident alien or non-resident alien, ITIN)
- d) Filing requirements and due date
- e) Taxpayer filing status (e.g., single, head of household)
- f) Sources of all worldwide taxable and nontaxable income (e.g., interest, wages, business, sales of property, dividends, rental income, flow-through entities, alimony received)
- g) Sources of applicable exclusions and adjustments to gross income (e.g., foreign earned income exclusion, retirement plans, HSAs, alimony paid, health insurance, self-employment tax)
- h) Sources of applicable deductions (e.g., itemized, standard)
- i) Qualifications for dependency
- j) Sources of applicable credits (e.g., education, foreign tax, retirement, child and dependent care, credit for other dependents, child tax credit)
- k) Sources of tax payments and refundable credits (e.g., withholding, estimated payments, earned income tax credit)
- l) Previous IRS correspondence with taxpayer
- m) Additional required returns filed and taxes paid (e.g., employment, gifts, international information returns, and other information returns)
- n) Special filing requirements (e.g. foreign income, presidentially declared disaster areas, Form 1040-NR, injured spouse)
- o) Foreign account and asset reporting (e.g., FBAR, Form 8938)
- p) Minor children's unearned income (Kiddie tax)
- q) ACA requirements (e.g., health insurance coverage, total household income, advanced premium tax credit, household size)

### 2. Income and Assets

#### 2.1 Income

- a) Taxability of wages, salaries and other earnings (e.g., earned income, statutory employee, tips)
- b) Interest Income (e.g., taxable and nontaxable)
- c) Dividends and other distributions from mutual funds, corporations, and other entities (e.g., qualified dividends)
- d) Personal property rental
- e) Gambling income and allowable deductions (e.g., Form W-2G, documentation)

- f) Tax treatment of forgiveness of debt (e.g., Form 1099C, foreclosures, insolvency)
- g) Tax treatment of a U.S. citizen/resident with foreign income (e.g., tax treaties, Form 2555, Form 3520 and Form 5471)
- h) Other income (e.g., scholarships, barter income, hobby income, alimony, nontaxable combat pay, unearned income, taxable recoveries, NOL, illegal income)
- i) Constructive receipt of income
- j) Constructive dividends (e.g., payments of personal expenses from a business entity)
- k) Passive income and loss (e.g., loss limitations)
- l) Pass-through income (e.g., Schedule K1, income, deductions, basis, qualified business income (QBI) items)
- m) Royalties and related expenses
- n) State/local income tax refund and other itemized deduction recoveries
- o) 1099 MISC, 1099 NEC, 1099 K reporting, irregularities, and corrections

## 2.2 Retirement income

- a) Basis in a traditional IRA (Form 8606)
- b) Comparison of and distributions from traditional and Roth IRAs
- c) Distributions from qualified and nonqualified plans (e.g., pre-tax, after-tax, rollovers, Form 1099R, qualified charitable distribution)
- d) Excess contributions and tax treatment (e.g., penalties)
- e) Penalties and exceptions on premature distributions from qualified retirement plans and IRAs
- f) Prohibited transactions and tax effects
- g) IRA conversions and recharacterization (Form 8606)
- h) Required minimum distributions and excess accumulations
- i) Loans from qualified plans
- j) Taxability of Social Security and Railroad Retirement benefits
- k) Taxability of net unrealized appreciation (NUA)
- l) Inherited retirement accounts
- m) Foreign pensions and retirement income

## 2.3 Property, real and personal

- a) Sale or disposition of property including depreciation recapture rules and 1099A
- b) Capital gains and losses (e.g., netting effect, short-term, long-term, mark-to market, virtual currency)
- c) Basis of assets (e.g., purchased, gifted or inherited)
- d) Basis of stock after stock splits and/or stock dividends (e.g., research, schedules, brokerage records)
- e) Publicly traded partnerships (PTP) (e.g., sales, dispositions, losses)
- f) Sale of a personal residence (e.g., IRC Section 121 exclusions)
- g) Installment sales (e.g., related parties, original cost, date of acquisition, possible recalculations and recharacterization)

- h) Options (e.g., stock, commodity, ISO, ESPP)
- i) Like-kind exchange
- j) Non-business bad debts
- k) Investor versus trader

#### 2.4 Adjustments to Income

- a) Self-employment tax
- b) Retirement contribution limits and deductibility (e.g., earned compensation requirements)
- c) Health savings accounts
- d) Other adjustments to income (e.g., student loan interest, alimony, moving expenses for active military, write-in adjustments)
- e) Self-Employed Health Insurance

### 3. Deductions and Credits

#### 3.1 Itemized deductions and QBI

- a) Medical, dental, vision, long-term care expenses
- b) Various taxes (e.g., state income, personal property, real estate)
- c) Interest expense (e.g., mortgage interest, investment interest, tracing rules, points, indebtedness limitations)
- d) Charitable contributions (e.g., cash, noncash, limitations, documentation required)
- e) Nonbusiness casualty and theft losses in presidentially declared disaster areas
- f) Other itemized deductions
- g) Allowed itemized deductions for Form 1040-NR
- h) Qualified Business Income Deduction

#### 3.2 Credits

- a) Child and dependent care credit
- b) Child tax credit and credit for other dependents
- c) Education credits
- d) Foreign tax credit
- e) Earned income tax credit (e.g., paid preparer's earned income credit checklist, eligibility and disallowance)
- f) Adoption credits (e.g., carryovers, limitations, special needs)
- g) ACA net premium tax credit
- h) Other credits (refundable and nonrefundable) (e.g., health coverage tax credit, energy credits, Retirement savings contribution credit)

### 4. Taxation

#### 4.1 Taxation

- a) Alternative minimum tax and credit for prior year
- b) Household employees
- c) Underpayment penalties and interest
- d) Self-employment tax
- e) Excess Social Security withholding
- f) Tax provisions for members of the clergy

- g) Tax provisions for members of the military
- h) Income in respect of decedent (e.g., allocations)
- i) Net investment income tax
- j) Additional Medicare tax
- k) Uncollected Social Security and Medicare tax
- l) Other taxes (e.g., first time homebuyer credit repayment, IRC Section 965 transition tax)

## 5. Advising the Individual Taxpayer

### 5.1 Advising the individual taxpayer

- a) Reporting obligations for individuals (1099, bartering, cash)
- b) Property sales (e.g., homes, stock, businesses, antiques, collectibles)
- c) Education planning (e.g., lifetime learning credit, IRC Section 529 plans)
- d) Estate planning (e.g., gift versus inheritance, trusts, family partnerships, charitable giving, LTC, life insurance)
- e) Retirement planning (e.g., annuities, IRAs, employer plans, early retirement rules, required minimum distribution, beneficiary ownership, charitable distributions from an IRA)
- f) Marriage and divorce (e.g., divorce settlement, common-law, community property, alimony)
- g) Items that will affect future/past returns (e.g., carryovers, net operating loss, Schedule D, Form 8801, negative QBI carryover)
- h) Injured spouse
- i) Innocent spouse
- j) Estimated tax and penalty avoidance (mid-year estimated tax planning)
- k) Adjustments, deductions, and credits for tax planning (e.g., timing of income and expenses)
- l) Character of transaction (e.g., use of capital gain rates versus ordinary income rates)
- m) Advantages and disadvantages of MFJ/MFS/HOH filing statuses in various scenarios. (joint and several liability)
- n) Conditions for filing a claim for refund (amended returns)
- o) Penalty of perjury

## 6. Specialized Returns for Individuals

### 6.1 Estate Tax

- a) Gross estate, taxable estate (calculations and payments), unified credit, life insurance, and filing requirements
- b) Jointly-held property
- c) Marital deduction and other marital issues (e.g., portability election)
- d) Life insurance, IRAs and retirement plans
- e) Estate filing requirements and due dates (Form 706, Form 1041)

### 6.2 Gift Tax

- a) Gift-splitting
- b) Annual exclusion
- c) Unified credit

- d) Effect on estate tax (e.g., Generation skipping transfer tax)
- e) Filing requirements (Form 709)

### 6.3 International Information Reporting

- a) Filing and reporting requirements and due dates (e.g., FBAR, Form 8938, Form 8865, Form 5471, Form 3520)
- b) Covered accounts (e.g., FBAR, Form 8938)
- c) Potential penalties (e.g., failure to file, underreporting, substantially incomplete, statute of limitations, reduction of tax attributes)
- d) Distinctions between FBAR and Form 8938 requirements
- e) Ownership of a foreign corporation (GILTI, IRC Section 965 transition tax)
- f) International voluntary disclosure options

## Content Outline Part 2 - Businesses

### 1. Business Entities

#### 1.1 Business Entities and considerations

- a) Sole proprietorships
- b) Partnerships and qualified joint ventures (QJV)
- c) Corporations
- d) S corporations
- e) LLCs
- f) Tax-exempt entities and associations
- g) Entity type default classifications and elections
- h) Employer identification number
- i) Accounting periods (tax year)
- j) Accounting methods
- k) Reporting requirements (e.g. Forms W2, W-4, Form 1099)
- l) Hobby versus business determination and loss limitations

#### 1.2 Partnerships

- a) Partnership income, expenses, distributions, and flow-through (e.g., self-employment income)
- b) Family partnerships
- c) Partner's dealings with partnership (e.g., exchange of property, guaranteed payments)
- d) Contribution of property and/or services to partnership (e.g., partnership's basis, property subject to indebtedness)
- e) Basis of partner's interest
- f) Disposition of partner's interest
- g) Partnership formation (e.g., partnership agreement, general vs. limited partners, capital contributions)
- h) Dissolution of partnership (e.g., sale, death of partner)
- i) Filing requirements, due dates, penalties, and audit notice requirements
- j) Partnership cancellation of debt
- k) Partnership level audit and opt-out

#### 1.3 Corporations in general

- a) Filing requirements, due dates, and penalties
- b) Earnings and profits
- c) Shareholder dividends, distributions, and recognition requirements
- d) Special deductions and credits (e.g., dividends received deduction, charitable deduction)
- e) Liquidations and stock redemptions
- f) Accumulated earnings tax
- g) Estimated tax payments
- h) Corporate minimum tax credit

#### 1.4 Forming a corporation

- a) Services rendered to a corporation in return for stock

- b) IRC Section 351 exchange
- c) Transfer and/or receipt of money or property in addition to corporate stock
- d) Transfer of property subject to indebtedness
- e) Controlled groups
- f) Closely held corporations

#### 1.5 S corporations

- a) Requirements to qualify (e.g., qualifying shareholders)
- b) Election procedure
- c) Income, expenses and separately stated items
- d) Treatment of distributions
- e) Shareholder's basis (e.g., loan basis, distributions and losses in excess of basis, services for stock)
- f) Revocation, termination and reinstatement
- g) Debt discharge
- h) Non-cash distributions

### 2. Business Tax Preparation

#### 2.1 Business Income

- a) Gross receipts and other income
- b) Cost of goods sold (e.g., inventory practices, expenditures included, uniform capitalization rules)
- c) Net income, net operating losses, and loss limitations including passive activity and at-risk limitations
- d) Cancellation of business debt

#### 2.2 Business expenses, deductions and credits

- a) Officers and employees' compensation (e.g., deductibility, fringe benefits, rules of family employment, statutory employee, necessary and reasonable)
- b) Business rental deduction, including self-rentals
- c) Depreciation, amortization (start-up and organizational cost), IRC Section 179, depletion, bonus depreciation, and correcting errors
- d) Business bad debts
- e) Business travel, meals, and gift expenses
- f) Vehicle use and expenses
- g) Interest expense
- h) Insurance expense
- i) Taxes (e.g., deductibility of taxes, assessments, penalties; proper treatment of sales taxes paid, excise)
- j) Employment taxes
- k) Casualties, thefts, and condemnations
- l) Qualified business income (QBI) (SSTB, calculations, phase out, UBIA)
- m) Eligibility and deductibility of general business credits (e.g., disabled access credit, R&D credit, small business healthcare tax credit, foreign tax credit)
- n) Net operating loss deduction
- o) Home office

## 2.3 Business assets

- a) Basis of assets
- b) Disposition of property or assets
- c) Like kind exchange
- d) Converted property
- e) Capitalization and repair regulations (e.g., elections)

## 2.4 Analysis of financial records

- a) Proper business type, and the use of classification codes and year to year comparison
- b) Income statement
- c) Balance sheet (e.g., proofing beginning and ending balances, relationship to income statement and depreciation)
- d) Method of accounting and changes (e.g., accrual, cash, hybrid, Form 3115)
- e) Depreciation recovery (e.g., recapture, IRC Section 280F)
- f) Pass-through activity (e.g., K-1, separately stated items, non-deductible expenses)
- g) Reconciliation of tax versus books (e.g., M-1, M-2, M-3)
- h) Related party activity
- i) Loans to and from owners

## 2.5 Advising the business taxpayer

- a) Reporting and filing obligations (e.g., extended returns and potential penalties, international information returns, Form 1099 series, Form 8300)
- b) Payments and deposit obligations (e.g., employment tax, excise tax)
- c) Record-keeping requirements (e.g., mileage log, accountable plans)
- d) Related party transactions
- e) Selection of business entity (e.g., benefits and detriments)
- f) Comingling (e.g., personal usage of business accounts, separation of business and personal accounts)
- g) Advice on accounting methods and procedures (e.g., explanation of requirements)
- h) Transfer of property in or out of the business (e.g., contributed property, distributions)
- i) Life cycle of the business (e.g., formation, dissolution)
- j) Type of industry (e.g., specified service business owners)
- k) Worker classification (i.e. independent contractor versus employee, outside sales, full-time vs part-time)
- l) Deductions and credits for tax planning (e.g., timing of income and expenses, NOL, depreciation versus IRC Section 179 versus bonus depreciation)
- m) ACA compliance

## 3. Specialized Returns and Taxpayers

### 3.1 Trust and estate income tax

- a) Trust types (e.g., simple/complex, grantor, irrevocable, tax shelters, foreign)
- b) Distributable net income and accounting income
- c) Exclusions, exemptions, and deductions

- d) Fraudulent trusts
  - e) Income (e.g., allocations, corpus versus income)
  - f) Separately stated items (items reported on the K-1)
  - g) Filing requirements, tax years, and penalties
- 3.2 Exempt organizations
- a) Qualifying for and maintaining tax-exempt status (e.g., IRC 501(c))
  - b) Applying for IRS tax-exempt status (e.g., Form 1023, Form 1024)
  - c) Filing requirements (e.g., Form 990 series)
  - d) Unrelated business taxable income
- 3.3 Retirement plans
- a) Employer and employee contributions
  - b) Reporting requirements
  - c) Plans for self-employed persons (e.g., SEP and SIMPLE)
  - d) Prohibited transactions
  - e) Qualified and non-qualified plans
  - f) Non-discrimination rules
- 3.4 Farmers
- a) Farm income (e.g., self-raised livestock, crop insurance proceeds, subsidies, patronage dividends, conservation payments)
  - b) Depreciation for farmers
  - c) Disaster-area provisions (drought, flood, other weather-related conditions)
  - d) Farm rental
  - e) Farm tax computation (e.g., Schedule J, Schedule SE, estimated tax)
- 3.5 Rental Property –
- a) Real estate professional qualifications
  - b) Commercial rentals versus residential rentals
  - c) Mixed used property/vacation home
  - d) Passive loss limitation (e.g., special \$25,000 allowance, MAGI limits)
  - e) Rental income (e.g., deposits, pre-paid rent, not rented for profit)
  - f) Rental expenses (e.g., allocation between personal and rental, repair versus capitalized)

## Content Outline Part 3 – Representation, Practices, and Procedures

### 1. Practices and Procedures

#### 1.1 Practice before the IRS

- a) What constitutes practice before the IRS
- b) Categories of individuals who may practice and extent of practice privileges

#### 1.2 Requirements for Enrolled Agents

- a) Information to be furnished to the IRS
- b) Omission or error on return, document, or affidavit
- c) Rules for employing or accepting assistance from former IRS employees or disbarred/suspended persons
- d) Rules for restrictions on advertising, solicitation and fee information
- e) Fee rules (e.g., contingent, unconscionable)
- f) Due diligence requirements
- g) Conflict of interest
- h) Rules for refund check negotiation
- i) Standards for written advice, covered opinions, tax return positions and preparing returns
- j) Continuing education requirements
- k) Tax shelters
- l) Enrollment cycle and renewal
- m) Rules for prompt disposition of matters before the IRS
- n) Rules for returning a client's records and documents
- o) PTIN requirements
- p) Practitioner supervisory responsibilities (Circular 230 Section 10.36)

#### 1.3 Sanctionable acts

- a) Incompetence and disreputable conduct that may result in a disciplinary proceeding
- b) Sanctions imposed by the Office of Professional Responsibility
- c) Frivolous submissions (returns and documents)
- d) Fraudulent transactions (e.g., badges of fraud)

#### 1.4 Rules and penalties

- a) Assessment and appeal procedures for preparer penalties
- b) Types of penalties (e.g., negligence, substantial understatement, overvaluation)
- c) Furnishing a copy of a return to a taxpayer
- d) Signing returns and furnishing identifying numbers
- e) Keeping copies or lists of returns prepared
- f) Employees engaged or employed during a return period (e.g. IRC Section 6060)
- g) Preparer due diligence and penalties (e.g., refundable credits, head of household status)

## 2. Representation before the IRS

### 2.1 Power of attorney

- a) Purpose of power of attorney
- b) Signature authority (e.g., extension of assessment period, closing agreement)
- c) Authority granted by taxpayer
- d) Limitations on signing tax returns on behalf of taxpayer
- e) Proper completion of power of attorney (Form 2848)
- f) Alternate forms of power of attorney (durable)
- g) Rules for client privacy and consent to disclose
- h) Distinctions between power of attorney (Form 2848) and tax information authorization (Form 8821)
- i) Requirements to be met when changing or dropping representatives or withdrawal of representative
- j) Purpose of a Centralized Authorization File (CAF) number
- k) Conference and practice requirements (Publication 216)

### 2.2 Building the taxpayer's case - Preliminary work

- a) Identification of tax issue(s) with supporting details
- b) Potential for criminal aspects
- c) Competence, expertise and time to handle issue
- d) Conflict of interest in regards to representation
- e) Transcripts from IRS (e.g., access to and use of e-services)

### 2.3 Taxpayer financial situation

- a) Taxpayer's ability to pay the tax (e.g., installment agreements, offer in compromise, currently not collectible)
- b) General financial health (e.g., filed for bankruptcy, lawsuits, garnishments, cash flow, assets, and insolvency)
- c) Third-party research (e.g., property assessment for municipal taxes, asset values, state and local tax information)
- d) Discharge of the tax liability in bankruptcy
- e) IRS Collection Financial Standards

### 2.4 Supporting documentation

- a) Financial documents and expense records (e.g., cancelled checks or equivalent, bank statements, credit card statements, receipts, brokerage records)
- b) Legal documents (e.g., birth certificate, divorce decrees, lawsuit settlements)
- c) Prior and subsequent tax returns
- d) Other substantive and contemporaneous documentation (e.g., corporate minutes)
- e) Business entity supporting documents (e.g., partnership agreement, corporate bylaws)

## 2.5 Legal authority and references

- a) Internal Revenue Code and income tax regulations
- b) Revenue rulings and revenue procedures
- c) Case law
- d) IRS forms, instructions and publications
- e) Private letter ruling
- f) Internal Revenue Manual
- g) Authoritative versus non-authoritative source material
- h) Tax treaties

## 2.6 Related issues

- a) Statute of limitations
- b) Post-filing correspondence (e.g., math error notices, under-reporting notices)
- c) Deadlines and timeliness requirements
- d) Third-party correspondence (e.g., witness communications, employment records)
- e) Freedom of Information Act (FOIA) requests
- f) Tax avoidance vs. tax evasion
- g) Tax return disclosure statements
- h) Taxpayer Advocate Service (e.g., criteria for requesting assistance)
- i) Identity Theft
- j) Judicial levels of representation beyond the scope of EA representation

## 3. Specific Types of Representation

### 3.1 Representing a taxpayer in the collection process

- a) Extension of time to pay (e.g., Form 1127)
- b) Installment agreements
- c) Offer in compromise
- d) Collection appeals program (e.g., denial of installment agreements, discharge applications)
- e) Collection appeals and due process (e.g., lien, levy, and Form 12153)
- f) Adjustments to the taxpayer's account (e.g., abatements and refund offsets)
- g) Requesting an audit reconsideration (e.g., documents and forms)
- h) Representing a decedent
- i) Collection notice and Notice of Federal Tax Lien
- j) Levy and seizure of taxpayer's property
- k) Currently Not Collectable (e.g., reasons and reactivation)
- l) IRS Collection Summons (e.g., purposes)
- m) Collections statute of limitations
- n) Trust fund recovery penalty
- o) Amended returns and claims for refund (e.g., Form 1040X, Form 843, effect on statute of limitations)
- p) Passport revocation

### 3.2 Penalties and/or interest abatement

- a) Penalties subject to abatement
- b) Basis for having penalties abated or refunded
- c) Basis for having interest abated or refunded
- d) Interest recalculation
- e) Procedures for requesting abatement

### 3.3 Representing a taxpayer in audits/examinations

- a) IRS authority to investigate
- b) Limited practitioner privilege (e.g., IRC Section 7525)
- c) Verification and substantiation of entries on the return
- d) IRS authority to fix time and place of investigation
- e) Steps in the process (e.g., initial meeting, submission of IRS requested information)
- f) Interpretation and analysis of Revenue Agent Report (RAR) (e.g., 30-day letter)
- g) Interpretation and analysis of CP-2000 notice and correspondence audits
- h) Explanations of taxpayer options (e.g. agree or appeal)
- i) Taxpayer's burden of proof

### 3.4 Representing a taxpayer before appeals

- a) Right to appeal
- b) Request for appeals consideration (e.g., preparation, elements contained)
- c) Enrolled Agent appearance at appeals conference
- d) Settlement function of the appeals process
- e) Issuance of 90-day letter

## 4. Completion of the Filing Process

### 4.1 Accuracy –

- a) Reliance on software (e.g. review of results)
- b) Miscalculations and recognition of duplicate entries

### 4.2 Record maintenance

- a) Length of time to retain returns and records
- b) Data security (e.g., electronic, systems, paper)

### 4.3 Electronic filing

- a) Application process to be an e-file provider (e.g., e-services, EFIN)
- b) E-file mandate and exceptions (Form 8948)
- c) Advertising standards
- d) Definition and responsibilities of an ERO
- e) Levels of infractions
- f) Compliance requirements to continue in program
- g) EFIN revocation appeal process
- h) E-file authorization and supporting documentation (e.g. Form 8879 and Form 8453)
- i) Rejected returns and resolution (e.g. client notification, IP PIN)

### Question 1

A taxpayer discovers an error on a previous return that would result in an additional refund. The return for the year in question was filed on March 2, 2020 with the due date being April 15, 2020. What is the latest acceptable post-marked date for the refund to be issued under the statute of limitations?

- (A) March 2, 2022
- (B) March 2, 2023
- (C) April 15, 2022
- (D) April 15, 2023

### Question 2

What is not a minimum requirement of provided biographical information for the filing of a tax return?

- (A) Providing a social security card
- (B) Providing two forms of identification
- (C) Date of birth
- (D) Citizenship status

### Question 3

Which of the following statements are false in regards to the issuance of an Individual Taxpayer Identification Number (ITIN)?

- (A) An ITIN does not authorize work in the U.S.
- (B) AN ITIN does not provide eligibility for Social Security benefits
- (C) An ITIN does not indicate ineligibility for a Social Security Number
- (D) An ITIN does not qualify a dependent for Earned Income tax credit purposes

Question 4

A couple has a registered domestic partnership with a qualifying child. Both members of the couple attempt to claim the child as a dependent. The child lives with Parent "A" for a longer period of time during the taxable year than parent "B". Also, Parent "A" has a higher AGI than Parent "B". What statement is true regarding the correct filing?

- (A) Both parents may claim the child as dependent
- (B) Parent "A" may claim the child as dependent
- (C) Parent "B" may claim the child as dependent
- (D) Neither parent may claim the child as dependent

Question 5

Of the scenarios listed below, which one would require a filing status of single?

- (A) A couple divorced in early December of the tax year
- (B) A couple married in November
- (C) A same-sex couple married but living in a jurisdiction that does not recognize the marriage
- (D) A deceased individual who was married at the time of death

Question 6

What is not a means of removal of green card status?

- (A) Voluntary announcement in writing
- (B) Failure to meet the substantial presence test requirements
- (C) Administrative termination by the USCIS
- (D) Judicial termination by a federal court

Question 7

Which of the following may not be eligible to be claimed as a dependent?

- (A) Foreign exchange student
- (B) Foreign adopted child
- (C) Resident of Canada
- (D) U.S. resident alien

Question 8

Of the scenarios listed below, which does not meet the age requirements for qualification as a dependent?

- (A) 17-year-old single mother
- (B) 30-year-old with a permanent disability
- (C) 28-year-old full-time student
- (D) 9-year-old adoption

Question 9

Which of the following tests is used as a basis of qualification for the Child Tax Credit and not for the Earned Income Tax Credit?

- (A) Age
- (B) Support
- (C) Residency
- (D) Relationship

Question 10

All of the following scenarios can be considered work or looking for work-related expenses for the purposes of qualifying for the Child and Dependent Care Credit except:

- (A) Paying for care while one spouse works nights and the other sleeps
- (B) Paying for care to perform volunteer work
- (C) Paying for care to go on a job interview
- (D) Paying for care during a business trip

Question 11

What individual scenario listed below is not eligible for the foreign earned income exclusion?

- (A) U.S. resident alien physically present in a foreign country from June 1<sup>st</sup> to the following August 1<sup>st</sup>
- (B) U.S. citizen physically present in a foreign country from June 1<sup>st</sup> to the following January 1<sup>st</sup>
- (C) A U.S. citizen who is a bona fide resident of a foreign country for the entirety of a tax year
- (D) A U.S. resident alien who is a citizen of a country which includes an income tax treaty with the U.S. for the entirety of a tax year

Question 12

An individual making \$60,000 per year has a portion of income paid directly to a former spouse for the purposes of child support. The payment is \$500 per month. What is the adjusted gross income based solely on the child support adjustment?

- (A) \$54,000
- (B) \$57,000
- (C) \$59,500
- (D) \$60,000

Question 13

An individual taxpayer has been determined to owe a gross tax liability of \$400. They are eligible for the full American Opportunity Tax Credit of \$2,500. What is the amount of refund that can be expected due to the tax credit?

- (A) \$0
- (B) \$840
- (C) \$1000
- (D) \$2100

Question 14

A landlord is to receive rental income from the renter by means of check. The check is delivered on December 29, 2020. Which of the following scenarios would require the income to be reported for the following tax year of 2021?

- (A) The check received had insufficient funds and had to be resent in 2021
- (B) The postal service delivered the check but it was not physically retrieved until 2021
- (C) The check was not cashed until 2021 but received in 2020
- (D) The check was never cashed

Question 15

What is the minimum amount of expected taxes owed for when Individuals shall make estimated tax payments?

- (A) \$500
- (B) \$1,000
- (C) \$2,000
- (D) \$2,500

Question 16

An individual writes a book that is not a part of their regular job and does not engage in regular activities associated with the book. The writer receives royalties from sales of the intellectual property. How should the income be reported?

- (A) Schedule C
- (B) Schedule E
- (C) Schedule D
- (D) The income is nontaxable

Question 17

Which of the following statements indicates an individual who is ineligible to report the interest and dividends of a child on the parent's tax return?

- (A) The child is aged 18 years old
- (B) The child's gross income is \$18,025
- (C) The source of the child's income was exclusively from interest and dividends
- (D) All of the above

Question 18

What is the minimum amount of tips in an individual month that must be reported as income to an employer?

- (A) \$0
- (B) \$20
- (C) \$100
- (D) \$200

Question 19

All of the scenarios below are eligible for classification as a statutory employee except:

- (A) A driver who distributes alcohol
- (B) A life insurance salesperson for a single insurance company
- (C) A dressmaker who supplies material
- (D) A traveling salesperson for restaurant merchandise

Question 20

A taxpayer purchases a bond in their own name and a co-owner as well. The entirety of the funds come from the individual taxpayer and none are from the co-owner. The interest must be reported by which of the following individuals?

- (A) The individual taxpayer
- (B) The co-owner
- (C) Both the co-owner and the individual taxpayer
- (D) The person with the higher adjusted gross income

Question 21

All of the following scenarios involving dividends are eligible for the maximum rate of tax for qualified dividends except:

- (A) Dividends paid by a qualified foreign corporation
- (B) A stock held for 68 days
- (C) Dividends paid by a qualified U.S. Corporation
- (D) A preferred stock held for 75 days

Question 22

An individual opens a new credit card and receives a welcome bonus of \$500 after spending a minimum amount. The credit card also offers 2% cashback on the purchases. If the individual spent \$2,000 on their credit card, what is the total amount of taxable interest?

- (A) \$40
- (B) \$500
- (C) \$540
- (D) \$2,000

Question 23

What portion of the purchase of a Series EE bond shall be taxable?

- (A) The purchase price only
- (B) The amount received at the time of redemption
- (C) The face value
- (D) The interest accumulated at the time of redemption

Question 24

An individual redeems a total of \$5,000 in education bonds. The split of principal and interest is \$4,500 and \$500 respectively. \$4,000 of the proceeds are used for the purposes of qualified education expenses and the remainder is used for personal expenses. What portion of the bond proceeds is considered taxable?

- (A) \$0
- (B) \$100
- (C) \$1,000
- (D) \$5,000

Question 25

What is the minimum period of time that mutual funds need to be held so that the taxable capital gain distributions are considered long-term for profits resulting from investments made by the fund itself?

- (A) 6 months
- (B) 1 year
- (C) 2 years
- (D) Mutual fund distributions are always considered long-term

Question 26

A mortgage loan is designated as a nonrecourse loan with an existing balance of \$220,000. The individual can no longer make payments and the home goes into foreclosure. Eventually, the foreclosed home sells for \$200,000. The bank forgives the remaining balance in lieu of pursuing. What portion of the loan is taxable income?

- (A) \$0
- (B) \$20,000
- (C) \$200,000
- (D) \$220,000

Question 27

An individual has been a stamp collector for over five years. She comes into possession of a rare piece and decides to sell it for a significant sum. What statement below is true about the income related to the sale?

- (A) The income is treated as a capital gain
- (B) The income is subject to self-employment taxes
- (C) The income must be added to the individual's regular income and taxed appropriately
- (D) The income is tax-exempt

Question 28

Which IRA type does not have the need to calculate a basis?

- (A) Traditional
- (B) SEP
- (C) SIMPLE
- (D) Roth

Question 29

A couple is married filing jointly and receives social security. The breakdown of income is as follows:

Social Security: \$12,000

Nontaxable interest: \$5,000

What is the minimum amount of additional income that would cause the social security benefits to be taxable if the basis threshold is \$32,000?

- (A) \$0
- (B) \$6,000
- (C) \$15,000
- (D) \$21,000

Question 30

What statement below is false regarding the applicable election of net unrealized appreciation on a stock sale?

- (A) The stock must be of a company for which the individual was employed
- (B) Roth IRA's are not eligible
- (C) The stock must be placed in a tax-deferred account
- (D) They are taxed as ordinary income at the time of distribution

Question 31

An unmarried individual dies suddenly at the age of 45. This person had a traditional IRA with a balance of \$45,000. A nephew of the individual is the beneficiary. Which of the following options is not a possible distribution of the inheritance for the nephew?

- (A) Rollover the inheritance into an existing IRA
- (B) Receive the inheritance as a lump sum
- (C) Receive the inheritance as a lifetime annuity payment
- (D) Receive the inheritance over a period of five years

Question 32

A property is purchased for \$100,000 with an existing dilapidated home that is to be removed for a new home. The work includes \$40,000 in demolition, \$10,000 for a new easement, and \$5,000 for the removal of trees. The total project cost of the new home is \$450,000. What is the cost basis of the land only?

- (A) \$100,000
- (B) \$115,000
- (C) \$155,000
- (D) \$450,000

Question 33

All of the scenarios listed below use the cost of acquisition to determine the basis of asset except:

- (A) Purchase of a vehicle
- (B) Inheritance of property
- (C) Renovated home
- (D) Acquisition of a copyright

Question 34

An individual purchases three separate blocks of stock from the same company. The number of shares is 400, 500, and 600 for the individual blocks at a price of \$4.00, \$5.50, and \$6.00 per share respectively. 500 stocks are to be sold without a specification of the block. If the stock is trading at \$7.00 per share currently, what is the net gain of the sale?

- (A) \$550
- (B) \$750
- (C) \$1,200
- (D) \$1,350

Question 35

An individual is renting out a residential property with a basis of \$160,000. In the current year, the house needs a 20-year roof at a cost of \$20,000 and has \$2,000 in repairs. Determine the total deductions that can be claimed for the rental in the current year.

- (A) \$8,818
- (B) \$22,000
- (C) \$27,525
- (D) \$182,000

Question 36

An employee chooses to participate in an employee stock purchase plan (ESPP). Money is deducted from their paycheck every week for a period of 52 weeks. At what point does the holding period begin for the ESPP?

- (A) The day after the first payroll deduction
- (B) The time of opting into the plan
- (C) The point at which the stock is at its lowest value over the 52 weeks
- (D) The day after the option is exercised

Question 37

What is used to determine the basis of a property inherited from a deceased individual?

- (A) The fair market value on the date of death
- (B) The fair market value at the day of inheritance
- (C) The adjusted basis on the date of death
- (D) The adjusted basis at the time of purchase

Question 38

An individual taxpayer has a health savings account with their employer. They have contributed \$1,000 and \$2,000 in each year over a two-year span. The individual is 55 years old and is not disabled. The funds are withdrawn from the account and used to pay a \$2,000 qualified medical bill and the remainder is put into a savings account. What is the resulting taxable income?

- (A) \$1,000 taxable as income and subject to 20% penalty
- (B) \$1,000 taxable as income
- (C) \$2,000 taxable as income
- (D) All money is tax free

Question 39

A couple chooses to file as married filing separately. The husband itemizes his deductions with a total of \$30,000. The wife does not have any itemized deductions. What is the total deduction for the couple?

- (A) \$24,400
- (B) \$30,000
- (C) \$42,200
- (D) \$54,400

Question 40

An individual taxpayer with an adjusted gross income of \$45,000 has a total of \$5,225 in unreimbursed medical expenses. What is the maximum allowable deduction for the expenses?

- (A) \$0
- (B) \$1,850
- (C) \$2,225
- (D) \$5,225

Question 41

An individual makes the following cash donations for the current year:

Golf charity event: \$125

Church Donation: \$30 per month

Cancer research contribution: \$550

How much of the donations are required to be documented by receipts?

- (A) \$120
- (B) \$125
- (C) \$550
- (D) \$910

Question 42

An individual takes out a home equity loan of \$40,000. She uses \$30,000 of the loan for an addition on the home and the remaining \$10,000 to pay off a student loan. Which of the following statements are true?

- (A) No interest can be deducted from the home equity loan
- (B) Only interest related to the \$10,000 student loan payment can be deducted
- (C) Only interest related to the \$30,000 home addition can be deducted
- (D) All interest can be deducted from the home equity loan

Question 43

An individual chooses to refinance a home mortgage for a lower interest rate. The term of the new loan is 30 years. To obtain the desired rate, points were required at a cost of \$2,200. How much of the cost for points is eligible for deduction in the year of the refinance?

- (A) \$0
- (B) \$36.67
- (C) \$73.33
- (D) \$2,200

Question 44

An individual has a primary residence in the United States and a vacation home in a different country. She pays \$8,000 in real estate taxes on the primary residence and an additional \$3,000 of foreign real estate tax. What is the total allowable real estate deduction?

- (A) \$3,000
- (B) \$8,000
- (C) \$10,000
- (D) \$11,000

Question 45

All of the following are classified as qualifying charitable organizations except:

- (A) Gifts to political groups
- (B) Educational nonprofits
- (C) Federal government entities
- (D) Amateur sports competition organizations

Question 46

A home is lost during a hurricane. The President declared the area a federal disaster zone. If the basis in the home was \$125,000 at the time of destruction, determine the personal casualty loss deduction if the adjusted gross income is \$45,000.

- (A) \$100
- (B) \$4,500
- (C) \$120,400
- (D) \$125,000

Question 47

Which of the following statements are true in regards to the proper reporting of gambling deductions?

- (A) Up to 50% of gambling losses may be reported
- (B) Up to 100% of gambling losses may be reported to offset gambling winnings only
- (C) Up to 100% of gambling losses may be reported up to \$0 taxes owed
- (D) Gambling deductions are not allowed

Question 48

Nonresident aliens are eligible to deduct all of the following except:

- (A) Charitable contributions
- (B) Casualty and theft losses
- (C) Real estate taxes
- (D) Mortgage interest deductions

Question 49

A married couple filing jointly has an adjusted gross income of \$160,000. They have a child eligible for the Child Tax Credit at the age of 9. What is the amount of the eligible tax credit?

- (A) \$2,000
- (B) \$2,500
- (C) \$3,000
- (D) \$3,600

Question 50

A married couple filing jointly has taxable earned income of \$85,000. They have a qualifying child for the Child Tax Credit of age 3. Their tax liability is \$1,000. How much tax will be refunded as a result of the credit?

- (A) \$0
- (B) \$2,600
- (C) \$3,000
- (D) \$3,600

Question 51

Which of the following individuals are eligible for the Other Dependent Credit?

- (A) A 20-year-old son who is a full-time student
- (B) The 12-year-old half-brother of the taxpayer
- (C) A U.S. resident alien with a valid Social Security Number
- (D) A child who lived with the parent for 10 months of the year

Question 52

A family with a full-time student has the following expenses:

Tuition: \$5,000

Books bought from the college: \$1,200

Additional school-related supplies paid to a department store: \$400

What is the eligible Lifetime Learning Credit amount?

(A) \$1,240

(B) \$1,320

(C) \$2,000

(D) \$5,000

Question 53

Which of the following scenarios is the taxpayer ineligible for the Adoption Credit?

(A) Adoption of a 25-year-old special needs person

(B) Adoption of the son of a domestic partner

(C) Adoption of the daughter of a spouse from a previous marriage

(D) Adoption of a second child

Question 54

All of the individual scenarios listed below are eligible for the Earned Income Credit except:

(A) Self-employment income

(B) An individual with an investment income of \$2,000

(C) An individual with an ITIN

(D) A couple married filing jointly

Question 55

A single individual has an adjusted gross income of \$15,000. She contributed \$400 to a traditional IRA. What is the eligible saver's credit for the individual?

- (A) \$0
- (B) \$80
- (C) \$200
- (D) \$400

Question 56

All of the following statements regarding the Earned Income Tax Credit are true except:

- (A) An individual with zero children may still qualify for a credit
- (B) A child who was born in a tax year but only lived in the home for 3 months is considered a qualifying child
- (C) The Adjusted Gross Income limit is the same for five qualifying children as it is for three qualifying children
- (D) Nontaxable combat pay must be included in the earned income

Question 57

A couple married filing jointly has a gross income of \$46,000. They make the following investments for retirement savings:

401k deferred compensation plan contributions: \$5,000  
Roth IRA contributions: \$2,000  
Bond purchase: \$1,000

Determine the eligible Retirement Savings Contributions Credit.

- (A) \$800
- (B) \$700
- (C) \$1,400
- (D) \$2,500

Question 58

An individual eligible for the Earned Income Tax Credit is determined by the IRS to have committed intentional fraud. What is the corresponding penalty?

- (A) The amount must be paid back with interest and he can claim the credit the following year
- (B) The amount must be paid back with interest and he cannot claim the credit for the next year
- (C) The amount must be paid back with interest and he cannot claim the credit for an additional two years
- (D) The amount must be paid back with interest and he cannot claim the credit for an additional ten years

Question 59

An individual has two employers. The first of which she makes \$110,000 and pays \$6,820 in Social Security tax. The second job she earns \$35,000 and pays \$2,170 in Social Security tax. What is the eligible Excess Social Security Tax Credit if the maximum is \$8,853.60?

- (A) \$136.40
- (B) \$780.62
- (C) \$1,180.78
- (D) \$2,170

Question 60

An individual receives pension benefit payments from the Pension Benefit Guarantee Corporation (PBGC). What is the eligible age range for the taxpayer to qualify for the Health Coverage Tax Credit?

- (A) 40 to 65 years old
- (B) 45 to 61 years old
- (C) 55 to 64 years old
- (D) 60 to 70 years old

Question 61

What is the minimum number of credits required for the general business credit to facilitate the need for the filing of Form 3800?

- (A) One
- (B) Two
- (C) Three
- (D) Five

Question 62

What is the maximum household income that can qualify for the Premium Tax Credit for a married couple with two children? Use a Federal poverty line of \$26,200.

- (A) \$26,200
- (B) \$39,300
- (C) \$52,400
- (D) \$104,800

Question 63

A taxpayer who is eligible for and chooses the Advance Premium Tax Credit must do which of the following in regards to the filing of a tax return?

- (A) No tax return is necessary
- (B) A tax return is only necessary if additional payments are required
- (C) A tax return is only necessary if a refund is to be provided
- (D) A tax return must be filed regardless

Question 64

A single individual taxpayer has an adjusted gross income of \$190,000 from wages. He also has a net investment income from the sale of stocks of \$22,000. What is the total Net Investment Income Tax for the individual?

- (A) \$456
- (B) \$836
- (C) \$1,200
- (D) \$3,845

Question 65

A single taxpayer has wages of \$185,000 and also has additional self-employment income of \$35,000. What is the required amount of Additional Medicare Tax that must be applied?

- (A) \$0
- (B) \$180
- (C) \$225
- (D) \$480

Question 66

A self-employed individual has a tax liability of \$3,900 in the previous year. In the current year, he makes additional income resulting in a tax liability of \$4,500. What is the minimum amount of prepaid taxes that are required to avoid a penalty?

- (A) \$2,500
- (B) \$3,900
- (C) \$4,050
- (D) \$4,500

Question 67

An individual has an Alternative Minimum Tax credit carryforward of \$1,200 from the year 2020. His tax liability in 2021 is \$2,500 with a tentative minimum tax of \$2,000. How much carryforward will be available for 2022?

- (A) \$0
- (B) \$500
- (C) \$700
- (D) \$1,200

Question 68

Which of the following retirement savings account withdrawals are not subject to a 10% penalty before the age of 59½?

- (A) Basis withdraw from Roth IRA
- (B) Basis withdraw from traditional IRA
- (C) Earnings withdraw from Roth IRA
- (D) Earnings withdraw from traditional IRA

Question 69

An individual has an adjusted gross income of \$70,000. He has a total of \$10,000 in unreimbursed medical bills. If he is at the age of 50, how much of the unreimbursed medical bills can be covered by IRA distributions without an early withdrawal penalty?

- (A) \$2,500
- (B) \$3,375
- (C) \$4,750
- (D) \$5,200

Question 70

What is the penalty for the failure to withdraw any required minimum distributions from a traditional IRA?

- (A) 10% of the account balance
- (B) 50% of the earnings
- (C) 10% of the basis
- (D) 50% of the required withdrawal amount

Question 71

What is the required means of repayment for individuals who claimed the First-time Homebuyer Credit in 2008?

- (A) Equal installments of \$750 per year over 10 years
- (B) Equal installments of \$500 per year over 15 years
- (C) Increasing payments dependent on income over 10 years
- (D) Increasing payments dependent on income over 15 years

Question 72

All of the following are eligible to be considered household employees and subject to the "Nanny Tax" except:

- (A) A babysitter who works with multiple families
- (B) A part-time yard worker
- (C) An hourly housekeeper
- (D) A once per week private nurse

Question 73

A married couple filing jointly has an income of \$40,000 and \$60,000 for the husband and wife respectively. Additionally, the wife has a side business generating \$45,000 in net qualified business income. What is the applicable qualified business income deduction?

- (A) \$0
- (B) \$9,000
- (C) \$19,000
- (D) \$29,000

Question 74

An ordained minister lives in a home that is owned by the church. The fair market rental value is considered to be \$800 per month. The minister also receives \$35,000 in wages and an additional \$2,000 throughout the year for weddings and baptisms. What is the total self-employment income?

- (A) \$35,000
- (B) \$37,000
- (C) \$44,400
- (D) \$46,600

Question 75

An individual who owns a stock for a ten-year period decides to sell at a gain of \$3,000. Before the actual receipt of the sale proceeds, the individual dies and the money is received by a decedent. What is the characterization of the income received by the beneficiary?

- (A) Ordinary income
- (B) Long-term capital gain
- (C) Short-term capital gain
- (D) Nontaxable income

Question 76

What is the minimum number of hours worked that qualifies an educator for the teacher credit?

- (A) 100
- (B) 400
- (C) 900
- (D) There is no limit

Question 77

What is the maximum amount from a qualified 529 plan per beneficiary which may be used to pay for grades K-12 tuition?

- (A) \$5,000 per year
- (B) \$5,000 in total
- (C) \$10,000 per year
- (D) \$10,000 in total

Question 78

A self-employed individual has decided to sell some assets to pay off a debt. All of the assets to be sold result in a loss. The sales and corresponding losses are as follows:

Sale of stock: \$1,000

Sale of unused materials from business: \$3,000

Sale of personal boat: \$5,000

Determine the total amount of deductible losses from the sale of assets.

- (A) \$1,000
- (B) \$3,000
- (C) \$4,000
- (D) \$9,000

Question 79

In the previous tax year, an individual sells a stock for a long-term capital loss of \$8,500. She also sells a stock for a short-term gain of \$3,000. In the current year, she now sells stocks for a long-term capital gain of \$1,500 and a short-term gain of \$3,000. What is the total net capital gain for the current year including any carryover?

- (A) \$2,000 Short-term gain
- (B) \$3,000 Short-term gain
- (C) \$1,500 Long-term gain
- (D) \$2,000 Long-term gain

Question 80

An individual sells his home for a sale price of \$320,000. The sale was associated with \$16,000 in commissions and an additional \$2,000 in selling expenses. The adjusted basis is determined to be \$280,000 from the purchase 5 years prior. Determine the gain or loss from the sale.

- (A) \$22,000
- (B) \$24,000
- (C) \$35,000
- (D) \$40,000

Question 81

All of the following are reduced exclusions to the ownership and use tests for the Section 121 exclusion except:

- (A) Divorce in the year of the sale
- (B) Job change relocated to the same town
- (C) Damage due to a Federally declared disaster
- (D) Death of the owner

Question 82

A personal representative of an estate is responsible for the signing and filing of all of the following except:

- (A) Form 1040
- (B) Form 1041
- (C) Form 706
- (D) None of the above

Question 83

An individual dies prior to filing the tax return for the previous year. Which of the following statements are correct regarding the obligations of the personal representative?

- (A) Only the previous year's return needs to be filed
- (B) Only the current year's return needs to be filed
- (C) The previous year and current year return need to be filed separately
- (D) The previous year and current year return need to be filed in combination

Question 84

An individual who dies receives royalties from a song. After his death, a royalty payment continues to be received by the estate. Which of the following is the appropriate form for the reporting of this income?

- (A) Form 1040
- (B) Form 1041
- (C) Form 706
- (D) None of the above

Question 85

An individual who dies has an estate valued at \$10 million. He also has a life insurance policy that has a payout amount of \$2 million. The sole beneficiary of the policy died before the holder of the account and no other was named. Which of the following statements are true regarding the estate tax?

- (A) The value of the life insurance policy is added to the estate and subject to estate tax
- (B) The value of the life insurance is excluded from the estate
- (C) The value of the life insurance is added to the estate but is not subject to an estate tax
- (D) The value of the life insurance must be given to a beneficiary and cannot be added to the estate

Question 86

The husband of a married couple dies and has a gross estate of \$12,000,000 which is passed entirely to his wife. The wife files Form 706 in a timely manner and makes the appropriate portability election. The wife later dies and leaves a gross estate of \$24.9 million. Neither of them used their estate to offset gift tax liabilities at any time. What is the total taxable estate at the time of the wife's death?

- (A) \$1.74 million
- (B) \$11.4 million
- (C) \$13.5million
- (D) \$24.9 million

Question 87

What is the maximum difference in age from a donor to a beneficiary to avoid the generation-skipping transfer tax?

- (A) 20.5 years
- (B) 25 years
- (C) 37.5 years
- (D) 50 years

Question 88

What is the minimum amount of gross income for a domestic estate that requires the filing of Form 1041: *Annual Tax Return for Estates and Trusts*?

- (A) \$600
- (B) \$1,200
- (C) \$3,000
- (D) \$6,000

Question 89

Which of the following statements are true regarding the application of the gift tax?

- (A) The recipient is always responsible for the gift tax
- (B) The recipient does not have to report the gift amount unless it is from a foreign donor
- (C) The recipient does not have to report the gift amount regardless of the donor
- (D) The recipient is never responsible for the gift tax

Question 90

All of the following are exempt from the Gift Tax except:

- (A) A gift of \$40,000 to a spouse
- (B) A gift of \$19,000 to a dependent
- (C) A direct medical payment of \$20,000
- (D) A gift of \$25,000 to a qualified charity

Question 91

Which of the following forms is filed not with the IRS, but with the Financial Crimes Enforcement Network (FinCEN)?

- (A) Form 8938
- (B) Form 8865
- (C) Form 3520
- (D) FBAR

Question 92

Which of the following is not a potential penalty for the willful failure to timely file an FBAR?

- (A) 50% of the balance in the foreign account
- (B) Criminal fines
- (C) Prison time
- (D) None of the above

Question 93

The filing of Form 8938, *Statement of Specified Foreign Financial Assets* is required for married filing jointly taxpayers if the financial assets equal which of the following in a U.S. home?

- (A) \$50,000 on the last day of the year or \$75,000 at any one time
- (B) \$100,000 on the last day of the year or \$150,000 at any one time
- (C) \$150,000 on the last day of the year or \$200,000 at any one time
- (D) \$200,000 on the last day of the year or \$250,000 at any one time

Question 94

An individual places \$20,000 in a European bank in the month of August. At the time of the transaction, the money is converted to euros at an exchange rate of 0.92 U.S. Dollars to Euros. The individual is required to file an FBAR and at the end of the year, at which time the exchange rate is 0.90. What is the appropriate reported value of the account?

- (A) €18,400 Euro
- (B) €18,723.22 Euro
- (C) \$20,000 dollars
- (D) \$20,444.44 dollars

Question 95

An individual rents out a room in his house which is sized 12' x 14'. The total square footage of the home is 1280 square feet. What portion of the yearly utility bill of \$1,200 can be deducted as a rental expense?

- (A) \$157.50
- (B) \$212.67
- (C) \$600
- (D) \$1,200

Question 96

All of the following statements are true regarding the qualification of real estate as professionals except:

- (A) The taxpayer must provide more than ½ of the personal services in real property
- (B) The taxpayer must provide more than 750 hours of the personal services in the tax year
- (C) The taxpayer must provide personal services in more than one real property
- (D) None of the above

Question 97

An individual tax return is determined to have an understated gross income of 40% of the actual amount. What is the length of time for the statute of limitations for an IRS assessment and collection?

- (A) 3 years
- (B) 5 years
- (C) 6 years
- (D) 10 years

Question 98

An individual contributes funds to a dependent care flexible spending arrangement for the purposes of care for a 10-year-old child. He contributes \$6,000 during the tax year but realizes he has contributed over the limit and withdraws on March 20<sup>th</sup>. Which of the following applies?

- (A) The individual is not subject to any income tax or penalty
- (B) The individual must pay income taxes on the amount in excess of the limit
- (C) The individual must pay a 6% excise tax on the amount in excess of the limit
- (D) The individual must pay both income taxes and a 6% excise tax on the amount in excess of the limit

Question 99

A single parent who makes \$55,000 has two children in college. He takes out a total of four student loans, two for each dependent. The total student loan interest paid for the year is \$6,000. What is the maximum deduction for the interest?

- (A) \$1,000
- (B) \$2,500
- (C) \$5,000
- (D) \$6,000

Question 100

A couple gets married and decides to roll over an existing IRA containing \$2,500 into another account. The woman in the marriage makes \$70,000 and the spouse does not have an income. What is the maximum contribution limit to the IRA for the year?

- (A) \$2,500
- (B) \$6,000
- (C) \$8,500
- (D) \$12,000

Question 101

All of the following are exceptions to the time limit for filing an amended return for a previous year except:

- (A) Bad debt or worthless security
- (B) An extended period of unemployment
- (C) Injuries sustained in a combat zone
- (D) Foreign tax credit or deduction

Question 102

A 1040-X amended return is applicable for all of the following scenarios except:

- (A) Math error
- (B) Receipt of a corrected W-2
- (C) Claimed deductions that should not have been
- (D) Incorrect filing status

Question 103

All of the following is a requirement for obtaining an Adoption Taxpayer Identification Number except:

- (A) The child is eligible to be claimed as a dependent
- (B) The SSN has not been provided by the birth parents
- (C) A foreign-born adoption has a Permanent Resident Alien Card or Certificate of Citizenship
- (D) The adoption process has been completed

Question 104

What scenario detailed below is acceptable for a same-sex couple to file as married filing jointly?

- (A) Domestic partnership living in a jurisdiction where same-sex marriage is recognized
- (B) Domestic partnership living in a jurisdiction that does not recognize same-sex marriage
- (C) Civil Union living in a jurisdiction where same-sex marriage is recognized
- (D) Same-sex marriage living in a jurisdiction that does not recognize same-sex marriage

Question 105

What is not a requirement to qualify for the filing status of head of household?

- (A) Individual is unmarried
- (B) A qualifying dependent parent lives at the same residence
- (C) The individual was responsible for more than half the cost of keeping up the home
- (D) A qualified individual lived in the home for more than half the year

Question 106

An individual is being evaluated for residency under the substantial presence test. The number of days of presence in the corresponding years is as follows:

2019: 90 days

2020: 120 days

What is the minimum number of days present in 2021 for the individual to meet the requirements of the substantial presence test?

- (A) 32
- (B) 88
- (C) 100
- (D) 128

Question 107

A single mother who is aged 18 years old lives with the grandparents of her child. Which of the following statements are true regarding the claim of dependency?

- (A) Both the grandparents and the teenage parent can claim a dependent
- (B) Neither the grandparents or parent are eligible to claim dependents
- (C) Only the grandparents can claim a dependent
- (D) Only the teenage parent can claim a dependent

Question 108

An individual provides support for their grandmother. The grandmother has a total taxable income of \$10,000 and an additional tax-exempt income of \$4,000. She also saved \$1,000 of the income and used the remainder for support. What is the minimum amount of expenses that the individual must provide to meet the support requirements for dependency?

- (A) \$13,001
- (B) \$18,001
- (C) \$26,001
- (D) \$28,001

Question 109

The initial phase-out for the Child Tax Credit for a single taxpayer begins at what modified adjusted gross income level?

- (A) \$75,000
- (B) \$100,000
- (C) \$200,000
- (D) \$400,000

Question 110

All of the following income types are eligible for the Child and Dependent Care Credit except:

- (A) Self-employment
- (B) Pension
- (C) Tip income
- (D) Wages

Question 111

A full-time student receives a \$10,000 scholarship. The taxpayer uses \$7,500 for tuition, \$2,000 for room and board, and the remaining \$500 for books and supplies. What portion of the scholarship is considered taxable income?

- (A) \$500
- (B) \$2,000
- (C) \$2,500
- (D) \$10,000

Question 112

An individual taxpayer has been determined to owe a gross tax liability of \$800. The taxpayer has a nonrefundable Adoption Tax Credit of \$1,000. What is the amount owed or refund that can be expected due to the tax credit?

- (A) \$0
- (B) \$1,000 refund
- (C) \$200 refund
- (D) \$800 owed

Question 113

The American Opportunity Tax Credit (AOTC) is not eligible to be refundable for which of the following scenarios?

- (A) The student is subject to the "Kiddie tax"
- (B) The individual is also claiming the Earned Income Tax Credit
- (C) The student is also eligible for the Lifetime Learning Tax Credit
- (D) The AOTC is always refundable

Question 114

What is not a qualifier for the proper determination of fair market value?

- (A) Parties involved are aware of all relevant facts
- (B) The parties involved are acting in their own interest
- (C) The parties involved have the same motivation to buy or sell
- (D) There is ample time to make the decision

Question 115

What scenario below involving an exchange between an employer and employee should be reported as income?

- (A) Receipt of a holiday food as a gift
- (B) Receipt of cab fare for transportation to a meeting
- (C) Receipt of a gift card on a birthday
- (D) Receipt of a discount at a company cafeteria

Question 116

Individuals do not have to provide estimated tax payments if they meet which of the following criteria?

- (A) The individual had no tax liability for the prior year
- (B) The individual was a U.S. citizen or resident for the whole year
- (C) The individual's prior tax year covered a 12-month period
- (D) All of the above

Question 117

A musician decides to transfer the rights of a song to another individual. The terms of the agreement indicate the full transfer of all rights to intellectual property. Which of the following statements are true regarding the reporting of income from the transfer?

- (A) The sale is treated as a capital gain
- (B) The sale is treated as royalty income
- (C) The sale is capital gains but the individual can still claim royalty income for subsequent sales
- (D) The income is nontaxable

Question 118

A waitress works for a restaurant that has the policy of including a service charge for parties over 6 people. The 18% charge shall be treated as:

- (A) Tips
- (B) Wages
- (C) Must be included in a tip diary reported by the employee
- (D) Nontaxable income for the waitress

Question 119

A 68-year-old man files for divorce and is separated by the end of the year. The man resided with the spouse for over half of the year but now lives apart from the former spouse. What is the taxpayer's base amount for computing taxable Social Security benefits?

- (A) \$0
- (B) \$9,000
- (C) \$25,000
- (D) \$32,000

Question 120

Schedule B is required for what minimum amount of taxable interest?

- (A) \$500
- (B) \$1,000
- (C) \$1,500
- (D) \$2,500

Question 121

An individual purchases 1,000 shares of stock from a corporation on June 1<sup>st</sup>. The corporation pays a cash dividend of 5 cents per share. The ex-dividend date is July 1<sup>st</sup>. Of the options listed, what is the earliest date that the individual can sell the stock to have qualified dividends?

- (A) June 15<sup>th</sup>
- (B) July 1<sup>st</sup>
- (C) August 15<sup>th</sup>
- (D) September 30<sup>th</sup>

Question 122

What is not a requirement for a qualified foreign corporation?

- (A) The corporation is incorporated in a U.S. possession
- (B) The corporation allows for the purchase of preferred stock
- (C) The corporation is eligible for the benefits of a comprehensive income tax treaty with the United States
- (D) The stock for which the dividend is paid is readily tradable on an established securities market in the United States

Question 123

Of the scenarios listed below, which is ineligible to qualify for the interest exclusion for education savings bonds?

- (A) A couple who files as married filing separately
- (B) Use of proceeds for the purposes of tuition for a dependent child
- (C) A taxpayer at the age of 28 at the time of the bond's issue date
- (D) Expenses for courses as part of a certification program

Question 124

As a part of a dividend reinvestment plan, an individual is able to buy shares of a stock at a price of \$20 per share as opposed to the current price of \$22 per share. If the individual purchases 100 shares at the reduced price, what portion of the dividend reinvestment plan is taxable?

- (A) \$0
- (B) \$100
- (C) \$200
- (D) \$2,000

Question 125

An individual taxpayer has the following net gambling winnings which occurred at separate entities:

Card Tables: \$1,000  
Horse Racing: \$200  
Keno: \$300  
Slot Machines: \$150

What is the total amount that shall be reported on the W-2G's?

- (A) \$150
- (B) \$1,000
- (C) \$1,500
- (D) \$1,650

Question 126

An individual takes out a \$20,000 personal loan which is designated as a recourse loan. The individual can no longer make payments when the balance reaches \$2,000. The bank forgives the debt in lieu of pursuing the balance. What portion of the loan is taxable income?

- (A) \$0
- (B) \$2,000
- (C) \$18,000
- (D) \$20,000

Question 127

What type of mortgage loan is excluded from the Qualified Principal Residence Indebtedness?

- (A) Mortgage debt from refinancing
- (B) Mortgage on a vacation home
- (C) Construction loan for home improvements
- (D) All of the above

Question 128

An individual is a member of a partnership business with earnings of \$100,000 total. The business is divided equally among five partners. What statement is true regarding the individual's income?

- (A) A Schedule K-1 shall be provided for \$20,000
- (B) A Schedule K-1 shall be provided for \$100,000
- (C) The business is responsible for \$20,000 in income
- (D) The business is responsible for \$100,000 in income

Question 129

What does not fall under the classification of personal property?

- (A) Copyrights
- (B) Vehicles
- (C) Land
- (D) Collectibles

Question 130

An individual takes money out of a Roth IRA. What scenario listed below is not classified as a qualified distribution?

- (A) Postmortem distributions
- (B) At age 58 with identified disabilities
- (C) At age 62 within 3 years of the contribution made to a Roth IRA
- (D) For use in qualifying first-time homebuyer expenses

Question 131

What is the maximum percentage of social security benefits that can be considered taxable income?

- (A) 50%
- (B) 75%
- (C) 85%
- (D) 100%

Question 132

An individual purchased a home with a down payment of \$50,000 and takes out a mortgage for \$180,000. After ten years, the home is to be sold for a price of \$270,000. Over the ten years, there has been \$35,000 in home improvement costs. At year five, there was flood damage that was paid through insurance for repairs of \$15,000. Determine the net loss or gain from the sale.

- (A) \$20,000 Gain
- (B) \$30,000 Gain
- (C) \$10,000 Loss
- (D) \$40,000 Loss

Question 133

What closing costs are not a part of the calculation for the basis for the purchase of real property?

- (A) Cost of obtaining a credit report
- (B) Title insurance
- (C) Legal fees
- (D) Recording fees

Question 134

A rental property is purchased for \$200,000. The town records show the split between the house and the land tax assessment is \$170,000 and \$20,000 respectively. Determine the basis in the house.

- (A) \$170,000
- (B) \$178,947
- (C) \$188,568
- (D) \$200,000

Question 135

What is not a requirement of a property to qualify for a section 1031 like-kind exchange?

- (A) The property must be held for investment or business use
- (B) The proceeds from the sale must be used to purchase the other asset within 180 days of the sale of the first asset
- (C) The property or asset to be purchased in the like-kind exchange must be identified within 45 days of the sale.
- (D) The exchange may involve cash for property exchange if the fair market value is established

Question 136

Income from statutory stock options are reported at which of the following?

- (A) When the option is granted
- (B) When the option is exercised
- (C) When the option has been held for the minimum period
- (D) When the stock is ultimately sold

Question 137

All of the following scenarios are exempt from the 20% additional Health Savings Account (HSA) penalty except:

- (A) A taxpayer who is 70 years old that withdraws
- (B) An unemployed taxpayer of 60 years old
- (C) The inheriting of an account when a taxpayer dies from a dependent
- (D) A disabled individual of 55 years old

Question 138

An individual elects to participate in a 401k with an employer match of up to 3%. The employee makes \$70,000 per year. If the contribution limit for the year is \$19,500, what is the maximum amount per paycheck that can be contributed for pre-tax deferral if it is evenly distributed among 26 paychecks?

- (A) \$525
- (B) \$750
- (C) \$1250
- (D) \$1875

Question 139

What condition listed below warrants an additional standard deduction regardless of filing status?

- (A) Legally blind individual
- (B) A taxpayer aged 65 or older
- (C) A legally blind taxpayer who is also at least 65 years old
- (D) All of the above

Question 140

A full-time college student aged 21 has a part-time job in which she makes \$6,600. She is claimed as a dependent on her parent's tax return. What is the amount of her standard deduction?

- (A) \$1,100
- (B) \$6,600
- (C) \$6,950
- (D) \$12,200

Question 141

A disabled person in a wheelchair is a tenant paying rent and has an adjusted gross income of \$35,000. They install a ramp for access to the front door which costs \$1,500. They also have incurred an additional \$3,000 in unreimbursed medical expenses. What is the total amount of medically related deductions?

- (A) \$0
- (B) \$375
- (C) \$1,500
- (D) \$1,875

Question 142

What type of interest is not considered qualified interest payments for deductions?

- (A) Late fees on a mortgage loan
- (B) Private mortgage insurance premiums
- (C) Mortgage interest on a third personal home
- (D) Small business loan interest

Question 143

What is the adjusted gross income limit for cash contributions to a public charity which qualifies as a 501(c)3 organization?

- (A) 20%
- (B) 30%
- (C) 50%
- (D) 60%

Question 144

An individual sells a home on day 225 of the year. The real estate taxes were paid on day 180 of the year by the seller for the amount of \$4,500. What is the amount of qualified deductible real estate tax for the seller?

- (A) \$0
- (B) \$1,726
- (C) \$2,736
- (D) \$4,500

Question 145

A qualified nurse spends 8 hours volunteering at a blood drive for a qualified charity organization. He has out-of-pocket expenses of \$150 for supplies to perform his tasks. He also travels a total of 55 miles roundtrip for the event. What is the total qualified deduction that he can take for the volunteer work?

- (A) \$75.55
- (B) \$150.00
- (C) \$157.70
- (D) \$205.00

Question 146

Eligible personal casualty and theft loss for a presidentially declared emergency may be claimed in which of the following years:

- (A) The year the event occurred only
- (B) The year after the event occurred only
- (C) The year prior to the event occurring only
- (D) The year the event occurred or the year prior

Question 147

All of the following statements are true in regards to the miscellaneous deduction of the amortizable premium on taxable bonds except:

- (A) The value of the bond increases over time
- (B) The deductible premium can be used to offset taxable interest
- (C) The basis in the bond is the total cost including the premium
- (D) IRS requires the constant yield method to calculate the amortizable bond premium

Question 148

An individual who works on commission had incorrect wages reported to her in the previous year. The reported commissions were \$6,000 higher than the actual earnings and the amount had to be paid back. What is the applicable miscellaneous deduction for the current year?

- (A) \$0
- (B) \$3,000
- (C) \$4,500
- (D) \$6,000

Question 149

Losses from a Ponzi-type investment scheme are treated like which of the following losses?

- (A) Theft
- (B) Long-term capital
- (C) Short-term capital
- (D) Interest

Question 150

What is the standard deduction for a nonresident alien with a single filing status?

- (A) \$0
- (B) \$6,275
- (C) \$12,550
- (D) \$25,100

Question 151

A married couple with a \$100,000 AGI filing jointly has a total tax liability of \$3,000. They have two children aged 10 and 12 each of which qualify for the Child Tax Credit. What are the resulting taxes owed or refunded after the application of the Credit?

- (A) \$1,000 owed
- (B) \$3,000 refund
- (C) \$1,000 refund
- (D) \$3,000 owed

Question 152

Which of the following is a qualification for both the Lifetime Learning Credit and the American Opportunity Tax Credit?

- (A) A student taking a class to improve job skills in a non-degree program
- (B) A student with a prior felony drug conviction
- (C) A student who claims expenses for both tuition and books
- (D) A student who takes five years to graduate

Question 153

A couple adopts a special needs child aged 20 years old. They incur the following expenses for the process:

Adoption fee: \$1,000  
Attorney fee: \$1,500  
Travel expenses: \$300

What is the allowable credit amount?

- (A) \$1,000
- (B) \$2,500
- (C) \$2,800
- (D) \$14,440

Question 154

All of the following are refundable tax credits except:

- (A) Premium Tax Credit
- (B) Retirement Savings Contributions Credit
- (C) Credit for excess Social Security and RRTA tax withheld
- (D) Earned Income Tax Credit

Question 155

What is the maximum credit for a married filing jointly couple from the Lifetime Learning Credit? The couple has two eligible students.

- (A) \$2,000
- (B) \$3,000
- (C) \$4,000
- (D) \$6,000

Question 156

All of the following circumstances are eligible qualifying children for the purposes of the Earned Income Tax Credit except:

- (A) Younger sister
- (B) Full-time student aged 22
- (C) A child who lived with the taxpayer for 4 months within the tax year
- (D) A married son of 18 years old

Question 157

What is the maximum tax credit for a single filer claiming the Retirement Savings Contribution Credit?

- (A) \$500
- (B) \$1,000
- (C) \$2,000
- (D) \$4,000

Question 158

An individual taxpayer is employed by a single employer. It is discovered that the employee paid an amount of Social Security above the maximum. What is the appropriate course of action for the individual?

- (A) The individual cannot recoup the excess contribution
- (B) The individual will receive a credit for the excess amount
- (C) The individual shall request a refund and corrected W-2 from the employer
- (D) The individual shall file a return with the excess contribution and receive a nonrefundable credit

Question 159

All of the following types of assistance are eligible for the Health Coverage Tax Credit (HCTC) except:

- (A) Children's Health Insurance Program
- (B) Trade Adjustment Assistance (TAA) program
- (C) Alternative Trade Adjustment Assistance (ATAA) program
- (D) Reemployment Trade Adjustment Assistance (RTAA) program

Question 160

The General Business Credit contains all of the following credits in cumulation except:

- (A) Investment Credit (Form 3468)
- (B) Alternative Minimum Tax Credit (Form 8801)
- (C) Work Opportunity Credit (Form 5884)
- (D) Energy Efficient Home Credit (Form 8908)

Question 161

What form regarding health insurance for an individual is issued for those whose insurance comes from a source other than the Marketplace and works for a smaller sized company?

- (A) 1095-A
- (B) 1095-B
- (C) 1095-C
- (D) All of the above

Question 162

What individual is not eligible for the Premium Tax Credit?

- (A) A taxpayer who chooses not to be enrolled in Medicare
- (B) A taxpayer who has multiple dependents
- (C) A taxpayer who has health insurance coverage through the Marketplace
- (D) A taxpayer married filing jointly

Question 163

An individual taxpayer is eligible for the Premium Tax Credit and chooses to take the advanced credit. His estimated income increases from self-employment and is estimated at 380% of the Federal poverty line. At the end of the year, the actual income is 420% of the Federal Poverty line. What is the required course of action for the individual?

- (A) The individual is owed an additional credit relative to the increase in income
- (B) The individual has no action required
- (C) The individual must pay back the prorated credit relative to the increase in income
- (D) The individual is no longer eligible for the Premium Tax Credit and the advance is added to the tax liability

Question 164

All of the following investment income is subject to the Net Investment Income Tax except:

- (A) Municipal bond interest
- (B) Dividends
- (C) Nonqualified annuities
- (D) Income from passive activities

Question 165

A married couple filing jointly has \$210,000 and \$65,000 salaries for the wife and husband respectively. The wife's employer takes out the required Additional Medicare Tax. Determine the required amount of Additional Medicare Tax at the time of filing.

- (A) \$0
- (B) \$135
- (C) \$225
- (D) \$450

Question 166

All of the following individuals who did not provide advanced payments are exempt from an underpayment penalty except:

- (A) An individual who owed \$0 the previous year and \$1,200 in the current year
- (B) An individual who owed \$1,200 in the previous year and owes \$700 in the current year
- (C) A retired 65-year-old individual owed \$2,000 in the previous year and \$2,200 in the current year
- (D) An individual who owed \$2,000 in the previous year and \$1,200 in the current year but got married

Question 167

Which of the following items are eligible for a prior year Alternative Minimum Tax Credit?

- (A) Property tax
- (B) State income tax
- (C) Depreciation
- (D) Mortgage interest

Question 168

Which of the following statements are true regarding the requirements for the filing of the Alternative Minimum Tax (AMT)?

- (A) Only one of the regular return or AMT shall be filed
- (B) The taxpayer shall pay the lower of the regular return or AMT
- (C) The taxpayer shall pay the higher of the AMT or the regular return
- (D) None of the above

Question 169

A 75-year-old individual has a traditional IRA balance on December 31<sup>st</sup> of the previous year of \$410,000. The account currently is at \$415,000. If the distribution period is 22.9, determine the minimum required distribution for the IRA.

- (A) \$3,500
- (B) \$5,600
- (C) \$13,657
- (D) \$17,904

Question 170

What is not an exception to the First-time Homebuyer Credit Repayment requirement?

- (A) Transfer due to divorce
- (B) Destruction of the home
- (C) Early payoff of a mortgage
- (D) Death of the original homebuyer

Question 171

An employer who has household employees is required to withhold which of the following?

- (A) Social Security, Medicare, and Income tax
- (B) Social Security and Medicare only
- (C) Income tax only
- (D) None of the above

Question 172

All of the following are eligible for the Qualified Business Income Deduction except:

- (A) Sole proprietorships
- (B) C corporations
- (C) Partnerships
- (D) S corporations

Question 173

An ordained minister lives in a home that is owned by the church. The fair market rental value is considered to be \$600 per month. The minister also receives \$32,000 in wages and an additional \$2,000 throughout the year for weddings and baptisms. What is the total income subject to income taxes?

- (A) \$32,000
- (B) \$34,000
- (C) \$39,400
- (D) \$41,200

Question 174

All of the following are exemptions for clergy members to pay self-employment taxes except:

- (A) A member who has taken a vow of poverty
- (B) A member who has taken a vow of obedience
- (C) Opposition to public insurance for religious reasons
- (D) Opposition to public insurance for conscientious reasons

Question 175

Which of the following individuals are subject to the Transition Tax?

- (A) Individuals which own 10% or more of stock in a foreign corporation
- (B) Individuals in a foreign country who own stock in U.S. corporations
- (C) Nonresident aliens who own stock in U.S. corporations
- (D) Individuals who have 10% or more of assets in foreign stock

Question 176

All of the following are eligible for the qualified educator expense deduction except:

- (A) Counselor
- (B) School coach
- (C) College professor
- (D) Principal

Question 177

Which of the following can be classified as a noncapital asset?

- (A) Vacation home
- (B) Storage warehouse for a self-employed individual
- (C) Cryptocurrency
- (D) A boat

Question 178

Stock is purchased on March 15, 2021. What is the first day in which the stock can be sold so that the capital gain is considered long-term?

- (A) March 14, 2021
- (B) March 15, 2021
- (C) March 16, 2021
- (D) April 15, 2021

Question 179

An individual has a capital gain loss in the previous tax year of \$7,000. In the current year, he gets married and files jointly. What is the total allowable net income deduction for the losses in the current year?

- (A) \$1,000
- (B) \$3,000
- (C) \$7,000
- (D) \$0

Question 180

Below are scenarios of an individual renting out a personal home. All of the following are exempt from taxable rental income except:

- (A) Renting for 10 days for a total of \$8,000
- (B) Renting for two separate 7-day periods for a total of \$6,000
- (C) Renting for 20 days for a total of \$4,000
- (D) None of the above

Question 181

What is the minimum amount of time that must be spent in a primary residence to claim the capital gain tax exemption for a sale of the home?

- (A) One of the last three years
- (B) Three of the last four years
- (C) Two of the last five years
- (D) Three of the last six years

Question 182

A single individual sells a primary residence after a time of 18 months. He is forced into the sale due to unemployment. What is the Section 121 exclusion amount for the sale of the home?

- (A) \$125,000
- (B) \$187,500
- (C) \$250,000
- (D) \$500,000

Question 183

An individual dies and leaves an estate valued at \$4.5 million. Which of the following forms is not necessary to be filed?

- (A) Form 1040
- (B) Form 1041
- (C) Form 706
- (D) None of the above

Question 184

An individual dies on May 1<sup>st</sup>. His estate has an income of \$4,000 and a fiscal year which ends on June 15<sup>th</sup>. What is the due date for the filing of Form 1041 if no extension is permitted?

- (A) April 15<sup>th</sup>
- (B) July 15<sup>th</sup>
- (C) August 15<sup>th</sup>
- (D) October 15<sup>th</sup>

Question 185

The wife of a man dies and transfers all assets to her husband who is a U.S. citizen. If the total amount of the assets is \$14.5 million, what is the total amount of taxable income in the transfer?

- (A) \$0
- (B) \$155,000
- (C) \$3.1 million
- (D) \$14.5 million

Question 186

The gross estate of an individual after death is determined to be \$950,000. The following details outline any expenses and requirements from the will:

- Funeral costs: \$10,000
- Outstanding credit card debt: \$7,000
- The home valued at \$250,000 is to be passed to the current wife
- The remainder of the estate is to be passed to the children of the first wife

Determine the taxable estate for the individual.

- (A) \$683,000
- (B) \$700,000
- (C) \$933,000
- (D) \$950,000

Question 187

A portability election for the claiming of the deceased spousal unused exclusion can be completed only if which of the following actions are performed?

- (A) Timely filing of the Form 1040
- (B) Timely filing of the Form 1041
- (C) Timely filing of the Form 706
- (D) Notarized written statement

Question 188

An individual who makes college tuition payments directly to an institution on behalf of a decedent who is 50 years younger than the donor is not subject to which of the following?

- (A) Gift Tax
- (B) Generation-skipping Transfer Tax
- (C) Estate Tax
- (D) All of the above

Question 189

A married couple decides to give gifts to help the families of friends. The wife gives a \$20,000 gift to one couple and the husband gives a \$16,000 gift to a separate couple. What is the amount of the reduction in the lifetime exemption from the gifts?

- (A) \$0
- (B) \$5,000
- (C) \$6,000
- (D) \$21,000

Question 190

An unmarried woman decides to give her niece a gift of \$1 million per year for five years. At the end of the five years, she dies and leaves a gross estate of \$10 million. What is the taxable estate based on the reduction of the exclusion from the gifts?

- (A) \$0
- (B) \$1.58 million
- (C) \$3.345 million
- (D) \$6.275 million

Question 191

Which of the following gift types are allowed to be spread out over a five-year period for gift tax purposes?

- (A) Gifts to dependents
- (B) Medical expenses
- (C) Charitable contributions
- (D) 529 plan contributions

Question 192

The filing of Form 114, *Report of Foreign and Financial Accounts (FBAR)* is required for which of the following situations at a minimum?

- (A) The value of any individual foreign account exceeds \$10,000 at any point
- (B) The value of any individual foreign account averages \$10,000 over the period of one year
- (C) The aggregate value of all foreign accounts exceeds \$10,000 at any point
- (D) The aggregate value of all foreign accounts averages \$10,000 over the period of one year

Question 193

All of the following if held outside of the United States can be classified as foreign financial accounts except:

- (A) Stock options account
- (B) Mutual fund account
- (C) IRA account
- (D) Insurance policy with cash value account

Question 194

An individual is required to file Form 8938, *Statement of Specified Foreign Financial Assets* and fails to do so by the due date. The IRS issues a failure to disclose notice and the individual does not file for an additional 75 days. What is the penalty for noncompliance?

- (A) \$10,000
- (B) \$20,000
- (C) \$30,000
- (D) \$60,000

Question 195

An individual purchases a rental property on April 1<sup>st</sup>. He determines that repairs are needed which takes 3 months to complete. Once the repairs are done, the home is advertised to be rented out on July 20<sup>th</sup>. The home is not inhabited by a renter until September 15<sup>th</sup>. At what date can the landlord begin deducting mortgage interest and other rental expenses?

- (A) April 1<sup>st</sup>
- (B) July 1<sup>st</sup>
- (C) July 20<sup>th</sup>
- (D) September 15<sup>th</sup>

Question 196

An individual is required to make estimated tax payments for the following year. What is the date of the final required payment?

- (A) April 15<sup>th</sup>
- (B) June 15<sup>th</sup>
- (C) September 15<sup>th</sup>
- (D) January 15<sup>th</sup>

Question 197

What is the minimum amount of self-employment income that requires the filing of a tax return?

- (A) \$400
- (B) \$800
- (C) \$1,000
- (D) \$5,000

Question 198

An individual has an employer benefit in which they will provide up to \$1,000 match into a health care flexible spending arrangement account. What is the maximum amount that may be in the account before it is subject to income taxes?

- (A) \$1,000
- (B) \$1,700
- (C) \$2,700
- (D) \$3,700

Question 199

All of the following student loans used for qualified education expenses are eligible for the interest deduction except:

- (A) A loan from a trust
- (B) A loan from a family member
- (C) A loan from an employer plan
- (D) None of the above

Question 200

What is the maximum length of time for a charitable contribution to be carried over to a subsequent year?

- (A) 1 year
- (B) 2 years
- (C) 5 years
- (D) 10 years

Question 201

What is the minimum number of years that a company must show a profit to qualify a business as operating for profit?

- (A) One out of three years
- (B) Two out of five years
- (C) Three out of five years
- (D) Four out of six years

Question 202

A company in its first year has a net operating loss of \$1.9 million. In the second year, it has a taxable income of \$2.1 million. Determine the taxable income for the second year incorporating the carryforward of the NOL.

- (A) \$200,000
- (B) \$420,000
- (C) \$1.9 million
- (D) \$2.1 million

Question 203

Which of the following business entities requires the election of a board of directors?

- (A) C corporation only
- (B) C corporation and S Corporation
- (C) C corporation, S Corporation, and LLC
- (D) All business entities require a board of directors

Question 204

All of the following are requirements for a company to be eligible for an S corporation except:

- (A) The company must have 100 shareholders or less
- (B) The company may only have two classes of stock designated as A and B
- (C) The company must be domestic
- (D) The company must not be an ineligible company as designated by the IRS

Question 205

A partnership with three members decides to become a corporation after three years of operation and elects to do so on Form 8832, *Entity Classification Election*. What is the minimum amount of time that must pass to be eligible for a second change in entity classification?

- (A) 1 year
- (B) 2 years
- (C) 5 years
- (D) 10 years

Question 206

All of the following actions do not require the need for a new employer identification number (EIN) for a sole proprietorship except:

- (A) Addition of business locations in a different state
- (B) Change in classification to a corporation
- (C) Change in location of primary headquarters
- (D) Change of business name

Question 207

All of the following are entity types are unable to be formed as a partnership except:

- (A) A government entity
- (B) Real estate investment trust
- (C) Company-owned by corporations
- (D) An insurance company

Question 208

A C corporation has a June 30<sup>th</sup> fiscal year-end. What is the required filing date for the Form 1120, *U.S. Corporation Income Tax Return*?

- (A) March 15<sup>th</sup>
- (B) April 15<sup>th</sup>
- (C) September 15<sup>th</sup>
- (D) October 15<sup>th</sup>

Question 209

A partnership owns a ski resort. In the geographical area in which they live, the season tends to be over at the end of March. If the company has a gross revenue of \$500,000 annually, what is the minimum amount of revenue combined for February and March to qualify for a natural tax year ending March 31<sup>st</sup>?

- (A) \$100,000
- (B) \$125,000
- (C) \$200,000
- (D) \$250,000

Question 210

A partnership operating for three years has an established calendar year which is also the required year. Which of the following statements is true in regards to a Section 444 election?

- (A) The partnership cannot make a Section 444 election because the deferral period is zero.
- (B) The deferral period is three months
- (C) A partnership is not eligible for a Section 444 election
- (D) A partnership must operate for five years to make a Section 444 election

Question 211

An individual has two separate businesses. One in which he sells homemade goods made of wood. The other is a restaurant. Which of the following statements is true in regard to the required accounting methods?

- (A) He must use the same method for both businesses
- (B) He must use different methods for both
- (C) He can use any method for each business as long as there is separate record-keeping
- (D) He can use any method for each business as long as the records are combined

Question 212

What is the maximum average gross receipt amount over a three-year period that allows the use of the cash method of accounting?

- (A) \$10 million
- (B) \$15 million
- (C) \$20 million
- (D) \$26 million

Question 213

An LLC using the cash method of accounting pays for an insurance policy that covers a three-year period. The policy is bought on August 1<sup>st</sup> and costs a total of \$4,000 for the entire three-year period. What is the total amount of the applicable deduction in the year the policy is paid?

- (A) \$333.33
- (B) \$555.55
- (C) \$1,333
- (D) \$4,000

Question 214

For a limited partnership that has five members, what is the minimum number of general partners?

- (A) 0
- (B) 1
- (C) 2
- (D) 5

Question 215

A calendar year partnership with five members receives a 6-month extension of the filing of Form 1065, *U.S. Return of Partnership Income*. However, the actual filing does not occur until November 10<sup>th</sup>. What is the penalty for the late filing?

- (A) \$210
- (B) \$410
- (C) \$1,025
- (D) \$2,100

Question 216

All of the following can be considered businesses in which capital is a material income-producing factor except:

- (A) Food production
- (B) Cleaning service
- (C) Toy producer
- (D) None of the above

Question 217

An equal general partnership with four members has \$200,000 in ordinary partnership income for the year. Additionally, they have net long-term capital gains of \$12,000 on the year and have made \$8,000 in charitable contributions. Determine the income to be reported on the Schedule K-1 for each individual member.

- (A) \$50,000
- (B) \$51,000
- (C) \$55,000
- (D) \$204,000

Question 218

A partnership with three members has terms of agreement which include a guaranteed payment of \$7,000, \$5,000, and \$0 for partners A, B, and C respectively. Additionally, the distributive share is 40%, 40%, and 20%. If the company has an ordinary partnership income of \$100,000 for the year, how much does partner C include in his individual income?

- (A) \$7,000
- (B) \$17,600
- (C) \$18,600
- (D) \$20,000

Question 219

A member of a general partnership obtains a 15% interest in the company by contributing a property that has an adjusted basis of \$150,000 and a fair market value of \$200,000. There is also an existing mortgage on the property of \$100,000 which is assumed by the company. What is the basis of the partner's interest in the company?

- (A) \$50,000
- (B) \$65,000
- (C) \$150,000
- (D) \$200,000

Question 220

A partner contributes a property that has a debt higher than the basis. Which of the following statements are true?

- (A) The partnership basis is negative based on the difference
- (B) The partnership basis is zero
- (C) The partnership basis is the amount of the debt
- (D) The partnership basis is the basis of the property regardless of debt

Question 221

A C corporation files Form 1120, *U.S. Corporation Income Tax Return* by the required date. However, the company fails to make payment on the outstanding taxes owed of \$4,000 for two months. What is the penalty for late filing?

- (A) \$40
- (B) \$80
- (C) \$400
- (D) \$800

Question 222

What is the required date of the final estimated tax payment for C corporations?

- (A) April 15<sup>th</sup>
- (B) September 15<sup>th</sup>
- (C) December 15<sup>th</sup>
- (D) January 15<sup>th</sup>

Question 223

What statement below regarding corporate net operating losses (NOL's) is true for companies other than farming or casualty insurance companies?

- (A) May be carried back two years and forward six years
- (B) May be carried back one year and forward 10 years
- (C) May not be carried back and may be carried forward ten years
- (D) May not be carried back and may be carried forward indefinitely

Question 224

A corporation has a taxable income of \$90,000. Throughout the year, the company makes \$25,000 in qualified charitable contributions. What is the maximum amount of carryover to the following year for charitable deductions?

- (A) \$2,500
- (B) \$6,000
- (C) \$9,000
- (D) \$15,000

Question 225

Corporation A has a 90% share of a separate corporation. It receives dividends of \$100,000. What are the eligible dividends received deduction?

- (A) \$20,000
- (B) \$50,000
- (C) \$65,000
- (D) \$100,000

Question 226

All of the following shall be omitted from the taxable income used to determine the dividends received deduction except:

- (A) Net operating loss deduction
- (B) Domestic production activities deduction
- (C) The dividends received deduction itself
- (D) None of the above

Question 227

What is the minimum percentage of voting power for a company to be defined as “in control” after a Section 351 exchange?

- (A) 51%
- (B) 65%
- (C) 75%
- (D) 80%

Question 228

A corporation has a modified taxable income of \$400 million. It is determined that the adjusted regular tax liability is \$35 million. Determine the Base Erosion and Anti-Abuse Tax (BEAT) liability for the year of 2021.

- (A) \$2 million
- (B) \$3 million
- (C) \$5 million
- (D) \$10 million

Question 229

What is the minimum percentage of shares in a controlled foreign corporation in which an individual will be required to include Global Intangible Low-Taxed Income (GILTI) as taxable income?

- (A) 10%
- (B) 10.5%
- (C) 13.125%
- (D) 21%

Question 230

A closely-held corporation invests \$50,000 in a new business venture. It also takes out two loans both backed by property as collateral. The first is a recourse loan for \$50,000 and a fair market value of the property of \$70,000. The second is a nonrecourse loan for \$60,000 with a fair market value of the property of \$80,000. What is the total amount at-risk?

- (A) \$50,000
- (B) \$70,000
- (C) \$90,000
- (D) \$160,000

Question 231

A C corporation which wishes to elect to change to become an S corporation must have the minimum approval by which of the following?

- (A) Over 50% majority of all current shareholders
- (B) Over 50% majority of all shareholders throughout the year
- (C) Unanimous consent of all current shareholders
- (D) Unanimous consent of all shareholders throughout the year

Question 232

Electronic filing for S corporations is required for which of the following situations?

- (A) \$10 million or more in assets and file 100 or more returns of any type
- (B) \$25 million or more in assets and file 100 or more returns of any type
- (C) \$10 million or more in assets and file 250 or more returns of any type
- (D) \$25 million or more in assets and file 250 or more returns of any type

Question 233

The basis of inherited stock is determined by which of the following?

- (A) The initial cost of the shares
- (B) The FMV of the shares at the time of death
- (C) The FMV of the shares at the time of inheritance
- (D) The difference in the FMV at the time of death and the initial cost of the shares

Question 234

A shareholder's basis in an S corporation is adjusted first by which of the following items?

- (A) Decreased for items of loss and deduction.
- (B) Decreased for non-deductible, non-capital expenses and depletion
- (C) Increased for income items and excess depletion
- (D) Decreased for distributions

Question 235

All of the following are automatic terminations of an S election except:

- (A) Creation of a second class of stock
- (B) Has more than 25% of gross receipts from passive income for three consecutive years
- (C) Has seen a loss for five consecutive years
- (D) The corporation no longer qualifies as an S corporation

Question 236

A limited partner may qualify to be considered as materially participating in business activities if they meet any one of the following scenarios except:

- (A) 500 or more hours of participating
- (B) The activity is a personal service activity in which the limited partner materially participated in any three previous tax years.
- (C) The taxpayer's participation was no less than any other member
- (D) Participation in the company in any five of the last ten years

Question 237

Passive activity income does not include all of the following except:

- (A) Portfolio income
- (B) Rental real estate
- (C) Income from patents
- (D) A covenant not to compete

Question 238

A company that is insolvent has the debt for one of their existing loans canceled. What is the appropriate treatment of this income?

- (A) The company shall still include the cancellation as income
- (B) The cancellation may be excluded as taxable income fully
- (C) The cancellation may be excluded as taxable income up to the extent of insolvency
- (D) The company shall include the entirety of the original loan as income

Question 239

The Uniform Capitalization (UNICAP) rules of Section 263A apply to all of the following except:

- (A) Acquisition of property for rental activities
- (B) Produce real property for sale to customers
- (C) Produce real property for use in the business or activity
- (D) Acquire property for resale

Question 240

A corporation is a production company for steel construction members. The company has the following costs:

- Inventory recorded on the end of the previous fiscal year = \$3.80 billion
- Inventory recorded on the end of the current fiscal year = \$2.42 billion
- Purchases during the current year = \$8.2 billion

Determine the cost of goods sold for the current year.

- (A) \$1.38 billion
- (B) \$3.80 billion
- (C) \$8.42 billion
- (D) \$9.58 billion

Question 241

During a year of 3.0% inflation, what accounting method for the calculation of the cost of goods sold will yield the highest net income over time

- (A) FIFO
- (B) LIFO
- (C) Average cost method
- (D) All methods will yield the same result

Question 242

A corporation sells home improvement supplies. It has no existing inventory and purchases wrenches on the following dates for the prices indicated:

- 400 at \$4.00/wrench in January
- 300 at \$4.20/wrench in March
- 200 at \$4.30/wrench in June

At the end of the current year, what is the total cost assigned to the remaining inventory using the last in, first out method if there are 300 units remaining?

- (A) \$900
- (B) \$1,200
- (C) \$1,280
- (D) \$2,130

Question 243

A landscaping company stocks and sells pine trees. The company bought 40 trees at a cost of \$5 per tree and later in the year an additional 30 trees at \$4 each. Using the average cost method, determine the remaining inventory cost if there are 20 trees remaining at the end of the year.

- (A) \$80
- (B) \$91.43
- (C) \$98.45
- (D) \$100

Question 244

What is not an asset eligible for Section 1231 property treatment?

- (A) Natural resources such as coal
- (B) Unharvested crops
- (C) Commercial buildings
- (D) Stocks and bonds

Question 245

A corporation is being formed and has qualifying start-up expenses of \$53,000. What is the amount of the allowable deduction for the current year only?

- (A) \$1,000
- (B) \$2,000
- (C) \$3,000
- (D) \$5,000

Question 246

What is the time period over which the amortizable amount of start-up deductions must be distributed?

- (A) 2 years
- (B) 5 years
- (C) 10 years
- (D) 15 years

Question 247

A failed attempt to purchase a business incurs investigative and legal fees of \$5,000. What is the allowable deduction in the current year for the failed effort if there are no additional capital gains or losses?

- (A) \$5,000
- (B) \$4,000
- (C) \$3,000
- (D) \$2,000

Question 248

A shareholder of an S corporation had health insurance premiums paid by the corporation. What is the minimum ownership percentage for the shareholder to be eligible for the self-employed health insurance deduction?

- (A) Over 1%
- (B) Over 2%
- (C) Over 3%
- (D) Over 5%

Question 249

A sole proprietor takes out a business loan for \$10,000. He uses \$7,000 of the loan to buy supplies for the business and the remaining \$3,000 for a truck that is used for personal reasons. If \$800 in interest was paid for the year, determine the total amount of eligible business interest expense.

- (A) \$280
- (B) \$420
- (C) \$560
- (D) \$800

Question 250

A business has average gross receipts over a three-year period of \$100 million. What is the limit on the deduction for business interest expenses?

- (A) The amount of the company's business interest income
- (B) 50% of the company's business interest income
- (C) The amount of the company's business interest income plus 50% of the adjusted taxable income
- (D) 50% of the adjusted taxable income

Question 251

What is the maximum amount of square footage that can be used for the simplified home office deduction?

- (A) 100
- (B) 300
- (C) 500
- (D) 1,000

Question 252

A consultant brings two clients out to dinner to discuss a potential business relationship. The bill for dinner includes the following costs:

- Food and Drink: \$120
- Tax: \$12
- Tip: \$25

Determine the deductible expense for the meal.

- (A) \$0
- (B) \$60
- (C) \$78.50
- (D) \$157

Question 253

A self-employed business owner is only eligible to use the per diem method of tracking business travel expenses for:

- (A) Meals only
- (B) Travel only
- (C) Meals and travel
- (D) Neither meals or travel

Question 254

A business is to ship a gift to a customer for the purposes of appreciating loyalty. The gift is to be mailed and includes the following costs:

- Packaging: \$1.50
- Insurance: \$1.00
- Shipping: \$3.50
- Gift: \$23.00

What is the total deductible business expense?

- (A) \$23.00
- (B) \$25.00
- (C) \$26.50
- (D) \$29.00

Question 255

What is not a qualifying stipulation for an employer to deduct employee compensation?

- (A) The compensation must be determined to be ordinary and necessary
- (B) The work must meet minimum annual limits on hours actually worked
- (C) The work must have actually been performed
- (D) Compensation must be reasonable based on comparison

Question 256

An S corporation has fourteen shareholders who are also employees. The corporation provides its employees with health insurance. The breakdown of the share distribution and employer health insurance annual costs are as follows:

- 10 employees at 1% ownership; \$5,000 health insurance each
- 2 employees at 20% ownership; \$6,000 health insurance each
- 2 employees at 25% ownership; \$8,000 health insurance each

Determine the amount of the health insurance costs that need to be reported as wages.

- (A) \$16,000
- (B) \$17,000
- (C) \$28,000
- (D) \$78,000

Question 257

What is the maximum value of employer-provided life insurance that can be provided as a tax-free fringe-benefit?

- (A) \$25,000
- (B) \$50,000
- (C) \$100,000
- (D) \$250,000

Question 258

Using the straight-line depreciation method, determine the depreciation for the first year of an asset with a lifespan of 10 years and an initial cost of \$10,000 if the asset was held for six months?

- (A) \$500
- (B) \$1,000
- (C) \$2,000
- (D) \$10,000

Question 259

Which of the following Assets is attributed with a 39-year lifespan as per the Modified Accelerated Cost Recovery System (MACRS)?

- (A) Residential property
- (B) Farm buildings
- (C) Municipal utilities
- (D) Office buildings

Question 260

An oil drilling company purchases a new property that contains oil for \$450,000. The company produces a gross income from the oil of \$100,000 in the first year. Determine the depletion deduction using the percentage method.

- (A) \$15,000
- (B) \$50,000
- (C) \$67,500
- (D) \$100,000

Question 261

What statement below is true for both the application of Section 179 and the bonus depreciation?

- (A) Election into the deduction is automatic
- (B) The return is mandatory for delinquent filers of a tax return
- (C) The depreciation phases down over subsequent years
- (D) The property may be either new or used

Question 262

All of the following are required to be an increase to the adjusted basis of real property except:

- (A) Legal fees for acquisition
- (B) Casualty insurance premium
- (C) Assumption of an existing mortgage
- (D) Demolition costs

Question 263

What is not one of the nine defined building systems which may be defined as a separate unit of property as per the IRS Tangible Property Regulations?

- (A) Functional appliances
- (B) Plumbing
- (C) Electrical
- (D) Building security

Question 264

Which of the following safe harbor rules allows for the deduction of up to \$5,000 per invoice or item for tangible property with the presence of applicable financial statements?

- (A) De minimis expensing safe harbor election #1
- (B) De minimis expensing safe harbor election #2
- (C) Routine maintenance safe harbor
- (D) De minimis election for materials and supplies

Question 265

A construction company purchases 100 bags of concrete mix every four months at a cost of \$5.00 per bag. What is the allowable deduction per purchase and required paperwork in relation to the use of the \$200 de minimis election for materials and supplies?

- (A) \$200 and statement required
- (B) \$500 and statement required
- (C) \$200 and no statement required
- (D) \$500 and no statement required

Question 266

A casualty loss is not deductible which of the following scenarios?

- (A) Hurricane
- (B) Fire
- (C) Flood
- (D) Insect damage

Question 267

A business has a storage yard containing wood decking. There is a total of 2,000 pieces that were purchased for a total cost of \$10,000. A theft occurs in which 1,500 of the pieces are stolen. The company receives an insurance payment of \$6,000 after deductibles. Determine the applicable theft loss deduction.

- (A) \$1,500
- (B) \$4,000
- (C) \$7,500
- (D) \$10,000

Question 268

The basis of a security is the purchase price and the addition of which of the following?

- (A) Recording fees
- (B) Transfer fees
- (C) Commission fees
- (D) All of the above

Question 269

For the proper filing of a balance sheet, all of the following fall under liabilities for the calculation of assets except:

- (A) Inventory
- (B) Wages payable
- (C) Long-term debt
- (D) Interest payable

Question 270

The total revenue used in the calculation of the net income for an income statement is determined by which of the following?

- (A) Gross receipts
- (B) Net receipts
- (C) Total of operating revenues only
- (D) Total of operating and non-operating revenues

Question 271

A landscaping company sells a lawnmower which originally costs \$7,000. At the time of the sale, the depreciation has been taken as \$2,400. If the mower was sold for \$5,200, determine the gain from the sale of the truck and how the income is treated.

- (A) \$600 as capital gain
- (B) \$2,800 as capital gain
- (C) \$600 as ordinary income
- (D) \$2,800 as ordinary income

Question 272

What is the replacement period for involuntary conversions of livestock due to weather conditions?

- (A) 2 years
- (B) 3 years
- (C) 4 years
- (D) 10 years

Question 273

A corporation that has gross receipts of \$50 million needs to file what form for net income reconciliation?

- (A) M-1
- (B) M-2
- (C) M-3
- (D) No filing is required

Question 274

What is not one of the three primary characteristics used by the IRS to determine the relationship between workers paid by a business?

- (A) Financial control
- (B) Proximity control
- (C) Behavioral control
- (D) Type of relationship

Question 275

A business receives a cash payment of \$12,000 from three separate transactions on March 1, 2021. The company files Form 8300, *Report of Cash Payments over \$10,000 Received in a Trade or Business* within the appropriate timeframe. What is the required date of the written statement to be issued to all parties named on Form 8300?

- (A) March 15, 2021
- (B) April 15, 2021
- (C) January 31, 2022
- (D) April 15, 2022

Question 276

Direct sellers and licensed real estate agents are statutory nonemployees are their payments are directly based on which of the following?

- (A) Sales
- (B) Hourly rates
- (C) Production
- (D) Flat lump sum payments

Question 277

A store that sells firearms provides a product which costs \$150 including the excise tax of 7.5%. Determine the total deductible amount of the tax.

- (A) \$5.22
- (B) \$10.47
- (C) \$11.25
- (D) \$13.45

Question 278

An employee makes \$150,000 in the tax year. What is the employer's share of the Medicare tax?

- (A) \$1,927.05
- (B) \$2,175.00
- (C) \$3,854.10
- (D) \$4,350.00

Question 279

The 199A deduction is disallowed for which of the following scenarios?

- (A) A specified service trade or business with income below the threshold
- (B) A specified service trade or business with income above the threshold
- (C) A non-specified service trade or business with income below the threshold
- (D) A non-specified service trade or business with income above the threshold

Question 280

What is the maximum number of full-time employees for a business to be exempt from the Employer Shared Responsibility requirements of the Affordable Care Act?

- (A) 50
- (B) 100
- (C) 200
- (D) 500

Question 281

For an employer to meet the minimum essential coverage requirements of the Affordable Care Act, what is the minimum percentage of the cost of medical services that the plan must cover?

- (A) 50%
- (B) 60%
- (C) 75%
- (D) 95%

Question 282

A trust is required to file Form 1041, *U.S. Income Tax Return for Estates and Trusts* if any of the following are true except:

- (A) The beneficiary is a non-resident alien
- (B) The gross nontaxable income of the trust exceeds \$600
- (C) The gross taxable income is \$500
- (D) The trust is irrevocable

Question 283

What is not a qualification for a trust to be classified as simple?

- (A) Makes no distributions of principal
- (B) Must distribute all of its income in the current year
- (C) Has a balance of less than \$10 million at any time during the taxable year
- (D) Makes no distributions to charity

Question 284

All of the following are operational restrictions on the activities of tax-exempt organizations under Section 501(c)(3) except:

- (A) Avoid unrelated business income
- (B) No participation in political campaigns
- (C) Avoid benefit to any private shareholder
- (D) Restrict lobbying activities

Question 285

In what scenario listed below is an organization exempt from the requirement of filing Form 1023, *Application for Recognition of Exemption*?

- (A) Declaration of only one organizational purpose
- (B) Annual gross receipts of less than \$5,000
- (C) Annual income of less than \$10,000
- (D) Strictly educational organizations

Question 286

An organization that supports local youth sports by providing uniforms and equipment received \$45,000 in annual support. What is the minimum amount that must come from the general public for the organization to be classified as a public charity?

- (A) \$4,500
- (B) \$15,000
- (C) \$22,500
- (D) \$27,500

Question 287

When is an employee considered 100% vested when participating in a Simplified Employee Pension Plan (SEP-IRA)

- (A) Immediately
- (B) After 5 years
- (C) After 10 years
- (D) After 25 years

Question 288

An employer has a Simplified Employee Pension Plan (SEP-IRA) established. Which of the following employees are not required to participate in the plan?

- (A) Part-time employees
- (B) Seasonal employees
- (C) Employees who opt-out
- (D) None of the above

Question 289

An employer with a SIMPLE IRA retirement plan uses a 3% compensation match for payroll deductions. An employee with an annual salary of \$50,000 chooses to contribute 5% to the retirement plan. What is the total amount of contributions for the employee from both himself and the employer?

- (A) \$1,500
- (B) \$2,500
- (C) \$3,000
- (D) \$4,000

Question 290

All of the following retirement plans are not optional for the employee except:

- (A) Nonelective SIMPLE IRA
- (B) Government defined benefit plan
- (C) Traditional 401(k)
- (D) Nonelective SIMPLE 401(k)

Question 291

All of the following statements are true for both a SIMPLE IRA and a SIMPLE 401(k) retirement plan except:

- (A) Both allow an employer to choose a matching or nonelective contribution
- (B) Both have no annual filing requirements
- (C) Both allow a catch-up contribution for employees aged over 50
- (D) Both have the same maximum employee contribution limit

Question 292

An exempt organization has gross receipts of \$250,000 and assets totaling \$600,000. What form is acceptable to be filed?

- (A) Form 990-EZ
- (B) Form 990-N
- (C) Form 990
- (D) Form 990-T

Question 293

A farm owner rents out half of her land to a tenant who also grows crops. They have an agreement where the owner receives 25% of all proceeds from crops sold by the tenant. What form is used to report the income for the owner from the sale of crops from the tenant?

- (A) Schedule C
- (B) Schedule E
- (C) Schedule F
- (D) Form 4835

Question 294

A farmer who receives all of his income from farming with a calendar year business does not make any estimated tax payments in the prior year. What is the latest date in which the tax owed is due without penalty?

- (A) January 1<sup>st</sup>
- (B) March 1<sup>st</sup>
- (C) March 15<sup>th</sup>
- (D) April 15<sup>th</sup>

Question 295

A gain or loss from all of the following is subject to Section 1231 treatment for a qualified farming business except:

- (A) Sale of cattle held for breeding held for five years
- (B) Sale of hogs to be shown held for four years
- (C) Sale of unharvested crops held for 18 months
- (D) Sale of tractor held for four years

Question 296

A farm that sells chicken is in a federally declared disaster area due to a flood. The flood damages many farms in the surrounding area except this one and sales are increased from the typical 4,100 pounds to 8,280 pounds. The proceeds from the 8,280 pounds are \$90,000. Determine the amount of income that is eligible for postponement due to weather conditions.

- (A) \$20,239.80
- (B) \$35,680.60
- (C) \$45,436.60
- (D) \$61,500.45

Question 297

A liquidating distribution for a partnership can realize a loss only if all of the following are true except:

- (A) The partner's entire interest is liquidated
- (B) The liquidation is not an isolated sale
- (C) The adjusted basis exceeds the distribution
- (D) The distribution is cash, unrealized receivables, or inventory items

Question 298

An individual dies and leaves an estate totaling \$6.5 million. The estate generates income totaling \$400. What forms are required to be filed for the estate?

- (A) Form 1040
- (B) Form 1040 and Form 1041
- (C) Form 1040, Form 1041, and Form 706
- (D) None of the above

Question 299

For an individual who dies on March 15<sup>th</sup>, the Form 706, *United States Estate Tax Return* is due on what date without an extension?

- (A) April 15<sup>th</sup>
- (B) June 15<sup>th</sup>
- (C) August 15<sup>th</sup>
- (D) December 15<sup>th</sup>

Question 300

The earnings of a corporation for the year are lower than expected when the estimated payments were made. The tax liability is \$46,000. What is the minimum amount of estimated tax payments that had to have been made that allows the corporation to file Form 4466, *Corporation Application for Quick Refund of Estimated Tax*?

- (A) \$47,000
- (B) \$48,400
- (C) \$50,600
- (D) \$52,990

Question 301

A sole proprietorship has a net operating loss in its third year. What is the maximum number of years the loss can be carried forward?

- (A) 0
- (B) 2
- (C) 5
- (D) 20

Question 302

All of the following are requirements for the classification of a qualified joint venture except:

- (A) The joint venture must be comprised solely of members of the immediate family of the owners
- (B) The owners of the joint venture must file as married filing jointly
- (C) All members of the business must materially contribute
- (D) A joint election is made to not be treated as a partnership

Question 303

All of the following business entities are formed under State law except:

- (A) Limited liability Company
- (B) Limited Liability Partnership
- (C) S Corporation
- (D) None of the above

Question 304

A Professional Service Limited Liability Company (PLLC) is an eligible business entity for which of the following scenarios?

- (A) Veterans who wish to form a business entity
- (B) Individuals who practice business in the service industry (i.e. Food, hospitality, etc.)
- (C) Farmers or fisherman
- (D) Licensed professionals who wish to form a business entity

Question 305

A domestic company with 5 members does not make an election of classification on Form 8832, *Entity Classification Election*. What is the default classification for the business entity?

- (A) Disregarded entity
- (B) Disregarded LLC
- (C) Partnership
- (D) Corporation

Question 306

All of the following are true statements in regards to the requirement to obtain an employer identification number except:

- (A) A sole proprietor is not eligible for an EIN
- (B) Any entity which pays employees must obtain an EIN
- (C) A partnership with only two members is required to obtain an EIN
- (D) A tax-exempt organization is required to obtain an EIN

Question 307

All of the following are eligible to be classified as a farming business except:

- (A) Seller of honey from beekeepers
- (B) Ice cream shop from raised cows
- (C) Flower grower
- (D) Dog breeder

Question 308

What is the tax rate for a C corporation with a taxable income of \$500,000 and \$300,000 in deductions?

- (A) 18%
- (B) 21%
- (C) 28%
- (D) 35%

Question 309

All of the following entity types have a required filing date of March 15 for a calendar year entity except:

- (A) Sole proprietorship
- (B) General partnership
- (C) Limited partnership
- (D) S corporation

Question 310

A partnership has three owners which are all C corporations. The partnership interest for corporations A, B, and C respectively are 20%, 20%, and 60%. Corporations A and B are calendar-year entities and corporation C has a fiscal year ending on June 30<sup>th</sup>. What is the required tax year-end for the partnership?

- (A) December 31<sup>st</sup>
- (B) March 15<sup>th</sup>
- (C) April 15<sup>th</sup>
- (D) June 30<sup>th</sup>

Question 311

What is the maximum deferral period for a Section 444 election if an S corporation intends to retain its current tax year?

- (A) Two months
- (B) Three months
- (C) Four months
- (D) Six months

Question 312

A company has been in existence for two years. The first had total gross receipts of \$20 million. What is the maximum amount of gross receipts in the second year which would meet the gross receipts test and allow for the cash method of accounting?

- (A) \$20 million
- (B) \$25 million
- (C) \$32 million
- (D) \$55 million

Question 313

A corporation uses the accrual method of accounting and performs the delivery of propane gas. The company provides a delivery on February 15<sup>th</sup> and provides an invoice to the customer on February 17<sup>th</sup>. The customer does not provide payment until February 25<sup>th</sup>. What is the reported date of the gross income?

- (A) February 15<sup>th</sup>
- (B) February 17<sup>th</sup>
- (C) February 25<sup>th</sup>
- (D) March 1<sup>st</sup>

Question 314

The function test used to classify a corporation as a qualified personal service corporation requires what percentage of activities to be in a specified service field?

- (A) 25%
- (B) 50%
- (C) 75%
- (D) 95%

Question 315

A tax-exempt organization for non-profit may be classified as any of the following except:

- (A) Partnership
- (B) Corporation
- (C) Trust
- (D) Unincorporated association

Question 316

Which of the following statements is true in regards to the eligibility of a family member to be recognized as a valid partner if the business operates where capital is not a material income-producing factor?

- (A) The family member must contribute vital services to the business
- (B) The family member may only contribute capital to the business
- (C) The family member must receive the interest in the company in a bona fide transaction
- (D) The family member must receive the interest in the company in an oral or written agreement

Question 317

A general partnership with three members has \$150,000 in gross receipts for the year. It is determined that they have \$20,000 in deductions for the year in qualified expenses. Additionally, they have net short term losses of \$10,000 on the year and have made \$15,000 in charitable contributions. Determine the total ordinary partnership income.

- (A) \$105,000
- (B) \$120,000
- (C) \$130,000
- (D) \$150,000

Question 318

Which of the following statements is true regarding the guaranteed payments for general partnerships?

- (A) Guaranteed payments are made only if there is a gross profit for ordinary partnership income
- (B) Guaranteed payments are made only if there is a gross profit for ordinary partnership income in excess of the amount of the payment
- (C) Guaranteed payments are made regardless of the company's profitability
- (D) Guaranteed payments are made only if there is a gross loss for ordinary partnership income

Question 319

A partner who contributes property to a partnership has an interest related to the contribution of which of the following?

- (A) The fair market value of the property
- (B) The adjusted basis of the property
- (C) The difference between the fair market value and adjusted basis
- (D) The basis in the property at the time of purchase

Question 320

A member of a partnership has a 50% interest and contributes a property with an adjusted basis of \$60,000 and a fair market value of \$100,000. The individual sells her interest in the company for \$90,000. What is the corresponding loss or gain from the sale?

- (A) \$10,000 loss
- (B) \$30,000 gain
- (C) \$40,000 gain
- (D) \$100,000 gain

Question 321

Electronic filing for C corporations is required for which of the following situations in addition to 150 returns of any type?

- (A) \$10 million or more in assets
- (B) \$25 million or more in assets
- (C) \$15 million or more in gross receipts
- (D) \$35 million or more in gross receipts

Question 322

A corporation has a previous year's tax liability of \$1,500. It estimates that in the current year the tax liability will be \$1,600. Determine the minimum required quarterly estimated tax payment to avoid a penalty?

- (A) \$360
- (B) \$375
- (C) \$400
- (D) \$450

Question 323

A C corporation has rental properties and receives income which it distributes to its shareholders. Which of the following statements are true regarding the disbursement?

- (A) The income is taxed at the corporate level and distributed as rental income
- (B) The income is not taxed at the corporate level and distributed as rental income
- (C) The income is taxed at the corporate level and distributed as dividend income
- (D) The income is not taxed at the corporate level and distributed as dividend income

Question 324

All of the following are true differences concerning capital gains and losses for a corporation compared to an individual except:

- (A) Corporation capital losses are only deductible up to its capital gains
- (B) The tax rates for capital gains of corporations and individuals is the same
- (C) Capital losses may be carried forward
- (D) Capital losses may be carried backward

Question 325

What is the maximum amount of qualified charitable contributions that may be used as a deduction for corporate taxable income?

- (A) 5%
- (B) 10%
- (C) 20%
- (D) 25%

Question 326

Which of the following is not a criterion for a Base Erosion and Anti-Abuse Tax (BEAT) applicable taxpayer?

- (A) The taxpayer may not be a regulated investment company
- (B) The taxpayer is either a C or S corporation
- (C) The taxpayer must have average annual gross receipts for the three-year period ending with the preceding taxable year in excess of \$500 million
- (D) The taxpayer must have a base erosion percentage of 3 percent or more

Question 327

What is the maximum foreign rate tax rate above which the Global Intangible Low-Taxed Income (GILTI) does not apply?

- (A) 10%
- (B) 10.5%
- (C) 13.125%
- (D) 21%

Question 328

All of the following can be classified as a closely-held corporation except:

- (A) Two individuals hold a combined 60% of the outstanding stock over the entirety of the year
- (B) Three individuals hold a combined 35% of the outstanding stock in the first half of the year but gain an additional 30% over the second half of the year
- (C) Eight individuals hold a combined 85% of the outstanding stock over the entirety of the year
- (D) Four individuals hold a combined 20% of the outstanding stock in the first half of the year but gain an additional 50% over the second half of the year

Question 329

Corporation A owns a voting interest in four companies as follows:

- Corporation B: 90%
- Corporation C: 85%
- Corporation D: 75%
- Corporation E: 90%

Corporation E is also a foreign corporation. What is the number of eligible subsidiaries for a controlled group with the parent as corporation A?

- (A) 1
- (B) 2
- (C) 3
- (D) 4

Question 330

A newly formed company wishes to become an S corporation by filing Form 2553, *Election by a Small Business Corporation*. If the business becomes incorporated on June 1<sup>st</sup>, what is the latest date for filing so that the company can be an S corporation for the first tax year?

- (A) July 1<sup>st</sup>
- (B) August 15<sup>th</sup>
- (C) October 15<sup>th</sup>
- (D) April 15<sup>th</sup>

Question 331

All of the following are mostly ineligible to own an S corporation except:

- (A) C corporation
- (B) S corporation
- (C) Partnership
- (D) Trust

Question 332

Family members including a husband and wife own stock in an S corporation. They have two children, both of whom have spouses all of whom also own shares in the same S corporation. What is the number of shareholders that counts to the limit for S corporations?

- (A) 1
- (B) 2
- (C) 4
- (D) 6

Question 333

A shareholder for an S corporation has a basis of \$50,000. If she receives a distribution of \$52,000, how is the income reported?

- (A) \$2,000 in ordinary income
- (B) \$2,000 in capital gains
- (C) \$52,000 in ordinary income
- (D) \$52,000 in capital gains

Question 334

All of the following are shareholder loss limitations except:

- (A) Stock and Debt Basis Limitations
- (B) At-Risk Limitations
- (C) Passive Activity Loss Limitations
- (D) Parent company limitations

Question 335

In the event of a termination of a shareholder's interest as per a Section 1377 (a)(2) election, what is the date of the end of the first taxable year?

- (A) The filing of the election
- (B) The date as requested by the remaining shareholders
- (C) The termination date
- (D) The date which creates two years of equal length

Question 336

Two employees of a C corporation have health insurance premiums paid by the employer. Employee A has a 10% share of the company and employee B is not a shareholder. For which of the employees can the corporation deduct the cost of the premiums?

- (A) Employee A
- (B) Employee B
- (C) Both A and B
- (D) Neither A or B

Question 337

Member A of a partnership that has been in existence for two years has four members. Member A is the least participating member. What is the minimum number of hours of participation activities that qualifies as materially participating?

- (A) 100
- (B) 200
- (C) 400
- (D) 500

Question 338

All of the following are included in the determination of gross receipts except:

- (A) Interest
- (B) Dividends
- (C) Charitable donations
- (D) None of the above

Question 339

Canceled debt for businesses is not recognized as income for which of the following scenarios?

- (A) Cash-basis company where the debt is a deductible business expense
- (B) Cash-basis company where the debt is used to pay employees
- (C) Accrual-basis company where the debt is a deductible business expense
- (D) Accrual-basis company where the debt used to pay employees

Question 340

A corporation decides to construct an additional office building to expand their headquarters. According to the Uniform Capitalization Rules, what cost associated with the project does not need to be capitalized?

- (A) Real estate taxes
- (B) Preconstruction activities such as engineering and design
- (C) Insurance
- (D) Advertising for hiring purposes

Question 341

The determination of the cost of goods sold includes all of the following except:

- (A) Material
- (B) Labor
- (C) Storage
- (D) Marketing

Question 342

A corporation sells office supplies. It has no existing inventory and purchases desk lamps on the following dates for the prices indicated:

- 400 at \$4.00/lamp in January
- 300 at \$4.20/lamp in March
- 200 at \$4.30/lamp in June

At the end of the current year, what is the total cost assigned to the remaining inventory using the first in, first out method if there are 300 units remaining?

- (A) \$900
- (B) \$1,200
- (C) \$1,280
- (D) \$2,130

Question 343

Of the following assets listed below, which has a minimum 24 month held requirement to be subject to Section 1231 treatment?

- (A) Cattle and horse livestock
- (B) Livestock other than cattle and horse
- (C) Equipment such as machinery or automobiles
- (D) Intangible property

Question 344

A company has a net loss from all Section 1231 transactions. What is the appropriate treatment of the loss?

- (A) Ordinary income loss
- (B) Short-term capital loss
- (C) Long-term capital loss
- (D) No loss can be taken

Question 345

All of the following are not a qualified deductible business expense as per necessary and ordinary requirements except:

- (A) Personal expenses
- (B) Start-up costs
- (C) Marketing
- (D) Business assets

Question 346

All of the following can be classified as start-up costs except:

- (A) Analysis of business markets
- (B) Advertisements for the opening of the business
- (C) Travel to prospective clients or distributors
- (D) Legal fees of starting a business

Question 347

Sales and use taxes are deductible in which of the following scenarios?

- (A) Sales and use taxes are always deductible
- (B) If the tax is imposed on the customer
- (C) If the tax is imposed on the seller and reported as income
- (D) If the tax is imposed on the seller and not reported as income

Question 348

Insurance for business vehicles is not deductible only if the company participates in which of the following?

- (A) Business uses the standard mileage rate for vehicle expenses
- (B) The business allows specific personnel to use the vehicles only
- (C) The mileage is limited to no more than 5,000 per year
- (D) The vehicles fail to meet specific EPA requirements

Question 349

What business entity type is still eligible to deduct health insurance premiums even if a loss is reported for the year?

- (A) Sole proprietorship
- (B) LLC
- (C) Partnership
- (D) C corporation

Question 350

What is the minimum number of shareholder meetings per year for a C corporation to meet its requirements?

- (A) 1
- (B) 2
- (C) 4
- (D) 12

Question 351

Determine the deduction for a 250 square foot home office in a 2000 square foot home using the simplified home office deduction method.

- (A) \$250
- (B) \$500
- (C) \$625
- (D) \$1,250

Question 352

A consultant takes clients to the theatre as a welcome gift. The cost of the tickets is \$100 each. The consultant also buys the food during the show for a total of \$90. What is the total deductible business expense?

- (A) \$45
- (B) \$90
- (C) \$345
- (D) \$390

Question 353

All of the following are potentially eligible for the increased 80% business-related meals deduction except:

- (A) Interstate truck drivers
- (B) Farmers
- (C) Railroad engineers
- (D) Pilots

Question 354

The per diem rate for the tracking of business-related travel:

- (A) Is a constant rate regardless of destination
- (B) Is the same for all domestic travel
- (C) Varies based on the destination for both foreign and domestic travel
- (D) Is based on the size of the company alone

Question 355

What fringe benefit listed below is taxable?

- (A) Use of company car
- (B) Subsidized meals
- (C) Health club memberships
- (D) Employee discounts

Question 356

IRS permission is generally not necessary when switching to which of the following depreciation methods?

- (A) Straight-line
- (B) Diminishing balance
- (C) Double-declining balance
- (D) Annuity

Question 357

A trucking company buys a new vehicle for an initial cost of \$45,000. If the lifespan of the truck is 10-years, determine the depreciation in the second year using the double-declining balance method.

- (A) \$4,000
- (B) \$4,500
- (C) \$7,200
- (D) \$9,000

Question 358

For property to be Section 179 eligible, it must meet all of the following requirements except:

- (A) It must be a purchase
- (B) More than 50% of the property must be used for business purposes
- (C) It must be real property or land
- (D) It must not have been acquired by a related party

Question 359

The investment cost of a natural resource asset is \$1 billion and development costs during a period were \$40 million. The salvage value is \$200 million. The estimated number of resource units on this property is 200 million and the company extracts and sells 5 million units. Determine the depletion deduction under the cost depletion accounting method.

- (A) \$10 million
- (B) \$15 million
- (C) \$21 million
- (D) \$55 million

Question 360

The percentage depletion method of determining the depletion deduction is not applicable to which of the following natural resources?

- (A) Timber
- (B) Oil
- (C) Gas
- (D) Uranium

Question 361

A construction company orders a new crane for the purchase price of \$75,000 including a 6% sales tax. The shipping is additional at a cost of \$500 and the crane needs to be assembled for a cost of \$400. What is the adjusted basis of the asset?

- (A) \$70,755
- (B) \$75,000
- (C) \$75,900
- (D) \$80,400

Question 362

A commercial building is purchased with a down payment of \$60,000 and an additional mortgage loan of \$240,000. The closing costs on the loan included the following:

- Attorney fee: \$500
- Title search: \$400
- Credit report: \$200
- Appraisal: \$500

Determine the adjusted basis for the property acquisition based solely on the identified costs.

- (A) \$60,900
- (B) \$61,600
- (C) \$300,900
- (D) \$301,600

Question 363

As per the IRS Tangible Property Regulations, an expenditure is a capitalizable improvement if it is classified as any of the following except:

- (A) Betterment
- (B) Progression
- (C) Restoration
- (D) Adaptation

Question 364

A business that owns a small building had to perform a replacement that cost \$12,000. The unadjusted basis of the property is \$120,000. The business has gross receipts of \$2 million. What is the eligible amount of the roof to be classified as a repair rather than an improvement if the appropriate safe harbor election is made?

- (A) \$0
- (B) \$2,400
- (C) \$10,000
- (D) \$12,000

Question 365

A tree falls on a property owned by a small business. The tree damages the siding of the building which results in \$8,000 in repairs. The business has a deductible of \$1,000 and the insurance company provides a payment of \$3,500 based on the depreciation. What is the deductible casualty business loss?

- (A) \$0
- (B) \$1,000
- (C) \$4,500
- (D) \$5,500

Question 366

A partnership purchases 2000 shares of XYZ stock at \$5.00 per share. The stock experiences a two-for-one stock split. Determine the number of shares and the total basis after the split.

- (A) 1000 shares with a \$5,000 basis
- (B) 2000 shares with a \$10,000 basis
- (C) 4000 shares with a \$10,000 basis
- (D) 4000 shares with a \$20,000 basis

Question 367

A balance sheet indicates a total of \$55,000 in liabilities and \$100,000 in shareholder equity. Determine the total amount of assets.

- (A) \$45,000
- (B) \$55,000
- (C) \$100,000
- (D) \$155,000

Question 368

An income statement shows the following values:

- Total revenue = \$60,800
- Total expenses = \$15,500
- Total gains = \$4,500
- Total losses = \$1,000

Determine the net income to be reported on the income statement.

- (A) \$16,500
- (B) \$48,800
- (C) \$60,800
- (D) \$65,300

Question 369

A trucking company sells a truck that originally costs \$35,000. At the time of the sale, the depreciation has been taken as \$10,500. If the truck was sold for \$27,200, determine the gain realized from the sale of the truck.

- (A) \$2,700
- (B) \$10,500
- (C) \$24,500
- (D) \$27,200

Question 370

Which of the following can be considered a related party for the purposes of a like-kind exchange?

- (A) Step-parent
- (B) Ex-spouse
- (C) Nephews
- (D) Half-sibling

Question 371

A property is sold for \$2,300. The original purchase price was \$1,900. If \$300 of depreciation has been claimed, determine the amount of the sale which must be treated as a capital gain.

- (A) \$300
- (B) \$400
- (C) \$600
- (D) \$700

Question 372

A partnership is not required to file a Schedule M-1 if it meets all of the following requirements except:

- (A) Total receipts were less than \$250,000 for the tax year
- (B) There is no difference between book income and reported tax income
- (C) Total assets were less than \$1 million at the end of the tax year,
- (D) Schedule K-1's are filed with the return and furnished to the partners on or before the due date

Question 373

The filing of Form 8300, *Report of Cash Payments over \$10,000 Received in a Trade or Business* is required within which time frame?

- (A) Within 15 days of the receipt of payment
- (B) Within 90 days of the receipt of payment
- (C) By the end of the calendar year
- (D) By the end of the tax year

Question 374

Which of the following employee classifications is both issued a W-2 and reports income on schedule C?

- (A) Employee
- (B) Independent contractor
- (C) Statutory employee
- (D) Statutory nonemployee

Question 375

A company files Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. What is the net FUTA tax after the full credit is received?

- (A) 0.6%
- (B) 2.1%
- (C) 5.4%
- (D) 6.0%

Question 376

For an employee who has wages of over \$200,000, the employer is required to take what action in regards to the additional Medicare tax?

- (A) The employer is required to withhold the tax regardless
- (B) The employer is required to withhold the tax if the employee elects to
- (C) The employer is required to withhold the tax based on the filing status of the employee
- (D) The employer is not required to withhold the tax

Question 377

What is the amount of the trust fund recovery penalty?

- (A) 10% of the trust fund balance
- (B) 20% of the trust fund balance
- (C) 50% of the unpaid balance of the trust fund tax
- (D) 100% of the unpaid balance of the trust fund tax

Question 378

What product listed below has an excise tax on a per-product basis and not a percentage basis?

- (A) Heavy trucks
- (B) Firearms
- (C) Airline tickets
- (D) Cigarettes

Question 379

What employment tax is subject to a maximum earnings limit of the employee?

- (A) Social Security
- (B) Federal Unemployment
- (C) Medicare
- (D) Additional Medicare

Question 380

What is not a field of business that can be classified as a specified service trade or business for the purposes of qualifying for the 199A deduction?

- (A) Law
- (B) Health
- (C) Athletics
- (D) Engineering

Question 381

An employer has 100 full-time and 25 part-time employees. Which of the following statements is true regarding the requirements of compliance with the Affordable Care Act?

- (A) The employer does not have to offer health insurance
- (B) The employer has to provide health insurance for the full-time employees only
- (C) The employer has to provide health insurance for both the full-time and part-time employees
- (D) The employer has to provide health insurance for the part-time employees only

Question 382

What is the annual exemption for a simple trust?

- (A) \$100
- (B) \$300
- (C) \$1,200
- (D) \$4,200

Question 383

For what type of trust does any income and deductions pass through to the owner of the trust?

- (A) Irrevocable trust
- (B) Grantor trust
- (C) Non-grantor trust
- (D) Charitable trust

Question 384

What is not one of the exempt purposes of a qualifying organization as listed by Section 501(c)(3)?

- (A) Preventing animal cruelty
- (B) Scientific
- (C) Economic stimulation
- (D) Literary

Question 385

An organization is eligible for the use of Form 1023-EZ, *Streamlined Application for Recognition of Exemption* if it meets which requirements?

- (A) Assets of \$250,000 or less
- (B) Gross receipts of \$50,000 or less in the prior three years
- (C) Both A and B
- (D) Either A or B

Question 386

An exempt organization fails to file the required tax return on time and is late 25 days. The gross receipts for the year are \$45,000. Determine the late penalty for failure to file on time.

- (A) \$500
- (B) \$750
- (C) \$1,000
- (D) \$2,250

Question 387

An employee is eligible for participation in a Simplified Employee Pension Plan (SEP-IRA) if all of the following requirements are met except:

- (A) The employee is 21 years old or more
- (B) The employee contributes a minimum of \$50 per pay cycle
- (C) The employee has worked for the employer in at least three of the last five years
- (D) The employee has received more than \$600 in compensation for the tax year

Question 388

An employer has an established Simplified Employee Pension Plan (SEP-IRA) in place for its employees. One individual has a salary for the tax year of \$80,000. What is the maximum contribution limit for the employer into the plan?

- (A) \$5,000
- (B) \$10,000
- (C) \$20,000
- (D) \$25,000

Question 389

What is the maximum number of employees with compensation above \$5,000 for an employer to be eligible for a Savings Incentive Match Plan for Employees (SIMPLE)?

- (A) 50
- (B) 100
- (C) 200
- (D) 500

Question 390

An employer with a SIMPLE IRA retirement plan elects to provide a 2% nonelective contribution. An employee with a salary of \$60,000 decides to contribute 1% to the plan. What is the total contribution for the year?

- (A) \$600
- (B) \$1,200
- (C) \$1,800
- (D) \$2,500

Question 391

An employee works for a private company with a defined benefit pension plan. The employee had her highest salaries in her final three years equaling \$220,000, 222,000, and \$225,000 for each year. What is the maximum annual benefit from the pension plan?

- (A) \$56,250
- (B) \$220,000
- (C) \$222,333
- (D) \$225,000

Question 392

Form 990-T, *Exempt Organization Business Income Tax Return* is required for which of the following situations?

- (A) Religious organizations to report annual donations
- (B) Unrelated business income of \$1,000 or more
- (C) Private foundation activity
- (D) Exempt organizations with employees

Question 393

A farm owner rents out 25% of his land to another individual to raise cows. The tenant feeds and takes care of the cows but the owner retrieves the milk and sells it. The income from the sale of the milk should be reported on:

- (A) Schedule E
- (B) Schedule F
- (C) Form 4835
- (D) Schedule C

Question 394

A Christmas tree farmer has to plant trees three years in advance. He plants a batch in 2018 and then sells them in 2021. If the farmer uses the crop method of accounting, in what year can the cost of production be deducted?

- (A) 2018
- (B) 2020
- (C) 2021
- (D) 2022

Question 395

Livestock can be depreciated if bought for all of the following purposes except:

- (A) Breeding
- (B) Dairy
- (C) Resale
- (D) Sport

Question 396

A Farmer purchases a used tractor for \$2,500 and fixes it up to a working condition. The tractor is used for harvesting over 7-years despite having a 5-year lifespan and then sold for \$8,200. Determine the eligible Section 1231 gain.

- (A) \$2,500
- (B) \$5,700
- (C) \$6,500
- (D) \$8,200

Question 397

A member of a partnership with a 25% stake has an adjusted basis of \$50,000 including a \$20,000 share of partnership liabilities. The member sells the interest for cash of \$45,000 and it is determined that the liabilities are relieved. What is the resulting capital gain or loss on the sale of partnership interest?

- (A) \$5,000 gain
- (B) \$15,000 gain
- (C) \$5,000 loss
- (D) \$15,000 loss

Question 398

What business entity type does not have income, losses, and deductions pass through?

- (A) C corporation, partnership, and S corporation
- (B) C corporation and S corporation
- (C) C corporation and partnership
- (D) C corporation only

Question 399

An estate of an unmarried individual valued at \$15 million has used \$1.5 million of the basic exclusion amount. Determine the total amount of tax on the estate.

- (A) \$1,968,000
- (B) \$3,500,400
- (C) \$4,700,550
- (D) \$6,240,000

Question 400

A corporation is determined by an audit to have excess accumulated earnings without a bona fide reason. It is determined that the accumulated amount of earnings should be no more than \$250,000 but the company is holding \$350,000. Determine the applicable accumulated earnings tax.

- (A) \$10,000
- (B) \$20,000
- (C) \$50,000
- (D) \$100,000

Question 401

Which of the following professions is not granted unlimited rights to represent taxpayers before the IRS?

- (A) Attorney
- (B) Enrolled actuary
- (C) Certified public accountant
- (D) Enrolled agent

Question 402

Actions included in practice before the IRS include all of the following except:

- (A) Representation of taxpayers in legal proceedings before the U.S. Tax Court
- (B) Filing documents with the IRS
- (C) Representation in meetings with the IRS
- (D) Communication with the IRS on behalf of a taxpayer

Question 403

What is not an acceptable alternative to representation for practice before the IRS?

- (A) A brother
- (B) A general partner
- (C) A fiduciary
- (D) A non-blood-related individual with proof of an extended relationship

Question 404

What scenario listed below is the individual preparing the tax return not required to obtain a preparer identification number (PTIN)?

- (A) A preparer who has an EFIN
- (B) An employee who prepares a return for their employer's federal tax return
- (C) A certified public accountant
- (D) An individual with a shared PTIN

Question 405

A newly licensed enrolled agent has 18 months in between the issuance of the license and the beginning of the first full enrollment cycle. What is the minimum number of continuing education requirements for the 18-month period?

- (A) 16
- (B) 36
- (C) 45
- (D) 72

Question 406

An enrolled agent takes on a new client who is self-employed. After review of the previous year's return, it is discovered that a portion of the individual's income was not reported. What is the required action for the enrolled agent?

- (A) They must inform the IRS immediately
- (B) They must inform the individual immediately
- (C) They must inform the IRS by the time of the next filing
- (D) They must inform the client by the time of the next filing

Question 407

What fees are prohibited from being charged by practitioners?

- (A) Variable fees for different clients
- (B) Unconscionable as determined by the court
- (C) Those which are percentage-based
- (D) Those which are based on the amount of effort required for an individual return

Question 408

What term or word is prohibited from use in printed advertisements?

- (A) Certified
- (B) Enrolled
- (C) Representation
- (D) Before the Internal Revenue Service

Question 409

Advertisements are allowed to use which of the following IRS logos?

- (A) IRS insignia
- (B) Department of the Treasury insignia
- (C) IRS e-file insignia
- (D) None of the above

Question 410

An enrolled agent enters her own bank account information on Form 8888, *Allocation of Refund* to receive a client's refund. She takes the agreed-upon preparation fee of \$100 from the refund of \$600. She also informs the client of the action and it is accepted in writing. What penalty is the enrolled agent subject to?

- (A) No violation has occurred and therefore no penalty is assessed
- (B) \$10
- (C) \$60
- (D) \$500

Question 411

What task listed below most likely does not require a thorough review to meet the requirements of due diligence?

- (A) Documents filed to the IRS on behalf of a taxpayer
- (B) Review of written statements made to clients
- (C) Review of work performed by a lower-level employee
- (D) Assistance in preparing a return to be filed with the IRS

Question 412

An enrolled agent represents a married couple who gets a divorce. The EA has the couple sign a written waiver for the conflict of interest and continues to represent them both separately. Eventually, the husband decides to end the use of the EA's services after two years and the wife does the same after four years. What is the minimum amount of time the written consent must be retained by the enrolled agent?

- (A) Three years after the consent is signed
- (B) Three years after the husband ends the service
- (C) After the wife ends the service
- (D) Three years after the wife ends the service

Question 413

What statement below is true regarding the ability of a practitioner to perform notary services in addition to normal responsibilities?

- (A) A practitioner shall perform notary services without restrictions
- (B) A practitioner shall only perform notary services if also involved in representation before the IRS for the client
- (C) A practitioner is only prohibited from notary services if the practitioner is representing the individual before the IRS
- (D) A practitioner shall not simultaneously perform notary services with

Question 414

A tax-exempt entity is required to file Form 8886-T, *Disclosure by Tax Exempt Entity Regarding Prohibited Tax Shelter Transaction* if they participate in any of the following tax shelter activities except:

- (A) Listed transactions
- (B) Confidential transactions
- (C) Contractual protection transactions
- (D) Loss transactions

Question 415

What tax position when used indicates the highest level of certainty?

- (A) Standard of review
- (B) More likely than not
- (C) Reasonable basis
- (D) Substantial authority

Question 416

Form 8275, *Disclosure Statement* shall not be used to avoid a penalty for all of the following except:

- (A) Accuracy with a reasonable basis
- (B) Negligence
- (C) Disregard of regulations
- (D) Understatement of income tax on a tax shelter

Question 417

A disbarment has what minimum suspension from representing individuals before the IRS?

- (A) One year
- (B) Two years
- (C) Five years
- (D) Ten years

Question 418

What penalty listed below is allowed a discretionary referral to the Office of Professional Responsibility (OPR)?

- (A) 6700 - Promoting abusive tax shelters
- (B) 6662 - Accuracy related penalty
- (C) 6701 - Aiding and abetting understatement of a tax liability
- (D) 7407 - Injunction of a tax return preparer

Question 419

A suspended individual is eligible to perform all of the following tasks except:

- (A) Represent himself or herself with respect to any matter
- (B) Appear as a witness for the taxpayer.
- (C) File powers of attorney with the IRS.
- (D) Furnish information at the request of the IRS or any of its officers or employees.

Question 420

A submission of a tax return determined to be frivolous carries a civil penalty of \_\_\_\_\_.

- (A) \$5,000
- (B) \$10,000
- (C) \$15,000
- (D) \$25,000

Question 421

A complaint filed from the Office of Professional Responsibility (OPR) to the Office of Chief Counsel, General Legal Services (GLS), is made at what step in the process of an investigation?

- (A) Upon initial identification of the misconduct
- (B) In conjunction with the pre-allegation notice
- (C) Upon issuance of an appropriate level of discipline
- (D) If an agreement cannot be reached between the OPR and the practitioner

Question 422

The Office of Public Responsibility's (OPR) defined burden of proof to successfully prevail in a disciplinary proceeding may prove that the practitioner acted in any of the following manners except:

- (A) Recklessness
- (B) Gross incompetence
- (C) In conjunction
- (D) Willfully

Question 423

What is not an identified badge of fraud for the income category as per the IRS Fraud Handbook?

- (A) Omitting entire sources of income.
- (B) Inability to explain substantial increases in net worth
- (C) Concealing bank accounts, brokerage accounts, and other property
- (D) Multiple sets of books or no records

Question 424

What is the penalty for failure by a taxpayer to provide a Social Security Number (SSN)?

- (A) \$50
- (B) \$150
- (C) \$550
- (D) \$750

Question 425

An individual taxpayer owes a total of \$25,000 on a submitted tax return. After an audit, it is determined that a deduction was falsely taken resulting in an understatement. What is the minimum amount of the actual tax owed to be classified as a substantial underpayment?

- (A) \$27,777
- (B) \$30,000
- (C) \$32,333
- (D) \$35,000

Question 426

What is the penalty for a valuation misstatement determined to be classified as a gross misstatement?

- (A) 10%
- (B) 20%
- (C) 30%
- (D) 40%

Question 427

The required retention period for a tax return increases from three years to six if the return includes omitted income greater than what percentage of the gross income?

- (A) 10%
- (B) 15%
- (C) 25%
- (D) 40%

Question 428

An individual taxpayer has unpaid taxes of \$10,000. What is the total failure-to-pay penalty if the payment is 3 months late?

- (A) \$150
- (B) \$300
- (C) \$550
- (D) \$1,250

Question 429

The preparer of a return is determined to be in violation of an understatement due to reckless conduct. If the preparer received \$3,200 for the return in question, what is the applicable penalty?

- (A) \$1,000
- (B) \$1,600
- (C) \$2,400
- (D) \$5,000

Question 430

Which of the following penalties from IRC § 6695 – Other assessable penalties with respect to the preparation of tax returns for other persons, does not have a maximum penalty limit?

- (A) IRC § 6695(a) – Failure to furnish copy to taxpayer
- (B) IRC § 6695(b) – Failure to sign return
- (C) IRC § 6695(d) – Failure to retain copy or list
- (D) IRC § 6695(g) – Failure to be diligent in determining eligibility for certain tax benefits

Question 431

What is the maximum number of representatives that an individual can grant power of attorney for each use of Form 2848, *Power of Attorney and Declaration of Representative*?

- (A) One
- (B) Two
- (C) Four
- (D) Ten

Question 432

What is not an allowable act for a representative granted power of attorney?

- (A) Endorse a tax refund check
- (B) Sign a closing agreement
- (C) Sign a consent to extend the statutory time period for assessment or collection of a tax
- (D) Sign an offer or a waiver of restriction on assessment or collection of a tax deficiency

Question 433

A durable power of attorney is one that:

- (A) Has no time limit
- (B) Will continue in force after incapacitation of the taxpayer
- (C) Will continue in force after incompetency of the taxpayer
- (D) All of the above

Question 434

What is not a required item of information that must be provided to establish a non-IRS power of attorney using a document other than Form 2848, *Power of Attorney and Declaration of Representative*?

- (A) Individual taxpayer identification number (ITIN)
- (B) Types of tax involved
- (C) Identification of tax years involved
- (D) Limitations on substitutions

Question 435

Form 8821, *Tax Information Authorization* allows a representative to perform what task listed below?

- (A) Inspect and/or receive confidential information verbally or in writing
- (B) Authorize an appointee to speak on behalf of the taxpayer
- (C) Authorize to advocate a position with respect to federal tax laws
- (D) Represent the taxpayer in any other manner before the IRS

Question 436

What word is required to be written on Form 2848, *Power of Attorney and Declaration of Representative* if the representative no longer wishes to participate in the agreed arrangement?

- (A) WITHDRAW
- (B) REVOKE
- (C) REMOVE
- (D) CANCEL

Question 437

A direct deposit for a tax refund may be made to all of the following account types except:

- (A) Savings
- (B) IRA
- (C) Credit card
- (D) Share draft

Question 438

Disclosures may be made by a preparer from a first taxpayer's information to a second taxpayer if all of the following are true except:

- (A) The first taxpayer has not expressly prohibited the disclosure or use
- (B) The second taxpayer provides a written statement of nondisclosure
- (C) The first taxpayer's tax interest in the information is not adverse to the second taxpayer's tax interest in the information
- (D) The second taxpayer is related to the first taxpayer

Question 439

What is not an option for the use of tax refunds for the taxpayer?

- (A) Apply the refund to next year's estimated taxes
- (B) Use the refund to directly pay the tax return preparer
- (C) Receive the refund by direct deposit
- (D) Use the refund to purchase U.S. Series I Savings bonds

Question 440

If a taxpayer chooses an installment agreement to pay an outstanding tax liability, what is the maximum term of repayment?

- (A) 12 months
- (B) 24 months
- (C) 60 months
- (D) 72 months

Question 441

An individual taxpayer files for bankruptcy while having an existing tax bill due. What is the effect of the filing on the required payment of the taxes due?

- (A) The taxes are still to be paid back in the same manner regardless
- (B) The filing of bankruptcy initiates an automatic extension of one year
- (C) The filing initiates an automatic stay on the existing liability until a ruling by the court
- (D) The taxes are no longer the responsibility of the individual and do not have to be paid

Question 442

What Collection Financial Standards used to help determine a taxpayer's ability to pay a delinquent tax liability are established on a local basis?

- (A) Food
- (B) Clothing
- (C) Health care
- (D) Transportation

Question 443

Income and spending statements are required for what length of time for the completion of a Collection Information Statement?

- (A) Three months
- (B) Six months
- (C) One year
- (D) The amount of time since the amount of tax owed was zero

Question 444

All of the following will extend the collection statute expiration date (CSED) except:

- (A) Bankruptcy
- (B) Collection due process hearing
- (C) Currently not collectible status declared
- (D) Residency outside of the U.S.

Question 445

The seizure of what type of property by the IRS requires judicial or district director approval?

- (A) Primary residence
- (B) Retirement income
- (C) Primary transportation
- (D) Social Security Benefits

Question 446

The submission of Form 8867, *Paid Preparer's Due Diligence Checklist* is required for all of the following tax credits except:

- (A) Earned Income Tax Credit (EITC)
- (B) American Opportunity Tax Credit (AOTC)
- (C) Lifetime Learning Credit
- (D) Child Tax Credit (CTC)

Question 447

An enrolled agent prepares a return that includes the Earned Income Tax Credit and a Head of Household filing status. If the Form 8867, *Paid Preparer's Due Diligence Checklist* is not provided, what is the applicable penalty?

- (A) \$0
- (B) \$540
- (C) \$1,080
- (D) \$2,120

Question 448

All of the following scenarios can be classified as tax evasion except:

- (A) Not reporting foreign rental income
- (B) Not reporting wages to a household employee
- (C) Not paying taxes on retirement contributions
- (D) Not reporting cash business income

Question 449

What is not one of the identified exemptions in regards to obtaining information from the IRS as per the Freedom of Information Act (FOIA)?

- (A) Classified documents pertaining to national defense and foreign policy
- (B) Trade secrets and confidential commercial or financial information
- (C) Personal privacy
- (D) Investigative information

Question 450

An individual may use the appeals process in which of the following scenarios?

- (A) The individual does not agree with the IRS's decision
- (B) The IRS correspondence was a bill and there was no mention of an appeal
- (C) The individual did not provide all relevant information to the IRS
- (D) The individual cannot afford the outstanding bill

Question 451

What is not considered a math error by the IRS?

- (A) An incorrect use or selection of information for a filed return from tax tables
- (B) A correction to withholding or estimated tax payments
- (C) An entry on a return of a deduction and or credit in an amount which exceeds a statutory limit
- (D) An entry on a return inconsistent with an entry on a schedule, form, statement, or list

Question 452

What taxpayer right requires the taxpayer to know the maximum amount of time they have to challenge the IRS's position?

- (A) Right to Finality
- (B) Right to be Informed
- (C) Right to Confidentiality
- (D) Right to a Fair and Just Tax System

Question 453

An individual receives a Notice CP2000 indicating an error on a tax return for the previous year resulting in additional tax owed. What is not an acceptable action that can be taken by the individual?

- (A) Accept the changes and pay the additional tax
- (B) Provide an amended return with Form 1040-X to correct the changes
- (C) Dispute the change and provide additional information indicating the accuracy of the original return
- (D) Correct incorrectly reported information over the phone

Question 454

A new identity protection personal identification number (IP PIN) is issued to an individual every year for how many years after the reporting of an identity theft incident?

- (A) Only one IP PIN is required
- (B) Two years
- (C) Three years
- (D) Five years

Question 455

For a single financial account, what is the maximum number of electronically deposited refunds?

- (A) One
- (B) Two
- (C) Three
- (D) Five

Question 456

The Taxpayer Advocate Service operates as:

- (A) A department of the IRS
- (B) An independent organization within the IRS
- (C) A separate governmental organization from the IRS
- (D) A private entity

Question 457

What is the amount imposed on an individual by the trust fund recovery penalty?

- (A) 10% of the unpaid trust fund taxes
- (B) 30% of the unpaid trust fund taxes
- (C) 50% of the unpaid trust fund taxes
- (D) 100% of the unpaid trust fund taxes

Question 458

An IRS summons cannot be used for which of the following purposes?

- (A) To influence a taxpayer into settling a dispute
- (B) To ascertain the correctness of any return
- (C) To determine the liability of a person for any internal revenue tax
- (D) To collect any internal revenue tax liability

Question 459

What is not one of the three options for serving a summons upon an individual who is not a third-party recordkeeper?

- (A) Hand the summons to the person directly
- (B) Enclose the summons in an envelope and affix it to the identified personal workplace of the individual
- (C) Leave the summons at the individual's last and usual place of abode with a person of suitable age and discretion with instructions
- (D) Enclose the summons in an envelope and affix it to the front door of the individual's last and usual place of abode

Question 460

For an individual to qualify for the separation of liability relief, what is the minimum amount of time of separation prior to the filing of the claim if the individual is not divorced but is no longer a member of the same household?

- (A) The individual may still be married at the time of claim
- (B) 3 months
- (C) 6 months
- (D) 12 months

Question 461

A refund resulting from equitable relief which was requested within three years of the return being filed can be no greater than:

- (A) The part of the tax paid in the most recent year
- (B) The part of the tax paid within the last two years
- (C) The part of the tax paid within the 3 years
- (D) There is no limit

Question 462

What is the minimum amount of tax owed for an individual to be considered seriously delinquent in which case the liability may be reported to the State Department?

- (A) \$10,000
- (B) \$22,000
- (C) \$53,000
- (D) \$105,000

Question 463

An individual may qualify for the first-time penalty abatement if they have not incurred any penalties in how many previous returns?

- (A) Three
- (B) Five
- (C) Ten
- (D) All returns

Question 464

The IRS can abate or refund a penalty caused by erroneous advice if all of the following are true except:

- (A) The taxpayer reasonably relied on the written advice
- (B) The taxpayer has no prior returns with the preparer
- (C) The written advice was in response to a specific written request for advice made by the taxpayer
- (D) The penalty did not result from the taxpayer's failure to provide the IRS with accurate information

Question 465

What type of IRS examinations is most likely to occur for a math error detected by the IRS?

- (A) Correspondence audit
- (B) Field examination
- (C) Office audit
- (D) Preliminary questioning

Question 466

Which of the following characteristics of an individual do not increase the chances of an audit?

- (A) Income over \$200,000
- (B) Filing status
- (C) Being self-employed
- (D) High itemized deductions relative to taxpayers with similar income

Question 467

What is not one of the identified rights that must be provided to a taxpayer by an IRS examiner?

- (A) A right to professional and courteous treatment
- (B) A right to know why the IRS is asking for information
- (C) A right to replacement of examination
- (D) A right to appeal disagreements

Question 468

As a part of an audit on an individual, the IRS needs to contact third-parties to gather additional information. What is the obligation of the IRS in regards to notice to the taxpayer?

- (A) The IRS does not have to provide notice to the individual
- (B) The IRS may provide notice after the information is obtained
- (C) The IRS only has to provide notice for related third-parties
- (D) The IRS must provide a notice before contacting third-parties within a reasonable timeframe

Question 469

Upon completion of an IRS examination, the taxpayer signs the agreement as determined by the IRS but does not immediately make the requested payment. If the amount due is \$50,000, what is the length of the grace period in which no additional interest or penalties will apply?

- (A) 10 days
- (B) 21 days
- (C) 30 days
- (D) 60 days

Question 470

Fast track mediation for individual taxpayers has an IRS target timeframe of:

- (A) 40 days
- (B) 60 days
- (C) 120 days
- (D) 6 months

Question 471

A taxpayer who does not agree with an IRS determination may choose to proceed with any of the following actions except:

- (A) Formal or informal appeal through the IRS appeal process
- (B) Request a reexamination process
- (C) Take the case directly to the U.S. Tax Court
- (D) Take the case to the U.S. Court of Federal claims

Question 472

What is not a required element of the 30-day letter sent by the IRS after the determination of an examination?

- (A) A recommended course of action
- (B) The revenue agent report
- (C) A copy of *Publication 5, Your Appeal Rights*
- (D) An agreement or waiver form

Question 473

What scenario permits an individual to not submit a formal written protest of the IRS examination determination?

- (A) The individual has an income of less than \$200,000
- (B) The individual qualifies for a small case request
- (C) The individual agrees to not take the case to the U.S. Tax Court
- (D) The individual is not represented by themselves and has a qualified representative with power of attorney

Question 474

What is the maximum eligible amount of tax due including penalties for any one year for a Notice of Deficiency to be eligible to be resolved in a Tax Court Small Case procedure?

- (A) \$20,000
- (B) \$30,000
- (C) \$50,000
- (D) \$100,000

Question 475

What type of decisions issued by the U.S. Tax Court are not based on precedence and provide a new and unusual point of law?

- (A) Regular
- (B) Memorandum
- (C) Summary
- (D) Deterministic

Question 476

For an individual to be eligible for the recovery of costs related to litigation, what is their maximum amount of net worth at the time of the filing date?

- (A) \$500,000
- (B) \$1 million
- (C) \$2 million
- (D) \$7 million

Question 477

The Treasury Offset Program has the ability to obtain funds by all of the following methods except:

- (A) Reduction of tax refund
- (B) Garnish wages
- (C) Garnish Federal benefits
- (D) Increase taxes owed

Question 478

A collection due process hearing (CDP) may be requested if the taxpayer has received any of the following notices except:

- (A) Notice of Jeopardy Levy and Right of Appeal
- (B) Notice of Deficiency
- (C) Notice of Levy on Your State Tax Refund
- (D) Notice of Intent to Levy and Notice of Your Right to a Hearing

Question 479

What is not a true statement regarding an individual's request for an equivalent hearing?

- (A) The equivalent hearing may be applied for after the deadline of a CDP request
- (B) An equivalent hearing will not suspend the 10-year collection period
- (C) The taxpayer cannot go to court following an IRS decision at an equivalent hearing
- (D) All of the above are true

Question 480

A collection appeals program (CAP) is applicable in all of the following scenarios except:

- (A) A levy or seizure on an asset
- (B) Termination of an installment agreement
- (C) Trust fund recovery penalty
- (D) Rejection of an installment agreement

Question 481

What is not a true statement regarding the use of a private letter ruling?

- (A) The request is free
- (B) The request is legally binding for the individual taxpayer and the IRS
- (C) The ruling from the request is made public with personal information removed
- (D) The ruling is based only on the specific language provided by the taxpayer

Question 482

What is not one of the U.S. Treasury Department's regulation types?

- (A) Legislative
- (B) Technical
- (C) Interpretive
- (D) Procedural

Question 483

What type of tax preparers are exempt from the IRS e-file mandate?

- (A) Foreign preparers without social security numbers
- (B) Preparers of a single corporation
- (C) Any foreign preparers
- (D) Preparers for individuals

Question 484

A taxpayer must verify their previous year's adjusted gross income when using what methods of electronic signature?

- (A) Self-select PIN method
- (B) Practitioner PIN method
- (C) Both the Self-select PIN method and practitioner PIN method
- (D) Neither method

Question 485

What is the maximum perfection period for the filing of Form 1120, *U.S. Corporation Income Tax Return*?

- (A) 2 days
- (B) 5 days
- (C) 10 days
- (D) 30 days

Question 486

What element of advertising is prohibited from being used in conjunction with the e-file logo?

- (A) The word "Federal"
- (B) The IRS eagle symbol
- (C) An implication of a relationship with the IRS
- (D) All of the above

Question 487

What is the minimum number of returns in which a preparer is classified as a specified tax return preparer?

- (A) 5
- (B) 11
- (C) 12
- (D) 16

Question 488

In determining the application of a substantial portion of a return being prepared by a 2<sup>nd</sup> individual, what metric is used?

- (A) Portions in which involve the cumulation of gross income, deductions, or credits
- (B) Quantity of individual forms prepared
- (C) Amount of time spent with the taxpayer which is documented
- (D) Actual number of hours spent in preparation of a return by each individual preparer

Question 489

What is not considered a valid reason for an enrolled agent continuing education waiver?

- (A) Significant health concerns
- (B) Absence from the United States for an extended period of time
- (C) Extension of active military duty
- (D) None of the above

Question 490

A Certified Acceptance Agent is authorized by the IRS to assist what types of individuals?

- (A) Foreign persons ineligible to obtain a Social Security Number
- (B) Individuals with foreign financial accounts
- (C) Foreign residents with Social Security Numbers
- (D) Foreign residents requesting a power of attorney

Question 491

The Federal confidentiality privilege under 26 U.S. Code § 7525 is applicable for which of the following Federal agencies?

- (A) Internal Revenue Service only
- (B) IRS and state taxing agencies only
- (C) All Federal agencies
- (D) State taxing agencies only

Question 492

The IRS determines the applicability of delay tactics based on which of the following metrics?

- (A) No more than a single cancellation
- (B) Any missed appointment
- (C) No more than one document that is provided late
- (D) Unreasonable delay of a prompt disposition

Question 493

What is the minimum number of years that a record of tax return preparers during a return period must be kept by an employer?

- (A) 1 year
- (B) 2 years
- (C) 3 years
- (D) 5 years

Question 494

What are all applicable penalties incurred with the alteration of a jurat?

- (A) \$5,000 penalty
- (B) Failure to file penalties
- (C) Failure to pay tax owed penalties
- (D) All of the above

Question 495

What is the maximum assessed failure-to-file penalty if it is not determined to be fraudulent?

- (A) 5% of the tax due
- (B) 25% of the tax due
- (C) \$500 or 10% of the tax due
- (D) \$100 per month late

Question 496

The failure-to-file penalty for a tax return is not applicable in which of the following scenarios?

- (A) If the taxpayer provides a written statement
- (B) For self-employed individuals
- (C) If a refund is due to the taxpayer
- (D) For corporations with foreign income

Question 497

A monetary penalty imposed by the Office of Professional Responsibility (OPR) may be up to which of the following?

- (A) Half the gross income derived from the from the conduct that triggered the penalty
- (B) The gross income derived from the from the conduct that triggered the penalty
- (C) 20% of all gross income
- (D) 50% of all gross income

Question 498

The Discriminant Inventory Function System (FIF) provides a score to evaluate whether a return shall be audited based on which metric?

- (A) Income to deduction calculations
- (B) Potential for errors and excessive deductions
- (C) History of tax issues
- (D) Number of forms used

Question 499

A censure issued by the Office of Professional Responsibility involves which of the following actions?

- (A) A private letter
- (B) A public reprimand in the Internal Revenue Bulletin
- (C) Removal of eligibility to represent before the IRS
- (D) All of the above

Question 500

An offer in compromise is established between a taxpayer and the IRS in which:

- (A) Liabilities are settled for less than the amount owed
- (B) The liabilities are eliminated
- (C) The liabilities are increased in exchange for an expedited process
- (D) An agreement for a final hearing is established

Question 501

What is not a profession which may be authorized to practice before the IRS?

- (A) Attorney
- (B) Enrolled actuary
- (C) Enrolled retirement plan agent
- (D) Certified financial planner

Question 502

An unenrolled return preparer with a valid PTIN must hold a record of completion for how many years at a minimum in order to be eligible for representation?

- (A) The year of the tax return under examination
- (B) The year of the examination
- (C) Both the year of the tax return under examination and the year of the examination
- (D) The years spanning the time between the tax return under examination and the year of examination

Question 503

An accountant works for a corporation to manage the recordkeeping of transactions. Additionally, they prepare all of the payroll tax returns for the company. Which of the following statements are true?

- (A) The accountant is personally liable for the
- (B) The accountant can be considered a tax return preparer
- (C) Both the accountant and the corporation are ultimately responsible for the accuracy and compliance of the tax returns
- (D) The company is ultimately responsible for the accuracy and compliance of the tax returns

Question 504

A tax return is determined to have an adjusted gross income of \$120,000. The preparer of the return is assisted by another individual who handles a single section of the return. What is the maximum amount of combined gross income, deductions, and basis for credit in the section prepared by the non-signer for the portion to not be considered a substantial amount of preparation?

- (A) \$10,000
- (B) \$24,000
- (C) \$32,000
- (D) \$120,000

Question 505

An individual who worked for the IRS has a tenure of twelve years. He leaves service in 2021. What is the last year in which the individual is eligible to apply to become an enrolled agent through previous experience?

- (A) 2022
- (B) 2024
- (C) 2026
- (D) The individual is not eligible

Question 506

What is the minimum number of continuing education requirements for every single year during a full three-year enrollment cycle?

- (A) 16
- (B) 24
- (C) 36
- (D) 72

Question 507

A contingent fee may be which of the following:

- (A) A fixed cost
- (B) A fee based on a percentage of the taxpayer's refund
- (C) A fee based on the amount of work needed for each individual
- (D) A discounted fee

Question 508

What statement below from an advertisement most likely does not violate Circular 230 § 10.30 Solicitation requirements?

- (A) "Experienced and certified enrolled agents"
- (B) "Twenty years of experience with the IRS"
- (C) "Endorsed by the IRS"
- (D) "Enrolled to practice before the IRS"

Question 509

An enrolled agent puts an advertisement in the newspaper which includes a fee schedule. What is the minimum number of days after the ad is published that the fee schedule must be followed?

- (A) 15
- (B) 30
- (C) 45
- (D) 60

Question 510

An enrolled agent takes on a new client who provides the previous year's tax return performed by another enrolled agent. What action most likely shall be taken by the current EA to ensure due diligence on the previous year's return?

- (A) The return does not need to be reviewed
- (B) The return shall be reviewed for reasonable competence
- (C) The return must be thoroughly reviewed as if prepared by the new EA
- (D) The return may not be used as reference

Question 511

What is the minimum amount of time in which written consent must be provided to allow representation of a client with a known conflict of interest?

- (A) 15 days after any services have been performed
- (B) 30 days after any services have been performed
- (C) 15 days after the conflict is known to the practitioner
- (D) 30 days after the conflict is known by the practitioner

Question 512

The IRS is performing an investigation of an individual. They request specific documentation from a former practitioner of the client that no longer performs services. If the documentation is not in the possession of the practitioner, what is not a required action for compliance?

- (A) Contacting the client
- (B) Provide the IRS with information as to who may have the required documentation
- (C) Contact a third party which may have the documents
- (D) The EA is not required to provide any information without the consent of the client

Question 513

What type of taxpayer is not required to file Form 8886, *Reportable Transaction Disclosure Statement* for transactions other than listed transactions?

- (A) Trust
- (B) S corporations
- (C) Regulated investment company
- (D) Individual

Question 514

Practitioners are prohibited from signing a tax return in which they are aware the position of the return is:

- (A) Lacking a reasonable basis
- (B) A more likely than not position to be upheld
- (C) Lacks substantial authority
- (D) Exceeds a reasonable basis

Question 515

A list used to identify prior tax returns prepared shall at a minimum include all of the following elements except:

- (A) Taxpayer identification number
- (B) Any tax liabilities owed
- (C) Type of return prepared
- (D) Tax year

Question 516

What disciplinary sanction type involves the issuance of a private letter indicating misconduct that stays on the record of the individual?

- (A) Reprimand
- (B) Censure
- (C) Disbarment
- (D) Investigation

Question 517

A suspended or disbarred practitioner generally may not perform any of the following actions except:

- (A) State or imply that he or she is eligible to practice before the IRS
- (B) Represent a client before the IRS at conferences
- (C) File powers of attorney with the IRS
- (D) Appear as a witness for the taxpayer

Question 518

An enrolled agent is provided notice that a submission has been determined by the Secretary to be frivolous. What is the minimum number of days that the agent has the ability to withdraw the submission to avoid a penalty?

- (A) 15
- (B) 30
- (C) 45
- (D) The penalty will be imposed regardless of withdrawal

Question 519

A formal complaint issued against a practitioner filed by the OPR to the Office of Chief Counsel, General Legal Services (GLS) must contain all of the following components except:

- (A) Description of case facts
- (B) Recommended penalties
- (C) Signature of OPR director
- (D) Type of sanction

Question 520

What is the minimum amount of time a practitioner who is disbarred must wait to apply for reinstatement?

- (A) One year
- (B) Two years
- (C) Five years
- (D) Ten years

Question 521

Which of the following is not a category for the determination of a badge of fraud?

- (A) Income
- (B) Auxiliary acts
- (C) Expenses or deductions
- (D) Books and record

Question 522

At what point in the fraud development procedures is a compliance employee required to engage the fraud technical advisor (FTA)?

- (A) As soon as a badge of fraud is uncovered
- (B) After notifying the compliance group manager
- (C) After concurrence from the group manager
- (D) After verification of the badge of fraud

Question 523

A taxpayer fails to file 1099 forms by the required date by means of forgetting. He was required to file three forms and did not remember until 45 days after the deadline. What is the total applicable fine for failure to file in time?

- (A) \$50
- (B) \$150
- (C) \$330
- (D) \$550

Question 524

After an audit of an individual, it is determined that a notice of deficiency is to be provided in the amount of \$35,000. What is the applicable accuracy-related penalty on the substantial underpayment?

- (A) \$3,500
- (B) \$4,500
- (C) \$5,000
- (D) \$7,000

Question 525

An individual claims a qualifying charitable deduction of \$100,000. If the valuation of the donation is overstated, what is the maximum amount of the actual valuation that would classify the misstatement as gross?

- (A) \$25,000
- (B) \$50,000
- (C) \$60,000
- (D) \$75,000

Question 526

What document listed below has a required retention period of no limit?

- (A) Normal tax return
- (B) Fraudulent returns
- (C) Employment and payroll tax records
- (D) None of the above

Question 527

The failure-to-pay penalty is increased to 1% of the unpaid tax if which of the following occurs?

- (A) The unpaid tax remains for six months
- (B) The unpaid tax remains for a year
- (C) A demand for immediate payment is issued
- (D) The taxpayer responds to the demand for immediate payment

Question 528

The preparer of a return is determined to be in violation of an understatement due to an unreasonable position. If the preparer received \$1,200 for the return in question, what is the applicable penalty?

- (A) \$600
- (B) \$1,000
- (C) \$1,200
- (D) \$2,400

Question 529

All of the following incur \$50 penalties in each instance for failure to comply except:

- (A) IRC § 6695(a) – Failure to furnish copy to taxpayer
- (B) IRC § 6695(b) – Failure to sign return
- (C) IRC § 6695(c) – Failure to furnish identifying number
- (D) IRC § 6695(f) – Negotiation of check

Question 530

What return preparer penalty can incur criminal penalties including jail time?

- (A) IRC § 6695(g) – Failure to be diligent in determining eligibility for certain tax benefits
- (B) IRC § 6700 – Promoting abusive tax shelters
- (C) IRC § 6701 – Penalties for aiding and abetting understatement of tax liability.
- (D) IRC § 7216 – Disclosure or use of information by preparers of returns.

Question 531

What is the required filing of Form 2848, *Power of Attorney and Declaration of Representative* for a married couple filing jointly?

- (A) Only a single form may be completed for one of the taxpayers
- (B) A joint form can be completed for both taxpayers
- (C) A separate form must be completed for each taxpayer
- (D) Married filing jointly taxpayers are ineligible for Form 2848

Question 532

What is not a requirement for the signing of Form 2848, *Power of Attorney and Declaration of Representative* by a representative?

- (A) The representative must be eligible to practice before the IRS
- (B) The representative may delegate to an employee if proper due diligence is observed
- (C) The representative must have a valid PTIN
- (D) The representative must use his or her own name and not the name of the employer

Question 533

A non-IRS power of attorney shall include a Declaration of Representatives which includes all of the following statements except:

- (A) I am not currently under suspension or disbarment from practice before the Internal Revenue Service or other practice of my profession by any other authority
- (B) I am subject to regulations contained in Circular 230 (31 C.F.R., Subtitle A, Part 10) as amended, governing practice before the Internal Revenue Service
- (C) I am of willful and knowledgeable participation
- (D) I am authorized to represent the taxpayer(s) identified in the power of attorney

Question 534

What statement below is true regarding the relationship between filing Form 2848, *Power of Attorney and Declaration of Representative* with an existing Form 8821, *Tax Information Authorization*?

- (A) The filing of Form 2848 will not revoke any Form 8821 that is in effect
- (B) The filing of Form 2848 will revoke any Form 8821 that is in effect
- (C) Form 2848 and Form 8821 cannot be in effect simultaneously
- (D) Form 8821 must be filed prior to Form 2848

Question 535

What word is required to be written on Form 2848, *Power of Attorney and Declaration of Representative* if the taxpayer wishes to end the power of attorney agreement with a representative?

- (A) WITHDRAW
- (B) REVOKE
- (C) REMOVE
- (D) CANCEL

Question 536

What statement below is true regarding the assigning of a Centralized Authorization File (CAF) number?

- (A) Assigned after the filing of Form 2848 only
- (B) Assigned after the filing of Form 8821 only
- (C) Assigned after the filing of Form 2848 or Form 8821
- (D) Assigned after the filing of both Form 2848 and Form 8821

Question 537

If a Form 2848 is filed in the current year, what is the final year in which an authorization can be recorded to the Centralized Authentication File (CAF)?

- (A) The current year only
- (B) The year following the filing
- (C) Two years after the filing
- (D) Three years after the filing

Question 538

For the purposes of disclosure of information from a taxpayer in preparing a tax return of a second taxpayer, what is not considered a related person?

- (A) Grandchild
- (B) Domestic partner
- (C) Half-sibling
- (D) A beneficiary of a trust

Question 539

What is the maximum amount of U.S. Series I Savings Bonds that may be purchased using a tax refund?

- (A) \$50
- (B) \$1,000
- (C) \$2,500
- (D) \$5,000

Question 540

What is the minimum balance owed in which an installment agreement must be paid by direct debit for an individual?

- (A) \$5,000
- (B) \$10,000
- (C) \$25,000
- (D) \$50,000

Question 541

What is not one of the Collection Financial Standards used to help determine a taxpayer's ability to pay a delinquent tax liability?

- (A) Transportation
- (B) Employment
- (C) Out-of-pocket Health care expenses
- (D) Clothing

Question 542

What statement below is false regarding an individual granted “currently not collectible status”

- (A) The IRS can no longer levy assets
- (B) The IRS can no longer apply penalties
- (C) The IRS can no longer attempt to levy wages
- (D) The IRS can keep any refunds and apply them to the existing balance

Question 543

What is the length of time for the collection statute of limitations?

- (A) Two years
- (B) Five Years
- (C) Ten years
- (D) Twenty Years

Question 544

An individual is issued a notice of an existing tax balance owed. After three years of no payment, a request for a collection due process hearing is processed and takes six months to complete. What is the total length of the collection statute of limitations?

- (A) Ten years
- (B) Ten years and six months
- (C) Thirteen years
- (D) Thirteen years and six months

Question 545

All of the following statements are true regarding the IRS’s implementation of the Automated Substitute for Return (ASFR) program except:

- (A) The IRS may use information third-parties to assess the liability
- (B) The individual forfeits the right to a refund
- (C) The IRS may make assumptions to maximize the tax liability
- (D) None of the above

Question 546

What type of income is not allowed to be levied by the IRS?

- (A) Retirement
- (B) Unemployment
- (C) Social Security
- (D) Self-employment

Question 547

What is not one of the four due diligence requirements for refundable credits?

- (A) Due diligence checklist
- (B) Computation of credits on required worksheets
- (C) Provide written recommendation based on the obtained information
- (D) Application of the knowledge requirement

Question 548

Form 8867, *Paid Preparer's Due Diligence Checklist* shall be filed:

- (A) Before the filing of a return in anticipation of credits to be reviewed
- (B) Along with the return
- (C) After the return has been accepted by the IRS
- (D) The Form may be provided at any time

Question 549

What is not one of the three identified most common errors that an individual will make when claiming the earned income tax credit (EITC)?

- (A) Incorrect filing status
- (B) Borrowing of dependents
- (C) Claiming ineligible dependents
- (D) Misreported income

Question 550

What is not an example of tax avoidance?

- (A) Deducting mortgage interest
- (B) Claiming the Child Tax Credit
- (C) Contributing to a retirement fund
- (D) None of the above

Question 551

A business under an audit requests information from the IRS under the Freedom of Information Act (FOIA). It is determined that a portion of the document is covered under one of the identified exemptions. What is the proper action that must be taken in providing the information?

- (A) The entire document must be provided
- (B) Only the portion of the document with the non-exempt information must be provided
- (C) The full document must be provided with exempt sections indicated as being deleted
- (D) The entire document may not be provided

Question 552

What is not one of the ten IRS adopted fundamental rights of a taxpayer?

- (A) The Right to Be Informed
- (B) The Right to Pay No More than the Correct Amount of Tax
- (C) The Right to Plausibility
- (D) The Right to Challenge the IRS's Position and Be Heard

Question 553

What is not a recommended action for an individual that suspects they have been a victim of identity theft?

- (A) Hold off on paying taxes or filing a return
- (B) Respond to any notice provided by the IRS
- (C) File a complaint with the FTC
- (D) Close any financial accounts in association with the misrepresented tax information

Question 554

What statement is true regarding the issuing of an identity protection personal identification number (IP PIN)?

- (A) A single IP PIN is used for each taxpayer's life
- (B) An IP PIN is only valid for a single year
- (C) All states are eligible to use the IP PIN
- (D) An IP PIN may be used for a period of three years

Question 555

Form 1127, *Application for Extension of Time for Payment of Tax Due to Undue Hardship* is applicable for which of the following scenarios?

- (A) An individual seeking an extension of time to pay estate tax
- (B) An individual requesting a monthly installment plan
- (C) An individual requesting to postpone a deficient amount of tax shown on a return
- (D) An individual seeking an extension of time to file an income tax return

Question 556

A corporation has concerns about the amount of their current liquid assets. The head of the finance department, unknowingly to management, decides to not remit the employee withholdings to the IRS. Which of the following are subject to the trust fund recovery penalty?

- (A) The corporation
- (B) The CEO
- (C) The head of finance
- (D) All of the above

Question 557

What IRS summons procedure is allowable for a third-party record-keeper only?

- (A) Hand the summons to the person directly
- (B) Provide the summons by certified mail
- (C) Leave the summons at the last and usual place of abode for a close relative of suitable age and discretion with instructions
- (D) Enclose the summons in an envelope and affix it to the front door of the individual's last and usual place of abode

Question 558

What is not a requirement for the qualification of innocent spouse relief?

- (A) A joint return is filed in which an understatement of tax is present due to erroneous items of the spouse or former spouse
- (B) At the time the joint return is signed, the individual did not know and had no reason to know, that there was an understatement of tax.
- (C) The taxpayer must be no longer married in the twelve-month period before the filing of the claim
- (D) There has not been a transfer property to one another as part of a fraudulent scheme

Question 559

Which of the following relief from joint liability options allows the equitable relief from an understatement of tax or an underpayment of tax?

- (A) Innocent spouse relief
- (B) Separation of liability relief
- (C) Equitable relief
- (D) All of the above

Question 560

The IRS will not certify all of the following delinquent tax to the State Department except:

- (A) Child support
- (B) Report of Foreign Bank and Financial Account (FBAR) penalty
- (C) Interest-only tax debt
- (D) Debt from a bankrupt individual

Question 561

What is not one of the identified types of penalties eligible for relief by the IRS?

- (A) Failing to file a tax return
- (B) Failing to deposit certain taxes as required
- (C) Failing to pay on time
- (D) None of the above

Question 562

An individual fails to pay an outstanding tax liability on time. He applies for the first-time penalty abatement option. At what point does the failure-to-pay penalty cease to accrue?

- (A) Retroactively to the due date of the tax
- (B) At the time of application for the abatement
- (C) Once the tax is actually paid
- (D) The penalty is no longer applicable

Question 563

What is not a requirement for an individual to qualify for the first-time penalty abatement option?

- (A) No penalties in the previous three returns
- (B) The individual agrees to additional penalties for infractions in the following three years
- (C) All required returns have been filed
- (D) Tax due has been paid or arranged to be paid

Question 564

Reasonable cause as it pertains to penalty abatement is based on which of the following?

- (A) Circumstances out of the individual's control
- (B) Reduction in the individual's financial well being
- (C) A significant change in the taxes due from one year to another
- (D) Only medical issues can qualify for reasonable cause

Question 565

What is not one of the three types of IRS examinations?

- (A) Correspondence audit
- (B) Office audit
- (C) Auxiliary examination
- (D) Field examinations

Question 566

What method of selection for IRS examinations is most likely used to identify inconsistencies between income reported and the corresponding W-2?

- (A) DIF Scoring
- (B) Information matching
- (C) Related examinations
- (D) Third-party information

Question 567

An IRS examiner who is to perform a field examination is required to provide and explain the taxpayer's rights during an examination no later than which of the following elements of the process?

- (A) Initial correspondence
- (B) During the initial interview
- (C) Beginning of the collection process
- (D) The IRS examiner is under no obligation to explain the rights

Question 568

What is not one of the identified resolutions of an IRS examination?

- (A) Agreed
- (B) No change
- (C) Unagreed
- (D) Substantiate

Question 569

What is not one of the required elements to be included in the issuing of Form 886-A, *Explanation of Items*?

- (A) Case Facts
- (B) Taxpayer obligations
- (C) Taxpayer's position
- (D) Government's position

Question 570

All of the cases listed below do not qualify for the fast-track mediation program except:

- (A) Cases referred to the Department of Justice
- (B) Cases in which the examination has been a result of a third-party
- (C) Cases in which the taxpayer has failed to respond to IRS communications
- (D) Frivolous issues

Question 571

A taxpayer does not have an obligation to attend an audit in which of the following scenarios?

- (A) If the individual represents themselves and provides prior documentation addressing the IRS concerns
- (B) The individual may choose not to attend if any representative is chosen
- (C) The individual appoints a qualified representative with power of attorney
- (D) The individual always must attend

Question 572

What is the maximum amount of tax owed in which an individual may qualify for a small case request procedure?

- (A) \$10,000
- (B) \$25,000
- (C) \$50,000
- (D) \$100,000

Question 573

Which of the following individuals is not required to pass the Tax Court Exam to be eligible to practice before the Tax Court?

- (A) Enrolled Agent
- (B) CPA
- (C) Licensed Attorney
- (D) None of the above

Question 574

What options are available after a decision is made in an appeal that goes to an S-case procedure in the U.S. Tax Court?

- (A) Both the IRS or the individual may appeal the court's decision
- (B) Only the IRS can appeal the court's decision
- (C) Only the individual can appeal the court's decision
- (D) Neither the IRS nor the individual can appeal the decision

Question 575

What is the maximum amount of time after a Notice of Deficiency is issued in which the individual is eligible to appeal the IRS decision in the U.S. Tax Court?

- (A) 30 days
- (B) 60 days
- (C) 90 days
- (D) 150 days

Question 576

Reasonable litigation costs as per 26 U.S. Code § 7430 include:

- (A) Court costs
- (B) Administrative fees
- (C) Expenses of expert witnesses
- (D) Costs of court required analysis or investigation

Question 577

What action is taken by the IRS if two returns are filed with duplicate Social Security Numbers?

- (A) The second return will be rejected
- (B) The IRS will reject both the second return and retroactively reject the original return
- (C) The IRS will accept both returns
- (D) The IRS will accept both returns and initiate an investigation

Question 578

The Treasury Offset Program (TOP) may offset Federal debts for what period of time in the past?

- (A) 3 years
- (B) 5 years
- (C) 10 years
- (D) There is no limit

Question 579

An individual that is expecting a tax refund has overdue debt payments. The debts include \$5,000 in Federal student loans, \$6,000 in state tax debt, and an additional \$10,000 in credit card debt. What is the amount of debt eligible to be offset by the refund by the Treasury Offset Program (TOP)?

- (A) \$5,000
- (B) \$6,000
- (C) \$11,000
- (D) \$21,000

Question 580

What is the minimum amount of time an individual must request an equivalent hearing?

- (A) 6 months from the date of a levy notice
- (B) One year from the date of a levy notice
- (C) 30 days from the collection notice
- (D) 60 days from the collection notice

Question 581

All of the following are true for a collection appeals program (CAP) and not a collection due process hearing (CDP) except:

- (A) The administrative decision is final
- (B) The goal of the response turnaround is 5-days
- (C) Appeals do not consider alternatives to the issue under appeal
- (D) The taxpayer may represent themselves

Question 582

What is not a true characteristic of the Taxpayer Advocate Service?

- (A) The service is free
- (B) The service is confidential
- (C) The service is for individuals only
- (D) The service may facilitate the stopping of IRS collection activities

Question 583

The outcome of a private letter ruling (PLR) is applicable to which of the following?

- (A) As precedence to similar cases in the future
- (B) As precedence to cases determined by the IRS to be identical
- (C) As only a ruling to the individual case
- (D) As a suggestion to the individual and is not legally binding

Question 584

U.S. Treasury Department temporary regulations remain in effect for what period of time?

- (A) 1 year
- (B) 3 years
- (C) 5 years
- (D) Temporary regulations do not expire until made final

Question 585

What method of electronic signature allows for a fully paperless process?

- (A) Self-select PIN method
- (B) Practitioner PIN method
- (C) Both the Self-select PIN method and practitioner PIN method
- (D) Neither method

Question 586

What is the maximum perfection period for an individual return?

- (A) 2 days
- (B) 5 days
- (C) 10 days
- (D) 30 days

Question 587

What is not a required element of a return that needs to be resubmitted after an e-file rejection?

- (A) The rejected electronic return date on the return
- (B) A copy of the rejection letter
- (C) A copy of the submission receipt
- (D) An explanation of why the return is filed after the due date

Question 588

An enrolled agent who has been disbarred in the past has a child audited. What statement below is true regarding the disbarred agent's ability to represent the child before the IRS?

- (A) The child must represent themselves
- (B) The EA is not eligible to represent the child due to disbarment
- (C) The EA may represent the child only if he assisted in the preparation of the return
- (D) The EA may represent a close family member such as a child despite being disbarred

Question 589

A supervised preparer may not perform any of the following functions except:

- (A) Obtain a PTIN
- (B) Sign a tax return
- (C) Represent taxpayers before the IRS
- (D) Identify themselves as Circular 230 practitioners

Question 590

What is the minimum number of hours for ethics continuing education hours that can be carried over to the following year?

- (A) 1 hour
- (B) 2 hours
- (C) 4 hours
- (D) Ethics requirements may not be carried over to the next year

Question 591

Form 8948, *Preparer Explanation for not Filing Electronically* is required in which of the filing situations?

- (A) A return preparer with a single form to be filed
- (B) A specified return preparer choosing not to file electronically
- (C) For all corporate tax returns
- (D) For any company with net receipts above \$1 million

Question 592

A Certified Acceptance Agent (CAA) is authorized by the IRS to submit which of the following forms?

- (A) Form W-4
- (B) Form W-7
- (C) Form W-8
- (D) Form W-9

Question 593

A practitioner shall not sign a tax return with a tax position that is considered:

- (A) Frivolous
- (B) A more likely than not position to be sustained
- (C) A More likely than not position with reasonable basis
- (D) A practitioner may sign any return

Question 594

What statement is true regarding any alteration of the jurat?

- (A) Is allowed if the return has a reasonable basis
- (B) Must be accompanied by a written statement indicating the reason for alteration
- (C) May be done using the term "void" as appropriate
- (D) The return automatically becomes frivolous

Question 595

An individual taxpayer fails to file a tax return on time. The unpaid tax is \$5,000. If the taxpayer files after two months, what is the failure-to-file penalty?

- (A) \$250
- (B) \$500
- (C) \$1,000
- (D) \$1,250

Question 596

An individual taxpayer who is subject to both the failure-to-file penalty and the failure-to-pay penalty will be subject to which of the following?

- (A) The penalties are added together
- (B) The higher of the penalty is applied
- (C) The failure-to-file penalty is reduced by the failure-to-pay penalty
- (D) The lower of the penalties is applied

Question 597

The IRS may accept an offer in compromise based on any of the following except:

- (A) Doubt as to liability
- (B) Likelihood of repeatability
- (C) Doubt as to collectability
- (D) Effective tax administration

Question 598

Form 843, *Claim for Refund and Request for Abatement* is applicable for all of the following except:

- (A) A refund of penalties related to gift taxes
- (B) An abatement of FUTA tax
- (C) An overpayment of income taxes or an employer's claim for FICA tax
- (D) A refund of penalties related to estate taxes

Question 599

What scenario below for an individual applying for penalty abatement is least likely to qualify as reasonable cause?

- (A) A natural disaster such as a hurricane
- (B) Death of an immediate family member
- (C) Incorrect tax advice from a tax professional
- (D) The individual was fired from their job

Question 600

At what point are temporary regulations made effective?

- (A) At the time they are initiated
- (B) At the beginning of the review process
- (C) Once they are determined to be final regulations
- (D) Published by the Federal Register

### Solution 1

The statute of limitations on a refund being issued based on a change to a previous return is the later of three years from the due date of the original return or two years from the date the tax was paid. In this case, it would be three years after the original due date of April 15, 2020 which is April 15, 2023.

The answer is **(D)**

### Solution 2

There is a minimum amount of information that must be provided to file a return. This includes:

- Legal name
- Date of birth
- Marital status
- Residency
- Citizenship
- Identification of any dependents
- Providing two forms of identification
- Providing SSN, ITIN, or ATIN

While the SSN is required to be provided, the document specifically is not and may be provided by the taxpayer verbally or written.

The answer is **(A)**

### Solution 3

An Individual Taxpayer Identification Number (ITIN) is used to identify and process individuals who are not able to obtain or have a Social Security Number but are still responsible for the filing of a federal tax return. An ITIN does not provide the following benefits:

- Authorize work in the U.S.
- Provide eligibility for Social Security benefits
- Qualify a dependent for Earned Income Tax Credit Purposes

The answer is **(C)**

#### Solution 4

Registered domestic partnerships are not able to file joint taxes as they are not married under state law. The dependency of the child may be claimed but only by one of the members of the domestic partnership. If both attempt to claim the dependent, the IRS will only allow the parent with whom the child had the most time of residence to claim the dependence. If the time were split evenly, the parent with the higher adjusted gross income would be able to claim the dependency.

The answer is **(B)**

#### Solution 5

The filing status of the individual is determined by their status on the last day of the tax year. The length of time associated with a specific arrangement is inconsequential. Therefore, a couple who was married for almost the entirety of the year but then is divorced on the final day will have to file as single.

The answer is **(A)**

#### Solution 6

An individual's green card status may be removed by the following means:

- Judicial removal by a federal court
- Renunciation by the individual
- Administrative termination by the USCIS

The substantial presence test is a separate evaluation of residency for tax purposes.

The answer is **(B)**

#### Solution 7

The citizen or resident dependency test details the types of individuals who can and cannot be a qualifying dependent. A dependent person must be a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico. They may also be an adopted non-U.S. citizen, U.S. resident alien, or U.S. national as long as the child lives with the taxpayer as a member of the household all year and if all other dependency tests are met. Foreign exchange students despite the length of stay are not considered eligible.

The answer is **(A)**

## Solution 8

The age requirement for dependency is as follows:

- Under the age of 19 at the end of the tax year and younger than the taxpayer or
- A full-time student under the age of 24 at the end of the year and younger than the taxpayer, or
- Any age if permanently disabled at any time during the year

The answer is **(C)**

## Solution 9

The Child Tax Credit and the Earned Income Tax Credit have similar qualifications for the dependency portion. The CTC includes:

- Age
- Relationship
- Support
- Dependent
- Citizenship
- Residence

The EITC includes:

- Residency
- Age
- Joint return
- Relationship

The answer is **(B)**

## Solution 10

The Child and Dependent Care expenses must be work-related or related to looking for a job. Volunteering is considered an optional act and does not fall under work-related expenses.

The answer is **(B)**

### Solution 11

The foreign earned income exclusion allows the exclusion of foreign income for U.S. tax purposes. The individual must have foreign earned income, the tax home must be in a foreign country, and one of the following must be true:

- A U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year,
- A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year, or
- A U.S. citizen or a U.S. resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months.

The answer is **(B)**

### Solution 12

The income despite being received by a third party is still assigned to the original individual. There is no deduction for this scenario.

The answer is **(D)**

### Solution 13

The American Opportunity Tax Credit (AOTC) is classified as a partially refundable tax credit. This means that if the student's tax liability has been reduced to zero with AOTC, they may still receive 40% of the remaining credit, up to \$1,000, as a tax refund. Therefore, in this scenario, once the liability is reduced to zero, there is \$2,100 remaining. 40% of this is \$840 which is less than the maximum of \$1,000.

The answer is **(B)**

### Solution 14

The scenario falls under constructively-received income. This indicates that income shall be reported at the time the funds are made available to the recipient. Despite the check being cashed at a later date, if the funds were able to be deposited for the landlord, then the income must be reported in that year. In the case of insufficient funds or a bounced check, the landlord does not, in fact, have access to the funds and the income would be reported in the following year when an additional check is sent.

The answer is **(A)**

### Solution 15

Individuals, including sole proprietors, partners, and S corporation shareholders, have to make estimated tax payments if they expect to owe tax of \$1,000 or more when their return is filed. Corporations have to make payments if they expect to owe tax of \$500 or more when their return is filed.

The answer is **(B)**

### Solution 16

The determination of the filing for income from royalties is based on whether or not the individual is engaged in the business at the time the intellectual property was created. The determination of whether or not an individual is engaged in business practices depends on if actions are taken to treat it as a business. These include multiple books being written, revising, advertising, etc. If the individual only writes a single book and does not engage in business practices, the income is taxed at a lower rate and is reported on Schedule E.

The answer is **(B)**

### Solution 17

A parent may elect to report a child's interest and ordinary dividends on their return. The child must meet all of the following conditions.

1. At the end of the tax year, the child was under age 19 (or under age 24 if a full-time student).
2. The child's gross income was less than \$11,000 for the tax year.
3. The child had income only from interest and dividends.
4. No estimated tax payments were made for the child for the tax year, and no overpayment from the previous tax year (or from any amended return) was applied to the current tax year.
5. No federal income tax was withheld from the child's income under the backup withholding rules.
6. The child is required to file a return unless you make this election.
7. The child doesn't file a joint return for the tax year.
8. The parent qualified to make the election is the one including the child on their return.

The answer is **(B)**

### Solution 18

Tips must be properly reported to an employer so that the correct amount of withholding can be applied. If tips accumulated in an individual month are less than \$20 however, they need not be reported.

The answer is **(B)**

### Solution 19

A statutory employee is an independent contractor that is treated as an employee for tax withholding purposes if they meet certain conditions. A statutory employee falls under any one of the following categories as specified by the IRS:

- A driver who distributes beverages (other than milk), meat, vegetable, fruit, or bakery products, picks up and delivers laundry or dry cleaning.
- A full-time life insurance sales agent whose principal business activity is selling life insurance or annuity contracts, or both, primarily for one life insurance company
- An individual who works at home on materials or goods that the company supplies and that must be returned based on specifications for the work to be done
- A full-time traveling or city salesperson who turns in orders to wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments (The goods sold must be merchandise for resale or supplies for use in the buyer's business operation; the work performed must also be the salesperson's principal business activity.)

The answer is **(C)**

### Solution 20

Interest from bonds shall be reported based on the scenario in which the bond is paid for:

- An individual buys a bond in their name and the name of another person as co-owners, using only their own funds. The individual must report the interest.
- An individual buys a bond in the name of another person, who is the sole owner of the bond. The person for whom the bond was bought for reports the interest.
- An individual and another person buy a bond as co-owners, each contributing part of the purchase price. Both report interest in proportion to the amount each paid for the bond.

The answer is **(A)**

### Solution 21

Qualified dividends are ordinary dividends subject to the same tax rate that applies to net capital gain. To qualify for the maximum rate, all of the following requirements must be met.

- The dividends must have been paid by a U.S. corporation or a qualified foreign corporation.
- The dividends are qualified
- The holding period must be at least 60 days normally or 90 days for preferred stocks

Therefore, a preferred stock held less than 90 days does not qualify.

The answer is **(D)**

### Solution 22

Gifts and bonuses to open a new account are considered taxable interest. The points received beyond that, however, are not. Therefore, the only taxable amount for the individual is the initial \$500 bonus.

The answer is **(B)**

### Solution 23

The portion of a purchase of a Series EE bond which is considered taxable is determined by the difference between the purchase price and the redeemed value. This is the interest accumulated over time.

The answer is **(D)**

### Solution 24

The value of education bonds must be used fully to fund qualified educational purposes to be exempt from taxes. If a portion is used, as in this example, the percentage of principal to interest is used to determine the amount of taxable interest that remains. Since \$4,500 of the \$5,000 is principal, then 90% of the proceeds are principal and 10% for interest. After the qualifying purchases are made, the remainder used for personal expenses is \$1,000. 10% of this number is the remaining interest that must be considered taxable which equals \$100.

The answer is **(B)**

#### Solution 25

Capital gains are typically classified as short term or long-term depending on the amount of time held. Mutual funds, however, are exempt from this distinction and capital gain distributions are always considered long term.

The answer is **(D)**

#### Solution 26

A nonrecourse loan is one in which the lender cannot pursue a remaining balance in the event of default. This is more common for loans involving assets that can be seized. Therefore, in this scenario despite the forgiveness of the remaining \$20,000, the debt cancellation is not taxable.

The answer is **(A)**

#### Solution 27

Hobby income is treated differently depending on if the actions can be considered as for profit or not. Considering this is an isolated occurrence, it cannot be determined that the individual is in the business of selling stamps and therefore the income is treated as a capital gain.

The answer is **(A)**

#### Solution 28

The basis calculation for an IRA is the total of all the nondeductible contributions and nontaxable amounts included in rollovers made to these IRAs minus the total of all nontaxable distributions, adjusted if necessary. A Roth IRA does not include nondeductible contributions and therefore cannot calculate a basis.

The answer is **(D)**

### Solution 29

Social security benefits are taxable if the cumulation of income, including nontaxable interest, is above the basis threshold. The number used for comparison is one-half the social security benefit plus all other income:

$$\frac{\$12,000}{2} + \$5,000 + \text{Additional income} > \$32,000$$

Therefore, the social security is taxable if the additional income is \$21,000.

The answer is **(D)**

### Solution 30

Distributions from tax-deferred retirement accounts are taxed as ordinary income.

The IRS offers an election of employer stock to be taxed at the more favorable capital gains rate by the use of Net Unrealized Appreciation (NUA). The use of the NUA election is only available when the stock is placed into a tax-deferred account, such as a 401(k) or traditional IRA, and is only applicable if the stock of the company for which an individual is or was employed. Roth IRAs do not qualify for NUA because they are not tax-deferred.

The answer is **(D)**

### Solution 31

If an IRA is inherited, the rules are different for a spouse than for anyone else. A spouse has the ability to treat the IRA as their own or to roll it over into an existing account. Any other beneficiary does not have this option.

The answer is **(A)**

### Solution 32

The basis of the land is different than the basis of the building. Any costs associated with the acquisition and preparation of a site are identified with the land. Therefore, the land basis is  $\$100,000 + \$40,000 + \$10,000 + \$5,000 = \$155,000$ .

The answer is **(C)**

### Solution 33

Basis is determined by the cost it takes to acquire property unless it is inherited or gifted.

The answer is **(B)**

### Solution 34

If stocks are sold without specific identification, that sale reverts to the first in, first out method in which the earliest bought stocks are sold first. Since the sale is 500 shares, it accounts for the entirety of the first block and 100 of the second. The determination of the cost of the sold shares is:  $400 \times \$4 + 100 \times \$5.50 = \$2,150$ . The proceeds from the sale are now  $500 \times \$7 = \$3,500$ . Therefore, the difference is  $\$3,500 - \$2,150 = \$1,350$ .

The answer is **(D)**

### Solution 35

Depreciation can be claimed from the home itself and any improvements to the home which have a lifespan. The home itself is spread out over the 27.5 years. Therefore, the yearly home depreciation is  $\$160,000/27.5 = \$5,818$ . Any work performed on the home must be classified as either improvements or repairs. Improvements extend the useful life of the property. Examples are additions, remodeling, or replacements. The roof classifies as an improvement and is to be depreciated over its lifespan of 20 years. The calculated depreciation is  $\$20,000/20 = \$1,000$ . The repairs are not depreciated over a lifespan and are taken in the year the expense occurs. Therefore, the total is  $\$5,818 + \$1,000 + \$2,000 = \$8,818$ .

The answer is **(A)**

### Solution 36

Despite opting into the plan 52 weeks earlier, the holding period does not begin until the day after the option is exercised.

The answer is **(D)**

### Solution 37

Inheritance basis is determined by the fair market value at the time of death.

The answer is **(A)**

#### Solution 38

The use of money in a health savings account is subject to tax if it is not used for qualifying medical expenses. It is also subject to an additional 20% penalty if the individual does not meet the exceptions. Money for an expense does not have to be spent in the same year in which it was saved.

The answer is **(A)**

#### Solution 39

If a couple files as married filing separately and one member of the marriage uses itemized deductions, the other cannot take the standard deduction and it will be taken as zero. In this scenario, the total deductions for the couple would be \$30,000.

The answer is **(B)**

#### Solution 40

An individual can only deduct the amount of unreimbursed medical expenses which exceed 7.5% of the adjusted gross income. To calculate this scenario, 7.5% of \$45,000 is \$3,375. The amount that exceeds this is  $\$5,225 - \$3,375 = \$1,850$ .

The answer is **(B)**

#### Solution 41

The documentation of charitable contributions is determined by the type of payment and the amount of each individual contribution. For cash donations, any individual contributions exceeding \$250 must be documented by a receipt from the organization indicating the amount and date of the donation.

The answer is **(C)**

#### Solution 42

Interest from home equity loans can only be deducted if the funds are used to cover substantial improvements to the taxpayer's home.

The answer is **(C)**

#### Solution 43

The deduction of points for a refinance is treated differently than that of a purchase. For a purchase, the entirety of the cost can be deducted in the year of the loan origination. For a refinance the cost must be evenly spread out over the life of the loan. Therefore,  $\$2,200/30 = \$73.33$ .

The answer is **(C)**

#### Solution 44

Due to the recent law changes, foreign real estate taxes are no longer deductible. The \$8,000 in primary residence real estate taxes is under the \$10,000 cap and is fully deductible.

The answer is **(B)**

#### Solution 45

Qualifying charitable organizations include:

- Religious organizations
- Educational organizations
- State or Federal Government entities
- Hospitals
- Nonprofits for the purposes of religion, education, charity, or science
- Amateur sports competition organizations

The answer is **(A)**

#### Solution 46

Theft and casualty losses are only deductible now if the area is determined by the President to be a federal disaster area. The loss deduction is the lesser of the decrease in fair market value or the adjusted basis at the time of the event. It is then further reduced by both \$100 and 10% of the adjusted gross income. The basis of this instance is reduced by \$100 and 10% of \$45,000 which is \$4,500. Therefore, the total deduction is  $\$125,000 - \$100 - \$4,500 = \$120,400$ .

The answer is **(C)**

#### Solution 47

Gambling losses can be reported as miscellaneous deductions but only apply to the extent to which they offset any gambling winnings.

The answer is **(B)**

#### Solution 48

Nonresident aliens are limited to specific itemized deductions including:

- State and local income taxes
- Casualty and theft losses
- Charitable contributions

The answer is **(D)**

#### Solution 49

The Child Tax Credit begins to phase out over a threshold for the adjusted gross income. For married filing jointly, it begins at an AGI of \$150,000 but cannot be reduced below \$2,000 at an AGI below \$400,000. The phase-out is \$50 for every \$1,000 over the threshold. Therefore, since the couple is \$10,000 over the limit, the credit is reduced by  $10 \times \$50 = \$500$ . The eligible credit is \$3,000 for a child older than 6. Therefore, the credit is  $\$3,000 - \$500 = \$2,500$ .

The answer is **(B)**

#### Solution 50

As of 2021, the Child Tax Credit is now fully refundable. Therefore, the full Child Tax Credit of \$3600 is applied and the refund is \$2600.

The answer is **(B)**

#### Solution 51

The Other Dependent Credit is available for dependents that do not qualify for the Child Tax Credit. They are not subject to the qualifying child tests of age, relationship, support, dependency, joint return, citizenship, and residency. A child who is 17 or older is not eligible for the Child Tax Credit but can be for the Other Dependent Credit.

The answer is **(A)**

#### Solution 52

The Lifetime Learning Credit is a nonrefundable credit for 20% of education expenses. The credit applies to a maximum of \$10,000 of expenses. The expenses may include tuition and any other payments made directly to an institution for books or supplies. Therefore, the qualifying payments are the tuition and books which total  $\$5,000 + \$1,200 = \$6,200$ . 20% of that would be \$1,240.

The answer is **(A)**

#### Solution 53

The Adoption Credit has the following limitations:

- The person must be 18 years of age or less unless they are mentally or physically disabled
- Surrogate parenting arrangement expenses are not eligible
- An individual may not claim the credit for the adoption of a spouse's child

The answer is **(C)**

#### Solution 54

There are specific qualifications for the Earned Income Tax Credit. The individual must meet the following criteria:

- Has a valid SSN
- Cannot be claimed as a dependent
- Must be a U.S. citizen or legal resident for the entirety of the year
- Those married filing separately are not eligible
- Must have earned income from wages, tips, combat pay, or self-employment income
- Any investment income must not exceed \$3,600

The answer is **(C)**

#### Solution 55

The Retirement Savings Contribution Credit, also referred to as the Saver's Credit, allows a credit of a certain percentage of qualified retirement savings based on adjusted gross income. For a single individual with an income of \$15,000, they are eligible for the 50% credit. Therefore 50% of \$400 is \$200.

The answer is **(C)**

#### Solution 56

The Earned Income Tax Credit has limits on the taxpayer's earnings. These limits are based on the number of qualifying children and range from zero to three or more. Any children above three have the same limits. Combat pay is an exception to the exclusion of nontaxable income from the determination of earned income and the individual may choose to include it or not. A child who is born or died in the tax year automatically is an exception to the residency test.

The answer is **(D)**

#### Solution 57

The Retirement Savings Contributions Credit allows individuals with qualifying income levels to deduct retirement savings contributions. The eligible contributions are traditional and Roth IRAs or employer-sponsored retirement plans such as 401k's. The bond is not eligible. In this scenario, the gross income needs to be adjusted based on the tax-deferred 401k investment of \$5,000:  $\$46,000 - \$5,000 = \$41,000$ . At this income level, the credit is 20% of the contributions for married filing jointly. Then to calculate the credit,  $20\% \text{ of } \$7,000 = \$1,400$ .

The answer is **(C)**

#### Solution 58

The penalty for errors concerning the Earned Income Tax Credit is a combination of paying back the penalty with interest and being barred from claiming the credit for a certain number of years depending on the intention of the error. If the error was committed as a result of reckless filing, the individual is barred for two years. If the error is determined to be intentional fraud, the time frame is ten years.

The answer is **(D)**

#### Solution 59

If an individual works for two separate employers, they are entitled to a credit in the amount of the excess Social Security taxes paid. The maximum for 2021 is \$8,853.60. Therefore, the excess amount is  $\$6,820 + \$2,170 - \$8,853.60 = \$136.40$ .

The answer is **(A)**

#### Solution 60

The Health Coverage Tax Credit only applies to specific types of assistance, one of which is pension benefit payments from the Pension Benefit Guarantee Corporation (PBGC). This type of assistance also carries an age restriction of being between 55 and 64 years old.

The answer is **(C)**

#### Solution 61

The General Business Credit is an aggregation of multiple credits into one. The credit is claimed by filing form 3800 if more than one of the individual credits are claimed.

The answer is **(B)**

#### Solution 62

The Premium Tax Credit has an acceptable range for the required household income. It is based on the Federal poverty line and can be within 100% to 400%. If the poverty line is \$26,200, then 400% is  $4 \times \$26,200 = \$104,800$ .

The answer is **(D)**

#### Solution 63

If the taxpayer chooses the Advance Premium Tax Credit, the individual must still file a tax return to ensure proper reconciliation. The agreed-upon payments were established only as an estimate based on the information provided at the time but it is understood that it may change often.

The answer is **(D)**

#### Solution 64

The Net Investment Income Tax is the lesser of 3.8% of the total net investment amount or the excess of the modified adjusted gross income over the threshold. The threshold for a single filer is \$200,000. The addition of the wages and the investment income gives a total modified adjusted gross income of \$212,000. Since the amount above the threshold, \$12,000, is less than the total investments, the tax is  $3.8\% \text{ of } \$12,000 = \$456$ .

The answer is **(A)**

#### Solution 65

The Additional Medicare Tax is applied as a part of the Affordable Care Act and applies to the difference in income above the threshold. Often employers will withhold the tax if the income is above the thresholds. If an individual has multiple sources of income, it will not be withheld and needs to be applied to the return. The threshold for a single individual is \$200,000. The total income for this scenario is \$220,000 which is \$20,000 above the threshold. Therefore 0.9% of this is \$180.

The answer is **(B)**

#### Solution 66

To avoid the penalty, the individual must pay either 90% of the taxes owed in the current year or 100% of that owed in the previous year. Therefore, the minimum amount would be the lesser of \$3,900 or 90% of \$4,500 = \$4,050.

The answer is **(B)**

#### Solution 67

Deferral items for the Alternative Minimum Tax may be used as a carryforward to apply for a credit in future years. The amount in a single year cannot exceed the difference in the regular tax and the tentative minimum tax but the excess can be carried over again to the following year. Therefore, in 2021 a maximum of \$500 is used which leaves \$700 for 2022.

The answer is **(C)**

#### Solution 68

A withdrawal of basis, not earnings, from a Roth IRA can be done at any holding period and at any age.

The answer is **(A)**

#### Solution 69

An individual under the age of 59½ may use retirement funds without penalty to pay for unreimbursed medical expenses that exceed 7.5% of their adjusted gross income. 7.5% of \$70,000 = \$5,250. The eligible amount is \$10,000 - \$5,250 = \$4,750.

The answer is **(C)**

#### Solution 70

The penalty for failure to withdraw the minimum amount from a traditional IRA is 50% of the minimum amount that should have been withdrawn.

The answer is **(D)**

#### Solution 71

The First-time Homebuyer Credit Repayment is paid back in Yearly \$500 installments over 15 years.

The answer is **(B)**

#### Solution 72

The Nanny Tax applies to those who are considered employees of the taxpayer. The time frame and frequency of the work do not apply. An exception is those who are self-employed by providing the same service to multiple families. These individuals would be subject to self-employment taxes.

The answer is **(A)**

#### Solution 73

The qualified business income deduction applies to businesses which are sole proprietorships, partnerships, or S corporations. As long as the joint modified income is under the threshold, the business income deduction is 20% of the net business income. Therefore, 20% of \$45,000 = \$9,000.

The answer is **(B)**

#### Solution 74

The clergy members are still subject to self-employment tax including any housing allowances that are not subject to income tax. Therefore, the total income is  $\$35,000 + \$2,000 + 800 \times 12 = \$46,600$ .

The answer is **(D)**

#### Solution 75

Income that was owed but not yet received by an individual that dies is then passed to the beneficiary as income in respect of a decedent (IRD). This income retains the same character as if received by the deceased individual. Therefore, a capital gain would remain so for the beneficiary.

The answer is **(B)**

#### Solution 76

There is a minimum of 900 hours worked for an individual to claim the teacher credit.

The answer is **(C)**

#### Solution 77

A 529 plan allows for tax-free withdrawals similar to a Roth IRA for qualified education expenses. Payments made for K-12 expenses have a maximum of \$10,000 per year per beneficiary.

The answer is **(C)**

#### Solution 78

Losses from the sale of assets are only deductible if they are noncapital. These are assets for business-use purposes such as materials, property, copyrights, supplies, etc. The sale of noncapital assets is reported on Form 4797, *Sales of Business Property*. Therefore, the only deductible loss is from the materials.

The answer is **(B)**

#### Solution 79

Capital losses may be deducted at a maximum of \$3,000 per year. The remainder is allowed to be carried over to the following year. The carryover retains its character as either long-term or short-term. The individual here has a total loss of \$5,500 in the previous year. Only \$3,000 of that can be deducted and the rest is carried over. In the current year, the carryover amount of \$2,500 long-term loss is used to reduce the long-term gain first and then an additional \$1,000 of reduction to the short-term gain. Therefore, we are left with a \$2,000 short-term gain.

The answer is **(A)**

#### Solution 80

The gain or loss from the sale of a home is the amount realized from the sale, which is the sale price minus any costs associated with selling, minus the adjusted basis. In this case the amount realized is  $\$320,000 - \$16,000 - \$2,000 = \$302,000$ . Therefore, the gain is  $\$302,000 - \$280,000 = \$22,000$ .

The answer is **(A)**

#### Solution 81

Individuals that do not meet the two-year ownership requirement for the sale of a property Section 121 exclusion, may be eligible for a reduced exclusion if they meet one of the following criteria:

- Death
- Health of the individual or other related person
- Divorce
- Unemployment
- Job change over 50 miles from the original commute
- Multiple births from a single pregnancy
- Damage to the residence resulting from a Federal disaster or terrorism
- Involuntary conversion of the property

The answer is **(B)**

#### Solution 82

In the event of death, the personal representative is responsible for the signing and filing of all of the following:

- Form 1040: Final Income Tax Return
- Form 1041: U.S. Income Tax Return for Estates and Trusts
- Form 706: U.S. Estate Tax Return

The answer is **(D)**

### Solution 83

If an individual dies before filing a return for the previous year, that return still needs to be filed by the personal representative. Additionally, the Final Income Tax Return Form 1040 needs to be filed separately for the current year.

The answer is **(C)**

### Solution 84

Any income received after the death of the individual is received by the estate and must be reported as a part of Form 1041: *Annual Tax Return for Estates and Trusts*.

The answer is **(B)**

### Solution 85

Life insurance that is provided to a beneficiary is not a part of the estate and is not subject to taxes. However, if the beneficiary dies before the account holder and no contingent beneficiary is named, the value of the policy is added to the estate and may be subject to estate tax.

The answer is **(A)**

### Solution 86

Since the estate was passed to the wife, the entirety of the husband's is tax-free. Then since the wife makes the portability election, the unused amount of the exclusion for the husband which is \$11.58 million, can be carried over. Therefore, when the wife dies, the total exclusion is the combined estates which is \$23.16 million and the taxable estate is \$24.9 million - \$23.16 million = \$1.74 million.

The answer is **(A)**

### Solution 87

The generation-skipping transfer tax (GSTT) is a federal tax that results when there is a transfer of property by gift or inheritance to a beneficiary (other than a spouse) who is at least 37½ years younger than the donor. This was implemented to eliminate a loophole used by the wealthy to avoid paying estate taxes.

The answer is **(C)**

#### Solution 88

The minimum amount of gross income that requires the filing of a Form 1041 is \$600.

The answer is **(A)**

#### Solution 89

The gift tax is most often the responsibility of the donor and the recipient does not need to report the income. An agreement may be made in which there is a predetermined shared responsibility. The recipient also is required to report the gift if it is received from a foreign donor.

The answer is **(B)**

#### Solution 90

The types of gifts that are excluded from the gift tax are:

- Gifts to qualified charities
- Any gifts to a spouse that is a U.S. citizen
- Gifts directly to the institution for medical or tuition expenses
- Gifts to a political organization
- Gifts that do not exceed \$15,000 to an individual

The answer is **(B)**

#### Solution 91

The filing of Form 114, *Report of Foreign and Financial Accounts (FBAR)* is not done with the IRS and is instead filed with the Financial Crimes Enforcement Network (FinCEN).

The answer is **(D)**

#### Solution 92

Failure to file an FBAR in a timely fashion is differentiated by a willful or non-willful failure to comply. The willful failure may be associated with fines of up to 50% of the balance in the foreign account. Additional criminal penalties are applicable including criminal fines and prison time.

The answer is **(D)**

### Solution 93

The filing requirements for Form 8938, *Statement of Specified Foreign Financial Assets* is required if the assets reach a certain threshold depending on the filing status. For single or MFS, if the account exceeds \$50,000 on the last day of the year or \$75,000 at any time during the year, the form is required. For Married filing jointly, the threshold is \$100,000 on the last day of the year or \$150,000 at any time during the year.

The answer is **(B)**

### Solution 94

The reporting for the value in the foreign account for the FBAR is taken as the exchanged rate in U.S. Dollars at the end of the calendar year. In this example, the individual converts \$20,000 to euros at an exchange rate of 0.92 which is €18,400 Euro. At the end of the calendar year, the exchange rate changes and the Euro account needs to be converted back to U.S. Dollars at a rate of 0.9 = \$20,444.44.

The answer is **(D)**

### Solution 95

If a portion of a home is rented out, the rental expenses can be a deduction partially. The percentage of the total cost can either be calculated by the number of rooms or a square footage calculation. The percentage for this scenario can be determined by the square footage of the individual room which is  $12 \times 14 = 168$  square feet divided by the total.  $168/1280 = 13.125\%$ . The percentage can then be applied to total expenses such as utilities:  $13.125\%$  of  $1200 = \$157.50$ .

The answer is **(A)**

### Solution 96

For a landlord to be considered a professional, they must meet the following requirements:

- The taxpayer must provide more than  $\frac{1}{2}$  of the personal services in real property
- The taxpayer must provide more than 750 hours of the personal services in the tax year

If the taxpayer meets these requirements, the rental activities are not considered passive and are fully deductible.

The answer is **(C)**

#### Solution 97

The IRS typically has three years after the filing of a return to assess and collect any taxes due. This is increased for a substantial understatement of income by more than 25% in which the time frame is extended to six years.

The answer is **(C)**

#### Solution 98

The limit for a dependent care flexible spending arrangement is \$5,000. If an individual exceeds this amount, they must withdraw the excess by the filing deadline or will be subject to both income taxes and a 6% additional penalty. The excess is however subject to income taxes.

The answer is **(B)**

#### Solution 99

The student loan interest deduction is a maximum of \$2,500 per tax return despite multiple dependents.

The answer is **(B)**

#### Solution 100

The contribution limit for those under 50 is \$6,000 for single individuals and \$12,000 for married filers. This applies even if one of the members does not have an income. The rollover is not counted as a contribution subject to the maximum amount.

The answer is **(D)**

### Solution 101

An amended return for an error in a prior year as filed with form 1040-X must be done so within three years of the due date for the return in question. There are several exceptions as detailed in the form instructions:

- Federally declared disasters
- Combat zone injury
- Bad debt or worthless security
- Foreign tax credit or deduction

The answer is **(B)**

### Solution 102

The 1040-X form is for amended returns and its applicability should fall under the following scenarios:

- Receipt of a corrected or additional W-2
- Receipt of a corrected or additional 1099
- Claiming a deduction or credit that should not have been done so
- Failing to claim an applicable deduction or credit
- Incorrect filing status

The answer is **(A)**

### Solution 103

The Adoption Taxpayer Identification Number is used for the identification of a dependent during the process of adoption that has not yet obtained an SSN. The requirements are as follows:

- The child is legally placed in the home for legal adoption by an authorized placement agency.
- The adoption is a domestic adoption or the adoption is a foreign adoption and the child has a Permanent Resident Alien Card or Certificate of Citizenship.
- The existing SSN cannot be obtained through a reasonable attempt from the birth parents or the placement agency.
- The SSN for the child has not been provided by the SSA for any reason.
- The child is eligible as a dependent.

The answer is **(D)**

#### Solution 104

Couples of the same sex can only file as married filing jointly or separately if they are in a same-sex marriage performed in a jurisdiction that recognizes it. However, the couple does not have to live in a jurisdiction that recognizes it.

The answer is **(D)**

#### Solution 105

For an individual to qualify as a head of a household, they must meet the following three stipulations:

1. The individual is not married or is considered unmarried on the last day of the tax year.
2. The individual paid more than half the cost of keeping up a home for the year.
3. A qualifying person lived in that home for more than half the year, (a dependent parent is not required to live with you).

The answer is **(B)**

#### Solution 106

To meet the requirements of the substantial presence test, the individual must evaluate the number of days in the country for the previous three years including the current year. The minimum requirements are both:

1. Minimum of 31 days in the current year
2. Minimum of 183 days during the current three-year period which is calculated by:
  - a. All days in the current year
  - b. 1/3 of days in the previous year
  - c. 1/6 of days in the year before

Therefore, in this example the days included are:

$$1/6 \times 90 = 15$$

$$1/3 \times 120 = 40$$

$$15 + 40 + \text{Days present in 2020} = 183$$

$$\text{Days present in 2020} = 183 - 15 - 40 = 128 \text{ days}$$

The answer is **(D)**

#### Solution 107

As per the Dependent Taxpayer Test, an individual who can be claimed as a dependent by another, cannot themselves claim a dependent.

The answer is **(C)**

#### Solution 108

The requirement for financial support to qualify as a dependent is to provide over half of the expenses related to support. In this scenario the total amount applied to support by the grandmother is  $\$10,000 + \$4,000 - \$1,000 = \$13,000$ . Therefore, the individual would have to provide at least more than this amount.

The answer is **(A)**

#### Solution 109

The Child Tax Credit is an additional deduction for those eligible with qualifying dependents. The Income requirements are if the modified adjusted gross income is above a certain amount there is a phase-out of the credit. The initial phase-out begins for married taxpayers filing a joint return at \$150,000. For single taxpayers, the phase-out begins at \$75,000.

The answer is **(A)**

#### Solution 110

To be eligible for the Child and Dependent Care Credit, the individual must have earned income. The qualifying types are:

- Wages
- Salaries
- Tips
- Net self-employment earnings

The answer is **(B)**

#### Solution 111

Money from a qualified scholarship is not taxable for the purposes of tuition. If the money is used for room and board or to pay other personal expenses, that portion is normally taxable. The scholarship may be used to cover qualified educational expenses such as fees, books, and supplies related to courses. Therefore, the taxable amount is the  $\$10,000 - \$7,500 - \$500 = \$2,000$ .

The answer is **(B)**

#### Solution 112

A nonrefundable tax credit can adjust the amount of gross liability only up until there is an amount owed of \$0. The individual cannot receive a refund due to this type of credit.

The answer is **(A)**

#### Solution 113

The American Opportunity Tax Credit (AOTC) is partially refundable for up to \$1,000. This is removed if the student is subject to Tax on a Child's Investment and Other Unearned Income (Kiddie Tax) and the credit becomes nonrefundable.

The answer is **(A)**

#### Solution 114

Fair market value is a determination of value based on open and fair conditions. The stipulations on the perceived buyers are:

- The parties involved are aware of all the facts
- The parties involved are acting in their own interest,
- The parties involved are free of any pressure to buy or sell
- The parties involved have ample time to make the decision

The answer is **(C)**

#### Solution 115

The scenarios listed are either gifts or fall under the de minimis impact. Small cost products or services such as cab fares, company picnics, or food at a company cafeteria are considered small enough to not be reported. Gifts from an employer are only reported if the item is cash, gift certificate or an item that can be easily exchanged for cash.

The answer is **(C)**

#### Solution 116

Estimated tax payments are not needed by those who meet all of the following criteria:

- The individual had no tax liability for the prior year
- The individual is a U.S. citizen or resident for the whole year
- The prior tax year covered a 12-month period

The answer is **(D)**

#### Solution 117

A transfer of intellectual property must be defined as either a sale or a license of the property. This depends on whether all rights to the property have been transferred. In this case, it is indicated that the transaction is a sale of all rights. A transfer treated as a sale generally is treated as a capital gain or loss. A license conversely is treated as ordinary income.

The answer is **(A)**

#### Solution 118

Income classified as tips must be provided by a customer who has the choice of whether or not to make an additional payment for services. The presence of a service charge which is mandatory does not allow this scenario and is to be classified as wages for the employee.

The answer is **(B)**

#### Solution 119

The base amount for social security is determined by the filing status and residency of the individual. The base amounts are as follows:

- \$25,000 if you are single, head of household, or qualifying widow(er);
- \$25,000 if you are married filing separately and lived apart from your spouse for all of the year;

- \$32,000 if you are married filing jointly; or
- \$0 if you are married filing separately and lived with the spouse at any time during the year

In this scenario, despite being married, the taxpayer is single on the final day of the tax year and shall file as single. Therefore, the base is \$25,000.

The answer is **(C)**

Solution 120

Schedule B is required for taxable interest of \$1,500 or more.

The answer is **(C)**

Solution 121

There is a holding period that must be met to establish dividends as qualified. For all stock that is not preferred, the requirement is 60 days during the 121-day period that begins before the ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the buyer of a stock isn't entitled to receive the next dividend payment. In this scenario, the ex-dividend date being July 1<sup>st</sup> has a period starting 60 days before. The purchase on June 1<sup>st</sup> falls within the period and is eligible 60 days after which would be August.

The answer is **(C)**

Solution 122

A foreign corporation is a qualified foreign corporation if it meets any of the following conditions:

- The corporation is incorporated in a U.S. possession.
- The corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that the Department of the Treasury determines is satisfactory for this purpose and that includes an exchange of information program.
- The stock for which the dividend is paid is readily tradable on an established securities market in the United States. See Readily tradable stock, later.

The answer is **(B)**

### Solution 123

One of the exceptions to being able to benefit from the Education Savings Bond Program is any couple that uses married filing separately is not eligible for tax exclusion of education expenses.

The answer is **(A)**

### Solution 124

Companies who participate in dividend reinvestment plans sometimes allow a stockholder to buy additional stock at a price lower than the fair market price. The taxable portion of this income is the difference in the share price multiplied by the number of shares purchased. In this scenario, the difference in price is \$2 and the number of shares is 100. Therefore, the taxable portion is \$200.

The answer is **(C)**

### Solution 125

Gambling winnings have different minimum reported winning numbers based on the type of gambling. The minimums are:

- \$1,200 from bingo or slot machines
- \$1,500 from keno
- \$600 from all other normal gambling

Therefore, in this scenario, the winnings that exceed the minimums are only the card tables.

The answer is **(B)**

### Solution 126

A recourse loan is one in which the lender has the ability to pursue the remaining balance in the event of default. If any remaining balance is forgiven, that amount is treated as taxable income. Therefore, in this scenario the forgiven \$2,000 is taxable.

The answer is **(B)**

### Solution 127

The Qualified Principal Residence Indebtedness is not applicable for second or vacation homes.

The answer is **(B)**

### Solution 128

Partnerships and S corporations act as pass-through entities in which a Schedule K-1 shall be issued as income for the individual members of the business. Since the partnership is equal, the earnings are divided evenly among the 5 members.

The answer is **(A)**

### Solution 129

Personal property includes anything other than real estate or land.

The answer is **(C)**

### Solution 130

A qualified distribution is any distribution from your Roth IRA that meets both of the following requirements:

1. It is made after the 5-year period beginning with the first year for which a contribution was made to a Roth IRA
2. The distribution is made:
  - a. On or after the date you reach the age of 59½
  - b. After your death
  - c. Due to your disability
  - d. For qualified first-time homebuyer expenses.

Despite the qualifying age, the distributions must take place after the five-year time frame after the first contribution.

The answer is **(C)**

### Solution 131

The benefits for social security are only taxable if the calculation of combined income exceeds the basis determined by filing status. Depending on this comparison, the maximum amount of social security that can be considered taxable is either 50% or a maximum of 85%.

The answer is **(C)**

### Solution 132

The basis is the calculation over time of the cost of the property. When the property is purchased, the basis is the sale price. This price is then adjusted over time by any additions or subtractions. For this scenario, the purchase price is \$230,000. The improvements can then be added to the original cost but the money disbursed through the insurance company is a deduction. Therefore, the basis at the time of sale is  $\$230,000 + \$35,000 - \$15,000 = 250,000$ . Then the net gain or lost is determined by subtracting from the sale price:  $\$270,000 - \$250,000 = \$20,000$  Gain.

The answer is **(A)**

### Solution 133

Some settlement fees or closing costs can be included in the basis of real property. These include:

- Abstract fees (abstract of title fees).
- Charges for installing utility services.
- Legal fees (including title search and preparation of the sales contract and deed).
- Recording fees.
- Surveys.
- Transfer taxes.
- Owner's title insurance.
- Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

Those that are not included are:

- Casualty insurance premiums.
- Rent for occupancy of the property before closing.
- Charges for utilities or other services related to occupancy of the property before closing.
- Charges connected with getting a loan. The following are examples of these charges.
  - Points (discount points, loan origination fees).
  - Mortgage insurance premiums.
  - Loan assumption fees.
  - Cost of a credit report.
  - Fees for an appraisal required by a lender.

The answer is **(A)**

#### Solution 134

The basis for a home can be determined by the percentage split of the tax assessment between the home and the land. The percentage split can then be applied to the actual purchase price to determine the basis. Since the total tax assessment is \$190,000, the home value is  $\$170,000/\$190,000 = 89.5\%$ . Therefore, the basis is 89.5% of the purchase price which is \$178,947.

The answer is **(B)**

#### Solution 135

The Like-kind exchange is a way to avoid capital gains and defer depreciation in a scenario where one property is being exchanged for another. The requirements include:

1. The asset being sold must be an investment property or used for business. It cannot be a personal residence.
2. The asset being purchased with the proceeds must be similar to the asset being sold.
3. The property may not be exchanged for cash
4. The proceeds from the sale must be used to purchase the other asset within 180 days of the sale of the first asset
5. The property to be purchased must be identified within 45 days of the sale.

The answer is **(D)**

#### Solution 136

The reporting of stock options depends on whether they are statutory or non-statutory. Those which are statutory are issued through an employee stock purchase plan (ESPP) or an incentive stock option (ISO). The Income for a statutory stock option is not reported until the stock is actually sold.

The answer is **(D)**

### Solution 137

Health Savings Accounts (HSA) are a way for an employee to pay for qualified medical expenses with untaxed funds. If the funds are withdrawn for any reason other than qualified medical expenses, the money is subject to an additional 20% penalty. This penalty is waived for any of the following reasons:

- The taxpayer is 65 years of age or older
- The taxpayer becomes disabled
- The Taxpayer dies and passes on the HSA

The answer is **(B)**

### Solution 138

The contribution limit does not include an employer match. Therefore, the maximum is the limit divided by the number of checks:  $\$19,500/26 = \$750$ . There is an overall employer match limit that typically far exceeds this value and is not often a factor.

The answer is **(B)**

### Solution 139

There is an additional standard deduction for those who are either legally blind, 65 and older, or both.

The answer is **(D)**

### Solution 140

If a taxpayer can be claimed as a dependent and makes less than the standard deduction, they are not entitled to the full amount. The standard deduction is the greater of:

- \$1,100
- Income plus \$350

Therefore, since the income was greater than \$1,100, the standard deduction can be taken as  $\$6,600 + \$350 = \$6,950$ .

The answer is **(C)**

#### Solution 141

Improvements to a home may be eligible for medical expense deductions even if the individual is not the owner of the property. These deductions are still subject to the 7.5% threshold. Therefore, 7.5% of \$35,000 is \$2,625. The cost of the ramp can be added to the other medical expenses:  $\$3,000 + \$1,500 = \$4,500$ . The total deductions then is the difference:  $\$4,500 - \$2,625 = \$1,875$ .

The answer is **(D)**

#### Solution 142

Interest is deductible for qualified payments. These include interest related to homes such as:

- Home mortgage interest (primary or secondary residence only)
- Certain closing costs such as points or private mortgage insurance premiums
- Late fees on a mortgage

Other deductible interest includes investment interest expenses and small business loan interest.

The answer is **(C)**

#### Solution 143

There are limits to the amount of donations that can be deducted based on adjusted gross income. The limits are:

- 60% for cash contributions to qualifying public charities
- 50% for noncash contributions to qualifying public charities
- 30% for appreciated property donations
- 20% for appreciated property to non-public charities

The answer is **(D)**

#### Solution 144

When a sale of a home occurs, the tax payments are typically made at some point prior to or after the sale. Despite the entirety of the tax payment being made by the seller or buyer, the split is prorated based on the sale date. The percentage of responsibility for each is determined by the number of days in the year before and after the sale. For the seller who owned the home for 225 days of the year, they are responsible for  $222/365 = 61.0\%$  and the buyer is responsible for the remainder. Therefore, the appropriate real estate tax deduction is 61.0% of \$4500 which is \$2,736.

The answer is **(C)**

#### Solution 145

Nonrefunded expenses incurred for volunteer work, including travel, is tax-deductible but the time spent is not. Mileage is reimbursed at the rate of 14 cents per mile. The total amount of deductions is  $0.14 \times 55 + \$150 = \$157.7$ .

The answer is **(C)**

#### Solution 146

The property and casualty loss for a Presidentially declared disaster area are deductible in either the year the event occurred or the year prior. This allows the individual to not have to wait an entire year for valuable deductions during a crisis.

The answer is **(D)**

#### Solution 147

One of the allowable miscellaneous deductions is the amortizable premium on taxable bonds. Sometimes bonds are bought above the market value and the excess cost is considered a premium. This cost can be amortized over the life of the bond as a deduction to offset the taxable interest accumulation. Over the life of the loan, the value of the bond is decreased to eventually converge with the market value.

The answer is **(A)**

#### Solution 148

If an individual has to make repayments under a claim of right, they may take a deduction in the current year of the repayment amount as long as it exceeds \$3,000.

The answer is **(D)**

Solution 149

Losses from a Ponzi-type investment scheme are treated as theft losses.

The answer is **(A)**

Solution 150

Nonresident aliens are not able eligible for the standard deduction.

The answer is **(A)**

Solution 151

The Child Tax Credit is now a fully refundable credit for 2021 meaning that the tax liability can be reduced beyond zero. For two qualifying children, the total credit is \$6,000 at the age and income indicated and it can be fully used.

The answer is **(B)**

Solution 152

The requirements for the Lifetime Learning Credit are less strict than those for the American Opportunity Tax Credit. Some of the differences include:

- All courses are eligible even if they are not for a degree
- There are no minimum workload requirements
- There are no year requirements
- An individual with a felony drug conviction is still eligible

Both do cover tuition, books, and supplies.

The answer is **(C)**

Solution 153

The Adoption Credit maximum can be taken for the adoption of a special needs person regardless of age and of the actual expenses occurred. Therefore, this couple can take the maximum amount of \$14,440 for 2021.

The answer is **(D)**

#### Solution 154

Tax credits can either be refundable or nonrefundable. The refundable ones allow for an additional credit beyond a tax liability of \$0. Nonrefundable can only reduce a liability to \$0 and any excess is unusable. Some nonrefundable credits include:

- Retirement Savings Contributions Credit (Saver's credit)
- Lifetime learning credit (LLC)
- Adoption credit
- Child and dependent care credit
- Foreign tax credit (FTC)
- Elderly and disabled credit
- Residential energy efficient property credit

Refundable credits include:

- Additional Child Tax Credit
- Earned Income Tax Credit
- AOTC
- Credit for excess Social Security and RRTA tax withheld
- Premium Tax Credit

The answer is **(B)**

#### Solution 155

The Lifetime Learning Credit has a maximum of 20% of \$10,000 for qualifying expenses or \$2,000 per tax return. It does not apply per dependent.

The answer **(A)**

### Solution 156

The Earned Income Tax Credit has four requirements to determine a qualifying child:

- Age: The child must be:
  - 18 or younger
  - 23 or younger for a full-time student
  - Any age if permanently disabled
- Relationship: The child must be a son, daughter, grandchild, brother, sister, niece or nephew. Also eligible are adopted or foster children, and step-relatives
- Joint return: The dependent cannot file a joint return with a spouse unless they are able to claim a refund
- Residence. The child must have lived with the taxpayer for at least more than 6 months of the year.

The answer is **(C)**

### Solution 157

The maximum credit for the Retirement Savings Contributions Credit is 50% of \$2,000 for single filers and \$4,000 for married filing jointly. Therefore, the max credit is \$1,000.

The answer is **(B)**

### Solution 158

The maximum contribution for the Social Security tax is 6.2% or \$8,853.60 for 2021, whichever is less. If the individual has a single employer and contributes an excess amount, they are not eligible for a credit and shall retrieve the refund and a corrected W-2 from the employer.

The answer is **(C)**

## Solution 159

To qualify for the Health Coverage Tax Credit, the following types of assistance are eligible:

- Trade Adjustment Assistance (TAA) program
- Alternative Trade Adjustment Assistance (ATAA) program
- Reemployment Trade Adjustment Assistance (RTAA) program
- Pension Benefit Guarantee Corporation (PBGC)

Individuals are not eligible for the HCTC if:

- They can be claimed as a dependent on another person's federal income tax return
- They are enrolled in Medicare, Medicaid, the Children's Health Insurance Program, or the Federal Employees Health Benefits Program or are eligible to receive benefits under the U.S. military health system (TRICARE)

The answer is **(A)**

## Solution 160

The General Business Credit is a cumulation of a large number of individual tax credits. Some of which are:

- Investment Credit (Form 3468)
- Work Opportunity Credit (Form 5884)
- Low-Income Housing Credit (Form 8586)
- Disabled Access Credit (Form 8826)
- Energy Efficient Home Credit (Form 8908)
- Credit for Employer-Provided Childcare Facilities and Services (Form 8882)
- Credit for Small Employer Pension Plan Startup Costs (Form 8881)
- Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips (Form 8846)

The answer is **(B)**

### Solution 161

The 1095 forms are a group used to classify the requirements of the ACA. The different forms are:

- Form 1095-A: Individuals enrolled in health insurance coverage through the Health Insurance Marketplace.
- Form 1095-B: Individuals who have insurance from places other than the Marketplace.
- Form 1095-C: Employers with more than 50 full-time employees have to provide insurance to their employees

The answer is **(B)**

### Solution 162

The requirements for the Premium Tax Credit that must be met are all of the following:

- Insurance through the Marketplace
- The individual is a U.S. citizen or legal resident
- Those who are married filing separately are not generally eligible
- They must not be claimed as a dependent
- They must not be able to obtain coverage from an employer or the government
- They meet the household income requirements base on the Federal poverty line

The answer is **(A)**

### Solution 163

The information provided at the beginning of the year is recognized as an estimate. If anything changes where they are no longer eligible for the credit in the tax year, the advanced credit must be paid back and will be added to the overall tax liability.

The answer is **(D)**

#### Solution 164

The Net Investment Income Tax is applicable to any investment income that is subject to federal tax. These include:

- Bonds
- Stocks
- Dividends
- Mutual funds
- Nonqualified annuities
- Capital gains
- Passive business activities

Anything that is excluded from the gross income subject to federal tax is excluded such as municipal bonds.

The answer is **(A)**

#### Solution 165

Employers will take out the Additional Medicare Tax for any individual earning above \$200,000. However, since the threshold is \$250,000 for married filing jointly couples, the amount owed needs to be adjusted to account for the amount already taken out. The total income is \$275,000 which is \$25,000 above the threshold. However, the \$10,000 has already been accounted for. Therefore, the tax will be 0.9% of \$15,000 = \$135.

The answer is **(B)**

#### Solution 166

An underpayment penalty of 0.5% is required if the individual had a tax liability the previous year and does not make advanced payments of at least last year's amount or 90% of the current year's amount. Exceptions to the penalty include:

- Total tax liability is less than \$1,000.
- The taxpayer did not owe any taxes for the previous year.
- The taxpayer missed a required payment because of a casualty event, disaster, or other unusual circumstances.
- The taxpayer retired after reaching age 62.
- The taxpayer became disabled during the tax year or during the preceding tax year for which estimated payments were unfulfilled.

The answer is **(D)**

#### Solution 167

Alternative minimum tax paid in a previous year is eligible for a tax credit. However, the credit is only available for deferral items such as depreciation or the realizing of the value of stock options. It is not eligible for items such as property and state taxes or mortgage interest.

The answer is **(C)**

#### Solution 168

The AMT is a parallel tax system and shall be filed in conjunction with the regular tax return to evaluate both. An individual shall:

- Complete the regular return.
- Complete AMT Form 6251.
- Compare the two taxes.
- Pay the higher of the two taxes

The answer is **(C)**

#### Solution 169

Once an individual reaches a certain age, they are required to take a minimum distribution or they are subject to a penalty based on the amount that should have been withdrawn. To calculate the required amount, the balance on December 31<sup>st</sup> of the previous year is divided by the distribution period as determined by the applicable IRS chart. Therefore, the required distribution for this individual is  $\$410,000/22.9 = \$17,904$ .

The answer is **(D)**

#### Solution 170

The First-time Homebuyer Credit Repayment is a repayment of the \$7,500 credit in 2008 used to stimulate the housing market. The exceptions include:

- Destruction or condemnation of the home
- Death of the claimer of the credit
- Transfer due to divorce.

The answer is **(C)**

#### Solution 171

A taxpayer who has qualifying household employees is required to withhold the Social Security and Medicare taxes but not the income tax. They may choose to hold the income tax but it is not a requirement.

The answer is **(B)**

#### Solution 172

The Qualified Business Income Deduction is eligible for partnerships, sole proprietorships, and S corporations. C corporations are not eligible.

The answer is **(B)**

#### Solution 173

The clergy members are allowed to deduct any housing allowances from income tax requirements. Therefore, the total income is  $\$32,000 + \$2,000 = \$34,000$ .

The answer is **(B)**

#### Solution 174

Clergy members who have taken a vow of poverty or are opposed to certain public insurance for religious or conscientious reasons are eligible to be exempt from self-employment taxes.

The answer is **(B)**

#### Solution 175

The Transition Tax is Section 965 of the Tax Cuts and Jobs Act and applies to both individuals and corporations who own at least 10 percent of stock in a foreign corporation.

The answer is **(A)**

#### Solution 176

An educator who qualifies for the teacher credit must be elementary or secondary education which is grades K-12. Anything education beyond this does not apply.

The answer is **(C)**

#### Solution 177

Assets can either be capital or noncapital. Those which are capital include anything that is owned for personal use whether it be a home or investment. Noncapital assets are business-use properties held to create revenue.

The answer is **(B)**

#### Solution 178

A capital gain is long term if it is held for one year and a day. Therefore, the sale can first occur on March 16, 2022.

The answer is **(C)**

#### Solution 179

Net capital losses are deductible up to \$3,000 against ordinary income per year. However, losses can be carried over to the following year for as long as the individual is alive. This deduction does not change if the individual is married and remains at \$3,000.

The answer is **(B)**

#### Solution 180

Rental income that is received from renting out a primary home for less than 15 days is not considered taxable income.

The answer is **(C)**

#### Solution 181

The minimum time of residency to claim the exemption amount for the sale of a property is two of the previous five years.

The answer is **(C)**

### Solution 182

If an individual does not meet the ownership requirements for the Section 121 Exclusion for the sale of a main home, they may be eligible for a reduced exclusion amount. The standard exclusion is multiplied by a percentage equal to the lesser of:

- The amount of time the taxpayer-owned the home divided by two years
- The period between the last sale for which the taxpayer claimed the exclusion and the sale of the current home divided by two years

The time frame needs to be consistent. Therefore, if the taxpayer stayed in the home for 18 months, the reduced percentage is  $18/24 = 75\%$ . Since the taxpayer is single, the normal exclusion is \$250,000. 75% of this is \$187,500.

The answer is **(B)**

### Solution 183

The estate tax exclusion is \$11.58 million. Since the estate is only valued at \$4.5 million, there is no estate tax owed and the estate tax return form 706 does not need to be filed.

The answer is **(C)**

### Solution 184

For calendar year estates and trusts, Form 1041 is due by April 15<sup>th</sup> of the following year. For fiscal year estates and trusts, it is due by the 15<sup>th</sup> day of the 4<sup>th</sup> month following the close of the tax year. Therefore, if the Tax year ends in June, 4 months later would be October.

The answer is **(D)**

### Solution 185

The transfer of assets between a marriage is tax-free for those who are U.S. citizens.

The answer is **(A)**

#### Solution 186

Once the gross estate is established, the taxable estate must be determined by any applicable deductions. Those may include:

- Funeral costs
- Outstanding debts to be paid off
- Administrative expenses
- Charity deductions
- Marital deductions

Of those listed, all apply for the deduction including the passing of the home to the spouse which falls under the marital deduction of property. Therefore, the taxable gross is \$950,000 - \$7,000 - \$10,000 - \$250,000 = \$683,000.

The answer is **(A)**

#### Solution 187

To claim the deceased spousal unused exclusion, the surviving spouse must make a portability election. This is done by filing Form 706 on time.

The answer is **(C)**

#### Solution 188

Payments made directly to either an educational or medical institution are not subject to the estate tax, the gift tax, or the generation-skipping transfer tax.

The answer is **(D)**

#### Solution 189

Married couples, if they file an individual gift tax return, can split gifts despite being from an individual of the marriage to increase the amount of the annual exclusion. Each individual gift can be split as if half were from each of the spouses. Therefore, only a gift of over \$30,000 would be subject to a reduction for the lifetime exclusion.

The answer is **(A)**

#### Solution 190

Gifts and estate tax are connected. The \$11.58 million exclusion can be used to avoid taxes on gifts but they reduce the exclusion for the overall estate. Any amount of an individual gift that exceeds the \$15,000 must reduce the estate exclusion. Each \$1 million dollar payment then makes a reduction of \$1 million - \$15,000 = \$985,000. Five of these are made so the total is 5 x \$985,000 = \$4,925,000. The exclusion is reduced to \$11.58 - \$4.925 million = \$6.655 million. Then the taxable estate is \$10 million - \$6.655 million = \$3.345 million.

The answer is **(C)**

#### Solution 191

The gift tax annual exclusion can be spread out over a five-year period for any contributions to a 529 plan.

The answer is **(D)**

#### Solution 192

The filing of Form 114, *Report of Foreign and Financial Accounts (FBAR)* is required if the aggregate value of all foreign accounts exceeds \$10,000 at any point

The answer is **(C)**

#### Solution 193

Foreign financial accounts may include commodity futures, stock options, mutual funds, and insurance. An IRA account that holds a foreign financial account in the plan does not need to be reported.

The answer is **(C)**

#### Solution 194

The failure to file Form 8938, *Statement of Specified Foreign Financial Assets* can incur a penalty of \$10,000 and an additional \$10,000 for every 60 days after the IRS provides a notice of failure to disclose.

The answer is **(C)**

#### Solution 195

A landlord cannot begin to deduct expenses until the home is placed into service. This is defined as being available to rent. Therefore, the time spent making repairs is actually added to the basis of the property and losses are not incurred until the advertising date on July 20<sup>th</sup>.

The answer is **(C)**

#### Solution 196

Estimated tax payments are divided into four equal installments with due dates starting on April 15<sup>th</sup> and ending on the following January 15<sup>th</sup>.

The answer is **(D)**

#### Solution 197

The minimum amount of self-employment earnings for the requirement of filing a tax return is \$400.

The answer is **(A)**

#### Solution 198

The maximum amount of tax-free contributions to a health-care flexible spending arrangement is \$2,700. This amount includes combined contributions from the employee and employer.

The answer is **(C)**

#### Solution 199

Student loans to be eligible for an interest deduction cannot be from the following:

- A relative
- An employer plan
- Partnership or trust

The answer is **(D)**

Solution 200

The maximum carryover period for the claiming of charitable contributions is limited to five years.

The answer is **(C)**

#### Solution 201

The IRS has a limitation on the number of years a business can operate at a loss and still use the deductions on other income. This eliminates individuals operating businesses at a loss for the sole reason of the lower tax liability. The requirement is that the business must show a profit on at least three of the previous five years to be considered operating for profit.

The answer is **(C)**

#### Solution 202

A net operating loss can be carried forward up to a maximum of 80% of the taxable income in the following year.  $80\% \text{ of } \$2.1 \text{ million} = \$1.68 \text{ million}$ . Therefore, the total taxable income is  $\$2.1 \text{ million} - \$1.68 \text{ million} = \$420,000$ . This also leaves an additional \$220,000 to carry forward to the next year.

The answer is **(B)**

#### Solution 203

A board of directors which is elected for the oversight of the company is only required for a corporation whether it be S or C.

The answer is **(B)**

#### Solution 204

There are certain limitations on a company's eligibility to be an S corporation. These limits include:

- Must be a domestic company
- Must not be on the IRS list of ineligible types including insurance or financial institutions
- Must have only one class of stock
- Must be limited to 100 or fewer shareholders

The answer is **(B)**

#### Solution 205

Once an election is made on Form 8832, *Entity Classification Election*, a new election cannot be made until after a five-year waiting period.

The answer is **(C)**

## Solution 206

Sole Proprietors are required to obtain a new EIN if any of the following statements are true:

- Subject to a bankruptcy proceeding.
- The company chooses to incorporate.
- The company takes in partners and operates as a partnership.
- The company purchases or inherits an existing business that you operate as a sole proprietorship.

Sole proprietors are not required to obtain a new EIN if any of the following statements are true:

- The company changes the name of your business.
- The company changes your location and/or add other locations.
- The company operates multiple businesses.

The answer is **(B)**

## Solution 207

Partnerships are not allowed for certain types of businesses including:

- Insurance companies
- Government entities
- Corporations
- Non-profits
- Joint-stock companies
- Real estate investment trust

However, partnerships may be owned by corporations and operated as such.

The answer is **(C)**

## Solution 208

A C corporation is required to file by the fourth month following the end of the year if it follows the calendar year which would be April 15<sup>th</sup>. However, for those which have a fiscal year ending June 30<sup>th</sup>, the requirement changes to the third month after the end of the fiscal year which is September 15<sup>th</sup>.

The answer is **(C)**

#### Solution 209

A company can establish a natural tax year if the last two months of the year generate at least 25% of the annual revenue. 25% of \$500,000 is \$125,000. This is beneficial for companies whose revenue is seasonally dependent and has a clear peak time of the year.

The answer is **(B)**

#### Solution 210

An S corporation or a partnership that wishes to make a Section 444 election for the purposes of adoption or change can only be allowed to do so if the deferral period is less than the shorter of three months or the deferral period of the tax year being changed. Since the entity is using a calendar year and it is the same as the required year, the partnership cannot make a Section 444 election since the deferral period is zero.

The answer is **(A)**

#### Solution 211

Accounting methods for multiple businesses can be different but must be separate and distinct. This means that separate individual records must be kept for different businesses.

The answer is **(C)**

#### Solution 212

The cash method of accounting is more often used by small businesses and is not eligible for larger sized companies. The limit on revenue is \$26 million in gross receipts over a three-year period.

The answer is **(D)**

#### Solution 213

Despite using the cash method of accounting, the policy extends beyond 12 months and therefore must be deducted on a prorated basis for each year. In the first year, the policy covers five months of a total 36. The deduction is then  $5/36 \times \$4,000 = \$555.55$ .

The answer is **(B)**

#### Solution 214

A partnership can either be general or limited and must have more than one member. In a general partnership all of the members share equal responsibility and are all considered general partners. Each partner will have the authority to make business and legally binding decisions. A limited partnership includes limited partners who are not involved in the daily activities of the company and has very limited abilities to make decisions for the company. In a limited partnership there must be at least one general partner.

The answer is **(B)**

#### Solution 215

The filing due date for a partnership is three months after the end of the year which would be March for a calendar year partnership. The six-month extension brings the due date to September. The penalty is \$210 per month per partner. If the form is filed in November, it is considered two months late. Therefore, the penalty is  $\$210 \times 2 \text{ months} \times 5 \text{ partners} = \$2,100$ .

The answer is **(D)**

#### Solution 216

Family partnerships determine the recognition of members by whether or not the company uses capital as a material income-producing factor. This can be defined as using capital for a substantial part of the gross income of a business. This is true for companies that require substantial investment in materials, machinery, or goods to operate. This is not true for services such as cleaning.

The answer is **(B)**

#### Solution 217

The ordinary income for a partnership does not include separately stated items. The share of these items must be passed through and distributed to the members. Since there are four equal members, the income, capital gains, and charitable contributions are divided by four.  
 $\$200,000/4 + \$12,000/4 - \$8,000/4 = \$51,000$ .

The answer is **(B)**

#### Solution 218

A guaranteed payment must be made to the agreed upon partners, but the share of income is still determined by the ordinary partnership income. Therefore, partner C is responsible for 20% of \$100,000 = \$20,000.

The answer is **(D)**

#### Solution 219

When a property contribution has an existing liability, the company may assume the liability. The partners' interest basis is reduced by the company's share of the liability. In this case the company takes on 85% of the existing mortgage which is \$85,000. Therefore, the basis is \$150,000 - \$85,000 = \$65,000.

The answer is **(B)**

#### Solution 220

The basis of an interest in a partnership cannot be less than zero. The acquisition of the loan from the company is treated as a capital gain equal to the basis plus the amount assumed by the other partners.

The answer is **(B)**

#### Solution 221

The penalty for the late filing of Form 1120, *U.S. Corporation Income Tax Return* is the lesser of \$435 or the amount of tax owed. The penalty for failure to make the required payment is 0.5% of the tax owed per month late. This would be 0.5% of \$4,000 x 2 = \$40.

The answer is **(A)**

#### Solution 222

Estimated tax payments for corporations are different than those for individuals. The dates are still spread out by four payments but are made on April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, and finally December 15<sup>th</sup>.

The answer is **(C)**

#### Solution 223

Corporations can no longer carryback net operating losses and can carry forward indefinitely.

The answer is **(D)**

#### Solution 224

The maximum amount of qualified charitable contributions for a corporation in a single year is 25% of the taxable income which would be \$22,500. The excess is  $\$25,000 - \$22,500 = \$2,500$  and may be carried over into the next which would then be subject to the 25% limit again.

The answer is **(A)**

#### Solution 225

The dividends received deduction allows a corporation which owns stock in another corporation to take a percentage of the dividends received as a deduction. The deduction is based on the ownership in the company. 20% or less yields a 50% deduction, 20% to 80% is a 65% deduction and ownership over 80% is eligible for 100% deduction.

The answer is **(D)**

#### Solution 226

The determination of taxable income for a corporation is calculated without the following items:

- The DRD itself
- The net operating loss deduction
- The domestic production activities deduction
- Capital loss carryback
- Any adjustment due to the nontaxable part of an extraordinary dividend

The answer is **(D)**

#### Solution 227

In control is defined as having at least 80% of both the voting and nonvoting stock.

The answer is **(D)**

#### Solution 228

The Base Erosion and Anti-Abuse Tax (BEAT) is determined from the following equation:

$$\text{BEAT Tax} = (\text{BEAT Rate} \times \text{Modified Taxable Income}) - \text{Adjusted Regular Tax liability}$$

The BEAT rate is 10% until the year 2026 in which case it will increase to 12.5%.

Therefore, the Tax is  $10\% \times \$400 \text{ million} - \$35 \text{ million} = \$5 \text{ million}$ .

The answer is **(C)**

#### Solution 229

The minimum percentage of shares in a controlled foreign corporation in which an individual will be required to include Global Intangible Low-Taxed Income (GILTI) as taxable income is 10%.

The answer is **(A)**

#### Solution 230

A closely-held corporation is subject to at-risk rules. The amount at risk is the amount of cash used and the difference between the fair market value and the amount of any loan in which property is used as collateral. However, this does not apply to a nonrecourse loan in which the outstanding balance does not have to be paid back in the event of default. Therefore, the at-risk amount is  $\$50,000 + (\$70,000 - \$50,000) = \$70,000$ .

The answer is **(B)**

#### Solution 231

To make the election to become an S corporation, there must be a unanimous approval by all members who held stock at any point during the tax year. This applies to individuals who may not currently hold a share in the company.

The answer is **(D)**

#### Solution 232

An S corporation is required to file electronically if the assets are at least \$10 million and have 250 or more returns filed.

The answer is **(C)**

### Solution 233

If stock from an S corporation is inherited, the basis is determined by the fair market value at the time of death.

The answer is **(B)**

### Solution 234

The order in which a stock basis is increased or decreased is important because both the taxability of a distribution and the deductibility of a loss is dependent on a stock basis. Stock basis is adjusted annually, as of the last day of the S corporation year, in the following order:

1. Increased for income items and excess depletion;
2. Decreased for distributions;
3. Decreased for non-deductible, non-capital expenses and depletion; and
4. Decreased for items of loss and deduction.

The answer is **(C)**

### Solution 235

An S election can either be terminated, revoked by a majority, or automatically terminated due to one of the following circumstances:

- The corporation no longer meets the requirements of an S corporation
- A second class of stock is created
- More than 25% of gross receipts are from passive income in each of three consecutive years while the company sees profit

The answer is **(C)**

### Solution 236

A limited partner is not treated as materially participating unless he meets one of the following criteria:

- 500 or more hours of participating
- The activity is a personal service activity in which the limited partner materially participated in any three previous tax years.
- Participation in the company in any five of the last ten years

The answer is **(C)**

### Solution 237

Passive activity income does not include income such as the following:

- Personal service income
- Portfolio income
- Income from patents, copyrights or other intangible property
- Cancellation of debt
- Income tax refunds either state or foreign

Passive activities that do qualify fall under two categories:

- Business in which the taxpayer does not materially participate
- Rental real estate activities

The answer is **(B)**

### Solution 238

Canceled debt for an insolvent company can be excluded from taxable income but only to the extent of insolvency.

The answer is **(C)**

### Solution 239

The Uniform Capitalization (UNICAP) rules of Section 263A provide the method for determining the types and amounts of costs that must be capitalized rather than expensed. The UNICAP rules apply to:

- Produce real property for use in the business or activity;
- Produce real property for sale to customers; or
- Acquire property for resale.

The answer is **(A)**

#### Solution 240

The cost of goods sold (COGS) includes all of the costs and expenses directly related to the production of goods. The formula for the calculation of the cost of goods sold is:

$$\text{COGC} = \text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory}$$

$$\text{COGC} = \$3.80 + \$8.2 - \$2.42 = \$9.58 \text{ billion}$$

The answer is **(D)**

#### Solution 241

The method of accounting assigns a value to the product based on the time it is produced or bought. The first, in first out method (FIFO), considers the value of the earliest produced products. The last in, first out (LIFO) does the opposite and sells that last product to be added to the inventory. If the price increases over time as in a year with normal inflation, the FIFO method will have a lower COGS and therefore a higher income.

The answer is **(A)**

#### Solution 242

The last in, first out method reduces the value of the inventory by removing those items which were purchased latest first. Therefore, the remaining 300 is entirely in the first purchase block and has a cost of \$4.00 each which is a total of \$1,200.

The answer is **(B)**

#### Solution 243

The average cost method establishes an average value of an individual inventory and then applies it to the remaining inventory to determine the cost. The unit cost is determined by the total cost to acquire all of the inventory divided by the total number of units:

$$\frac{(40 \text{ Trees} \times \$5) + (30 \text{ Trees} \times \$4)}{70} = \$4.57 \text{ per Tree}$$

If there are 20 trees remaining, the inventory cost is  $20 \times \$4.57 = \$91.43$ .

The answer is **(B)**

#### Solution 244

The following transactions result in gain or loss subject to Section 1231 treatment:

- Sales or exchanges of real property or depreciable personal property.
- Sales or exchanges of leaseholds.
- Sales or exchanges of cattle and horses.
- Sales or exchanges of other livestock.
- Sales or exchanges of unharvested crops.
- Cutting of timber or disposal of timber, coal, or iron ore.
- Condemnations.
- Casualties and thefts.

The answer is **(D)**

#### Solution 245

The start-up costs deduction that does not need to be amortized is a maximum of \$5,000. However, if the total costs exceed \$50,000, the current year deduction must be reduced dollar for dollar for the amount above. Therefore, since the costs are \$3,000 above the threshold, the allowable deduction is  $\$5,000 - \$3,000 = \$2,000$ .

The answer is **(B)**

#### Solution 246

Start-up costs and organizational costs over \$5,000 must be amortized over a period of 15 years.

The answer is **(D)**

#### Solution 247

A bona fide attempt to start a business or a failed attempt to purchase a business may incur costs that are deductible as capital losses. These are limited to the loss limitation of \$3,000 per year.

The answer is **(C)**

#### Solution 248

The self-employed health insurance deduction is for those who meet any one of the following requirements:

- A self-employed individual with a net profit
- Partner with net earnings
- More-than-2% shareholder in an S corporation

The answer is **(B)**

#### Solution 249

The amount of business interest that is deductible must be related to principal that was used for business expenses. Any amount that is used for personal reasons cannot be deducted. Since 70% of the loan was used for business purposes, only 70% of the interest is deductible.  $70\% \text{ of } \$800 = \$560$ .

The answer is **(C)**

#### Solution 250

Large businesses due to the TCJA are now limited to the amount of the business interest expense deduction. The maximum is the amount of the company's business interest income plus 50% of the adjusted taxable income.

The answer is **(C)**

#### Solution 251

The simplified home office deduction is \$5 per square foot up to a maximum of 300 square feet.

The answer is **(B)**

#### Solution 252

The deductible business expense for meals related to the cost of doing business is 50%. This applies to the total cost of the bill including tip and taxes. Therefore, the total bill is  $\$120 + \$12 + \$25 = \$157$  and the deductible expense is  $\$78.50$ .

The answer is **(C)**

### Solution 253

Self-employed businesses are only eligible to use the per diem rate for tracking expenses for meals during travel.

The answer is **(A)**

### Solution 254

Business gift deductions are limited to a maximum of \$25. However, this does not include any costs which are associated with the providing of the gift. Insurance, shipping, and packaging are all eligible to be deducted separately and are not subject to the \$25 limitation. The total deduction is  $\$23 + \$1.00 + \$1.50 + \$3.50 = \$29.00$ .

The answer is **(D)**

### Solution 255

The deduction of employee compensation must meet all of the qualifiers which include:

- The work must be necessary and ordinary in nature
- The compensation must be reasonable as compared to others in the same profession
- The work must be actually performed
- The compensation must be paid or incurred within the tax year
- For accrual-basis businesses, yearend bonuses, vacation pay or other compensation cannot be deducted unless they are actually paid within 2½ months after the tax year.

The answer is **(B)**

### Solution 256

Health insurance paid by the employer is typically considered a nontaxable benefit but there are exceptions. One of which is health insurance paid to shareholders of an S corporation with more than 2% ownership. The benefit paid to these individuals must be reported as wages and are subject to income tax. Therefore, those in the example with ownership above 2% are the four owners with the costs of \$6,000 or \$8,000. The total subject to wage reporting is \$28,000.

The answer is **(C)**

### Solution 257

Employer-provided life insurance is only considered a taxable fringe benefit if it is over \$50,000.

The answer is **(B)**

#### Solution 258

The straight-line depreciation method takes the initial cost and evenly divides it for each year throughout the lifespan. A partial year is taken as a percentage of the yearly depreciation equal to the percentage of the year the asset was held. The yearly depreciation is  $\$10,000/10 = \$1,000$  but was only held for half the year which would then have a depreciation of \$500.

The answer is **(A)**

#### Solution 259

The Modified Accelerated Cost Recovery System (MACRS) is the standard for the determination of useful life for assets. The longest life span is 39 years which includes assets like office buildings, stores, and other nonresidential property.

The answer is **(D)**

#### Solution 260

Percentage depletion is the method used to determine the deduction for oil and gas production. The deduction is determined by taking the fixed rate of 15% of the gross income from the property. Therefore,  $15\% \text{ of } \$100,000 = \$15,000$ .

The answer is **(A)**

#### Solution 261

The Section 179 and bonus depreciation deduction have some similar provisions including the eligibility of the property as new or used.

The answer is **(D)**

#### Solution 262

In general, most settlement fees are added to the adjusted basis of a purchased property. Some of the exceptions include:

- Rent of the property before sale
- Utility costs of the property before sale
- Loan acquiring charges such as points or credit report costs
- Casualty insurance premiums

The answer is **(B)**

### Solution 263

As defined by the IRS Tangible Property Regulations, the building is the unit of property but the improvement standards define other systems as separate units of property. These include:

- The building structure
- Heating, ventilation, and air conditioning systems (HVAC)
- Plumbing system
- Electrical system
- Escalators
- Elevators
- Fire protection and alarm system
- Building security systems
- Gas distribution system

The answer is **(A)**

### Solution 264

The safe harbor elections allow for exceptions to the tangible property regulations and allow deductions in certain instances. The safe harbor rules are as follows:

- De minimis expensing safe harbor election #1: Allows business with applicable financial statements to deduct up to \$5,000 per invoice or item for tangible property payments. The company must also have a written capitalization policy.
- De minimis expensing safe harbor election #2: Businesses without applicable financial statements are allowed to deduct a reduced amount of \$2,500 per invoice or item.
- Routine maintenance safe harbor: Allows for the deduction of costs associated with maintenance that occurs more than once during a ten-year cycle
- De minimis election for materials and supplies: deduction for material and supply costs that are less than \$200

The answer is **(A)**

#### Solution 265

The \$200 de minimis election for materials and supplies allows deductions for items of \$200 or less. However, the limit is waived if the materials and supplies meet one of the following criteria:

- Any unit of property with a useful life of 12 months or less
- Spare parts used for maintenance or repair
- Incidental materials and supplies

The concrete bags are a routine purchase which has a useful life of less than one year and therefore the total cost per invoice is deductible and it does not require a financial statement.

The answer is **(D)**

#### Solution 266

Casualty loss does not apply to instances where wear and tear are the cause of the failure. This can be due to normal weather conditions or insects.

The answer is **(D)**

#### Solution 267

The deduction for the loss due to theft or casualty is the adjusted basis minus any remaining material and then minus any payments from insurance. Therefore, the deduction is  $\$10,000 - \$2,500 - \$6,000 = \$1,500$ .

The answer is **(A)**

#### Solution 268

The basis of the purchase of a security by a business includes all associated fees including recording, commission, and transfer.

The answer is **(D)**

### Solution 269

A balance sheet determines the assets of a company by adding liabilities and shareholder equity. Liabilities include:

- Long-term debt
- Bank indebtedness
- Interest payable
- Wages payable
- Accounts payable

The answer is **(A)**

### Solution 270

An income statement determines the net income over a specific period of time. This is determined by subtracting losses and expenses from revenue and gains. The total revenue is determined by the total of both the operating and non-operating revenues.

The answer is **(D)**

### Solution 271

The gain realized is the sale of the property minus the adjusted basis which includes the depreciation. The adjusted basis is now  $\$7,000 - \$2,400 = \$4,600$ . The gain is then  $\$5,200 - \$4,600 = \$600$ . Since the entire amount of the realized gain is less than the amount of depreciation subject to recapture, the entire gain is treated as ordinary income.

The answer is **(C)**

### Solution 272

The type of property dictates the replacement period for an involuntary conversion. Most property has a two-year period but there are some exceptions:

- Real estate held for business use: 3 years
- Livestock for weather related conditions: 4 years
- Main home in a federally declared disaster area: 4 to 5 years

The answer is **(C)**

### Solution 273

Schedule M-3 (Form 1120) is for net income reconciliation for corporations with total assets of \$10 million or more.

The answer is **(C)**

### Solution 274

The IRS uses three primary characteristics as evaluation of the relationship between a business and an individual who is paid by the business:

- Behavioral control: The evaluation of whether the business can control the character of the work performed by the individual
- Financial control: Evaluation of how a worker is paid or expense are made
- Type of relationship: Evaluation of how the business treats the employee. This may include contracts or benefits

The answer is **(B)**

### Solution 275

When the filing of Form 8300, *Report of Cash Payments over \$10,000 Received in a Trade or Business* is required, a written statement must also be issued to any person listed by January 31 of the following year.

The answer is **(C)**

### Solution 276

As per IRS requirements, there are three categories of statutory nonemployees: direct sellers, licensed real estate agents and certain companion sitters. Direct sellers and licensed real estate agents are treated as self-employed for all Federal tax purposes, including income and employment taxes, if:

- Substantially all payments for their services as direct sellers or real estate agents are directly related to sales or other output, rather than to the number of hours worked, and
- Their services are performed under a written contract providing that they will not be treated as employees for Federal tax purposes

The answer is **(A)**

#### Solution 277

The excise tax is assessed on specific goods. It is often included in the price of a product and passed on to consumers to pay. The tax is a deductible portion of the employer's income. Since the tax is 7.5%, the actual price of the firearm is  $\$150/1.075 = \$139.53$ . The deductible tax is then  $\$150 - \$139.52 = \$10.47$ .

The answer is **(B)**

#### Solution 278

For Social Security and Medicare taxes, the share is split evenly between the employer and employee. Medicare is a rate of 1.45% each. Social Security is subject to a maximum earnings limit but Medicare is not. The employer's share is 1.45% of  $\$150,000 = \$2,175.00$ .

The answer is **(B)**

#### Solution 279

The 199A deduction is allowed for anyone with income below the specified threshold. For those above the threshold, limitations apply. For those in a specified service trade or business that are also above the threshold, the deduction is disallowed.

The answer is **(B)**

#### Solution 280

The Employer Shared Responsibility applies to companies with more than 50 full-time employees.

The answer is **(A)**

#### Solution 281

The Affordable Care Act requires employers to meet minimum essential coverage requirements to ensure the provided health care meets a minimum standard. The plans must cover at least 60% of the total cost of medical services.

The answer is **(B)**

#### Solution 282

A trust needs to file Form 1041, *U.S. Income Tax Return for Estates and Trusts* if it has a gross income of \$600 or more during the trust tax year, there is a nonresident alien beneficiary, or if there is any taxable income.

The answer is **(D)**

#### Solution 283

A simple trust must adhere to the following:

- Makes no distributions of principal
- Must distribute all of its income in the current year
- Makes no distributions to charity

The answer is **(C)**

#### Solution 284

Strict rules apply to both the activities and the governance of 501(c)(3) organizations. No part of the activities or the net earnings can unfairly benefit any director, officer, or any private individual. In addition, all assets are permanently dedicated to a charitable purpose. In the event that a 501(c)(3) organization must cease operations, all assets remaining after debts are paid must be distributed for a charitable purpose. Lobbying, propaganda, or other legislative activity must be kept relatively insubstantial including intervention in political campaigns or the endorsement of candidates.

The answer is **(A)**

#### Solution 285

Organizations with less than \$5,000 in gross receipts in any year are not required to file Form 1023, *Application for Recognition of Exemption*.

The answer is **(B)**

#### Solution 286

A charitable organization can be classified as either public or private. In general, if the contributions annually to the organization are more than 33% from the general public, the charity can be classified as public.

The answer is **(B)**

#### Solution 287

Employees are immediately vested in a SEP-IRA and they are eligible for the full benefits as contributions are made.

The answer is **(A)**

#### Solution 288

Once an employer has an established SEP-IRA in place it is required participation for all employees including part-time or seasonal only employees. It is also required for those who do not wish to participate.

The answer is **(D)**

#### Solution 289

If the employer chooses the dollar-for-dollar match option, they contribute up to 3% of what the employee chooses to contribute. In this case, the employee will get the full match of 3% of \$50,000 which is \$1,500 added to the 5% of \$50,000 which is \$2,500 for a total contribution of \$4,000.

The answer is **(D)**

#### Solution 290

A number of retirement plans set up by the employer are provided to the employee whether they choose to or not. These include nonelective SIMPLE plans and defined benefits plans. Defined contribution plans such as a traditional 401(k) are only a benefit to the employee if they choose to participate.

The answer is **(C)**

#### Solution 291

Both the SIMPLE IRA and 401(k) have many similarities including contribution limits, catch-up contributions, immediate vesting, employer match options, and eligibility. The SIMPLE 401(k) does require the filing of Form 5500, *Annual Return/Report of Employee Benefit Plan*.

The answer is **(B)**

### Solution 292

Exempt organizations are required to file Form 990, *Return of Organization Exempt from Income Tax*. They may use a variation of the form in the following scenarios based on gross receipts and assets:

- Gross receipts less than \$50,000: Form 990-N
- Gross receipts less than \$200,000 and total assets less than \$500,000: Form 990-EZ
- Gross receipts more than \$200,000 or total assets more than \$500,000: Form 990

The answer is **(C)**

### Solution 293

The scenario described is sharecropping in which a tenant agrees to pay an owner of the land a percentage of the sales. The owner does not participate in farming activities and only owns the land. This is to be reported on a separate Form 4835, *Farm Rental Income and Expenses*.

The answer is **(D)**

### Solution 294

Farmers have special rules for estimated tax payments. They are not required to make any if the farming business accounts for more than two-thirds of all income. They are required, however, to make a payment for all taxes owed on the first day of the third month following the end of the tax year which for calendar year businesses is March 1<sup>st</sup>.

The answer is **(B)**

### Solution 295

Section 1231 transactions are sales and exchanges of real or depreciable property held longer than 1 year (exceptions noted below) and used in a trade or business. Gain or loss on the following transactions specifically related to farming is subject to Section 1231 treatment:

- Sale or exchange of cattle and horses held for at least 24 months. The cattle and horses must be held for draft, breeding, dairy, or sporting purposes
- Sale or exchange of other livestock held for 12 months or more. The livestock must be held for draft, breeding, dairy, or sporting purposes and held for 12 months or longer. This does not include poultry.
- Sale or exchange of real estate such as the farm or ranch (including barns and sheds).
- Sale or exchange of unharvested crops.
- Distributive share of partnership gains and losses.
- Cutting or disposal of timber.
- Condemned property
- Casualty or theft loss.

Sale, exchange, or involuntary conversion of property held mainly for sale to customers is not a Section 1231 transaction. If you will get back all, or nearly all, of your investment in the property by selling it rather than by using it up in your business, it is property held mainly for sale to customers.

The answer is **(B)**

### Solution 296

The eligible income for postponement is determined by establishing the proceeds per product, in this case per pound which is  $\$90,000/8,280 = \$10.87$  per pound. Then this can be multiplied by the number of pounds sold over the typical amount.  $4,180 \times \$10.87 = \$45,436.60$ .

The answer is **(C)**

### Solution 297

A loss from the liquidation distribution of a partnership interest can only be realized if all of the following are true:

- The partner's entire interest is liquidated
- The adjusted basis exceeds the distribution
- The distribution is cash, unrealized receivables, or inventory items

The answer is **(B)**

Solution 298

Form 1040, *Final Income Tax Return* is required in the same manner as if the individual were alive but is classified as deceased. Form 1041, *Estate Income Tax Return*, is not required for estates that have income of less than \$600. Form 706, *United States Estate Tax Return* is also not required since the gross estate is less than the basic exclusion amount.

The answer is **(A)**

Solution 299

Form 706, *United States Estate Tax Return* is due nine months after the date of death which would be December 15<sup>th</sup>.

The answer is **(D)**

Solution 300

A corporation that anticipates that the estimated tax payments made are higher than necessary may use Form 4466, *Corporation Application for Quick Refund of Estimated Tax* to receive an expedited refund of the overpayment. The overpayment must be at least 10% of the anticipated tax liability and over \$500. Therefore, the estimated tax payments must have been at least  $1.1 \times \$46,000 = \$50,600$ .

The answer is **(C)**

### Solution 301

A sole proprietorship is operating at a net operating loss if the losses from the business exceed all other sources of income. These losses can be used to offset gains in previous or future years. Carry back of the losses can occur for a maximum of two years and carry-forward losses can occur for a maximum of 20.

The answer is **(D)**

### Solution 302

An unincorporated business jointly owned by a married couple is generally classified as a partnership for Federal tax purposes. The Small Business and Work Opportunity Tax Act of 2007 (Public Law 110-28) allows for the use of a "qualified joint venture," where the only members are a married couple filing a joint return. They can use this to not be treated as a partnership for Federal tax purposes and to ease the burden of the filing process. The requirements are:

- The only members of the joint venture are a married couple who file a joint return
- Both spouses must materially participate in the trade or business
- Both spouses elect not to be treated as a partnership
- They must file as married filing jointly

The answer is **(A)**

### Solution 303

The development of business entities is performed at the State level and is subject to both the federal and local laws in which they are formed.

The answer is **(D)**

### Solution 304

A Professional Service Limited Liability Company (PLLC) is reserved for individuals which work in a field which requires a licensed professional to perform their duties. This may include engineers, lawyers, doctors, and others. This is often dictated by State requirements which may not allow these specific individuals to form a typical LLC.

The answer is **(D)**

### Solution 305

Entities that do not make a classification election with Form 8832, *Entity Classification Election* default to either a disregarded entity or a partnership. Entities with a single member are treated as disregarded entities and are viewed as not being separate from the individual. Entities with multiple members are defaulted to partnerships.

The answer is **(C)**

### Solution 306

An employer identification number (EIN) is similar to a social security for an individual. It identifies the company as a tax-paying entity. If the income from the business is treated as a pass-through to an individual, it is not required. Therefore, it is needed in any situation where a business pays employees or is comprised of more than one member. This does not prohibit a sole proprietor however from obtaining one and they may choose to do so.

The answer is **(A)**

### Solution 307

The term “farm” includes stock, dairy, poultry, fruit, furbearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards and woodlands. There are some specific exemptions that are not considered farming business including:

- Pet breeders
- Farm supply stores
- Land and soil preparation
- Veterinary

The answer is **(D)**

### Solution 308

The corporate tax rate has been established as a flat rate of 21% since the enacting of the Tax Cuts and Jobs Act.

The answer is **(B)**

### Solution 309

Partnerships and S corporations which are calendar year entities are required to file the 15<sup>th</sup> day of the third month following the end of the year. This would be March 15<sup>th</sup> for the calendar year. Sole proprietorships must follow the same deadlines as individuals and must file by April 15<sup>th</sup>.

The answer is **(A)**

### Solution 310

The required tax year for a partnership shall be consistent with the tax year of the majority holder (above 50% ownership). In this case this would be corporation C. If no one partner has a greater than 50% ownership, the required year would be that which results in the least amount of deferred income.

The answer is **(D)**

### Solution 311

The deferral period depends on the intention of the company to either retain its current tax year or make a change to another. If it is to retain its current tax year, the deferral period is limited to three months.

The answer is **(B)**

### Solution 312

The gross receipts test is the average of the last three years of gross receipts which must be below \$26 million to allow for the use of the cash method of accounting. If there are less than three years of existence, then the average of the years available is used. The average of \$20 million and the next year cannot exceed \$26 million which would be \$32 million.

The answer is **(C)**

### Solution 313

The date of received income for the accrual method is the earliest of the following:

- When you receive payment.
- When the income amount is due to you.
- When you earn the income.
- When title passes.

Despite not receiving the payment until later, the work was performed and income earned on February 15<sup>th</sup>.

The answer is **(A)**

### Solution 314

A Qualified Personal Service Corporation (PSC) is a corporation that meets a function and ownership tests to be able to use the cash method. The function test requires a corporation to have at least 95% of its activities in the fields of health, veterinary services, law, engineering (including surveying and mapping), architecture, accounting, actuarial science, performing arts, or consulting.

The answer is **(D)**

### Solution 315

Nonprofits may operate as tax-exempt if they operate solely for educational, religious, or charitable purposes. They may be classified as corporations, trusts, or unincorporated associations. They may not be partnerships or LLCs.

The answer is **(A)**

### Solution 316

Family partnerships are where family members are recognized and treated as partners. The validity of the recognition however is based on whether the business operates where capital is a material-income producing factor or not. If it is, then the interest must be received in a bona fide transaction which may be by purchase or gift. If capital is not a material income-producing factor, then the family members must join in good faith and all contribute vital services to the business.

The answer is **(A)**

### Solution 317

The partnership's ordinary income must not include any items which are designated as separately state items. These include:

- Section 1231 gains and losses,
- Net short-term capital gains and losses,
- Net long-term capital gains and losses,
- Dividends eligible for the dividends received deduction (if a shareholder is a C-Corporation),
- Charitable contributions,
- Taxes paid to a foreign country,
- Tax-exempt interest and related expenses,
- Investment income and expenses,
- Amounts previously deducted, such as bad debts,
- Real estate income and expenses,
- Section 179 deductions,
- Tax credits, and
- Non-deductible expenses, such as 50% of meals and entertainment expenses.

The share of these separate items is passed through the partnership and claimed on the individual tax returns. Therefore, the ordinary income is  $\$150,000 - \$20,000 = \$130,000$ .

The answer is **(C)**

### Solution 318

Guaranteed payments are an agreed stipulation of the partnership agreement which must be made regardless of the partnership's gain or loss for the year.

The answer is **(C)**

### Solution 319

The contribution of property to a partnership establishes a basis of partnership interest equal to the adjusted basis of the property.

The answer is **(B)**

#### Solution 320

A property that is contributed differentiates the basis of a partner by outside and inside. Inside basis is the partnership's interest in the assets. Outside basis is partner's basis in their partnership interest in the company. When a property is contributed, the adjusted basis is the outside basis and the fair market value is the inside basis. The gain or loss is determined by the gain minus the outside basis which is  $\$90,000 - \$60,000 = \$30,000$  gain.

The answer is **(B)**

#### Solution 321

Electronic filing is required for C corporations if the assets total more than \$10 million or has at least 250 returns of any type.

The answer is **(A)**

#### Solution 322

If a corporation has an expected tax liability of more than \$500, it must make estimated payments over the year in four equal installments. The installments must be at least the lesser of the previous year's liability or the estimated liability for the current year. In this scenario, this is  $\$1500/4 = \$375$ .

The answer is **(B)**

#### Solution 323

The income that is earned by the corporation is taxed at the corporate level but then does not retain the same character when it is passed to the shareholders and is also treated as dividend income.

The answer is **(C)**

#### Solution 324

Capital gains for a corporation are handled differently from individuals. Losses cannot be used to offset other income and can only be deducted up to the number of capital gains. The tax rate is not the same as for individuals and the gains are taxed at the same flat rate as for ordinary income.

The answer is **(B)**

#### Solution 325

Corporations may make charitable contributions to qualified organizations of up to 25% of the corporate taxable income.

The answer is **(D)**

#### Solution 326

A BEAT-applicable taxpayer must satisfy each of the following criteria:

- The taxpayer must be taxed as a C corporation
- The taxpayer is not a regulated investment company or a real estate investment trust
- The taxpayer must have average annual gross receipts for the three-taxable-year period ending with the preceding taxable year in excess of \$500 million
- The taxpayer must have a base erosion percentage of 3 percent or more

The answer is **(B)**

#### Solution 327

The Global Intangible Low-Taxed Income (GILTI) is used to ensure that a corporation does not take advantage of lower tax rates in foreign countries. A corporation can generally deduct 50% of the GILTI and take a credit for 80% of the foreign income tax paid. Therefore, the tax no longer applies at a foreign tax rate of which is 80% is 10.5% which equals 13.125%.

The answer is **(C)**

#### Solution 328

A closely held corporation is one that is controlled by a small group and has no public market for its stock. To define a small group, Five or less individuals must own more than 50% of the outstanding stock directly or indirectly at any point during the second half of the year. Personal service corporations are also not eligible for closely-held corporations.

The answer is **(C)**

#### Solution 329

A corporation which owns other corporation can form a controlled group if the parent company owns at least 80% of the voting power in another corporation. Foreign corporations are also not eligible for a controlled group.

The answer is **(B)**

#### Solution 330

A newly formed company that wishes to become an S corporation must file Form 2553, *Election by a Small Business Corporation* no later than 2.5 months after the start of the tax year. If the company is in its first year of existence, the deadline is 2.5 months after the start date of the company.

The answer is **(B)**

#### Solution 331

An S corporation can only be owned by an individual, a trust, or an estate.

The answer is **(D)**

#### Solution 332

S corporations can't have more than 100 shareholders. Family members however count as just one shareholder if they include all descendants of a common ancestor up to six generations back as of the date of application for S corporation status. It also includes the spouses of descendants. Therefore, all the members including the husband, wife, children, and spouses count as one.

The answer is **(A)**

#### Solution 333

Any distribution from an S corporation that exceeds the existing basis is treated as capital gains.

The answer is **(B)**

#### Solution 334

There are three shareholder loss limitations:

- Stock and Debt Basis Limitations
- At-Risk Limitations
- Passive Activity Loss Limitations

The answer is **(D)**

#### Solution 335

If a shareholder in an S corporation terminates his or her entire interest in the corporation, Section 1377(a)(2) permits the corporation to separate the year into two taxable years. The first taxable year ends on the date of the termination.

The answer is **(C)**

#### Solution 336

C corporations are different than S corporations in regard to the deductibility of health insurance premiums. An S corporation has a minimum shareholder percentage of 2% to allow for the deduction. C corporations can deduct all premiums regardless of ownership percentage.

The answer is **(C)**

#### Solution 337

To determine if a taxpayer is materially participating in a business activity depends on the circumstances and amount of effort the individual puts into the activity. If the taxpayer is not the only or highest participating member, they need to establish a minimum of 500 hours of participation during the year.

The answer is **(D)**

#### Solution 338

Gross receipts include income from all sale and non-sales sources including interest, dividends, or donations.

The answer is **(D)**

#### Solution 339

The cancellation of debt is generally considered as reportable income. Some exceptions are:

- Canceled debt for a cash-basis business that was used for a deductible business expense
- If the taxpayer is bankrupt or insolvent
- Forgiveness of debt from a seller of a property

The answer is **(A)**

### Solution 340

The UNICAP rules require a taxpayer to capitalize all direct costs and certain indirect costs properly allocable to property produced or property acquired for resale. Indirect costs can be categorized into two groups: those that must be capitalized and those that are allowed to be expensed in the current period. Indirect costs allowed to be expensed in the current period include marketing, selling, advertising and distribution expenses, general and administrative expenses not related to construction or development, research and experimental expenses, and depreciation and amortization. Examples of indirect costs required to be capitalized to the extent they are properly allocable to property produced are:

- Bidding costs
- Engineering and design
- Employee benefit expenses
- Handling costs
- Indirect labor costs
- Indirect material costs
- Insurance
- Licensing and franchise costs
- Officers' compensation
- Pension and other related costs
- Purchasing costs
- Quality control
- Rent
- Repairs and maintenance
- Spoilage
- Storage costs
- Taxes
- Tools and equipment
- Utilities

The answer is **(D)**

### Solution 341

The cost of goods sold (COGS) is the direct costs of producing the goods sold by a company which includes the cost of the materials, labor, storage, and other costs directly used to create the goods. It excludes indirect expenses, such as distribution costs, sales force, and marketing costs.

The answer is **(D)**

#### Solution 342

The first in first out method reduces the value of the inventory by removing those items which were purchased earlier first. Therefore, the remaining 300 has the 200 lamps at \$4.30 and an extra 100 at \$4.20 which is a total of \$1,280.

The answer is **(C)**

#### Solution 343

Most assets shall be held a minimum of one year to be subject to Section 1231 treatment. One exception is the ownership of cattle and horses which have a minimum requirement of two years.

The answer is **(A)**

#### Solution 344

Section 1231 asset losses are treated as ordinary losses. Any gains are treated as long-term capital.

The answer is **(A)**

#### Solution 345

To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business. Some of the costs that do not qualify include:

- The expenses used to figure the cost of goods sold
- Capital Expenses
  - Start-up costs
  - Business assets
  - Improvements
- Personal Expenses

The answer is **(C)**

#### Solution 346

When a business is being started, some of the costs associated with the work done before the business actually opens can be a deduction. There is a differentiation, however, between start-up costs and organization costs. Start-up costs are those in anticipation of beginning a business for profit. Some examples include:

- Market research
- Advertisement
- Training or executive salaries
- Travel costs for prospective business including building sites or visits to suppliers

Organizational costs are similar but defined more as the costs associated with the formation of the business. These include the necessary organizational and legal costs that are required to get the business started.

The answer is **(D)**

#### Solution 347

Sales and use tax is based on the state requirements and can either be imposed on the customer or the seller. The tax is only deductible if it is imposed on the seller and it is reported as income. The seller must pay the tax to the state and deduct it from gross income.

The answer is **(C)**

#### Solution 348

Vehicle insurance is deductible unless the company uses the standard mileage rate to determine expenses.

The answer is **(A)**

#### Solution 349

A C corporation is different from other business entities in which they are able to deduct employee health insurance premiums even if they had a net loss for the year.

The answer is **(D)**

#### Solution 350

In general, a C corporation must have at least one shareholder meeting per year to meet requirements.

The answer is **(A)**

#### Solution 351

The simplified home office deduction is \$5 per square foot up to a maximum of 300 square feet. Therefore, the eligible deduction is  $\$5 \times 250 = \$1,250$ .

The answer is **(D)**

#### Solution 352

Entertainment expenses are no longer deductible as per the TCJA. However, food during entertainment is deductible at the 50% rate which for this scenario is \$45.

The answer is **(A)**

#### Solution 353

Professions subject to the Department of Transportation hours of service limits are eligible for an increased business-related meals deduction of 80%. Some of the eligible businesses include:

- Interstate trucking
- Pilots
- Railroad employees
- Mariners
- Pilots

The answer is **(B)**

#### Solution 354

The per diem that is applied varies based on the destination. It is even different within an individual state and is established for cities.

The answer is **(C)**

### Solution 355

Fringe benefits which are not taxable generally include:

- Medical and dental insurance
- Company car use for business-related activities
- Employee discounts
- Subsidized meals

Fringe benefits that are taxable include:

- Health club memberships
- Life insurance over \$50,000
- Intangible property
- Gift cards
- Concert or event tickets

The answer is **(C)**

### Solution 356

Based on its simplicity, the straight-line method can be switched to without prior consent from the IRS. Generally, once a method of depreciation is established for an asset, it must remain the same for ten years unless approval is granted.

The answer is **(A)**

### Solution 357

The double-declining depreciation method takes a higher depreciation in earlier years than in later. It is based on a yearly percentage equal to two divided by the number of years in the lifespan. If the truck has a 10-year life, the yearly deduction is  $2/10 = 0.2$  or 20%. In the first year 20% of \$45,000 is \$9,000. This is then subtracted from the original balance to leave \$36,000 for the second year. The depreciation is then taken as 20% of \$36,000 = \$7,200.

The answer is **(C)**

Solution 358

Section 179 property must meet the following requirements:

- More than 50% of use is business-related
- Must have been purchased
- Must not be purchased by a related party

The answer is **(C)**

Solution 359

The cost depletion method determines a rate per unit by dividing the adjusted basis of the property by the total estimated recoverable units:

$$\frac{(\$1 \text{ billion} + \$40 \text{ million} - \$200 \text{ million})}{200 \text{ million units}} = \$4.20/\text{unit}$$

The rate can be multiplied by the number of units extracted in the current year.  $\$4.20 \times 5 \text{ million} = \$21 \text{ million}$ .

The answer is **(C)**

Solution 360

The percentage depletion deduction method is not applicable for timber.

The answer is **(A)**

Solution 361

The basis of assets does include any additional costs associated with the acquisition and proper function of the asset. This would include the shipping and assembly costs for a total of \$75,900.

The answer is **(C)**

Solution 362

Of those listed, only the legal fees and the title search can be included in the adjusted basis. The additional costs are mortgage acquisition related and are not to be included. The adjusted basis also includes both the down payment and any mortgage amount. The adjusted basis is  $\$240,000 + \$60,000 + \$500 + \$400 = \$300,900$ .

The answer is **(C)**

### Solution 363

The IRS Tangible Property Regulations provide requirements for the classification of costs to be either capitalized or expensed. An expenditure is a capitalizable improvement if it is a betterment, restoration, or adaptation.

The answer is **(B)**

### Solution 364

The small taxpayer safe harbor for real property is an election that may be made for businesses with less than \$10 million in gross receipts to deduct costs as repairs rather than improvements. The allowable amount is the lesser of \$10,000 or 2% of the unadjusted basis of the property. 2% of \$120,000 is \$2,400.

The answer is **(B)**

### Solution 365

The deductible expense for the loss from the damage is the cost of repairs minus any payment from the insurance company. Since the total is \$8,000, the \$3,500 payment must be removed to determine the deduction which is \$4,500.

The answer is **(C)**

### Solution 366

A stock split does not affect the total basis of the securities ownership. In a two-for-one stock split, an owner of each share is now given an additional share. The change is in the cost per share which is reduced in half. Therefore, the company now owns 4000 shares at \$2.50 per share for a total basis of \$10,000.

The answer is **(C)**

### Solution 367

A balance sheet is used to determine the total number of assets which is the addition of any liabilities and shareholder equity.

The answer is **(D)**

#### Solution 368

An income statement is used to report income through a particular time period. It calculates income based on the following equation:

$$\text{Net Income} = (\text{Total Revenue} + \text{Gains}) - (\text{Total Expenses} + \text{Losses})$$

Therefore, the net income =  $(\$60,800 + \$4,500) - (\$15,500 + \$1,000) = \$48,800$

The answer is **(B)**

#### Solution 369

When a property is sold, the gain realized is determined by the amount of the original cost minus the depreciation from the sale of the property. The gain realized is then  $\$27,200 - (\$35,000 - \$10,500) = \$2,700$ .

The answer is **(A)**

#### Solution 370

Related parties indicate a "close" family member but this does not include everyone. Stepparents or siblings are not included as well as uncles, aunts, nieces, cousins, or in-laws. Brothers or sisters who are only half are included.

The answer is **(D)**

#### Solution 371

Proceeds from a sale are treated as ordinary income up to the amount of the depreciation taken up to the point of sale. Any amount above this, is treated as a capital gain. The gain is determined by the sale price minus the adjusted basis. The adjusted basis is  $\$1,900 - \$300 = \$1,600$ . The gain then is  $\$2,300 - \$1,600 = \$700$ . Any portion of the gain up to the amount of depreciation is taken as ordinary income. The remainder is a capital gain which is  $\$400$ .

The answer is **(B)**

### Solution 372

A partnership that can satisfy all of the following four requirements is not required to complete Schedule M-1:

- The partnership's total receipts were less than \$250,000 for the tax year
- The partnership's total assets were less than \$1 million at the end of the tax year,
- Schedule K-1's are filed with the return and furnished to the partners on or before the due date (including extensions),
- The partnership is not filing or required to file Schedule M-3

The answer is **(B)**

### Solution 373

Form 8300, *Report of Cash Payments over \$10,000 Received in a Trade or Business* is required to be filed within 15 days of the receipt of the cash.

The answer is **(A)**

### Solution 374

Worker classifications determine the necessary filing requirements for the individual. The person hired can be an employee, independent contractor, statutory employee, or statutory nonemployee. The requirements are as follows:

- Independent contractor: considered self-employed and reports income on schedule C
- Statutory employee: Issued W-2 and report wages on Schedule C
- Statutory nonemployee: Treated as self-employed and reports income on Schedule C

The answer is **(C)**

### Solution 375

The Federal Unemployment tax is 6% paid by the employer for the first \$7,000 of each employee's wages. The filing of Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return* provides a 5.4% credit which can result in a total tax of 0.6%.

The answer is **(A)**

#### Solution 376

The additional Medicare tax is withheld from an employee who makes over \$200,000 regardless of whether or not they will end up owing money based on their filing status and other income.

The answer is **(A)**

#### Solution 377

The trust fund recovery penalty is assessed when a person is either responsible or willfully fails to pay the required taxes from employee withholdings that are held in a trust fund. This is also referred to as the 100% penalty since the assessed penalty can be 100% of the unpaid balance of the trust fund taxes.

The answer is **(D)**

#### Solution 378

Excise taxes can be assessed as either a percentage of the sale (ad valorem) or a set specific amount based on a product. Cigarettes and tobacco products have a set tax.

The answer is **(D)**

#### Solution 379

Of the employment taxes, Social Security is only applied up to a maximum limit of the employee's earnings.

The answer is **(A)**

#### Solution 380

The classification of a business as a specified service trade or business adds a limitation to the ability of a business to qualify for the 199A deduction. The fields of architecture and engineering are specified fields that are not applicable.

The answer is **(D)**

#### Solution 381

An employer who has more than 50 full-time employees must meet the requirements of providing health insurance to those employees. Part-time employees however are not required to be provided health coverage and it may be provided at the option of the employer. However, if one employee is offered coverage, it must be applied to all employees.

The answer is **(B)**

#### Solution 382

A simple trust has an annual exemption of \$300 while all others are \$100 per year. The exception is a qualified disability trust which has an exemption of \$4,200.

The answer is **(B)**

#### Solution 383

A grantor trust is a disregarded entity for federal tax purposes. Therefore, any income or deductions associated with the trust are handled by the owner.

The answer is **(B)**

#### Solution 384

The exempt purposes set forth in Section 501(c)(3) are:

- Charitable
- Religious
- Educational
- Scientific
- Literary
- Testing for public safety
- Fostering national or international amateur sports competition
- Preventing cruelty to children or animals

The answer is **(C)**

### Solution 385

Organizations are eligible for the use of Form 1023-EZ if they meet the following requirements:

- Assets of \$250,000 or less
- Gross receipts of \$50,000 or less in the prior three years

The answer is **(C)**

### Solution 386

An exempt organization that does not file on time is subject to penalties. Those with gross receipts of less than \$1,067,000 annually will be charged \$20 per day late up to a maximum of the smaller of \$10,500 or 5% of the gross receipts. In this scenario, the fee is  $\$20 \times 25 \text{ days} = \$500$ .

The answer is **(A)**

### Solution 387

The Simplified Employee Pension Plan (SEP-IRA) is an employer only contribution system as a benefit for the employee. The minimum requirements for eligibility are:

- Minimum age of 21 years old
- The employee has worked for the employer in at least three of the last five years
- The employee has received more than \$600 in compensation for the tax year

An employer may choose to have less restrictive requirements for eligibility but they may not have more.

The answer is **(B)**

### Solution 388

The maximum contribution from an employer into a SEP-IRA is the lesser of \$57,000 or 25% of the employee's wages. 25% of \$80,000 is \$20,000.

The answer is **(C)**

Solution 389

A company must have no more than 100 employees that receive wages of over \$5,000 to be eligible for a SIMPLE retirement plan. If the company exceeds this number, they have a two-year grace period to continue the plan and reduce the number below the threshold.

The answer is **(B)**

Solution 390

An employer providing a nonelective contribution into a SIMPLE retirement plan provides the contribution regardless of what the employee provides and it is not a dollar-for-dollar match. Therefore, the employee would receive the full 2% of \$60,000 which is \$1,200 along with the 1% contribution of \$60,000 which is \$600 for a total of \$1,800.

The answer is **(C)**

Solution 391

The limitation on the annual benefit for a defined benefit plan is the lesser of \$230,000 or the average of the three highest salary years. The average salary is \$222,333.

The answer is **(C)**

Solution 392

Form 990-T, *Exempt Organization Business Income Tax Return* is required for exempt entities that have income unrelated to their tax-exempt purposes. The form is required for income greater than \$1,000.

The answer is **(B)**

Solution 393

The owner of the land is materially participating in the activities in which the income is generated. Therefore, it is still reported as Schedule F, *Profit or Loss from Farming*.

The answer is **(B)**

#### Solution 394

If a farmer does not harvest and dispose of a crop in the same tax year that it was planted, with IRS approval, they can use the crop method of accounting. Under this method, the entire cost of producing the crop is deducted in the year income is realized from the crop.

The answer is **(C)**

#### Solution 395

Livestock purchased for resale is deductible in the year of the sale. Other purposes such as breeding, sport, or dairy allows the farmer to choose to depreciate the cost or include it in inventory.

The answer is **(C)**

#### Solution 396

Machinery and tractors are depreciable property that rarely are sold for more than the purchase price. However, in this scenario there is a gain due to the refurbished condition. The basis has decreased to zero due to the depreciation and the gain up to the original purchase price is covered under depreciation recapture. Therefore, the remainder is eligible for Section 1231 which is  $\$8,200 - \$2,500 = \$5,700$ .

The answer is **(B)**

#### Solution 397

The sale of an interest in a partnership is treated as a capital gain or loss. The share of liability is also included as a part of the gain if it is relieved. Therefore, the total amount realized from the sale is  $\$45,000 + \$20,000 = \$65,000$  and the result is a  $\$15,000$  gain.

The answer is **(B)**

#### Solution 398

Income, losses, and deductions are not passed through to members or shareholders in a C corporation.

The answer is **(D)**

Solution 399

The estate has used \$1.5 million of the basic exclusion so this reduces the exclusion to \$11.58 million - \$1.5 million = \$10.08 million. The taxable estate is then \$15 million - \$10.08 million = \$4.92 million at an estate tax rate of 40% is a total tax of \$1.968 million.

The answer is **(A)**

Solution 400

The accumulated earnings tax is when a corporation accumulates a large number of its earnings without a bona fide reason. An appropriate reason may be for expansion or acquisition. The penalty can only be assessed with an audit and is 20% of the excess accumulation. This would be 20% of \$100,000 = \$20,000.

The answer is **(B)**

#### Solution 401

While the IRS authorizes certain professions to practice before the IRS, not all of them are allowed to practice without limitations. Attorneys, CPAs, and enrolled agents have unlimited rights and are not subject to limitations. Enrolled actuaries and enrolled retirement plan agents are allowed to practice before the IRS but are limited to the sections of the tax code in which their expertise applies.

The answer is **(B)**

#### Solution 402

Practice before the IRS may include any of the following:

- Communicating with the IRS on behalf of a taxpayer regarding the taxpayer's rights, privileges, or liabilities under laws and regulations administered by the IRS.
- Representing a taxpayer at conferences, hearings, or meetings with the IRS.
- Preparing, filing or submitting documents, or advising on the preparation, filing or submission of documents, including tax returns, with the IRS on behalf of a taxpayer.
- Providing a client with written tax advice on one or more Federal tax matters.

An exception to the representation of the taxpayer is for those taking place in the U.S. Tax Court.

The answer is **(A)**

#### Solution 403

An individual may represent a taxpayer regardless of circumstances if there is an existing special relationship. Proof of authority is required to represent the taxpayer. The following are qualified special relationships in which individuals may represent the taxpayer before the IRS:

- An individual can represent himself or herself before the IRS and does not have to file a written declaration of qualification and authority.
- A family member: An individual can represent their immediate family which includes a spouse, child, parent, brother, or sister of the individual.
- An officer: A bona fide officer of a
- A partner: A general partner can represent the partnership before the IRS.
- An employee: A regular full-time employee can represent his or her employer.
- A fiduciary

The answer is **(D)**

#### Solution 404

In general, any individual who prepares a tax return for compensation is required to have a valid PTIN. This includes professions other than enrolled agents such as CPA's or attorneys. One exception is an employed individual who prepares the return for the employer. As long as the employee is not preparing other returns, a PTIN would not be required in this scenario.

The answer is **(B)**

#### Solution 405

A newly appointed enrolled agent is not subject to the three-year cycle requirement of 72-hours given the reduced time. The requirement includes two hours of CE for every month until the new enrollment cycle. This also must include two hours of ethics annually.

The answer is **(B)**

#### Solution 406

An enrolled agent who discovers an error or omission that is due to the client's actions is required to inform the client upon discovery. They have no further obligation to report it to the IRS.

The answer is **(B)**

#### Solution 407

The restrictions on fees are only that a practitioner shall not charge one that is determined to be "unconscionable". This is lacking in specific guidance but would need to be determined by a court to be enforced.

The answer is **(B)**

#### Solution 408

As per § 10.30 Solicitation, advertisements shall not contain the term "certified"

The answer is **(A)**

#### Solution 409

Advertisements shall not indicate a relationship with the IRS and as such shall not include the official insignia except in the case of authorized e-service providers which may use the IRS e-file insignia.

The answer is **(C)**

#### Solution 410

An enrolled agent shall not receive a refund that is intended for a client and take a fee even if the client agrees to the transaction. The penalty, as per IRC § 6695(f) – Negotiation of check in calendar year 2021, is \$500 for a tax return preparer who endorses or negotiates any check made in respect of taxes imposed by Title 26 which is issued to a taxpayer.

The answer is **(D)**

#### Solution 411

Circular 230 § 10.22 Diligence as to Accuracy, provides guidance on when to exercise due diligence. While there are no specific requirements to meet, enrolled agents are expected to meet a minimum level of competence when performing the following tasks:

- In preparing or assisting in the preparation of, approving, and filing tax returns, documents, affidavits, and other papers relating to Internal Revenue Service matters;
- In determining the correctness of oral or written representations made by the practitioner to the Department of the Treasury; and
- In determining the correctness of oral or written representations made by the practitioner to clients with reference to any matter administered by the Internal Revenue Service.

An exception is the reliance on others in which a practitioner will be presumed to have exercised due diligence if the practitioner used reasonable care in engaging, supervising, training, and evaluating the person, taking proper account of the nature of the relationship between the practitioner and the person.

The answer is **(C)**

#### Solution 412

Written consent to waive a conflict of interest is required to be retained for at least three years after the termination of service. This takes effect after service has ended for all parties involved.

The answer is **(D)**

#### Solution 413

A practitioner may also perform notary services but cannot do so for a client in which they are performing services before the IRS.

The answer is **(C)**

#### Solution 414

A tax-Exempt entity who has participated in a prohibited tax shelter transaction may be required to file a Form 8886-T, *Disclosure by Tax Exempt Entity Regarding Prohibited Tax Shelter Transaction* if they participate in any of the following:

- Listed Transactions
- Confidential Transactions
- Contractual Protection Transactions

The answer is **(D)**

#### Solution 415

Substantial authority indicates the presence of substantially more support from authorities than those in opposition. This position carries a higher level of certainty than a reasonable basis or more likely than not.

The answer is **(D)**

#### Solution 416

Form 8275, *Disclosure Statement* is commonly used to provide additional disclosure to support an accuracy-related position that is done in good faith.

The answer is **(A)**

#### Solution 417

A disbarment is the more severe removal from service which has a minimum of five years before reinstatement is possible. The individual must then appeal to prove that they can be reinstated.

The answer is **(C)**

#### Solution 418

The penalties which are discretionary referrals to the OPR include:

- 6662 - Accuracy related penalty
- 6694(a) - Understatement of liability due to an unreasonable position
- 6695 - (a) Failure to furnish copy of return;
- 6695 - (b) Failure to sign return;
- 6695 - (d) Failure to keep a copy of tax return or list of taxpayers
- 6702 - Frivolous tax returns or submissions

However, if any of the listed penalties appear to become a pattern, a referral to the OPR should be made.

The answer is **(B)**

#### Solution 419

The IRS provides guidance on restrictions during suspension or disbarment from practice before the Internal Revenue Service with specific actions that can and cannot be performed during a suspension. A suspended or disbarred individual may still perform any of the following actions:

- Generally prepare tax returns.
- Represent himself or herself with respect to any matter
- Appear before the IRS as a trustee, receiver, guardian, administrator, executor, or other fiduciary if duly qualified/authorized as such under the law of the relevant jurisdiction.
- Appear as a witness for the taxpayer.
- Furnish information at the request of the IRS or any of its officers or employees.
- Receive information concerning a taxpayer from the IRS pursuant to a valid tax information authorization.
- Participate in the Statutory and Regulatory Rulemaking Process

The answer is **(C)**

#### Solution 420

Under 26 U.S. Code § 6702 Frivolous Tax Submissions, any person who submits a specified frivolous submission shall pay a penalty of \$5,000.

The answer is **(A)**

#### Solution 421

The OPR will submit a complaint if they do not come to an agreement with the practitioner about a sanction.

The answer is **(D)**

#### Solution 422

For the OPR to prevail in a disciplinary proceeding, they must prove by “clear and convincing evidence” that a practitioner willfully violated one or more provisions of Circular 230. Willful is defined as a voluntary, intentional violation of a known legal duty. Recklessness or gross incompetence may also provide a basis for discipline for violations

The answer is **(C)**

#### Solution 423

The IRS Fraud Handbook provided badges of fraud which are specific indicators that must be documented if their presence is discovered. One of the categories is income which includes badges such as:

- Omitting specific items where similar items are included.
- Omitting entire sources of income.
- Failing to report or explain substantial amounts of income identified as received.
- Inability to explain substantial increases in net worth, especially over a period of years.
- Substantial personal expenditures exceeding reported resources.
- Inability to explain sources of bank deposits substantially exceeding reported income.
- Concealing bank accounts, brokerage accounts, and other property.
- Inadequately explaining dealings in large sums of currency, or the unexplained expenditure of currency.
- Consistent concealment of unexplained currency, especially in a business not routinely requiring large cash transactions.
- Failing to deposit receipts in a business account, contrary to established practices.
- Failing to file a tax return, especially for a period of several years, despite evidence of receipt of substantial amounts of taxable income.

- Cashing checks, representing income, at check cashing services and at banks where the taxpayer does not maintain an account.
- Concealing sources of receipts by false description of the source(s) of disclosed income, and/or nontaxable receipts.

While multiple sets of books or records is a badge of fraud, it would more appropriately fall under the category of books and records.

The answer is **(D)**

Solution 424

The penalty for failure to provide a Social Security Number is \$50.

The answer is **(A)**

Solution 425

For an understatement to be considered substantial by an individual, the amount of the understatement shall exceed the larger of \$5,000 or 10% of the correct tax owed. The correct tax would then have to exceed either  $\$25,000 + \$5,000 = \$30,000$  or  $\$25,000/0.9 = \$27,777.78$ .

The answer is **(B)**

Solution 426

The penalty for a valuation misstatement is determined by whether it is classified as substantial or gross. Substantial misstatements are a 20% penalty and those that are gross are 40%.

The answer is **(D)**

Solution 427

The retention period for a normal tax return is three years. However, one exception is a return that includes omitted income in excess of 25% of the gross income.

The answer is **(C)**

Solution 428

The penalty for failure-to-pay unpaid taxes is 0.5% for each month the liability is unpaid. 0.5% of \$10,000 is \$50 per month which is \$150 for three months.

The answer is **(A)**

Solution 429

For a tax preparer that provides a return with an understatement due to reckless or willful conduct, the penalty is the greater of \$5,000 per return or 70% of the income received from preparing the return.

The answer is **(D)**

Solution 430

IRC § 6695 (a) through (e) has a maximum for the calendar year. IRC § 6695(f) and (g) do not.

The answer is **(D)**

Solution 431

Form 2848, *Power of Attorney and Declaration of Representative* allows up to a maximum of four representatives.

The answer is **(C)**

Solution 432

Those granted power of attorney may perform the following acts:

- Represent before any office or employee of the IRS.
- Sign an offer or a waiver of restriction on assessment or collection of a tax deficiency, or a waiver of notice of disallowance of claim for credit or refund.
- Sign a consent to extend the statutory time period for assessment or collection of a tax.
- Sign a closing agreement.

The representative named under a power of attorney may only sign an income tax return if:

- The signature is permitted under the Internal Revenue Code and the related regulations (see Regulations section 1.6012-1(a)(5)), and
- Specific authorization is in the power of attorney.

They shall not endorse or cash a check at any time.

The answer is **(A)**

### Solution 433

As defined by IRS Publication 947, a durable power of attorney is a power of attorney that is not subject to a time limit and that will continue in force after the incapacitation or incompetency of the taxpayer.

The answer is **(D)**

### Solution 434

If an individual wants to use a document other than Form 2848 to authorize the representation, it must contain the following information:

- Name and mailing address.
- Social security number (or the individual taxpayer identification number (ITIN)) and/or employer identification number.
- Employee plan number, if applicable.
- The name and mailing address of the representative(s).
- The types of tax involved.
- The federal tax form number.
- The specific year(s) or period(s) involved.
- For estate tax matters, the decedent's date of death.
- A clear expression of intention concerning the scope of authority granted to the representative(s).
- Individual signature and date.
- Declaration of representative

The answer is **(D)**

#### Solution 435

Form 8821, *Tax Information Authorization* doesn't authorize the representative to perform any of the following:

- To speak on the taxpayer's behalf
- To execute a request to allow disclosure of return or return information to another third party
- To advocate a position with respect to federal tax laws
- To execute waivers, consents, closing agreements
- Represent the taxpayer in any other manner before the IRS.

Form 2848, *Power of Attorney and Declaration of Representative*, shall be used to authorize an individual to represent before the IRS.

The answer is **(A)**

#### Solution 436

If the representative wants to withdraw from representation, he or she must write "WITHDRAW" across the top of the first page of Form 2848 with a current signature and date immediately below the annotation.

The answer is **(A)**

#### Solution 437

Direct deposits of tax refunds may be made to qualified savings, checking, share draft, or retirement accounts. They may not be made directly to credit card accounts.

The answer is **(C)**

#### Solution 438

In preparing a tax return of a second taxpayer, a tax return preparer may use, and may disclose to the second taxpayer in the form in which it appears on the return, any tax return information that the tax return preparer obtained from a first taxpayer if all of the following are true:

- The second taxpayer is related to the first taxpayer
- The first taxpayer's tax interest in the information is not adverse to the second taxpayer's tax interest in the information; and
- The first taxpayer has not expressly prohibited the disclosure or use.

The answer is **(B)**

#### Solution 439

The refund may not be used as payment applied directly to the preparer of the return. It may be received by either direct deposit or check, applied to next year's taxes, or used to buy U.S. Series I Savings Bonds

The answer is **(B)**

#### Solution 440

The maximum amount of time that a taxpayer may pay an existing tax liability in installments is 72 months.

The answer is **(D)**

#### Solution 441

An individual that files for bankruptcy will have a hold put on the existing tax due called an automatic stay. This will halt any assessment or collection of tax until the court decides to lift the stay or make a ruling regarding the debt.

The answer is **(C)**

#### Solution 442

Collection Financial Standards are used to help determine a taxpayer's ability to pay a delinquent tax liability. The necessary expense test used calculated from expenses that are necessary to provide for a taxpayer's health including their family, welfare, and/or production of income. Some of the standards are established nationally and some locally. National Standards are for food, clothing, and other items. Taxpayers are allowed the total National Standards amount monthly for their family size. National Standards also apply for out-of-pocket

health care expenses. Taxpayers and their dependents are allowed the standard amount monthly on a per person basis, without questioning the amount actually spent.

Maximum allowances for monthly housing, utilities, and transportation are established by the Local Standards which vary by location. In most cases, the taxpayer is allowed the amount actually spent, or the local standard, whichever is less.

The answer is **(D)**

Solution 443

Collection Information Statement forms are used to determine a status of currently not collectible. The statement shall include the following supporting documents:

- A list of all assets owned by the taxpayer
- A corresponding market value for each asset
- Income statements for the past three months
- Spending statements for the past three months

The answer is **(A)**

Solution 444

If an individual has an approved currently not collectible status, it does not suspend the time for the collection statute of limitations of ten years.

The answer is **(C)**

Solution 445

The IRS may not seize a primary home without prior approval from the IRS district director and judicial approval.

The answer is **(A)**

Solution 446

Any preparer paid to prepare a return claiming the EITC, CTC/ACTC/ODC, AOTC and/or HOH filing status must exercise proper due diligence including the filing of Form 8867, *Paid Preparer's Due Diligence Checklist*.

The answer is **(C)**

#### Solution 447

The penalty for failure to provide Form 8867, *Paid Preparer's Due Diligence Checklist* is \$540 but it is applied for each applicable credit or HOH filing status. Therefore, since there are two instances applied, the penalty would be \$1,080.

The answer is **(C)**

#### Solution 448

Tax evasion and tax avoidance can often be confused but are very different. Tax evasion is the illegal evasion of paying taxes by misreporting income or concealing information. Tax avoidance is legally using the knowledge of the tax code to reduce liability.

The answer is **(C)**

#### Solution 449

The exemptions protect against the disclosure of information that would harm national security, the privacy of individuals, the proprietary interests of business, the functioning of the government, and other important recognized interests. The exemptions include:

- Exemption 1. Classified Documents Pertaining to National Defense and Foreign Policy
- Exemption 2. Internal Personnel Rules and Practices
- Exemption 3. Information Exempt Under Other Laws
- Exemption 4. Trade Secrets and Confidential Commercial or Financial Information
- Exemption 5. Inter-Agency or Intra-Agency Memorandums or Letters
- Exemption 6. Personal Privacy
- Exemption 7. Law Enforcement
- Exemption 8. Financial Institutions
- Exemption 9. Geological Information

The answer is **(D)**

#### Solution 450

For an individual to be eligible for an appeal, all of the following must be provided:

- The individual received a letter from the IRS explaining the right to appeal the IRS's decision
- The individual does not agree with the IRS's decision
- The individual does not intend on signing the agreement form sent

Appeals are not applicable if any of the following apply to the individual:

- The correspondence received from the IRS was a bill and there was no mention of an appeal
- All information was not provided to support the position to the examiner during the audit
- The individual's only concern is that they can't afford to pay the amount owed

The answer is **(A)**

#### Solution 451

The IRS does not consider the following to be mathematical errors:

- A correction to withholding or estimated tax payments.
- Any tax decrease or increase of credits resulting in a larger refund than the taxpayer expected.

The answer is **(B)**

#### Solution 452

Under the Right to Finality, taxpayers have the right to know the maximum amount of time they have to challenge the IRS's position. They also are required to be provided with the maximum amount of time the IRS has to audit a particular tax year or collect a tax debt.

The answer is **(A)**

#### Solution 453

The IRS Letter CP2000: Proposed Changes to Your Tax Return, indicates that the IRS believes there is a change that needs to be made to a previously filed tax return. It can be addressed by agreeing or disputing with additional evidence. It does not require the use of an amended return.

The answer is **(B)**

#### Solution 454

An identity protection personal identification number (IP PIN) is issued by the IRS upon receipt of an identity theft report. The number is only valid on a yearly basis and a new one is issued every year. Once the report is filed, a new number is issued to the individual for three years.

The answer is **(C)**

#### Solution 455

To help prevent fraud and identity theft, the IRS limits the number of refunds electronically deposited into a single financial account or pre-paid debit card to three. Any additional refunds automatically will convert to a paper refund check.

The answer is **(C)**

#### Solution 456

The Taxpayer Advocate Service is an independent organization within the IRS. The purpose is to protect taxpayers' rights under the Taxpayer Bill of Rights, help taxpayers resolve problems with the IRS, and recommend changes that will prevent the problems.

The answer is **(B)**

#### Solution 457

The trust fund recovery penalty is imposed on a responsible individual in the amount of 100% of the amount of unpaid trust fund taxes.

The answer is **(D)**

#### Solution 458

If a taxpayer fails to comply with the IRS on previous requests, a summons may be issued. The purposes for which the IRS may issue summonses include:

- To ascertain the correctness of any return;
- To prepare a return where none has been made;
- To determine the liability of a person for any internal revenue tax;
- To determine the liability at law or in equity of a transferee or fiduciary of a person in respect of any internal revenue tax;
- To collect any internal revenue tax liability; or
- To inquire into any offense (civil or criminal) connected with the administration or enforcement of the internal revenue laws.

The answer is **(A)**

#### Solution 459

The three options for serving a summons upon an individual who is not a third-party recordkeeper include:

1. Hand the summons to the person to whom it is directed;
2. Leave the summons at the individual's last and usual place of abode with a person of suitable age and discretion, and provide instructions that the summons be given to the summoned individual; or
3. Enclose the summons in an envelope bearing the summoned person's name, and affix the summons to the front door of the individual's last and usual place of abode by a means that will not mar the finish.

The answer is **(B)**

#### Solution 460

For a taxpayer to qualify for the separation of liability relief from a former spouse they must be separated at least 12 months prior to the filing of the claim.

The answer is **(D)**

#### Solution 461

If the request for relief is within 3 years after filing of the return, the refund cannot be more than the part of the tax paid within the 3 years plus any extension of time for filing your return before the filing of the request for relief. If the request for relief is after the 3-year period, but within 2 years from the time of the paid tax paid, the refund cannot be more than the tax paid within the 2 years immediately before the filing of the request for relief.

The answer is **(C)**

#### Solution 462

The IRS certifies seriously delinquent tax debt to the State Department which is an individual's unpaid, legally enforceable federal tax debt totaling more than \$53,000 (adjusted yearly for inflation).

The answer is **(C)**

#### Solution 463

The first-time penalty abatement policy is applicable if an individual didn't previously have to file a return or has no penalties for the 3 tax years prior to the tax year in which the penalty is received.

The answer is **(A)**

#### Solution 464

The IRS can abate or refund any portion of a penalty or addition to tax caused by erroneous advice furnished to you in writing by an officer or employee of the IRS acting in his or her official capacity. The IRS will abate the penalty or addition to tax only if:

- The taxpayer reasonably relied on the written advice,
- The written advice was in response to a specific written request for advice made by the taxpayer
- The penalty or addition to tax did not result from a failure to provide the IRS with adequate or accurate information.

The answer is **(B)**

#### Solution 465

The most common examination type is done by a correspondence audit in which case the review is done by mail. This is well suited to handle minor issues or clarifications including math errors or discrepancies.

The answer is **(A)**

#### Solution 466

The IRS audit selection process compares returns of similar taxpayers to help determine if there is anything out of the ordinary occurring. There are individual aspects of a tax return that would also make them more likely to be subject to an audit. These include items such as self-employment, income over \$200,000, itemized deductions much higher than other similar returns, home office deductions and other deductions that are more than expected.

The answer is **(B)**

#### Solution 467

The IRS trains its employees to explain and protect taxpayers' rights throughout their contacts with taxpayers. These rights include:

- A right to professional and courteous treatment by IRS employees.
- A right to privacy and confidentiality about tax matters.
- A right to know why the IRS is asking for information, how the IRS will use it and what will happen if the requested information is not provided.
- A right to representation, by oneself or an authorized representative.
- A right to appeal disagreements, both within the IRS and before the courts.

The answer is **(C)**

#### Solution 468

The IRS will often need information from third parties during an audit. They may contact them but are required to give reasonable notice to the taxpayer.

The answer is **(D)**

#### Solution 469

The taxpayer is not required to pay the tax due at the time of signing the agreement. However, they must make the payment within 21 days for a balance of less than \$100,000 to avoid additional penalties. If the balance owed is greater than \$100,000, the grace period is reduced to 10 days.

The answer is **(B)**

#### Solution 470

The fast-track mediation program is designed to expedite the process of disagreed audit determinations. The program is set to resolve the issue within 40 days for individuals. This time frame increases for small businesses (60 days) and large corporations (120 days).

The answer is **(A)**

#### Solution 471

An individual who does not agree with the determination of the IRS may take one of the following actions:

- Formally or informally request to proceed with the IRS appeals system
- Take the case to the U.S. Tax Court
- Take the Case to the U.S. Court of Federal Claims

The answer is **(B)**

#### Solution 472

A 30-Day letter from the IRS is an official statement relaying the results of an audit. The individual must either accept or dispute the suggested changes. The elements of the package must include:

- An IRS 30 Day letter known as a Notice for Acceptance or Appeal
- A document called the revenue agent report outlining the auditor's demands or proposed changes
- An agreement form or waiver
- A copy of IRS Publication 5, which explains how to pay taxes, including withholding and estimated taxes

The answer is **(A)**

#### Solution 473

A formal written protest is required unless the individual qualifies for the small case request procedure.

The answer is **(B)**

#### Solution 474

An appeal to the U.S. Tax Court has an option for those owing less than \$50,000 including penalties and interest for an expedited process called a small case procedure or S-case procedures. The cumulation of the maximum amount depends on the type of notice. For the Notice of Deficiency, the \$50,000 maximum applies to any one year. For a Notice of Determination, the limit applies to all years combined.

The answer is **(C)**

#### Solution 475

The U.S. Tax Court issues Regular, Memorandum, and Summary opinions:

- Regular opinions are issued in cases involving a new or unusual point of law
- Memorandum opinions involve established legal issues and interpretation of facts.
- Summary Opinions are issued by the Tax Court's Small Cases division,

The answer is **(A)**

#### Solution 476

Individuals who are the prevailing party may be eligible for recovering some of the costs of litigation. There is a maximum net worth amount for those who are eligible to file. For individuals, they shall not have a net worth greater than \$2 million.

The answer is **(C)**

#### Solution 477

The Treasury Offset Program (TOP) is a centralized offset program which collects delinquent debts owed to federal agencies and states. The TOP will send a delinquent debt notice or can garnish a federal tax refund, paycheck, or federal benefits.

The answer is **(D)**

### Solution 478

The Collection Due Process (CDP) request form is applicable for individuals who have been issued one of the following lien or levy notices:

- Notice of Federal Tax Lien Filing and Your Right to a Hearing under IRC 6320
- Notice of Intent to Levy and Notice of Your Right to a Hearing
- Notice of Jeopardy Levy and Right of Appeal
- Notice of Levy on Your State Tax Refund
- Notice of Levy and Notice of Your Right to a Hearing

The answer is **(B)**

### Solution 479

An individual may still obtain a hearing with the IRS Independent Office of Appeals after the deadline for requesting a timely CDP hearing has passed by requesting an equivalent hearing. An equivalent hearing request does not prohibit levy or suspend the 10-year period for collecting your taxes. Also, an individual cannot go to court to appeal the IRS Independent Office of Appeals' decision after an equivalent hearing.

The answer is **(D)**

### Solution 480

The collection appeals program (CAP) is an expedited hearing in comparison to the CDP. A taxpayer may appeal in CAP:

- A levy or seizure on each asset or the same asset previously levied if a newly discovered legal defect is the issue
- A lien filed in each subsequent location
- Each rejection, termination, or modification of an installment agreement

The answer is **(C)**

#### Solution 481

A private letter ruling (PLR) is a written decision by the IRS that is sent in response to a taxpayer's request about their specific tax situation. The purpose of the private letter ruling is to remove any uncertainty and to advise the taxpayer. It can be used to help a taxpayer confirm whether or not a potential action will result in a tax violation. The request is for the specific situation of the individual and is legally binding based on the information provided by the taxpayer. The PLR is not free and fees can be \$10,000 and up.

The answer is **(A)**

#### Solution 482

There are three types of tax regulations by the U.S. Treasury Department which are interpretations of the Internal Revenue Code:

- Legislative Regulations: Legislative regulations generally carry the same weight of authority as the law itself.
- Interpretive Regulations: Interpretive regulations help to explain the IRS's position on various IRC sections, but they are not specifically authorized by the law.
- Procedural Regulations: Procedural regulations address procedural issues such as how to go about filing returns and making elections.

The answer is **(B)**

#### Solution 483

The IRS e-file program does not accept foreign preparers without a social security number.

The answer is **(A)**

#### Solution 484

There are two methods for properly allowing a taxpayer to file returns with an electronic signature. The self-select PIN method uses the prior year's AGI or PIN to verify the identity of the taxpayer. The practitioner PIN method does not require the use of any previous year information but does include a signature authorization form.

The answer is **(A)**

#### Solution 485

A rejected e-file return that can be corrected and resubmitted must be done so within the perfection period. For forms involving businesses, this is ten days.

The answer is **(C)**

#### Solution 486

The e-file logo cannot be used in conjunction with the word “federal”, the eagle symbol, or anything that implies a relationship with the IRS.

The answer is **(D)**

#### Solution 487

A specified tax return preparer is a tax return preparer who is a preparer of covered returns and who reasonably expects to file 11 or more covered returns during a calendar year. Form 8948, *Preparer Explanation of not Filing Electronically*, is used only by specified tax return preparers to explain why a particular return is being filed on paper

The answer is **(B)**

#### Solution 488

The substantial portion rule is used to determine who is considered the sole preparer of the return and therefore liable for the entirety. The substantial portion rule is determined by the portions of the return worked on which include the most amount of gross income, deductions, and credits.

The answer is **(A)**

#### Solution 489

If an enrolled agent cannot meet the continuing education requirements, a waiver may be requested for the full or partial requirement. Some of the valid reasons include:

- Health concerns
- Active military duty
- Absence from the United States

Other reasons may be valid and are evaluated individually.

The answer is **(D)**

#### Solution 490

A Certifying Acceptance Agent (CAA) is authorized by the IRS to assist foreign persons who are ineligible or unable to receive Social Security Number (SSN), in obtaining an ITIN (Individual Taxpayer Identification Number) from the IRS.

The answer is **(A)**

#### Solution 491

26 U.S. Code § 7525 Confidentiality privileges relating to taxpayer communications, is applicable only to the IRS.

The answer is **(A)**

#### Solution 492

U.S. Code § 10.23 Prompt disposition of pending matters does not specifically quantify delay tactics and instead defines it as a practitioner may not unreasonably delay the prompt disposition of any matter before the Internal Revenue Service.

The answer is **(D)**

#### Solution 493

According to 26 CFR § 1.6060-1 - Reporting requirements for tax return preparers, any person who employs one or more signing tax return preparers shall maintain a record of the name, taxpayer identification number, and principal place of work during the return period. The record must be retained and kept available for inspection for the 3-year period following the close of the return period to which that record relates.

The answer is **(C)**

#### Solution 494

The penalty for an alteration of a jurat is \$5,000 and any additional penalties incurred due to a late filing of a return, taxes owed, and fraudulent failure to file.

The answer is **(D)**

Solution 495

The penalty for failure-to-file is 5% per month up to a maximum of 25%. This increases to 15% per month and 75% if the failure is deemed fraudulent.

The answer is **(B)**

Solution 496

The failure-to-file penalty is not assessed if there is no unpaid tax due.

The answer is **(C)**

Solution 497

The Office of Professional Responsibility (OPR) may impose a monetary penalty up to the amount of gross income derived from the conduct that triggered the penalty.

The answer is **(B)**

Solution 498

The Discriminant Inventory Function System (FIF) provides a score to indicate which returns are at a higher risk for errors, high deductions, and other issues of concern.

The answer is **(B)**

Solution 499

A censure does not include a removal of the practitioner's ability to represent before the IRS but it is a step above a reprimand in which the OPR issues a public warning published in the Internal Revenue Bulletin.

The answer is **(B)**

Solution 500

An offer in compromise (OIC) is an agreement between a taxpayer and the Internal Revenue Service that settles a taxpayer's tax liabilities for less than the full amount owed.

The answer is **(A)**

### Solution 501

Professions which are allowed to practice before the IRS include the following:

- Enrolled agents
- Appraisers
- Certified public accountants
- Attorneys
- Enrolled actuaries
- Enrolled retirement plan agents
- Low-income taxpayer clinic student interns
- Unenrolled return preparers

The answer is **(D)**

### Solution 502

To be eligible for representation, unenrolled return preparers must have a valid PTIN. They must also hold a record of completion for both the tax return year under examination and the year the examination is conducted.

The answer is **(C)**

### Solution 503

A person employed by an employer and also tasked with preparing the returns for the company is not considered a preparer and the company would still be ultimately liable for the returns.

The answer is **(D)**

### Solution 504

For non-signing preparers only, the rule in determining whether a portion of the return is a substantial portion of the return is if the gross income, deductions, or basis for credit is less than \$10,000; or less than \$400,000 and also less than 20% of the gross income on the return. Therefore, since the AGI is \$120,000 and \$10,000 is less than 20%, the amount cannot exceed \$10,000 for the portion of the return to be considered substantial.

The answer is **(A)**

#### Solution 505

There are two ways of becoming a licensed enrolled agent. One of which is having the required previous experience with the IRS including a minimum of five years. The application to become an agent must be made within three years from the time the service was ended.

The answer is **(B)**

#### Solution 506

The full three-year enrollment cycle has a minimum of 72 hours of continuing education. This does not have to be distributed evenly and can be a minimum of 16 hours per year.

The answer is **(A)**

#### Solution 507

A contingent fee is one that is based on a percentage of the amount of refund provided by the preparer.

The answer is **(B)**

#### Solution 508

Advertisements shall not use the term “certified” or imply an employment relationship with the IRS. The IRS also does not endorse any specific tax preparer’s and any indication of such is prohibited.

The answer is **(C)**

#### Solution 509

If an enrolled agent publishes an advertisement in print which includes a fee schedule, the agent must provide the advertised fees for at least 30 days after publication.

The answer is **(B)**

#### Solution 510

Due diligence does not have specific requirements but it does not require work performed by other qualified persons to be presumed inaccurate. A review of work for reasonable accuracy may be used as reference without an extensive review.

The answer is **(B)**

#### Solution 511

A practitioner may still perform services to a client in which there is an identified conflict of interest if the conflict is waived in writing. This must occur no later than 30 days after the conflict of interest is known by the practitioner.

The answer is **(D)**

#### Solution 512

Information requested by the IRS must be furnished in a prompt manner if available. If not, the practitioner must provide any information that may lead the IRS to the location of the documentation and inquire to the client as to the whereabouts of the documents. They are not required to reach out to any third parties.

The answer is **(C)**

#### Solution 513

Any taxpayer, including an individual, trust, estate, partnership, S corporation, or other corporation, that participates in a reportable transaction and is required to file a federal tax return or information return must file Form 8886. The exception is a regulated investment company (RIC) or an investment vehicle that is at least 95% owned by one or more RICs at all times during the course of a transaction is not required to file Form 8886 for any transaction other than a listed transaction or a transaction of interest.

The answer is **(C)**

#### Solution 514

A practitioner shall not sign a return that in their opinion contains a position that:

- Lacks a reasonable basis
- Is an unreasonable position
- Contains a willful understatement of liability
- Willfully disregards rules and regulations.

The answer is **(A)**

### Solution 515

Preparers must keep either copies of all returns prepared or at least a list indicating which returns have been prepared. The list must contain at a minimum:

- Taxpayer's name
- TIN
- Tax year
- Type of return

The answer is **(B)**

### Solution 516

The reprimand is the lowest level of penalty and is kept private but remains on the individual's record. A written statement is sent indicating the misconduct that needs to cease.

The answer is **(A)**

### Solution 517

The IRS provides guidance on restrictions during suspension or disbarment from practice before the Internal Revenue Service with specific actions that can and cannot be performed during a suspension. A suspended or disbarred individual may not perform any of the following:

- Prepare or file documents or correspond or communicate with the IRS.
- Render written advice with respect to any entity, transaction, plan or arrangement, or other plan or arrangement having a potential for tax avoidance or evasion.
- Represent a client before the IRS at conferences, hearings, and meetings.
- Execute waivers, consents, or closing agreements; receive a taxpayer's refund check; or sign a tax return on behalf of a taxpayer.
- File powers of attorney with the IRS.
- Assist another person (or offer assistance) if the assistance relates to a matter constituting practice before the IRS, or enlist another person for the purpose of aiding and abetting a suspended or disbarred individual's practice before the IRS.
- State or imply that he or she is eligible to practice before the IRS.

The answer is **(D)**

### Solution 518

As per 26 U.S. Code § 6702 Frivolous tax submissions, If the Secretary provides notice that a submission is determined to be a frivolous submission, the submission may be withdrawn within 30 days after the notice to avoid the penalty.

The answer is **(B)**

### Solution 519

If an agreement cannot be made between the OPR and the practitioner, a complaint may be made to the Office of Chief Counsel, General Legal Services (GLS) to resolve the matter. The complaint must include:

- Description of case facts
- Signature of OPR director
- Type of sanction
- Name of respondent

The answer is **(B)**

### Solution 520

A practitioner who is disbarred must wait a minimum of five years before they can apply for reinstatement.

The answer is **(C)**

### Solution 521

Badges of fraud are specific indicators of misconduct that when identified must be documented and reported. The badges are divided into categories:

- Income
- Expenses and deductions
- Taxpayer conduct
- Books and records
- Allocations of income
- Methods of concealment

The answer is **(B)**

#### Solution 522

As per the IRS Fraud Handbook: When badges of fraud are uncovered, the compliance employee must clearly document the potential fraud indicators and initiate a discussion with the compliance employee's group manager. If the compliance employee's group manager concurs there are indicators of fraud warranting fraud development, the compliance employee must contact the fraud technical advisor (FTA) assigned to that area.

The answer is **(C)**

#### Solution 523

Failure to file 1099 forms carries a penalty based on how late the filing occurs and whether or not it is intentional. The fines are per form as follows:

- \$50 up to 30 days late
- \$110 more than 30 days late but before August 1<sup>st</sup>
- \$280 Later than August 1<sup>st</sup>
- \$550 intentional failure to file

Since the failure is after 30 days but before August 1<sup>st</sup>, three forms would be a total of \$330 fine.

The answer is **(C)**

#### Solution 524

The penalty for an underpayment is 20% of the net understatement of the tax. 20% of \$35,000 is \$7,000.

The answer is **(D)**

#### Solution 525

A misstatement on a valuation can either be considered substantial or gross. A substantial misstatement is one that the stated value is at least 150% of the actual value. A gross misstatement increases the threshold to 200%. Therefore, half of \$100,000 is \$50,000.

The answer is **(B)**

#### Solution 526

The no-limit retention period is applicable if there is no tax return filed or if the return was determined to be fraudulent.

The answer is **(B)**

#### Solution 527

The normal rate for the penalty for failure-to-pay outstanding taxes is 0.5%. This rate increases if a demand for immediate payment is issued.

The answer is **(C)**

#### Solution 528

For a tax preparer that provides a return with an understatement due to an unreasonable position, the penalty is the greater of \$1,000 per return or 50% of the income received from preparing the return.

The answer is **(B)**

#### Solution 529

IRC § 6695 – Other assessable penalties with respect to the preparation of tax returns for other persons indicates a number of additional penalties that may be imposed on the tax preparer. Many of them incur a \$50 penalty for each instance. IRC § 6695(f) – Negotiation of check, has a penalty of \$530 for a tax return preparer who endorses or negotiates any check made in respect of taxes imposed by Title 26 which is issued to a taxpayer.

The answer is **(D)**

#### Solution 530

IRC § 7216 – Disclosure or use of information by preparers of returns is knowingly or recklessly disclosing information furnished in connection with a tax return or using such information for any purpose other than preparing or assisting in the preparation of such return. The penalty is a fine of not more than \$1,000, imprisonment for not more than 1 year, or both.

The answer is **(D)**

### Solution 531

The use of Form 2848, *Power of Attorney and Declaration of Representative* is for separate individuals regardless of filing status. Therefore, a married filing jointly couple must file two separate forms.

The answer is **(C)**

### Solution 532

For the representative to act as a power of attorney and sign Form 2848, *Power of Attorney and Declaration of Representative*, they must:

- Be eligible to practice before the IRS
- Have a valid PTIN
- Use his or her own name
- Not delegate the duty to another individual

The answer is **(B)**

### Solution 533

The Declaration of Representative is contained in Part II of Form 2848. The statement should read:

1. I am not currently under suspension or disbarment from practice before the Internal Revenue Service or other practice of my profession by any other authority,
2. I am subject to regulations contained in Circular 230 (31 C.F.R., Subtitle A, Part 10) as amended, governing practice before the Internal Revenue Service,
3. I am authorized to represent the taxpayer(s) identified in the power of attorney, and
4. I am a (naming the capacity in which representation is undertaken, as set forth in the list of eligible representatives at Part II of Form 2848.)

The answer is **(C)**

### Solution 534

The filing of Form 2848 will not revoke any Form 8821 that is in effect.

The answer is **(A)**

#### Solution 535

If a taxpayer wishes to revoke a previously executed power of attorney and does not want to name a new representative, the word "REVOKE" must be written across the top of the first page of Form 2848 with a current signature and date immediately below this annotation.

The answer is **(B)**

#### Solution 536

A CAF number is assigned when either Form 2848 or Form 8821 is filed to identify the third-party representative.

The answer is **(C)**

#### Solution 537

An authorization on Form 2848 can be recorded to the Centralized Authorization File (CAF) in the current year and then three additional years.

The answer is **(D)**

#### Solution 538

A taxpayer is considered related to another taxpayer for the purposes of allowable disclosure if they have any one of the following relationships:

- Husband and wife
- Child and parent
- Grandchild and grandparent
- Partner and partnership
- Trust or estate and beneficiary
- trust or estate and fiduciary
- Corporation and shareholder
- Members of a controlled group of corporations

The answer is **(C)**

#### Solution 539

A tax return may be used to purchase up to \$5,000 in U.S. Series I Savings Bonds. It may be either for the taxpayer themselves or another person.

The answer is **(D)**

#### Solution 540

If an individual agrees to pay an outstanding balance in installment payments, they must be made by direct debit if the balance is greater than \$25,000 for individuals. For businesses, this limit is reduced to \$10,000.

The answer is **(C)**

#### Solution 541

The IRS includes four categories for allowable living expenses, called "Collection Financial Standards." The standards are used to help determine a taxpayer's ability to pay a delinquent tax liability. They include:

- Food, clothing, housekeeping supplies, personal care products, and miscellaneous items
- Out-of-pocket health care expenses
- Housing and utilities
- Transportation

The answer is **(B)**

#### Solution 542

If an account is determined to be currently not collectible (CNC) status, the IRS will have certain restrictions on what they can now pursue. They no longer can levy assets and income. However, the IRS will still assess interest or penalties and keep refunds and apply them to the outstanding debt.

The answer is **(B)**

#### Solution 543

The collection statute of limitations determines that at the end of 10 years, the IRS can no longer collect unless it is extended by some action.

The answer is **(C)**

#### Solution 544

The collection statute of limitations will last ten years unless it is suspended for a length of time by an acceptable reason. The time during the suspension is added to the ten-year length. Therefore, the total will be ten years plus the six months.

The answer is **(B)**

#### Solution 545

The IRS utilizes the Automated Substitute for Return (ASFR) program to assist in enforcing filing compliance for taxpayers who have not filed individual income tax returns and appear to owe a tax liability. The IRS is authorized to use third-party information to determine and assess a tax liability. The ASFR program may also make assumptions designed to maximize a taxpayer's liability.

The answer is **(D)**

#### Solution 546

The IRS may seize the following:

- Wages
- Bank accounts
- Social Security
- Retirement income

Unemployment benefits are not eligible for seizure.

The answer is **(B)**

#### Solution 547

Section 1.6695-2 of the regulations describes the due diligence requirements. Generally, anyone paid to prepare a return claiming the EITC, CTC/ACTC/ODC, AOTC and/or HOH filing status, must:

- Complete and submit Form 8867, *Paid Preparer's Due Diligence Checklist*.
- Complete all the necessary worksheets or similar documents to compute each of the credits based on information provided by the client or information reasonably obtained.
- Perform all necessary investigative measures to obtain reasonable information
- Keep records of all information

The answer is **(C)**

#### Solution 548

Form 8867 must be filed with the taxpayer's return or amended return claiming the EIC, the CTC/ACTC/ODC, the AOTC, and/or HOH filing status.

The answer is **(B)**

#### Solution 549

The three most common EITC errors are claiming children who are not qualifying, claiming an incorrect filing status, and incorrect reporting of income. These three errors account for over 60% of all EITC claim errors.

The answer is **(B)**

#### Solution 550

Tax avoidance is the use of legal methods to minimize the amount of income tax owed by an individual or a business. This is done by claiming deductions and credits available.

The answer is **(D)**

#### Solution 551

An entire record is not necessarily exempt when a record contains some information that qualifies as exempt. The FOIA requires that any reasonably segregable portions of a record must be provided to a requester after exempt portions are deleted. The IRS must identify the location of deletions in the released portion of the record.

The answer is **(C)**

### Solution 552

The taxpayer bill of rights has been adopted to include ten specific rights that are applicable to all taxpayers. They include:

1. The Right to Be Informed Taxpayers.
2. The Right to Quality Service.
3. The Right to Pay No More than the Correct Amount of Tax.
4. The Right to Challenge the IRS's Position and Be Heard
5. The Right to Appeal an IRS Decision in an Independent.
6. The Right to Finality.
7. The Right to Privacy.
8. The Right to Confidentiality.
9. The Right to Retain Representation
10. The Right to a Fair and Just Tax

The answer is **(C)**

### Solution 553

Identity theft should be addressed immediately and steps can be taken to help. The IRS recommends the following:

- File a complaint with the FTC
- Contact one of the three major credit bureaus to place a 'fraud alert' on the credit records
- Close any financial or credit accounts
- Respond immediately to any IRS notice
- Complete IRS Form 14039, *Identity Theft Affidavit*
- Continue to pay taxes and file the tax return
- If the individual previously contacted the IRS and did not have a resolution, contact may be made for specialized assistance

The answer is **(A)**

### Solution 554

An identity protection personal identification number (IP PIN) is provided by the IRS to those who have been suspected to be the victim of identity theft. The number is only assigned to an individual for a single year and cannot be used beyond that.

The answer is **(B)**

#### Solution 555

Form 1127, *Application for Extension of Time for Payment of Tax Due to Undue Hardship* is for individuals requesting to postpone payment of the full amount of tax shown on a return or any amount determined as a deficiency.

The answer is **(C)**

#### Solution 556

The trust fund recovery penalty is implemented to help ensure that taxpayers properly remit payroll taxes to the IRS. Sec. 6672(a) imposes a penalty on any person who is responsible for paying payroll taxes and willfully fails to do so. The penalty is imposed on an individual basis to a responsible person for the willful withholding of taxes.

The answer is **(C)**

#### Solution 557

A summons for a third-party record-keeper has the additional option of being mailed to the individual. It must be either registered or certified mail.

The answer is **(B)**

#### Solution 558

An individual seeking innocent spouse relief must meet all of the following conditions to qualify:

- A joint return is filed in which an understatement of tax is present due to erroneous items of the spouse or former spouse.
- At the time the joint return is signed, the individual did not know, and had no reason to know, that there was an understatement of tax.
- Taking into account all the facts and circumstances, it would be unfair to hold the individual liable for the understatement of tax.
- There has not been a transfer property to one another as part of a fraudulent scheme.

The answer is **(C)**

Solution 559

Unlike innocent spouse relief or separation of liability, an individual can get equitable relief from an understatement of tax or an underpayment of tax.

The answer is **(C)**

Solution 560

The IRS certifies seriously delinquent tax debt to the State Department. Seriously delinquent tax debt is an individual's unpaid, legally enforceable federal tax debt (including interest and penalties).

The answer is **(C)**

Solution 561

Penalties eligible for penalty relief include:

- Failing to file a tax return
- Failing to pay on time
- Failing to deposit certain taxes as required
- Other penalties as applicable.

The answer is **(D)**

Solution 562

The failure-to-pay penalty will continue to accrue until the tax is paid in full and does not cease when the abatement is requested.

The answer is **(C)**

### Solution 563

An individual may qualify for administrative relief from penalties for failing to file a tax return, pay on time, and/or to deposit taxes when due under the First Time Penalty Abatement policy if the following are true:

- The individual didn't previously have to file a return or has no penalties for the 3 tax years prior to the tax year in which the penalty is received.
- The individual filed all currently required returns or filed an extension of time to file.
- The individual has paid, or arranged to pay, any tax due.

The answer is **(B)**

### Solution 564

Reasonable cause is any legitimate excuse for not paying or filing on time and is used to evaluate an individual's qualification for penalty abatement. The defining characteristic is that the issue must be out of the individual's control.

The answer is **(A)**

### Solution 565

The IRS examination or audit program performs one-on-one examinations with a taxpayer to detect non-compliant activity. The three types of examinations include:

- Correspondence examinations: performed through the mail;
- Field examinations: face-to-face interaction, typically conducted in a taxpayer's home or business,
- Office examinations: Conducted in IRS offices

The answer is **(C)**

### Solution 566

The IRS selects returns using a variety of methods, including:

- Information obtained by the IRS to identify promoters and participants of abusive tax avoidance transactions.
- Computer Scoring –The Discriminant Function System (DIF) provides a computer score based on past IRS experience with similar returns. The highest-scoring returns are selected for further screening
- Information Matching – Returns are evaluated based on forms matching the income reported on the tax return.
- Related Examinations – Returns may be selected for audit when they involve issues or transactions with other taxpayers, such as business partners or investors, whose returns were selected for examination.

The answer is **(B)**

### Solution 567

The IRS examiner is obligated to inform the taxpayer of rights either before or during the initial interview.

The answer is **(B)**

### Solution 568

An audit can be finalized by one of the following three determinations:

- No change: the taxpayer has provided evidence to support the original tax documents
- Agreed: the taxpayer has agreed to changes and will accept the consequences
- Unagreed: the taxpayer understands the stance of the IRS but does not agree. Additional action will be taken to review the case

The answer is **(D)**

### Solution 569

Form 886-A is the written explanation of adjustments in all disagreed cases. The following items are to be included in Form 886-A:

1. Facts
2. Law: states the applicable code and regulation sections
3. Government's Position
4. Taxpayer's Position
5. Conclusion

The answer is **(B)**

### Solution 570

Certain cases and issues are excluded from fast-track mediation. They include:

- Assessment of the hazards of litigation, which would require the Appeals mediator to hold settlement authority
- Cases referred to the Department of Justice
- Issues for which mediation would be inconsistent with sound tax administration
- Cases in which the taxpayer has failed to respond to IRS communications or failed to submit documentation to Collection for consideration
- Collection Due Process cases
- Collection Appeals Program cases
- Cases worked at a Collection Campus site
- Frivolous issues

The answer is **(B)**

### Solution 571

The individual may choose to represent themselves or have another person as a representative. However, they must attend the audit unless the representative is qualified to represent before the IRS and has been given power of attorney by the individual.

The answer is **(C)**

#### Solution 572

An individual may submit a small case request if the entire amount of additional tax and penalty proposed for each tax period is \$25,000 or less.

The answer is **(B)**

#### Solution 573

Those who are eligible to practice before the IRS are not necessarily eligible to practice before the Tax Court. All professions except licensed attorneys must take the Tax Court exam if they are to be “admitted to practice” before the Tax Court.

The answer is **(C)**

#### Solution 574

After a U.S. Tax Court Small Tax Case Procedure, also known as an S-case procedure, neither the IRS nor the individual may appeal the decision further. It is understood that the decision is final which is different from a regular case in the U.S. Tax Court in which either may appeal the decision.

The answer is **(D)**

#### Solution 575

The Notice of Deficiency, also known as the 90-day letter, is sent after no response to the 30-day letter. This gives the individual the ability to appeal to the U.S. Tax Court but they must respond within 90 days.

The answer is **(C)**

#### Solution 576

Reasonable litigation costs may include:

- Court costs
- The reasonable expenses of expert witnesses in connection with a court proceeding,
- The reasonable cost of any study, analysis, engineering report, test, or project which is found by the court to be necessary for the preparation of a party’s case.
- Reasonable fees paid or incurred for the services of attorneys in connection with the court proceeding.

The answer is **(B)**

#### Solution 577

Once someone files a tax return electronically under a Social Security number, the IRS database flags the number, preventing anyone else from filing additional returns. If someone attempts to file a return with the same SSN again, the IRS will reject the return and return it with an error code and explanation.

The answer is **(A)**

#### Solution 578

The Treasury Offset Program (TOP) generally has no limit to the length of time in which a debt has been delinquent that they may use funds to offset the debt.

The answer is **(D)**

#### Solution 579

The Department of Treasury's Bureau of the Fiscal Service (BFS) conducts the Treasury Offset Program (TOP). Through the TOP program, BFS may reduce a refund and offset it to pay:

- Past-due child support
- Federal agency non-tax debts
- State income tax obligations
- Certain unemployment compensation debts owed to a state

The answer is **(C)**

#### Solution 580

An individual must request an equivalent hearing within the following timeframe:

- Lien Notice—one year plus five business days from the filing date of the Notice of Federal Tax Lien.
- Levy Notice—one year from the date of the levy notice.

The answer is **(B)**

### Solution 581

The taxpayer may be eligible for a collection due process hearing (CDP) or a collection appeals program (CAP). Some of the defining characteristics include:

Under CAP:

- Appeals' administrative decision is final.
- The goal is to provide a response with a 5-day turnaround.
- Appeals' review is for appropriateness of the action proposed or taken based on law, regulations, policy and procedures after considering all of the relevant facts and circumstances.
- Appeals do NOT consider alternatives to the issue under appeal, but solely determines the appropriateness of the issue under appeal.

Under CDP:

- Appeals' determination may be appealed in court.
- Appeals:
  - Verifies that legal and procedural requirements have been met,
  - Explores collection alternatives or challenges to the liability, and
  - Balances the proposed collection action with the taxpayer's legitimate concern of intrusiveness.
- Appeals retain jurisdiction over its determinations.

The answer is **(D)**

### Solution 582

The Taxpayer Advocate Service (TAS) is an independent organization which helps taxpayers resolve issues related to tax issues. The service is free, confidential, and available to both individuals and businesses. They will often go to the IRS to stop collection activities during assistance.

The answer is **(C)**

### Solution 583

A private letter ruling is specific and applicable only to an individual taxpayer and their tax situation at the time of the request. Private letter rulings cannot be used for other taxpayers as precedent. It does not legally bind the IRS to take the same position with other taxpayers.

The answer is **(C)**

#### Solution 584

Temporary regulations provide immediate guidance before publishing final regulations. Temporary regulations expire after three years.

The answer is **(B)**

#### Solution 585

Due to the verification of identity requirement with the previous return, the Self-select PIN method is allowed to be fully electronic if requested and would not require the use of Form 8879, *IRS e-file Signature Authorization*.

The answer is **(A)**

#### Solution 586

A rejected e-file return that can be corrected and resubmitted must be done so within the perfection period. For individuals, this is five days.

The answer is **(B)**

#### Solution 587

A return that needs to be resubmitted due to a rejected e-file attempt must include the following elements:

- Rejected electronic return date on the return
- A copy of the rejection letter
- An explanation of why the return is filed after the due date
- A brief history of actions taken after the failed submission

The answer is **(C)**

#### Solution 588

There are special relationships which allow certain individuals to represent a taxpayer before the IRS without meeting the typical requirements. One of which is close family members such as spouse, children, parents, or siblings. The disbarment prevents the EA from representing other individuals but still may represent himself or a close family member.

The answer is **(D)**

Solution 589

A supervised preparer performs duties under the supervision of a licensed individual to practice before the IRS. They may perform a number of duties but must not misrepresent themselves as someone who can represent an individual before the IRS or as a Circular 230 practitioner. They also cannot sign any tax returns.

The answer is **(A)**

Solution 590

Continuing education requirements include two hours of specific ethics training annually. If more than two hours are taken, they may be applied to the overall annual requirement but may not be applied to any additional years.

The answer is **(D)**

Solution 591

Form 8948 is used only by specified tax return preparers to explain why a particular return is being filed on paper.

The answer is **(B)**

Solution 592

A Certified Acceptance Agent (CCA) is authorized to submit a Form W-7, *Application for IRS Individual Taxpayer Identification Number* on behalf of an applicant.

The answer is **(B)**

Solution 593

A tax return shall not be signed by a practitioner that is frivolous.

The answer is **(A)**

Solution 594

The jurat is the preprinted language associated with the signature of a return. This shall not be altered in any way and immediately makes the return frivolous.

The answer is **(D)**

#### Solution 595

The failure-to-file penalty is 5% of the unpaid tax per month up to a maximum of 25%. 5% of \$5,000 is \$250. Two months of the penalty is \$500.

The answer is **(B)**

#### Solution 596

If the failure-to-file penalty and the failure-to-pay penalty exist simultaneously, the 5% failure-to-file penalty is reduced by the failure-to-pay penalty.

The answer is **(C)**

#### Solution 597

An offer in compromise (OIC) is an agreement between a taxpayer and the Internal Revenue Service that settles a taxpayer's tax liabilities for less than the full amount owed. The IRS may accept an OIC based on one of the following reasons:

- Doubt as to liability
- Doubt as to collectability
- Effective tax administration.

The answer is **(B)**

#### Solution 598

Form 843 may be used for the following:

- A refund of the taxes including:
  - Employment
  - Gift
  - Estate
  - Excise
  - Income
  - Fee
- An abatement of FUTA tax or certain excise taxes

Form 843 shall not be used for:

- An overpayment of income taxes or an employer's claim for FICA tax, RRTA tax, or income tax withholding
- A refund of excise taxes based on the nontaxable use or sale of fuels

- An overpayment of excise taxes reported on Form(s) 11-C, 720, 730, or 2290.

The answer is **(C)**

Solution 599

Reasonable cause will be determined based on all the facts and circumstances in the situation to determine if the individual used all ordinary business care and prudence to meet Federal tax obligations but were nevertheless unable to do so. Reasonable cause is mostly events that occur outside of the control of the individual such as:

- Fire, casualty, or natural events
- Death, serious illness, incapacitation or unavoidable absence of the taxpayer or a member of the taxpayer's immediate family
- Other reason which establishes that the individual used all ordinary business care and prudence to meet the Federal tax obligations but were nevertheless unable to do so

The answer is **(D)**

Solution 600

Temporary regulations are effective when published by the Office of the Federal Register.

The answer is **(D)**

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Answer Key Part 1

1	D	41	C	81	B	121	C	161	B
2	A	42	C	82	D	122	B	162	A
3	C	43	C	83	C	123	A	163	D
4	B	44	B	84	B	124	C	164	A
5	A	45	A	85	A	125	B	165	B
6	B	46	C	86	A	126	B	166	D
7	A	47	B	87	C	127	B	167	C
8	C	48	D	88	A	128	A	168	C
9	B	49	B	89	B	129	C	169	D
10	B	50	B	90	B	130	C	170	C
11	B	51	A	91	D	131	C	171	B
12	D	52	A	92	D	132	A	172	B
13	B	53	C	93	B	133	A	173	B
14	A	54	C	94	D	134	B	174	B
15	B	55	C	95	A	135	D	175	A
16	B	56	D	96	C	136	D	176	C
17	B	57	C	97	C	137	B	177	B
18	B	58	D	98	B	138	B	178	C
19	C	59	A	99	B	139	D	179	B
20	A	60	C	100	D	140	C	180	C
21	D	61	B	101	B	141	D	181	C
22	B	62	D	102	A	142	C	182	B
23	D	63	D	103	D	143	D	183	C
24	B	64	A	104	D	144	C	184	D
25	D	65	B	105	B	145	C	185	A
26	A	66	B	106	D	146	D	186	A
27	A	67	C	107	C	147	A	187	C
28	D	68	A	108	A	148	D	188	D
29	D	69	C	109	A	149	A	189	A
30	D	70	D	110	B	150	A	190	C
31	A	71	B	111	B	151	B	191	D
32	C	72	A	112	A	152	C	192	C
33	B	73	B	113	A	153	D	193	C
34	D	74	D	114	C	154	B	194	C
35	A	75	B	115	C	155	A	195	C
36	D	76	C	116	D	156	C	196	D
37	A	77	C	117	A	157	B	197	A
38	A	78	B	118	B	158	C	198	C
39	B	79	A	119	C	159	A	199	D
40	B	80	A	120	C	160	B	200	C

Answer Key Part 2

201	C	241	A	281	B	321	A	361	C
202	B	242	B	282	D	322	B	362	C
203	B	243	B	283	C	323	C	363	B
204	B	244	D	284	A	324	B	364	B
205	C	245	B	285	B	325	D	365	C
206	B	246	D	286	B	326	B	366	C
207	C	247	C	287	A	327	C	367	D
208	C	248	B	288	D	328	C	368	B
209	B	249	C	289	D	329	B	369	A
210	A	250	C	290	C	330	B	370	D
211	C	251	B	291	B	331	D	371	B
212	D	252	C	292	C	332	A	372	B
213	B	253	A	293	D	333	B	373	A
214	B	254	D	294	B	334	D	374	C
215	D	255	B	295	B	335	C	375	A
216	B	256	C	296	C	336	C	376	A
217	B	257	B	297	B	337	D	377	D
218	D	258	A	298	A	338	D	378	D
219	B	259	D	299	D	339	A	379	A
220	B	260	A	300	C	340	D	380	D
221	A	261	D	301	D	341	D	381	B
222	C	262	B	302	A	342	C	382	B
223	D	263	A	303	D	343	A	383	B
224	A	264	A	304	D	344	A	384	C
225	D	265	D	305	C	345	C	385	C
226	D	266	D	306	A	346	D	386	A
227	D	267	A	307	D	347	C	387	B
228	C	268	D	308	B	348	A	388	C
229	A	269	A	309	A	349	D	389	B
230	B	270	D	310	D	350	A	390	C
231	D	271	C	311	B	351	D	391	C
232	C	272	C	312	C	352	A	392	B
233	B	273	C	313	A	353	B	393	B
234	C	274	B	314	D	354	C	394	C
235	C	275	C	315	A	355	C	395	C
236	C	276	A	316	A	356	A	396	B
237	B	277	B	317	C	357	C	397	B
238	C	278	B	318	C	358	C	398	D
239	A	279	B	319	B	359	C	399	A
240	D	280	A	320	B	360	A	400	B

Answer Key Part 3

401	B	441	C	481	A	521	B	561	D
402	A	442	D	482	B	522	C	562	C
403	D	443	A	483	A	523	C	563	B
404	B	444	C	484	A	524	D	564	A
405	B	445	A	485	C	525	B	565	C
406	B	446	C	486	D	526	B	566	B
407	B	447	C	487	B	527	C	567	B
408	A	448	C	488	A	528	B	568	D
409	C	449	D	489	D	529	D	569	B
410	D	450	A	490	A	530	D	570	B
411	C	451	B	491	A	531	C	571	C
412	D	452	A	492	D	532	B	572	B
413	C	453	B	493	C	533	C	573	C
414	D	454	C	494	D	534	A	574	D
415	D	455	C	495	B	535	B	575	C
416	A	456	B	496	C	536	C	576	B
417	C	457	D	497	B	537	D	577	A
418	B	458	A	498	B	538	C	578	D
419	C	459	B	499	B	539	D	579	C
420	A	460	D	500	A	540	C	580	B
421	D	461	C	501	D	541	B	581	D
422	C	462	C	502	C	542	B	582	C
423	D	463	A	503	D	543	C	583	C
424	A	464	B	504	A	544	B	584	B
425	B	465	A	505	B	545	D	585	A
426	D	466	B	506	A	546	B	586	B
427	C	467	C	507	B	547	C	587	C
428	A	468	D	508	C	548	B	588	D
429	D	469	B	509	B	549	B	589	A
430	D	470	A	510	B	550	D	590	D
431	C	471	B	511	D	551	C	591	B
432	A	472	A	512	C	552	C	592	B
433	D	473	B	513	C	553	A	593	A
434	D	474	C	514	A	554	B	594	D
435	A	475	A	515	B	555	C	595	B
436	A	476	C	516	A	556	C	596	C
437	C	477	D	517	D	557	B	597	B
438	B	478	B	518	B	558	C	598	C
439	B	479	D	519	B	559	C	599	D
440	D	480	C	520	C	560	C	600	D