

ENROLLED AGENT EXAM PREP **PLUS**

DETAILED SOLUTIONS

A close-up, slightly blurred image of the American flag, showing the stars and stripes in shades of red, white, and blue.

**2025/26
TESTING CYCLE**

SKILLPREP BOOKS



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Solutions - PART 1: INDIVIDUALS

Section 1.1: Preliminary Work and Collection of Taxpayer Data

Multiple Choice 1.1

1 - c. Form 4868 Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, is used to request an automatic 6-month extension for filing Form 1040. *Topic: Filing Dates*

2 - b. \$14,600 The standard deduction amount for the Single filing status for the 2024 tax year is \$14,600. *Topic: The Standard Deduction*

3 - c. Gross Income Test The five tests for a Qualifying Child are: Relationship, Age, Residency, Support, and Joint Return. The Gross Income test applies to Qualifying Relatives, not Qualifying Children. *Topic: Dependents (Qualifying Child)*

4 - d. All of the above An injured spouse claim (Form 8379) can be filed if a joint refund is offset for the other spouse's past-due federal tax, state income tax, state unemployment compensation debts, child support, or federal non-tax debt (like a student loan). *Topic: Special Filing Requirements (Injured Spouse)*

5 - b. 183 days The substantial presence test requires physical presence in the U.S. for at least 31 days in the current year AND at least 183 days during the 3-year lookback period (current year days + 1/3 prior year days + 1/6 second prior year days). *Topic: Preliminary Work*

6 - c. Suspended (reduced to zero) The Tax Cuts and Jobs Act (TCJA) suspended the deduction for personal exemptions for tax years 2018 through 2025 by setting the exemption amount to \$0. *Topic: Personal Exemptions*

7 - c. Form 1099-NEC Starting with tax year 2020, Form 1099-NEC, Nonemployee Compensation, is used to report payments of \$600 or more to independent contractors. Form 1099-MISC is used for other miscellaneous payments like rents or royalties. *Topic: Tax Forms*

8 - c. Child support payments Wages, interest, and income from bartering are generally taxable. Child support payments received are typically not included in the recipient's gross income. *Topic: Taxable and Nontaxable Income*

9 - c. \$5,050 To be claimed as a Qualifying Relative, a person's gross income for 2024 must generally be less than the personal exemption amount, which is referenced as \$5,050 for dependency purposes even though the exemption deduction is suspended. *Topic: Dependents (Qualifying Relative)*

10 - c. Head of Household Head of Household status requires the taxpayer to be unmarried (or considered unmarried), pay more than half the cost of keeping up a home, and have a qualifying person live in the home for more than half the year (with exceptions for parents).

Topic: Filing Status (Head of Household)

11 - c. Limited the deduction for state and local taxes (SALT) to \$10,000 per household. The TCJA introduced a \$10,000 limit (\$5,000 MFS) on the deduction for state and local taxes (SALT). It suspended personal exemptions and increased the standard deduction, but did not repeal it. Alimony rules changed, but not to make all payments tax-free. *Topic: Tax Cuts and Jobs Act (TCJA)*

12 - c. Create and enact security plans to protect client data. The FTC Safeguards Rule requires professional tax preparers to develop, implement, and maintain a comprehensive written security plan to protect client information. *Topic: Preliminary Work (Safeguarding Data)*

13 - c. Gross Income Test The Gross Income Test is one of the four tests required for a person to be claimed as a Qualifying Relative. It requires the potential dependent's gross income to be below a certain threshold (\$5,050 for 2024). *Topic: Dependents (Qualifying Relative)*

14 - d. April 15, 2025 The final income tax return for a decedent is generally due by the same date the return would have been due had death not occurred. For a calendar year taxpayer dying anytime in 2024, the 2024 return is due April 15, 2025. *Topic: Filing Dates (Death of Taxpayer)*

15 - c. Married Filing Jointly / Qualifying Surviving Spouse For 2024, the standard deduction amounts are: MFJ/QSS = \$29,200; HOH = \$21,900; Single/MFS = \$14,600. MFJ/QSS is the highest base amount.

Topic: The Standard Deduction

16 - c. They are married filing separately, and their spouse itemizes deductions. A taxpayer cannot claim the standard deduction if they file MFS and their spouse itemizes. Being 65+ entitles one to a *higher* standard deduction. Being claimed as a dependent limits the standard deduction but doesn't eliminate it if they have income. HOH status uses a standard deduction. *Topic: Special Rules on the Standard Deduction*

17 - b. 10% Under a Multiple Support Agreement (Form 2120), the person claiming the dependent must provide more than 10% of the support, and each other person providing more than 10% must sign a statement agreeing not to claim the dependent. The group must provide over 50% total support. *Topic: Dependents (Multiple Support Agreements)*

18 - b. \$2,600 The Kiddie Tax applies to a child's unearned income over a certain threshold. For 2024, this threshold is \$2,600 (\$1,300 standard deduction + \$1,300 taxed at child's rate). *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*

19 - c. Form 1095-A Taxpayers who enroll in health coverage through the Health Insurance Marketplace receive Form 1095-A, Health Insurance Marketplace Statement. This form provides information needed to complete Form 8962 and claim the Premium Tax Credit. *Topic: Affordable Care Act Tax Provisions*

20 - c. Legally separated under a final decree of divorce or separate maintenance. A taxpayer is considered unmarried for the whole year if, on the last day of the year, they are either unmarried (single, divorced, widowed) or legally separated under a final decree of divorce or separate maintenance. Living apart without a decree does not make one "unmarried" for filing status, though it might allow HOH status under certain conditions (considered unmarried rules). *Topic: Filing Status*

Fill-in-the-Blanks 1.1

1 - 11 Paid preparers who anticipate filing 11 or more individual returns (Form 1040 series) are generally required to use IRS e-file. *Topic: Preliminary Work (E-file Mandate)*

2 - Mexico A dependent must generally be a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico. *Topic: Dependents (Citizen or Resident Test)*

3 - 19 The age test for a qualifying child requires the child to be under age 19 at year-end, or under age 24 if a full-time student, and younger than the taxpayer claiming them. *Topic: Dependents (Qualifying Child Age Test)*

4 - \$450 The standard deduction for a dependent in 2024 is limited to the greater of \$1,300 or their earned income plus \$450 (not to exceed the regular standard deduction for their filing status). *Topic: Special Rules on the Standard Deduction (Dependents)*

5 - B Schedule B (Form 1040), Interest and Ordinary Dividends, is generally required if a taxpayer has over \$1,500 of either taxable interest or ordinary dividends. *Topic: Tax Forms / How to Report Interest Income*

6 - \$1,950 For 2024, the additional standard deduction amount for being age 65 or older OR blind is \$1,950 if filing status is Single or Head of Household. *Topic: The Standard Deduction (Elderly/Blind)*

7 - \$600 Under the rules for pre-1985 divorce/separation agreements, a noncustodial parent can claim the child if the agreement grants them the exemption and they provide at least \$600 in support during the year. *Topic: Dependents (Children of Divorced/Separated Parents)*

8 - W-7 Form W-7, Application for IRS Individual Taxpayer Identification Number, is used to apply for an ITIN. *Topic: Taxpayer Identification Numbers (ITIN)*

9 - Any two from 70-88 or 90, 91, 92, 94-99 ITINs with middle digits 70 through 88 expired December 31, 2020. ITINs with middle digits 90, 91, 92, 94, 95, 96, 97, 98, or 99 assigned before 2013 expired December 31, 2023. (Any two listed meet the requirement). *Topic: Taxpayer Identification Numbers (ITIN)*

10 - 8332 Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, is used by the custodial parent to allow the noncustodial parent to claim the child for certain tax benefits. *Topic: Dependents (Children of Divorced/Separated Parents)*

11 - dependent A taxpayer cannot claim any dependents if they themselves can be claimed as a dependent by another taxpayer. *Topic: Dependents (Dependent Taxpayer Test)*

12 - Joint The five tests for a Qualifying Child are: Relationship, Age, Residency, Support, and Joint Return. *Topic: Dependents (Qualifying Child Tests)*

13 - \$21,900 The standard deduction amount for the Head of Household filing status for the 2024 tax year is \$21,900. *Topic: The Standard Deduction*

14 - Identification TIN stands for Individual Taxpayer Identification Number. *Topic: Taxpayer Identification Numbers (ITIN)*

15 - not If a taxpayer claimed the standard deduction in the year they paid state/local taxes, a refund of those taxes in a later year is generally not taxable because they received no tax benefit from deducting them originally. *Topic: Itemized Deduction Recoveries*

16 - before A person is considered to reach age 65 on the day before their 65th birthday for tax purposes (e.g., claiming the additional standard deduction). *Topic: The Standard Deduction (Elderly/Blind)*

17 - dependent To claim Head of Household status based on supporting a parent not living with the taxpayer, the taxpayer must be able to claim the parent as a dependent and pay over half the cost of maintaining the parent's main home. *Topic: Filing Status (Head of Household)*

18 - \$10,000 The TCJA limits the state and local tax (SALT) deduction to \$10,000 per household (\$5,000 if MFS). *Topic: Itemized Deductions (SALT Limit)*

19 - AGI (Adjusted Gross Income) If a child lives with each divorced/separated parent for an equal number of nights, the parent with the higher Adjusted Gross Income (AGI) is generally treated as the custodial parent. *Topic: Dependents (Children of Divorced/Separated Parents)*

20 - SSN (Social Security number) The IP PIN is a six-digit number assigned to eligible taxpayers to help prevent the misuse of their Social Security number on fraudulent federal income tax returns. *Topic: Identity Protection Personal Identification Number (IP PIN)*

Matching 1.1

| Set 1 | Set 2 | Set 3 | Set 4 |
|-------|-------|-------|-------|
| 1-b | 1-d | 1-c | 1-b |
| 2-c | 2-e | 2-d | 2-d |
| 3-b | 3-a | 3-a | 3-c |
| 4-a | 4-c | 4-e | 4-e |
| 5-c | 5-b | 5-b | 5-a |

Calculation Problems 1.1

- 1. \$32,300** Calculation: Base MFJ (\$29,200) + Age 65+ Scott (\$1,550) + Age 65+ Mary Jane (\$1,550) = \$32,300. *Topic: The Standard Deduction (Elderly/Blind)*
- 2. \$5,300** Calculation: Dependent standard deduction is greater of \$1,300 OR (Earned Income \$2,900 + \$450 = \$3,350). Use \$3,350. Add additional amount for blindness (Single) of \$1,950. Total = \$3,350 + \$1,950 = \$5,300. *Topic: Special Rules on the Standard Deduction (Dependents)*
- 3. \$4,250** Calculation: Dependent standard deduction is greater of \$1,300 OR (Earned Income \$3,800 + \$450 = \$4,250). Use \$4,250. This amount cannot exceed the basic standard deduction for his filing status (MFS = \$14,600). Since \$4,250 is less than \$14,600, his standard deduction is \$4,250. *Topic: Special Rules on the Standard Deduction (Dependents)*
- 4. 6** Calculation: One requirement for being considered unmarried for Head of Household status is that the spouse did not live in the home during the last 6 months of the tax year. *Topic: Filing Status (Head of Household)*
- 5. \$6,440** Calculation: Total support = Fair rental value lodging (\$1,800) + Amount spent by Grace (\$2,400) + Medical paid by others (\$1,200) + Food share paid by others ($1/5 * \$5,200 = \$1,040$) = \$6,440. *Topic: Dependents (Support Test)*
- 6. 170 days** Calculation: $(100 \text{ days} * 1) + (120 \text{ days} * 1/3) + (180 \text{ days} * 1/6) = 100 + 40 + 30 = 170 \text{ days}$. *Topic: Preliminary Work (Substantial Presence Test)*
- 7. \$2,600** Calculation: The Kiddie Tax applies to unearned income over a threshold. For 2024, this threshold is \$2,600 (which is twice the dependent's basic standard deduction limit of \$1,300). *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*
- 8. \$29,200** Calculation: The base standard deduction for Married Filing Jointly for 2024 is \$29,200. Since neither is 65+ or blind, no additional amounts apply. *Topic: The Standard Deduction*
- 9. \$10,000** Calculation: The TCJA limits the state and local tax (SALT) deduction to \$10,000 per household (\$5,000 if MFS) for tax years 2018-2025. *Topic: Itemized Deductions (SALT Limit)*
- 10. More than \$2,400** Calculation: The mother provided \$2,400 (\$2,000 lodging + \$400 recreation) of her own support (Social Security used for support counts as support provided by the recipient). To provide more than half the total support, the taxpayer must provide more than the amount the mother provided for herself. *Topic: Dependents (Support Test)*

11 - \$23,850 The standard deduction for Head of Household is \$21,900. The additional amount for blindness (for HOH) is \$1,950. Total standard deduction = $\$21,900 + \$1,950 = \$23,850$. *Topic: The Standard Deduction (Elderly/Blind)*

12. \$7,450 Calculation: Dependent standard deduction is greater of \$1,300 OR (Earned Income $\$7,000 + \$450 = \$7,450$). Use \$7,450. (Business loss doesn't reduce earned income for this calculation). Limited to the Single standard deduction (\$14,600). Result is \$7,450. *Topic: Special Rules on the Standard Deduction (Dependents)*

13. Yes Calculation: Maria (40%) and her brother (35%) together provide 75% (>50%) of support. Maria provides >10%. Her brother provides >10%. Maria could claim her mother if her brother signs Form 2120 agreeing not to claim her. The friend's support is irrelevant for the agreement between Maria and her brother. *Topic: Dependents (Multiple Support Agreements)*

14. \$0 Calculation: The base amount for determining taxability of Social Security benefits is \$0 for taxpayers using Married Filing Separately status who lived with their spouse at any time during the year. *Topic: Taxation of Social Security Benefits*

15. \$400 Calculation: Kiddie Tax applies to unearned income over \$2,600 (for 2024). Child's total unearned income is \$3,000 (interest). $\$3,000 - \$2,600 = \$400$ subject to Kiddie Tax (parents' rate). *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*

16 - No To meet the substantial presence test, an individual must be physically present in the U.S. on at least 31 days during the current year. Since the individual was only present for 30 days in 2024, they do not meet this initial requirement. *Topic: Preliminary Work (Substantial Presence Test)*

17. Standard Calculation: Their itemized deductions total \$28,000 (\$8,000 SALT + \$20,000 interest). The standard deduction for MFJ in 2024 is \$29,200. They should take the standard deduction as it is higher. *Topic: Standard Deduction vs Itemized Deductions*

18. \$23,850 Calculation: Base standard deduction (HOH) \$21,900 + Additional amount for Age 65+ (\$1,950) = \$23,850. *Topic: The Standard Deduction (Elderly/Blind)*

19. \$0 Calculation: The tax benefit rule applies. The taxpayer includes a state tax refund in income only to the extent the deduction of that tax in the prior year provided a tax benefit. Since their SALT deduction was capped at \$10,000 in 2023, and their standard deduction (\$13,850) was higher than the allowed itemized SALT deduction, deducting the state tax provided no benefit over taking the standard deduction. Therefore, the \$500 refund is not taxable. *Topic: Itemized Deduction Recoveries (Tax Benefit Rule)*

20. Custodial Parent Calculation: The custodial parent is the parent with whom the child lived for the greater number of nights during the year (200 nights vs 165 nights). *Topic: Dependents (Children of Divorced/Separated Parents)*

Section 1.2: Income and Assets

Multiple Choice 1.2

1 - c. Form 1099-NEC Form 1099-NEC is used by businesses to report payments of \$600 or more to nonemployees (independent contractors) for services. *Topic: Tax Forms (Form 1099-NEC)*

2 - b. More than 60 days during the 121-day period beginning 60 days before the ex-dividend date. This specific holding period (more than 60 days within a 121-day window around the ex-dividend date) is required for common stock dividends to be considered "qualified" for lower tax rates. *Topic: Dividends (Qualified Dividends Holding Period)*

3 - c. Net earnings from self-employment. Earned income generally includes compensation for work performed, such as wages, tips, and net earnings from self-employment. Interest, dividends, and pensions are typically unearned income. *Topic: Earned Income*

4 - c. \$3,000 The annual limit for deducting net capital losses against other income for individuals is \$3,000 (\$1,500 if Married Filing Separately). *Topic: Capital Gains and Losses (Loss Limitation)*

5 - c. Form 8606 Form 8606 is specifically used to report nondeductible contributions to traditional IRAs and to track basis for distributions from IRAs containing such contributions. *Topic: Individual Retirement Arrangements (IRAs) (Form 8606)*

6 - c. It is not reported, and rental expenses are not deductible. Renting a home for fewer than 15 days falls under the minimal rental use rule; income is not reported, and rental expenses are not deducted. *Topic: Rental Income (Minimal Rental Use)*

7 - b. \$7,000 The maximum IRA contribution (Traditional or Roth) for an individual under age 50 for 2024 is \$7,000, limited by taxable compensation. *Topic: Individual Retirement Arrangements (IRAs) (Contribution Limits)*

8 - d. Cancellation of credit card debt by the lender because the taxpayer can no longer pay. Cancellation of consumer debt (like credit cards) generally results in taxable income, unlike exceptions for gifts, insolvency, or certain specific loan types. *Topic: Canceled Debts*

9 - b. \$250,000 IRC Section 121 allows qualifying single taxpayers to exclude up to \$250,000 of gain (\$500,000 MFJ) from the sale of their main home. *Topic: Sale of Personal Residences (Section 121 Exclusion)*

10 - c. Schedule E (Form 1040) Income and expenses from rental real estate are reported on Schedule E (Form 1040). *Topic: Rental Income (Reporting)*

11 - c. \$126,500 The Foreign Earned Income Exclusion limit is indexed annually; for 2024, it is \$126,500. *Topic: Foreign Earned Income*

12 - c. Portfolio income such as interest and dividends. Passive income is generally from rentals or businesses without material participation. Portfolio income (interest, dividends, etc.) is specifically excluded. *Topic: Passive Income*

13 - c. Do not include it in income because the debt has not actually been cancelled. If the creditor is still actively pursuing collection, the debt reported on Form 1099-C is not considered cancelled for tax purposes, and the amount is not yet included in income. *Topic: Canceled Debts*

14 - a. The loan must have been used solely for qualified higher education expenses. The primary requirement for deducting student loan interest is that the loan proceeds were used only for qualified higher education expenses. *Topic: Student Loan Interest Deduction*

15 - c. When it is credited to their account or made available without substantial restrictions. Constructive receipt occurs when income is made available to the taxpayer without substantial limitations or restrictions, even if not physically possessed. *Topic: Gross Income (Constructive Receipt)*

16 - a. They must be covered only by a high-deductible health plan (HDHP). HSA eligibility requires coverage under an HDHP and no other disqualifying health coverage. *Topic: Health Savings Accounts (HSA) (Eligibility)*

17 - c. A reduced exclusion based on the time of ownership and use. Selling a main home before meeting the 2-year tests due to specific allowed reasons (work change, health, unforeseen circumstances) may qualify for a prorated exclusion. *Topic: Sale of Personal Residences (Reduced Exclusion)*

18 - b. Not included in the recipient's gross income, not deductible by the payer. For divorce/separation agreements executed after 2018, alimony is neither taxable to the recipient nor deductible by the payer. *Topic: Separation or Divorce Income (Alimony Post-2018)*

19 - b. Simplified Method The Simplified Method is generally required for taxing distributions from qualified plans starting after Nov 18, 1996, under specific age/guarantee conditions. *Topic: Pensions and Annuities (Simplified Method)*

20 - b. \$16,000 The maximum employee elective deferral to a SIMPLE IRA plan for those under age 50 in 2024 is \$16,000. *Topic: Individual Retirement Arrangements (IRAs)*

Fill-in-the-Blanks 1.2

1 - C Income from bartering related to a trade or business is reported on Schedule C. *Topic: Bartering*

2 - \$126,500 The maximum Foreign Earned Income Exclusion for 2024 is \$126,500. *Topic: Foreign Earned Income*

3 - exempt Interest from state and municipal bonds is generally exempt from federal income tax. *Topic: Interest Subject to the Tax (Tax-Exempt Interest)*

4 - capital Corporate distributions not from earnings & profits are a non-dividend distribution, treated as a tax-free return of capital until basis is zero. *Topic: Dividends (Non-Dividend Distributions)*

5 - \$95,000 The student loan interest deduction is fully phased out for single filers in 2024 with MAGI of \$95,000 or more. *Topic: Student Loan Interest Deduction*

6 - high Contributing to an HSA requires coverage under a high-deductible health plan (HDHP). *Topic: Health Savings Accounts (HSA)*

7 - \$1,000 The additional IRA catch-up contribution limit for those age 50 and over is \$1,000 for 2024. *Topic: Individual Retirement Arrangements (IRAs) (Catch-Up Contributions)*

8 - worthless A nonbusiness bad debt is deductible only when it becomes totally worthless, treated as a short-term capital loss. *Topic: Real and Personal Property (Nonbusiness Bad Debts)*

9 - fair Rent received in the form of property or services is included in income at its fair market value. *Topic: Rental Income (Property or Services)*

10 - one An asset must be held for more than one year to qualify for long-term capital gain/loss treatment. *Topic: Capital Gains and Losses (Holding Period)*

11 - C Bartering income related to a trade or business is reported on Schedule C. *Topic: Bartering*

12 - fair market value The basis of inherited property is generally its fair market value (FMV) on the date of death (or alternate valuation date). *Topic: Real and Personal Property (Basis of Inherited Property)*

13 - 5 Qualified (tax-free) distributions from a Roth IRA require the account to meet a 5-year holding period, among other conditions. *Topic: Individual Retirement Arrangements (IRAs) (Roth IRA Distributions)*

14 - wages (or income) Employer-provided educational assistance exceeding the annual exclusion limit (\$5,250) is generally included in the employee's taxable wages. *Topic: Other Deductions (Employee Educational Assistance Plans)*

15 - 10 Early withdrawals (before age 59 1/2) from traditional IRAs are generally subject to an additional 10% penalty tax on the taxable amount. *Topic: Individual Retirement Arrangements (IRAs) (Early Withdrawal Penalty)*

16 - \$400 Self-employment tax is generally owed if net earnings from self-employment are \$400 or more. *Topic: Self-Employment Tax*

17 - \$25,000 The special allowance permits taxpayers who actively participate in rental real estate to deduct up to \$25,000 of passive losses against non-passive income (subject to MAGI phase-out). *Topic: Passive Income (Rental Real Estate Loss Allowance)*

18 - long Capital gain distributions from mutual funds are always treated as long-term capital gains. *Topic: Dividends (Capital Gain Distributions)*

19 - \$4,150 The 2024 HSA contribution limit for self-only HDHP coverage is \$4,150. *Topic: Health Savings Accounts (HSA) (Contribution Limits)*

20 - 6252 Form 6252, Installment Sale Income, is used to report gains from installment sales. *Topic: Installment Sales*

Matching 1.2

| Set 1 | Set 2 | Set 3 | Set 4 |
|-------|-------|-------|-------|
| 1-c | 1-b | 1-b | 1-c |
| 2-e | 2-c | 2-e | 2-a |
| 3-a | 3-e | 3-a | 3-e |
| 4-b | 4-d | 4-d | 4-d |
| 5-d | 5-a | 5-c | 5-b |

Calculation Problems 1.2

1 - \$1,380 Using FIFO, basis is 50 sh @ \$10 (\$500) + 80 sh @ \$11 (\$880) = \$1,380. *Topic: Real and Personal Property (Basis of Stock)*

2 - \$1,600 Only taxable interest (\$1,600) is reported on Schedule B, Part I. Tax-exempt interest (\$200) is reported elsewhere. *Topic: How To Report Interest Income*

3 - \$4,900 Single, covered by plan, MAGI \$80k. 2024 phase-out range \$77k-\$87k. Deduction = $\$7,000 * (1 - (\$80k - \$77k) / \$10k) = \$4,900$. *Topic: Individual Retirement Arrangements (IRAs) (Deductibility)*

4 - Net loss \$3,000; Deduction \$3,000 Net ST loss \$5,000 against LT gain \$2,000 = Net capital loss \$3,000. Max deductible loss is \$3,000. *Topic: Capital Gains and Losses (Netting and Loss Limitation)*

5 - \$700 Return of capital reduces basis (\$800) to zero. Excess distribution (\$1,500 - \$800 = \$700) is capital gain. *Topic: Dividends (Non-Dividend Distributions)*

6 - \$3,850 Provisional Income = $\$28k + \$1k + (\$12k / 2) = \$35k$. Taxable amount = Lesser of $[50\%(\text{Provisional} - \$25k)]$ or $[50\%(\$34k - \$25k) + 85\% * (\text{Provisional} - \$34k)]$, limited to 85% of benefits. Calculation using worksheet logic yields \$3,850. *Topic: Retirement Income (Taxation of Social Security)*

7 - \$7,065 SE Tax = $(\$100,000 * 0.9235) * 0.153 = \$14,130$. Deductible portion = $\$14,130 / 2 = \$7,065$. *Topic: Self-Employment Tax (Deductible Portion)*

8 - \$1,667 Single, MAGI \$85k. Phase-out \$80k-\$95k. Deduction = $\$2,500 * (1 - (\$85k - \$80k) / \$15k) = \$1,667$. *Topic: Student Loan Interest Deduction (Phase-out)*

9 - \$300 Net rental loss is \$300 (\$500 income - \$800 expenses). Since MAGI (\$90k) is below \$100k, the full loss is deductible under the special allowance. *Topic: Passive Income (Rental Real Estate Loss Allowance)*

10 - \$3,200 Exclusion = Interest * (Qualified Expenses / Total Proceeds) = $\$4,000 * (\$8,000 / \$10,000) = \$3,200$. *Topic: Interest Subject to the Tax (Education Savings Bond Program)*

11 - \$4,000 Long-term capital gain Gain = $\$10,000 - \$6,000 = \$4,000$. Held > 1 year, so it's long-term. *Topic: Capital Gains and Losses*

12 - \$16,000 Max contribution for age 50+ is \$8,000 each. \$8,000 (Jean) + \$8,000 (Husband) = \$16,000 total. *Topic: Individual Retirement Arrangements (IRAs) (Contribution Limits)*

13 - \$1,000 Unemployment compensation (\$1,000) is taxable. Workers' compensation (\$500) is generally not taxable. *Topic: Unemployment and Other Compensation*

14 - \$0 The value (\$500) is excluded if it's a qualified safety award under a qualified plan (limit \$1600) and employer cost (\$450) is within limits. Assuming it qualifies, \$0 is included. *Topic: Compensation and Wages (Employee Achievement Awards)*

15 - \$15,000 \$25k allowance phases out above \$100k MAGI. Reduction = $50\% * (\$120k - \$100k) = \$10k$. Allowable loss = $\$25k - \$10k = \$15k$. Deductible loss is lesser of actual loss (\$30k) or allowable loss (\$15k). *Topic: Passive Income (Rental Real Estate Loss Allowance)*

16 - Yes The maximum earnings subject to the Social Security portion of SE tax in 2024 is \$168,600. Wages (\$150,000) count first towards this limit. The remaining limit ($\$168,600 - \$150,000 = \$18,600$) is applied to the SE earnings (\$30,000). Since \$18,600 of the SE earnings are below the limit, those earnings are subject to the Social Security portion of SE tax. *Topic: Self-Employment Tax (Wage Base Limit)*

17 - \$300 Penalty applies only to the portion *not* used for a qualified exception. \$15k distribution - \$12k education expense = \$3k subject to penalty. Penalty = $10\% * \$3,000 = \300 . *Topic: Individual Retirement Arrangements (IRAs) (Penalty Exceptions - Education)*

18 - \$20,000 Loss on Sec 1244 stock is ordinary loss up to \$50k (Single) / \$100k (MFJ). Since \$20k loss < \$50k limit, the full \$20k is ordinary loss. *Topic: Capital Gains and Losses (Section 1244 Stock)*

19 - \$1,200 Simplified Method: Tax-free per month = $\$30,000 / 300 = \100 . Tax-free for year = $\$100 * 12 = \$1,200$. *Topic: Pensions and Annuities (Simplified Method)*

20 - \$0 Gain = $(\$400k - \$20k) - \$150k = \$230k$. Exclusion (assume single) = \$250k. Since gain < exclusion, taxable gain is \$0. *Topic: Sale of Personal Residences (Section 121 Exclusion)*

Section 1.3: Deductions and Credits

Multiple Choice 1.3

1 - c. 7.5% of AGI For 2024, medical expenses are deductible on Schedule A only to the extent they exceed 7.5% of the taxpayer's Adjusted Gross Income (AGI). *Topic: Medical Expenses*

2 - c. Federal income taxes withheld or paid. State and local income taxes (or sales taxes), real estate taxes, and personal property taxes are generally deductible (subject to the \$10,000 SALT limit). Federal income taxes are never deductible. *Topic: Taxes*

3 - b. American Opportunity Tax Credit (AOTC) The AOTC is available for the first four years of postsecondary education and is partially refundable (up to 40% or \$1,000). The LLC is nonrefundable and has no year limit. *Topic: Education Credits (AOTC)*

4 - c. \$3,000 The maximum amount of work-related expenses that can be used to calculate the Child and Dependent Care Credit is \$3,000 for one qualifying individual (\$6,000 for two or more). *Topic: Child and Dependent Care Credit*

5 - c. Credit for Other Dependents (ODC) The ODC is a nonrefundable credit. EITC and PTC are refundable. A portion of the Child Tax Credit (as ACTC) can be refundable. *Topic: Credits (Nonrefundable vs. Refundable)*

6 - b. Form 8839 Form 8839, Qualified Adoption Expenses, is used to claim the Adoption Credit and exclusion for employer-provided adoption benefits. *Topic: Adoption Credit*

7 - c. \$2,000 The maximum Child Tax Credit amount per qualifying child under age 17 is \$2,000 for 2024. *Topic: Child Tax Credit*

8 - c. Payments to a relative who is not the taxpayer's dependent or child under 19. Payments for care can qualify even if made to a relative, as long as that relative is not the taxpayer's spouse, the child's parent, a dependent of the taxpayer, or the taxpayer's child under age 19. Kindergarten tuition, overnight camp, and transportation are generally not qualifying care expenses. *Topic: Child and Dependent Care Credit*

9 - b. \$2,000 The Saver's Credit calculation is based on the first \$2,000 of contributions per individual (\$4,000 MFJ). *Topic: Retirement Savings Contributions Credit (Saver's Credit)*

10 - d. Contribution of artwork valued at \$6,000. Contributions of noncash property (other than publicly traded securities) valued over \$5,000 generally require a qualified appraisal attached to Form 8283. *Topic: Charitable Contributions (Noncash Contributions)*

11 - c. Premiums paid for qualified long-term care insurance (subject to age-based limits). Deductible medical expenses include qualifying insurance premiums (subject to limits for LTC insurance), but generally exclude non-prescription items, general wellness programs, and funeral expenses. *Topic: Medical Expenses*

12 - b. Net investment income. The deduction for investment interest expense on Schedule A is limited to the taxpayer's net investment income for the year. Any excess can be carried forward. *Topic: Interest (Investment Interest Expense)*

13 - b. Form 8962 Form 8962, Premium Tax Credit (PTC), is used to calculate the PTC and reconcile it with any advance payments received through the Marketplace (reported on Form 1095-A). *Topic: Affordable Care Act Tax Credits (Premium Tax Credit)*

14 - c. Taxable interest and dividends. For EITC purposes, investment income (subject to the annual limit) includes items like taxable interest, dividends, net capital gains, and net passive income. Wages and SE earnings are earned income. Social Security is generally not investment income for this purpose. *Topic: Earned Income Tax Credit (Investment Income Limit)*

15 - b. A written acknowledgement from the charity showing the amount and whether any goods/services were provided. For any single cash or noncash contribution of \$250 or more, the taxpayer must obtain a contemporaneous written acknowledgment from the charity meeting specific requirements. *Topic: Charitable Contributions (Substantiation)*

16 - c. An unlimited number of years for courses taken to acquire or improve job skills. The Lifetime Learning Credit (LLC) can be claimed for undergraduate, graduate, and courses taken to acquire or improve job skills, with no limit on the number of years it can be claimed. *Topic: Education Credits (Lifetime Learning Credit)*

17 - c. \$16,810 The maximum Adoption Credit (and exclusion) amount per eligible child for 2024 is \$16,810, subject to MAGI phase-out. *Topic: Adoption Credit*

18 - b. Fully deductible in the year paid. Points paid solely to reduce the interest rate (discount points) on a loan to buy or improve a *main home* are generally fully deductible in the year paid, if other conditions are met. Points for refinancing or second homes are typically deducted over the loan term. *Topic: Interest (Points)*

19 - c. Retirement Savings Contributions Credit (Saver's Credit) The Saver's Credit (Form 8880) specifically encourages retirement savings by low-to-moderate income individuals contributing to IRAs or employer plans. *Topic: Retirement Savings Contributions Credit*

20 - d. All of the above conditions are met. For tax years 2018-2025, personal casualty/theft losses are deductible only if they occur in a Federally declared disaster area AND exceed \$100 per casualty AND the total net loss exceeds 10% of AGI. *Topic: Casualty and Theft Losses*

Fill-in-the-Blanks 1.3

1 - 20 / 20 The QBI deduction is generally 20% of QBI plus 20% of qualified REIT dividends and PTP income, subject to limitations. *Topic: Deduction for Qualified Business Income*

2 - \$1,700 For 2024, the refundable portion of the Child Tax Credit (the Additional Child Tax Credit or ACTC) is limited to \$1,700 per qualifying child. *Topic: Child Tax Credit (Additional Child Tax Credit)*

3 - not Cosmetic surgery is generally not deductible unless it's necessary to correct a deformity from congenital abnormality, injury, or disfiguring disease. *Topic: Medical Expenses*

4 - \$750,000 For mortgages taken out after Dec 15, 2017, interest is deductible on up to \$750,000 of home acquisition debt (\$375,000 MFS). *Topic: Interest (Home Mortgage Interest)*

5 - 8863 Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits), is used to claim both the AOTC and LLC. *Topic: Education Credits (Forms)*

6 - 35 The maximum credit percentage for the Child and Dependent Care Credit is 35%, applicable for taxpayers with AGI of \$15,000 or less. *Topic: Child and Dependent Care Credit*

7 - 60 The deduction limit for cash contributions to most public charities is generally 60% of the taxpayer's AGI. *Topic: Charitable Contributions (Percentage Limits)*

8 - 21 The standard mileage rate for medical travel changes periodically; check the rate for the specific tax year (e.g., 21 cents per mile for 2024). *Topic: Medical Expenses (Transportation)*

9 - same Medical expense deductions must be reduced by reimbursements received in the same year the expense was paid. *Topic: Medical Expenses (Reimbursements)*

10 - \$500 The nonrefundable Credit for Other Dependents (ODC) is up to \$500 per qualifying dependent who doesn't qualify for the Child Tax Credit. *Topic: Child Tax Credit (Credit for Other Dependents)*

11 - 14 The standard mileage rate for charitable use of a vehicle is set by statute and was 14 cents per mile for 2024. *Topic: Charitable Contributions (Out-of-Pocket Expenses)*

12 - carried forward Investment interest expense exceeding the net investment income limit for the year can be carried forward indefinitely to future years. *Topic: Interest (Investment Interest Expense)*

13 - 4 (or four) The AOTC is available only for the first four years of postsecondary education for an eligible student. *Topic: Education Credits (AOTC)*

14 - work Expenses for child/dependent care qualify only if they enable the taxpayer (and spouse, if MFJ) to work or actively look for work. *Topic: Child and Dependent Care Credit*

15 - 50 The highest percentage rate for the Saver's Credit is 50%, applicable to taxpayers in the lowest AGI tier for their filing status. *Topic: Retirement Savings Contributions Credit (Saver's Credit)*

16 - A Form 8283, Noncash Charitable Contributions, Section A is used for noncash contributions over \$500 up to \$5,000. Section B is for items over \$5,000. *Topic: Charitable Contributions (Forms)*

17 - nonrefundable The Credit for Other Dependents (ODC) is nonrefundable; it can reduce tax to zero but doesn't generate a refund. *Topic: Credits (Nonrefundable vs. Refundable)*

18 - 7.5 Health insurance premiums paid by the taxpayer (not pre-tax via employer) can be included in medical expenses subject to the 7.5% AGI floor. *Topic: Medical Expenses*

19 - \$6,000 The dollar limit for work-related expenses used to calculate the Child and Dependent Care Credit is \$6,000 if care was for two or more qualifying individuals. *Topic: Child and Dependent Care Credit*

20 - board Qualified education expenses for education credits generally include tuition and required fees/course materials, but not room and board or personal expenses. *Topic: Education Credits (Qualified Expenses)*

Matching 1.3

| Set 1 | Set 2 | Set 3 | Set 4 |
|-------|-------|-------|-------|
| 1-c | 1-b | 1-d | 1-d |
| 2-e | 2-a | 2-e | 2-c |
| 3-a | 3-e | 3-c | 3-e |
| 4-d | 4-c | 4-a | 4-a |
| 5-b | 5-d | 5-b | 5-b |

Calculation Problems 1.3

1 - \$1,000 AGI Floor = $\$60,000 * 7.5\% = \$4,500$. Deductible amount = $\$5,500$ (Expenses) - $\$4,500$ (Floor) = $\$1,000$. *Topic: Medical Expenses*

2 - \$10,000 Total state/local income and property taxes paid = $\$7,000 + \$5,000 = \$12,000$. Deduction is limited to the SALT cap of $\$10,000$. *Topic: Taxes (SALT Limitation)*

3 - \$2,500 AOTC = 100% of first $\$2,000$ expenses + 25% of next $\$2,000$ expenses. Qualified expenses = $\$4,000$ tuition + $\$1,000$ books = $\$5,000$. Credit = $(100\% * \$2,000) + (25\% * \$2,000) = \$2,000 + \$500 = \$2,500$. *Topic: Education Credits (AOTC)*

4 - \$1,000 Expense limit for two children = $\$6,000$. Expenses paid = $\$5,000$. Use $\$5,000$. AGI $\$50,000$ falls in the 20% credit rate tier. Credit = $\$5,000 * 20\% = \$1,000$. *Topic: Child and Dependent Care Credit*

5 - \$300 Single, AGI $\$30,000$ falls in the 20% credit rate tier for the Saver's Credit. Credit = $\$1,500$ contribution * $20\% = \$300$. *Topic: Retirement Savings Contributions Credit (Saver's Credit)*

6 - \$10,000 Contribution is long-term capital gain property (stock held > 1 year). Deduction is generally FMV ($\$10,000$). Limit for capital gain property to public charities is 30% of AGI ($\$100,000 * 30\% = \$30,000$). Since $\$10,000 < \$30,000$, the full $\$10,000$ is deductible. *Topic: Charitable Contributions (Capital Gain Property)*

7 - \$2,000 Adoption credit is based on qualified expenses paid, up to the maximum credit limit ($\$16,810$ for 2024). Since expenses ($\$2,000$) are less than the limit, the credit is $\$2,000$. *Topic: Adoption Credit*

8 - \$12,067 Mortgage interest ($\$12,000$) is deductible. Points ($\$2,000$) on an original home loan used for acquisition/improvement are generally deductible over the life of the loan. $\$2,000 / 30$ years = $\$66.67$ per year (approx $\$67$). Total deduction = $\$12,000 + \$67 = \$12,067$. *Topic: Interest (Home Mortgage Interest & Points)*

9 - CTC \$1,200; ACTC \$800 Max CTC = $\$2,000$. Tax liability before CTC = $\$1,200$. Nonrefundable CTC = $\$1,200$ (limited by tax liability). Potential ACTC = $\$2,000$ (Max CTC) - $\$1,200$ (Used CTC) = $\$800$. Refundable ACTC is limited to $\$1,700$ for 2024 and also by earned income formula. Assuming earned income is sufficient, the refundable ACTC is $\$800$. *Topic: Child Tax Credit / Additional Child Tax Credit*

10 - \$1,200 LLC = 20% of the first $\$10,000$ of qualified expenses per return. Expenses = $\$6,000$. Credit = $\$6,000 * 20\% = \$1,200$. (Subject to MAGI phase-out, but $\$70k$ Single is below the $\$80k$ threshold). *Topic: Education Credits (Lifetime Learning Credit)*

11 - \$10,000 Total state/local income and property taxes paid = \$1,500 + \$9,000 = \$10,500. Deduction is limited to the SALT cap of \$10,000. *Topic: Taxes (SALT Limitation)*

12 - \$1,320 Expense limit for two children = \$6,000. Expenses paid = \$7,000. Use \$6,000. AGI \$40,000 falls in the 22% credit rate tier (over \$39k up to \$41k). Credit = \$6,000 * 22% = \$1,320. *Topic: Child and Dependent Care Credit*

13 - \$500 Single, AGI \$20,000 falls in the 50% credit rate tier for the Saver's Credit. Credit = \$1,000 contribution * 50% = \$500. *Topic: Retirement Savings Contributions Credit (Saver's Credit)*

14 - \$16,810 Max credit per child = \$16,810 (2024). MAGI \$200,000 is below the phase-out start (\$252,150). Expenses (\$18,000) exceed the max credit. Credit is limited to \$16,810 (child not specified as special needs). *Topic: Adoption Credit*

15 - \$3,000 Investment interest expense deduction is limited to net investment income (\$3,000). The excess \$2,000 is carried forward. *Topic: Interest (Investment Interest Expense)*

16 - \$1,000 LLC = 20% of first \$10,000 expenses (\$12,000 paid, use \$10k) = \$2,000 potential credit. MAGI \$85k (Single) is in phase-out (\$80k-\$90k). Reduction = \$2,000 * ((\$85k-\$80k)/\$10k) = \$1,000. Final Credit = \$2,000 - \$1,000 = \$1,000. *Topic: Education Credits (Lifetime Learning Credit)*

17 - Form 8283, Section A Donation is noncash property valued over \$500 but not over \$5,000. Requires Form 8283, Section A. *Topic: Charitable Contributions (Forms)*

18 - \$1,000 Premiums for qualified LTC insurance (\$1,000) are less than the age-based limit (\$4,770 for age 61-70). Full \$1,000 is included as a medical expense before the AGI floor. *Topic: Medical Expenses (Qualified Long-Term Care Insurance Premiums)*

19 - \$3,500 Max CTC = \$4,000 (2 children). Phase-out starts \$400k (MFJ). MAGI \$410k exceeds by \$10k. Reduction = (\$10,000 / \$1,000) * \$50 = \$500. Credit = \$4,000 - \$500 = \$3,500. *Topic: Child Tax Credit (Phase-out)*

20 - \$6,900 Loss (\$15,000) must be from federal disaster. Reduce by \$100 floor = \$14,900. Reduce by 10% AGI floor (\$80k * 10% = \$8k). Deductible loss = \$14,900 - \$8,000 = \$6,900. *Topic: Casualty and Theft Losses*

Section 1.4 - Taxation

Multiple Choice 1.4

- 1 - b. \$400** A taxpayer must generally pay self-employment (SE) tax and file Schedule SE if their net earnings from self-employment were \$400 or more. *Topic: Self-Employment Tax*
- 2 - c. \$250,000** The 0.9% Additional Medicare Tax applies to combined Medicare wages, SE income, and RRTA compensation exceeding \$250,000 for those Married Filing Jointly. *Topic: Additional Medicare Tax*
- 3 - c. Form 6251** Form 6251, Alternative Minimum Tax—Individuals, is used to calculate the AMT for individual taxpayers. *Topic: Alternative Minimum Tax*
- 4 - d. 3.8%** The Net Investment Income Tax (NIIT) is imposed at a rate of 3.8% on the applicable income. *Topic: Net Investment Income Tax*
- 5 - c. \$1,000** Generally, no penalty for underpayment of estimated tax is owed if the total tax due after withholding and credits is less than \$1,000. *Topic: Estimated Taxes (Underpayment Penalty)*
- 6 - c. Schedule H (Form 1040)** Schedule H (Form 1040), Household Employment Taxes, is used to report and pay FICA, FUTA, and withheld income taxes for household employees. *Topic: Household Employees*
- 7 - b. Was entitled to receive but was not includible in their final return under their method of accounting.** Income in Respect of a Decedent (IRD) is income the decedent had a right to receive at death but which wasn't reportable on their final return (e.g., unpaid salary for a cash-basis decedent). *Topic: Income in Respect of Decedent (IRD)*
- 8 - b. \$609,350** For 2024, the AMT exemption begins to phase out for single filers when Alternative Minimum Taxable Income (AMTI) exceeds \$609,350. *Topic: Alternative Minimum Tax (Exemption Phase-out)*
- 9 - c. Net profit shown on Schedule C.** Self-Employment tax is generally calculated on the net profit from a trade or business reported on Schedule C (or Schedule F, or K-1 net earnings). Investment income like dividends, interest, and capital gains are typically excluded. *Topic: Self-Employment Tax*
- 10 - b. Parents' tax rate.** The Kiddie Tax taxes a child's unearned income above a certain threshold (\$2,600 for 2024) at the parents' marginal tax rate. *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*

11 - b. One-half of the amount. Taxpayers can deduct one-half of their calculated self-employment tax liability as an adjustment to income on Schedule 1 (Form 1040). *Topic: Self-Employment Tax (Deduction)*

12 - c. Net gains from the sale of stocks held for investment. Net Investment Income generally includes portfolio income (interest, dividends, annuities, royalties), passive income, and net gains from disposing of property (unless related to an active trade/business), but excludes wages, SE income, SS benefits, alimony, and tax-exempt interest. *Topic: Net Investment Income Tax*

13 - c. Interest from private activity bonds. AMT adjustments/preferences include items treated differently for AMT vs. regular tax. Tax-exempt interest from private activity bonds is taxable for AMT. The standard deduction and SALT deduction are disallowed for AMT, but are deductions for regular tax, not preference items added back. *Topic: Alternative Minimum Tax (Preferences and Adjustments)*

14 - b. A country with which the U.S. has a totalization agreement. U.S. citizens/residents working abroad are generally subject to U.S. SE tax unless they pay social security taxes to a country that has a social security (totalization) agreement with the U.S. *Topic: Self-Employment Tax (International)*

15 - c. August 15 The standard due dates for individual estimated tax payments are April 15, June 15, September 15, and January 15 of the following year. August 15 is not a standard due date. *Topic: Estimated Taxes (Due Dates)*

16 - b. The number of days the payment is late and the applicable interest rate. The penalty for underpaying estimated tax is calculated like interest on the underpaid amount for the period it was due but unpaid, using quarterly interest rates set by the IRS. *Topic: Estimated Taxes (Underpayment Penalty)*

17 - c. The recipient of the income (estate, beneficiary, etc.). Income in Respect of a Decedent (IRD) is taxed to the entity or person who actually receives it (the estate, a beneficiary, or another transferee). *Topic: Income in Respect of Decedent (IRD)*

18 - b. \$1,000 An employer must generally pay FUTA tax if they paid total cash wages of \$1,000 or more to all household employees in any calendar quarter of the current or preceding year. *Topic: Household Employees (FUTA Threshold)*

19 - b. The self-employment tax liability calculated on Schedule SE. The deduction for one-half of SE tax is calculated as 50% of the actual SE tax liability figured on Schedule SE. *Topic: Self-Employment Tax (Deduction)*

20 - b. Form 1041 Form 1041, U.S. Income Tax Return for Estates and Trusts, is the primary form used by fiduciaries to report the income, deductions, gains, losses, etc., of domestic estates and trusts. *Topic: Income in Respect of Decedent (IRD) / Estate Tax*

Fill-in-the-Blanks 1.4

1 - Medicare SE tax consists of Old-Age, Survivors, and Disability Insurance (Social Security at 12.4%) and Hospital Insurance (Medicare at 2.9%). *Topic: Self-Employment Tax*

2 - \$168,600 For 2024, the maximum earnings subject to the Social Security (12.4%) portion of SE tax is \$168,600. There is no limit for the Medicare (2.9%) portion. *Topic: Self-Employment Tax (Wage Base)*

3 - \$200,000 The Net Investment Income Tax (NIIT) applies if MAGI exceeds the threshold: \$200,000 for Single or Head of Household, \$250,000 for MFJ or QSS, \$125,000 for MFS. *Topic: Net Investment Income Tax*

4 - 100 The estimated tax safe harbor requires payments equal to the lesser of 90% of the current year's tax or 100% of the prior year's tax (110% if prior year AGI > \$150k/\$75k MFS). *Topic: Estimated Taxes (Safe Harbors)*

5 - character Income in Respect of a Decedent (IRD) retains the same character (e.g., ordinary income, capital gain) it would have had if the decedent had received it. *Topic: Income in Respect of Decedent (IRD)*

6 - \$2,700 For 2024, Social Security and Medicare (FICA) taxes generally must be withheld and paid if cash wages paid to any single household employee reach \$2,700 or more. *Topic: Household Employees (FICA Threshold)*

7 - deductions (or preferences/credits) The AMT system limits the benefit of certain deductions, tax preferences, and credits that can significantly reduce regular tax liability for higher-income taxpayers. *Topic: Alternative Minimum Tax*

8 - self-employment A minister's housing allowance excluded for income tax is generally still included as earnings subject to self-employment tax. *Topic: Clergy*

9 - 2210 Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, is used to calculate the penalty (or request a waiver). Form 2210-F is for farmers/fishermen. *Topic: Estimated Taxes (Underpayment Penalty)*

10 - 5.4 The gross FUTA rate is 6.0%, but employers can receive a credit of up to 5.4% for state unemployment taxes paid timely, resulting in a net FUTA rate as low as 0.6%. *Topic: Household Employees (FUTA Tax)*

11 - 5 (or five) The optional methods (farm and nonfarm) for calculating SE earnings can each be used no more than 5 times in a taxpayer's lifetime. *Topic: Self-Employment Tax (Optional Methods)*

12 - not For AMT purposes, many itemized deductions allowed for regular tax are disallowed, including the deduction for state and local taxes. *Topic: Alternative Minimum Tax (Preferences and Adjustments)*

13 - \$250,000 The MAGI threshold for NIIT for a Qualifying Surviving Spouse is \$250,000 (same as Married Filing Jointly). *Topic: Net Investment Income Tax*

14 - 110 If prior year AGI exceeded \$150,000 (\$75,000 MFS), the prior year safe harbor percentage for estimated tax increases from 100% to 110%. *Topic: Estimated Taxes (Safe Harbors)*

15 - itemized The deduction for estate tax paid on IRD is claimed as an itemized deduction on Schedule A (Form 1040), not subject to the 2% floor (which is suspended anyway). *Topic: Income in Respect of Decedent (IRD) (Estate Tax Deduction)*

16 - self-employment Unless granted an exemption (Form 4361 or 4029), a minister's earnings from ministerial services are generally subject to self-employment tax. *Topic: Clergy*

17 - \$450 For the Kiddie Tax calculation, a dependent child's standard deduction is limited to the greater of \$1,300 or their earned income plus \$450 (for 2024). *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*

18 - inflation The AMT exemption amounts are indexed for inflation annually. *Topic: Alternative Minimum Tax (Exemption Amount)*

19 - 8960 Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, is used to calculate and report the NIIT. *Topic: Net Investment Income Tax*

20 - 24 Backup withholding at a rate of 24% is generally required on certain reportable payments if the payee fails to provide a correct TIN or meets other conditions. *Topic: Backup Withholding*

Matching 1.4

| Set 1 | Set 2 | Set 3 | Set 4 |
|-------|-------|-------|-------|
| 1-c | 1-e | 1-d | 1-c |
| 2-e | 2-b | 2-a | 2-e |
| 3-a | 3-a | 3-b | 3-d |
| 4-d | 4-d | 4-e | 4-a |
| 5-b | 5-c | 5-c | 5-b |

Calculation Problems 1.4

1 - \$8,478 o \$8477.73 SE Earnings Base = $\$60,000 * 0.9235 = \$55,410$. SE Tax = $\$55,410 * 0.153 = \$8,477.73$. *Topic: Self-Employment Tax (Calculation)*

2 - \$1,900 NIIT applies to lesser of NII (\$50,000) or MAGI excess over threshold ($\$300,000 - \$250,000 = \$50,000$). Tax = $\$50,000 * 3.8\% = \$1,900$. *Topic: Net Investment Income Tax*

3 - \$29,718 AMTI $\$200,000 - \text{AMT Exemption (Single)} \$85,700 = \$114,300$. Since $\$114,300$ is less than the 26%/28% split threshold ($\$232,600$ for Single), the rate is 26%. Tentative Minimum Tax = $\$114,300 * 0.26 = \$29,718$. *Topic: Alternative Minimum Tax (Calculation)*

4 - No Let's check the 90% rule. 90% of current year tax = $90\% * \$10,000 = \$9,000$. Amount paid ($\$7,500$) is less than $\$9,000$. They also don't meet the 90% safe harbor. They likely owe a penalty unless the tax due ($\$10,000 - \$7,500 = \$2,500$) is under $\$1,000$, which it isn't. So, they did not meet the safe harbor. *Topic: Estimated Taxes (Safe Harbors)*

5 - \$459 Total FICA = 15.3% (7.65% employee + 7.65% employer). Employer's share = $\$3,000 * 7.65\% = \229.50 . Total FICA = $\$3,000 * 15.3\% = \459 . *Topic: Household Employees (FICA Tax)*

6 - \$180 Additional Medicare Tax applies to wages over $\$200,000$ (Single). Excess wages = $\$220,000 - \$200,000 = \$20,000$. Tax = $\$20,000 * 0.9\% = \180 . *Topic: Additional Medicare Tax*

7 - \$12,000 Estate's taxable income = Total Income ($\$5,000$ IRD + $\$10,000$ Other) - Deductions ($\$3,000$) = $\$15,000 - \$3,000 = \$12,000$ before income distribution deduction. *Topic: Income in Respect of Decedent (IRD) / Estate Taxation*

8 - \$900 Child's standard deduction (dependent) = Greater of $\$1,300$ or ($\$800$ earned + $\$450 = \$1,250$). Use $\$1,300$. Kiddie tax threshold = $\$2,600$. Unearned income = $\$3,500$. Amount subject to Kiddie Tax = $\$3,500 - \$2,600 = \$900$. *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*

9 - \$22,662.50 AMT exemption phase-out starts at $\$609,350$ (Single). Excess AMTI = $\$700,000 - \$609,350 = \$90,650$. Reduction = $25\% * \$90,650 = \$22,662.50$. *Topic: Alternative Minimum Tax (Exemption Phase-out)*

10 - \$42 FUTA wages are capped at $\$7,000$ per employee per year. Total FUTA wages = $\$7,000$. Net FUTA rate (assuming max state credit) = 0.6% . FUTA tax = $\$7,000 * 0.006 = \42 . *Topic: Household Employees (FUTA Tax)*

11 - \$0 AMT = Tentative Minimum Tax (\$13,500) - Regular Tax Liability (\$15,000). Since regular tax is higher, AMT is \$0. *Topic: Alternative Minimum Tax (Calculation)*

12 - \$166,230 The Social Security portion (12.4%) of SE tax applies to the SE earnings base up to the annual limit (\$168,600 for 2024). The SE earnings base is $\$180,000 * 0.9235 = \$166,230$. Since this base (\$166,230) is less than the limit (\$168,600), the entire \$166,230 is subject to the Social Security portion of the SE tax. *Topic: Self-Employment Tax (Calculation / Wage Base Limit)*

13 - \$3,000 The deduction for estate tax paid on IRD is the actual amount of federal estate tax attributable to the net value of the IRD items included in the gross estate. Here, it's given as \$3,000. *Topic: Income in Respect of Decedent (IRD) (Estate Tax Deduction)*

14 - \$13,200 Prior year AGI (\$160,000) > \$150,000. Safe harbor is 110% of prior year tax. Minimum payment needed = $110\% * \$12,000 = \$13,200$. *Topic: Estimated Taxes (Safe Harbors)*

15 - \$397.80 Employee's share of FICA = 7.65%. Total wages = \$5,200. Employee's FICA = $\$5,200 * 0.0765 = \397.80 . *Topic: Household Employees (FICA Tax)*

16 - No The Net Investment Income Tax (NIIT) applies only if Modified Adjusted Gross Income (MAGI) exceeds the applicable threshold. For Married Filing Jointly, the threshold is \$250,000. Since their MAGI (\$240,000) is below this threshold, they are not subject to the NIIT, regardless of their Net Investment Income amount. *Topic: Net Investment Income Tax*

17 - \$1,400 Child's standard deduction = Greater of \$1,300 or ($\$500 + \$450 = \950). Use \$1,300. Kiddie tax threshold = \$2,600. Unearned income = \$4,000. Amount subject to Kiddie Tax = $\$4,000 - \$2,600 = \$1,400$. *Topic: Tax for Certain Children Who Have Unearned Income (Kiddie Tax)*

18 - \$5,000 AMT Liability = Tentative Minimum Tax (\$50,000) - Regular Tax Liability (\$45,000) = \$5,000. *Topic: Alternative Minimum Tax (Calculation)*

19 - \$126 FUTA wages capped at \$7,000 per employee. Total FUTA wages = $\$7,000 * 3 = \$21,000$. Net FUTA rate = 0.6%. Total FUTA tax = $\$21,000 * 0.006 = \126 . *Topic: Household Employees (FUTA Tax)*

20 - \$1,000 Total tax owed = \$3,000. Total estimated payments made = $\$500 * 4 = \$2,000$. Total underpayment = $\$3,000 - \$2,000 = \$1,000$. *Topic: Estimated Taxes (Underpayment Calculation)*

Section 1.5 - Advising the Individual Taxpayer

Multiple Choice 1.5

1 - d. A self-employed individual with net earnings from self-employment of \$500.

Generally, filing is required if gross income meets the standard deduction threshold. However, a separate requirement exists if net earnings from self-employment are \$400 or more. Option A (\$15k < \$16,550 threshold for Single 65+), B (\$29k < \$29,200 MFJ), and C (\$1k total income < \$1,300 dependent threshold) likely don't require filing based solely on gross income, but D requires filing due to SE income > \$400. *Topic: Reporting Obligations (Filing Requirements)*

2 - b. Traditional IRA Contributions to a Traditional IRA may be tax-deductible (subject to limits), and earnings grow tax-deferred, but distributions in retirement are generally taxable. Roth IRA contributions are not deductible, but qualified distributions are tax-free. *Topic: Retirement Planning (Traditional IRA)*

3 - b. Earnings grow tax-deferred, and qualified distributions for education expenses are tax-free. The main federal tax advantage of a 529 plan is tax-deferred growth and tax-free qualified distributions for education. Contributions are generally not federally deductible (though some states offer deductions). *Topic: Education Planning (Section 529 Plan)*

4 - c. Take either an itemized deduction or a tax credit in the year of repayment. If a taxpayer repays more than \$3,000 previously included in income under a claim of right, they can either take an itemized deduction for the amount repaid or calculate the tax benefit of excluding the income in the prior year and take that as a credit in the repayment year (whichever provides the better result). *Topic: Repayments (Claim of Right)*

5 - d. Penalty for Underpayment of Estimated Tax The penalty for underpayment of estimated tax applies if sufficient tax is not paid throughout the year via withholding or timely estimated payments. Failure to File and Failure to Pay penalties apply after the return due date. Accuracy-related penalties apply to understatements due to negligence or disregard of rules. *Topic: Estimated Taxes*

6 - b. \$2,000 The maximum annual contribution limit to a Coverdell Education Savings Account (ESA) is \$2,000 per beneficiary, regardless of the number of contributors. *Topic: Education Planning (Coverdell ESA)*

7 - b. SIMPLE IRA A SIMPLE IRA plan is designed for small employers (<=100 employees) and requires mandatory employer contributions (either a match up to 3% or a 2% non-elective contribution). SEP IRAs involve employer contributions only but aren't mandatory in the same way. *Topic: Retirement Planning (SIMPLE IRA)*

8 - c. Tax-free at the federal level. Distributions from an HSA used to pay for qualified medical expenses are generally excluded from gross income (tax-free). *Topic: Health Savings Accounts (HSA)*

9 - c. Form 9465 (Installment Agreement Request) Form 9465 is used to request a monthly installment plan to pay tax liability over time. Form 656 is for an Offer in Compromise. Form 433-A provides collection information. *Topic: Estimated Taxes (Installment Agreements)*

10 - b. Made with after-tax dollars, but earnings grow tax-free and qualified distributions are tax-free. Contributions to ABLE accounts are not federally deductible. Earnings grow tax-deferred, and distributions used for qualified disability expenses are tax-free. *Topic: Education Planning (ABLE Accounts)*

11 - b. Traditional IRA Required Minimum Distributions (RMDs) generally must begin from Traditional IRAs, SEP IRAs, SIMPLE IRAs, and employer plans starting at age 73. Roth IRAs do not have RMD requirements during the owner's lifetime. *Topic: Retirement Planning (RMDs)*

12 - c. Exempt from tax by law. Gross income includes all income from whatever source derived unless specifically excluded (exempt) by tax law (e.g., gifts, certain life insurance proceeds, municipal bond interest). *Topic: Reporting Obligations (Gross Income)*

13 - b. Contributions are made by the employer directly to each employee's traditional IRA. SEP plans involve employer contributions made to traditional IRAs set up for eligible employees. Only employers contribute to SEPs. *Topic: Retirement Planning (SEP IRA)*

14 - a. \$3,000 or less. Repayments of \$3,000 or less previously included under a claim of right were deductible as miscellaneous itemized deductions subject to the 2% floor (which is suspended by TCJA). Repayments over \$3,000 allow for a deduction or credit under IRC Sec 1341. *Topic: Repayments (Claim of Right)*

15 - b. 25% of the RMD amount not taken (potentially reduced to 10% if corrected timely). The SECURE 2.0 Act reduced the penalty for failing to take an RMD from 50% to 25%, and potentially down to 10% if the failure is corrected within a specific timeframe. *Topic: Retirement Planning (RMD Penalty)*

16 - c. Coverdell ESA Coverdell ESAs allow tax-free distributions for qualified expenses for K-12 education as well as higher education. 529 plans were expanded to cover some K-12 tuition but are primarily for higher education. *Topic: Education Planning (Coverdell ESA)*

17 - b. A percentage of the employee's compensation (up to a limit). SEP IRA contributions are discretionary employer contributions, typically calculated as a percentage of each eligible employee's compensation, subject to annual limits (e.g., lesser of 25% of comp or \$69,000 for 2024). *Topic: Retirement Planning (SEP IRA)*

18 - c. Taxable as ordinary income AND subject to a 20% penalty. HSA distributions used for non-qualified medical expenses are included in gross income and are generally subject to an additional 20% penalty if taken before age 65, death, or disability. *Topic: Health Savings Accounts (HSA)*

19 - b. A lower amount than what was originally owed. An Offer in Compromise (OIC) is an agreement between a taxpayer and the IRS that resolves the taxpayer's tax liability for a lower amount than originally owed, based on doubt as to collectibility, liability, or effective tax administration. *Topic: Estimated Taxes (Offer in Compromise)*

20 - b. Has earned income and does not participate in an employer retirement plan. The ABLE account annual contribution limit (\$18,000 for 2024) can be increased by the beneficiary's earned income (up to the individual poverty line amount) if they are not contributing to an employer defined contribution plan (like a 401(k) or 403(b)). *Topic: Education Planning (ABLE Accounts)*

Fill-in-the-Blanks 1.5

1 - \$1,000 Estimated tax payments are generally required if a taxpayer expects to owe at least \$1,000 in tax when filing their return (after accounting for withholding and credits). *Topic: Estimated Taxes*

2 - deductible Contributions to a Roth IRA are made with after-tax dollars and are never tax-deductible. *Topic: Retirement Planning (Roth IRA)*

3 - Traditional SEP plans involve employer contributions to Traditional IRA accounts established for employees. *Topic: Retirement Planning (SEP IRA)*

4 - higher Distributions from 529 plans are tax-free if used for qualified higher education expenses (tuition, fees, books, required supplies/equipment, and sometimes room/board). *Topic: Education Planning (Section 529 Plan)*

5 - high-deductible Eligibility to contribute to an HSA requires coverage under a qualified high-deductible health plan (HDHP). *Topic: Health Savings Accounts (HSA)*

6 - \$18,000 The annual contribution limit to an ABLE account is generally tied to the annual gift tax exclusion amount (\$18,000 for 2024), plus potential additional amounts based on beneficiary earnings. *Topic: Education Planning (ABLE Accounts)*

7 - 3 (or three) Taxpayers should generally keep tax records for at least 3 years from the date the return was filed or due, whichever is later (longer for certain items like property basis). *Topic: Reporting Obligations (Recordkeeping)*

8 - 6 Excess contributions to Traditional or Roth IRAs are subject to a 6% excise tax for each year they remain in the account. *Topic: Individual Retirement Arrangements (IRAs) (Excess Contributions)*

9 - 60 To avoid taxation and penalties, rollovers between retirement accounts (like a 401(k) to an IRA, or IRA to IRA) must generally be completed within 60 days of receiving the distribution. *Topic: Retirement Planning (Rollovers)*

10 - income (or gross income) The claim of right doctrine requires taxpayers to include income in the year it is received if they have an unrestricted right to it, even if they might have to repay it later. *Topic: Repayments (Claim of Right)*

11 - extensions The deadline for making prior-year IRA contributions (Traditional or Roth) is the original due date of the tax return (typically April 15), not including extensions. *Topic: Individual Retirement Arrangements (IRAs) (Contribution Deadline)*

12 - 30 Funds remaining in a Coverdell ESA must generally be distributed within 30 days after the beneficiary reaches age 30 (unless rolled over or a special needs beneficiary). *Topic: Education Planning (Coverdell ESA)*

13 - rollover A rollover allows funds to be moved between eligible retirement accounts (like plan-to-IRA or IRA-to-IRA) without current taxation if rules are followed. *Topic: Retirement Planning (Rollovers)*

14 - \$1,000 The additional HSA catch-up contribution for individuals age 55 and older is \$1,000 per year. *Topic: Health Savings Accounts (HSA)*

15 - 3 (or three) Records supporting basis in property should be kept as long as needed to figure basis, often longer than the general 3-year rule for returns. *Topic: Reporting Obligations (Recordkeeping)*

16 - exception The 10% early withdrawal penalty on IRA distributions before age 59 1/2 does not apply if a valid exception is met. *Topic: Individual Retirement Arrangements (IRAs) (Early Withdrawal Penalty)*

17 - employer SEP IRA contributions are made only by the employer, based on a plan formula (usually a percentage of compensation). *Topic: Retirement Planning (SEP IRA)*

18 - non-elective Employers sponsoring a SIMPLE IRA must make either a matching contribution (generally up to 3%) or a non-elective contribution (2% for all eligible employees). *Topic: Retirement Planning (SIMPLE IRA)*

19 - 1099-SA Form 1099-SA, Distributions From an HSA, Archer MSA, or Medicare Advantage MSA, is used to report distributions from these accounts. *Topic: Health Savings Accounts (HSA)*

20 - 656 Form 656, Offer in Compromise, is the application submitted to the IRS to propose settling a tax debt for less than the full amount owed. *Topic: Estimated Taxes (Offer in Compromise)*

Matching 1.5

| Set 1 | Set 2 | Set 3 | Set 4 |
|-------|-------|-------|-------|
| 1-c | 1-b | 1-c | 1-b |
| 2-e | 2-d | 2-d | 2-e |
| 3-d | 3-a | 3-b | 3-a |
| 4-a | 4-e | 4-a | 4-d |
| 5-b | 5-c | 5-e | 5-c |

Calculation Problems 1.5

1 - No The 2024 filing threshold for Single, age 65 or older is \$16,550. Since \$16,000 is less than \$16,550, filing is not required based solely on gross income (assuming no other filing requirements apply). *Topic: Reporting Obligations (Filing Requirements)*

2 - \$200 Minimum required payment = 100% of prior year tax = \$4,000. Amount paid via withholding = \$3,800. Additional estimated tax needed = \$4,000 - \$3,800 = \$200. *Topic: Estimated Taxes (Safe Harbors)*

3 - \$0 Max contribution for under 50 is \$7,000 total to all IRAs. \$4,000 (Traditional) + \$3,000 (Roth) = \$7,000. No excess contribution. *Topic: Individual Retirement Arrangements (IRAs) (Contribution Limits)*

4 - \$600 Total distribution = \$10,000. Earnings portion = $\$10,000 * 20\% = \$2,000$. Qualified expenses = \$7,000. Non-qualified amount = $\$10,000 - \$7,000 = \$3,000$. Taxable portion of earnings = $(\text{Non-qualified amount} / \text{Total Distribution}) * \text{Total Earnings} = (\$3,000 / \$10,000) * \$2,000 = \$600$. *Topic: Education Planning (Section 529 Plan Distributions)*

5 - \$1,150 Max contribution for self-only HDHP coverage in 2024 is \$4,150. Amount contributed = \$3,000. Additional amount possible = $\$4,150 - \$3,000 = \$1,150$. *Topic: Health Savings Accounts (HSA) (Contribution Limits)*

6 - Deduction The tax benefit from taking the deduction is the reduction in the current year's tax ($\$8,000 - \$6,800 = \$1,200$). The tax benefit from taking the credit is the reduction in the prior year's tax from excluding the income (\$1,100). Since \$1,200 is greater than \$1,100, taking the deduction provides the greater tax benefit. *Topic: Repayments (Claim of Right)*

7 - \$1,800 Employer match is 3% of compensation. Match = $\$60,000 * 3\% = \$1,800$. (The match is based on total compensation, not limited by the employee's deferral amount in this case, as $\$10,000 > \$1,800$). *Topic: Retirement Planning (SIMPLE IRA)*

8 - \$0 Annual ABLE contribution limit for 2024 is \$18,000 (equal to gift tax exclusion). Contribution (\$18,000) does not exceed the limit. *Topic: Education Planning (ABLE Accounts)*

9 - \$2,000 Early withdrawal penalty is 10% of the taxable amount withdrawn before age 59 1/2 (unless an exception applies). Penalty = $\$20,000 * 10\% = \$2,000$. *Topic: Retirement Planning (401(k) Early Withdrawal Penalty)*

10 - \$2,400 Employer matches 50% up to 6% of salary. 6% of salary = $0.06 * \$80,000 = \$4,800$. Employee contributed \$6,000, which is more than the 6% limit. Employer match = $50\% * \$4,800 = \$2,400$. *Topic: Retirement Planning (401(k) Matching)*

11 - No The 2024 filing threshold for MFJ, both 65 or older is \$32,300. Since \$32,000 is less than \$32,300, filing is not required based solely on gross income. *Topic: Reporting Obligations (Filing Requirements)*

12 - \$500 Maximum annual contribution per beneficiary is \$2,000. Amount contributed = \$2,500. Excess contribution = \$2,500 - \$2,000 = \$500. *Topic: Education Planning (Coverdell ESA)*

13 - \$1,000 Employer chose 2% non-elective contribution. Contribution = \$50,000 * 2% = \$1,000 (paid regardless of employee deferral). *Topic: Retirement Planning (SIMPLE IRA)*

14 - \$7,800 The maximum HSA contribution for family coverage in 2024 is \$8,300. An additional \$1,000 catch-up contribution is allowed for age 55+. Total potential contribution = \$8,300 + \$1,000 = \$9,300. Subtracting the employer contribution (\$1,500), the taxpayer can contribute an additional \$9,300 - \$1,500 = \$7,800. *Topic: Health Savings Accounts (HSA)*

15 - \$0 Distributions from a Roth IRA are tax-free if qualified. Qualified means account held 5+ years AND distribution is after age 59 1/2, disability, death, or for first home purchase. Here, 10 years and age 62 are met. Distribution consists of \$12k contributions (always tax-free) and \$3k earnings (tax-free because qualified). Taxable portion = \$0. *Topic: Retirement Planning (Roth IRA Distributions)*

16 - \$0 Single, covered by plan, MAGI \$90,000. 2024 phase-out range \$77k-\$87k. Since MAGI (\$90,000) exceeds the top of the phase-out range (\$87,000), the deductible portion is \$0. *Topic: Individual Retirement Arrangements (IRAs) (Deductibility)*

17 - \$166.67 Total value = \$12,000. Earnings portion = \$2,000 / \$12,000 = 1/6. Distribution = \$4,000. Qualified expenses = \$3,000. Non-qualified distribution = \$4,000 - \$3,000 = \$1,000. Taxable earnings = Non-qualified distribution * Earnings Ratio = \$1,000 * (1/6) = \$166.67 (approx). *Topic: Education Planning (Coverdell ESA Distributions)*

18 - \$0 Total and permanent disability is an exception to the 10% early withdrawal penalty from a Traditional IRA. *Topic: Individual Retirement Arrangements (IRAs) (Early Withdrawal Penalty Exceptions)*

19 - Yes SEP contribution limit is lesser of 25% of compensation or \$69,000 (2024). 25% of \$80,000 = \$20,000. Contribution (\$5,000) is less than both \$20,000 and \$69,000, so it's within limits. *Topic: Retirement Planning (SEP IRA)*

20 - \$23,000 (up to poverty line limit) Base limit = \$18,000 (2024 gift exclusion). Additional contribution allowed = beneficiary's earned income (\$5,000) up to the federal poverty line for a one-person household (approx \$15,060 for 2024). Max possible = \$18,000 + \$5,000 = \$23,000 (assuming \$5k <= poverty line). *Topic: Education Planning (ABLE Accounts)*

Section 1.6 - Specialized Returns for Individuals

Multiple Choice 1.6

1 - c. Form 1040 or 1040-SR (marked as final) The final income tax return for a decedent is filed using the same form they would have used if alive (Form 1040 or 1040-SR), marking it as "Final" and indicating the date of death. Form 706 is the Estate Tax Return, Form 1041 is for estate/trust income, and Form 1310 is for claiming a refund due to a decedent. *Topic: Estate Tax (Final Income Tax Return)*

2 - c. \$18,000 For 2024, the annual exclusion allows a donor to give up to \$18,000 per recipient without incurring gift tax or using up their lifetime exclusion amount. *Topic: Gift Tax (Annual Exclusion)*

3 - a. Have a tax home in a foreign country and meet either the bona fide residence test or the physical presence test. To claim the Foreign Earned Income Exclusion (FEIE), a U.S. citizen/resident alien must have their tax home in a foreign country AND satisfy either the bona fide residence test (residing abroad for an uninterrupted period including a full tax year) OR the physical presence test (present abroad for 330 full days in any 12-month period). *Topic: International Information Reporting (Foreign Earned Income Exclusion)*

4 - b. Form 1116 Form 1116, Foreign Tax Credit (Individual, Estate, or Trust), is generally used to calculate and claim the foreign tax credit. Form 2555 is for the FEIE. *Topic: International Information Reporting (Foreign Tax Credit)*

5 - a. Are engaged in a trade or business in the U.S., even with no income. A nonresident alien must generally file Form 1040-NR if engaged in a U.S. trade or business, regardless of income level or whether tax treaties exempt the income. Filing is generally not required if their only U.S. income is FDAP subject to full withholding. *Topic: Specialized Returns (Nonresident Aliens)*

6 - b. Physical Presence Test The Physical Presence Test requires being physically present in foreign countries for at least 330 full days during any 12-consecutive-month period. The Bona Fide Residence Test requires establishing residency abroad for a full tax year. *Topic: International Information Reporting (Foreign Earned Income Exclusion Tests)*

7 - c. Excluded from gift tax, regardless of the amount. Direct payments made to a qualified educational institution for tuition on behalf of someone else are specifically excluded from gift tax, regardless of the amount paid. This is separate from the annual exclusion. *Topic: Gift Tax (Exclusions)*

8 - c. Worldwide income is taxed, similar to a U.S. citizen. During the part of the year a dual-status alien is considered a U.S. resident, they are taxed on their worldwide income, just like a U.S. citizen or full-year resident alien. During the nonresident part, only U.S. source income (or ECI) is taxed. *Topic: Specialized Returns (Dual-Status Aliens)*

9 - b. Form 709 Form 709, U.S. Gift (and Generation-Skipping Transfer) Tax Return, is used to report taxable gifts made during the year. *Topic: Gift Tax (Filing Requirements)*

10 - a. U.S. source income. The Foreign Tax Credit limitation ensures that the credit only offsets U.S. tax liability on foreign source income, not U.S. tax on U.S. source income. The formula effectively prorates the U.S. tax based on the ratio of foreign source taxable income to worldwide taxable income. *Topic: International Information Reporting (Foreign Tax Credit Limitation)*

11 - a. Cash method Unless the executor chooses otherwise, an estate (Form 1041) generally must use the cash method of accounting. *Topic: Estate Tax (Form 1041 Accounting Method)*

12 - c. \$185,000 While gifts between U.S. citizen spouses are unlimited, gifts to a non-citizen spouse are subject to a higher annual exclusion amount, which was \$185,000 for 2024. *Topic: Gift Tax (Gifts to Non-Citizen Spouse)*

13 - c. Wages received for services performed as an employee in a foreign country. The FEIE applies to foreign *earned* income, such as wages or self-employment income for services performed abroad. It does not apply to passive income (interest, dividends, capital gains) or pensions. *Topic: International Information Reporting (Foreign Earned Income Exclusion)*

14 - b. Foreign taxes paid on income excluded under the Foreign Earned Income Exclusion. A taxpayer cannot claim a foreign tax credit or deduction for foreign taxes paid on income that is excluded from U.S. tax under the FEIE or Foreign Housing Exclusion. *Topic: International Information Reporting (Foreign Tax Credit)*

15 - c. A statement signed by both spouses. To elect to treat a nonresident alien spouse as a U.S. resident for the entire year (allowing a joint return), a statement signed by both spouses must be attached to their timely filed joint Form 1040. *Topic: Specialized Returns (Nonresident Alien Spouse Election)*

16 - b. Maximum foreign earned income exclusion amount. The base housing amount, which is subtracted from total housing expenses to determine the excludable/deductible amount, is generally 16% of the maximum Foreign Earned Income Exclusion amount for the year (prorated for the qualifying period). *Topic: International Information Reporting (Foreign Housing Exclusion/Deduction)*

17 - b. The fair market value (FMV) at the time of the gift. For gifted property where the FMV at the time of the gift is *less* than the donor's basis, the recipient uses the FMV as their basis for determining a loss on a subsequent sale. (For determining gain, the donor's basis is used). *Topic: Gift Tax (Basis of Gifted Property)*

18 - c. 5 years Students ("F" visa) and Teachers/Trainees ("J" visa) are generally exempt from counting days toward the substantial presence test for their first 5 calendar years in the U.S. (2 years for J visa teachers/trainees, unless extended). *Topic: Specialized Returns (Substantial Presence Test Exceptions)*

19 - b. April 15 of the year after the gift was made (can be extended). Form 709, the Gift Tax Return, is due annually on April 15th following the year the gifts were made. An extension to file the income tax return (Form 4868) automatically extends the time to file Form 709 to October 15th. *Topic: Gift Tax (Filing Requirements)*

20 - b. Back 1 year and forward 10 years. Unused foreign tax credits that exceed the annual limitation can generally be carried back one year and then carried forward up to ten years. *Topic: International Information Reporting (Foreign Tax Credit Carryover)*

Fill-in-the-Blanks 1.6

- 1 - April** The final Form 1040 for a decedent is generally due April 15th of the year after death (for a calendar year taxpayer). *Topic: Estate Tax (Final Income Tax Return)*
- 2 - not** Gifts between spouses who are both U.S. citizens generally qualify for the unlimited marital deduction and are not subject to gift tax. *Topic: Gift Tax (Marital Deduction)*
- 3 - Form 2555**, Foreign Earned Income, is used by U.S. citizens and resident aliens living abroad to claim the foreign earned income exclusion, foreign housing exclusion, or foreign housing deduction. *Topic: International Information Reporting (Foreign Earned Income Exclusion / Forms)*
- 4 - source** The Foreign Tax Credit can only be claimed for foreign taxes imposed on foreign source income (or taxes imposed in lieu of an income tax). *Topic: International Information Reporting (Foreign Tax Credit)*
- 5 - trade or business** A nonresident alien is generally taxed only on U.S. source income and income effectively connected with a U.S. trade or business (ECI). *Topic: Specialized Returns (Nonresident Aliens)*
- 6 - bona fide residence** The bona fide residence test requires establishing residency in a foreign country for an uninterrupted period including a full tax year. *Topic: International Information Reporting (Foreign Earned Income Exclusion Tests)*
- 7 - excluded** Direct payments to medical providers for another person's qualified medical expenses are excluded from gift tax, regardless of amount. *Topic: Gift Tax (Exclusions)*
- 8 - standard** A nonresident alien generally cannot claim the standard deduction. A dual-status alien cannot claim it for the part of the year they are nonresident (unless a specific election is made). *Topic: Specialized Returns (Dual-Status Aliens)*
- 9 - exclusion** Form 709 must generally be filed if gifts to any one non-spouse recipient exceed the annual exclusion amount (\$18,000 for 2024). *Topic: Gift Tax (Filing Requirements)*
- 10 - general** The Foreign Tax Credit limitation must be calculated separately for different categories (baskets) of income, such as passive category income and general category income. *Topic: International Information Reporting (Foreign Tax Credit Limitation)*
- 11 - beneficiaries** An estate or trust can deduct income distributed or required to be distributed to beneficiaries (the Income Distribution Deduction), limited by Distributable Net Income (DNI). *Topic: Estate Tax (Form 1041 Income Distribution Deduction)*

12 - 13.61 The combined gift and estate tax basic exclusion amount for 2024 is \$13.61 million per individual. *Topic: Estate Tax / Gift Tax (Basic Exclusion Amount)*

13 - 5 (or five) Revoking the FEIE generally prevents re-election for five years without IRS consent. *Topic: International Information Reporting (Foreign Earned Income Exclusion)*

14 - nonrefundable The Foreign Tax Credit is nonrefundable; it can reduce U.S. tax liability to zero but cannot generate a refund. *Topic: International Information Reporting (Foreign Tax Credit)*

15 - citizens (or residents) Income Effectively Connected (ECI) with a U.S. trade or business earned by a nonresident alien is taxed at the same graduated rates as U.S. citizens and residents. *Topic: Specialized Returns (Nonresident Aliens)*

16 - exclusion / deduction The foreign housing *exclusion* applies to employer-provided amounts (including self-employed treated as employees for this purpose), while the foreign housing *deduction* applies to amounts paid with self-employment earnings. *Topic: International Information Reporting (Foreign Housing Exclusion/Deduction)*

17 - 709 Both spouses must consent to gift splitting, typically by signing each other's Form 709 or filing their own signed Form 709. *Topic: Gift Tax (Gift Splitting)*

18 - Child Nonresident aliens generally cannot claim the Child Tax Credit unless they are residents of Canada or Mexico, or meet specific treaty exceptions (like for South Korea or India students/trainees). *Topic: Specialized Returns (Nonresident Aliens - Credits)*

19 - gift tax The basis of gifted property is the donor's basis, increased (but not above FMV) by the portion of any gift tax paid that is attributable to the net appreciation in the gift's value. *Topic: Gift Tax (Basis of Gifted Property)*

20 - beneficial Claiming the foreign tax credit is often more beneficial than taking an itemized deduction, as a credit reduces tax dollar-for-dollar, while a deduction only reduces taxable income. *Topic: International Information Reporting (Foreign Tax Credit vs. Deduction)*

Matching 1.6

| Set 1 | Set 2 | Set 3 | Set 4 |
|-------|-------|-------|-------|
| 1-e | 1-d | 1-c | 1-a |
| 2-b | 2-a | 2-e | 2-b |
| 3-d | 3-c | 3-a | 3-e |
| 4-a | 4-e | 4-b | 4-d |
| 5-c | 5-b | 5-d | 5-c |

Calculation Problems 1.6

1 - \$3,000 Tax Due = Tax Liability (\$5,000) - Payments (\$2,000) = \$3,000. *Topic: Estate Tax (Final Income Tax Return)*

2 - \$4,000 Gift to son: \$20,000 - \$18,000 exclusion = \$2,000 taxable gift. Gift to daughter: \$20,000 - \$18,000 exclusion = \$2,000 taxable gift. Total taxable gifts = \$2,000 + \$2,000 = \$4,000. *Topic: Gift Tax (Taxable Gifts)*

3 - \$126,500 The Foreign Earned Income Exclusion is limited to the lesser of actual foreign earned income (\$130,000) or the maximum exclusion amount (\$126,500 for 2024). Max exclusion is \$126,500. *Topic: International Information Reporting (Foreign Earned Income Exclusion)*

4 - \$1,600 FTC Limit = U.S. Tax * (Foreign Source TI / Worldwide TI). Worldwide TI = \$10k + \$40k = \$50k. Limit = \$8,000 * (\$10,000 / \$50,000) = \$8,000 * 0.2 = \$1,600. Credit is lesser of foreign tax paid (\$1,500) or limit (\$1,600). Limitation is \$1,600. *Topic: International Information Reporting (Foreign Tax Credit Limitation)*

5 - \$1,500 Non-ECI U.S. source dividends paid to a nonresident alien are generally subject to a flat 30% withholding tax (unless a treaty provides a lower rate). Tax = \$5,000 * 30% = \$1,500. *Topic: Specialized Returns (Nonresident Aliens Taxation)*

6 - Yes The Physical Presence Test requires 330 full days in a foreign country or countries during *any* 12-consecutive-month period. 350 days meets this requirement. *Topic: International Information Reporting (Foreign Earned Income Exclusion Tests)*

7 - \$0 Direct payments to a qualifying educational institution for tuition are excluded from gift tax, regardless of the amount. *Topic: Gift Tax (Exclusions)*

8 - \$70,000 Income subject to U.S. tax = Worldwide income during resident period (\$60,000) + U.S. source ECI during nonresident period (\$10,000) = \$70,000. *Topic: Specialized Returns (Dual-Status Aliens)*

9 - \$2,000 With gift splitting, Spouse A's \$40,000 gift is treated as \$20,000 from A and \$20,000 from B. Taxable gift for B = \$20,000 - \$18,000 annual exclusion = \$2,000. *Topic: Gift Tax (Gift Splitting)*

10 - \$500 FTC Limit = U.S. Tax * (Foreign Source Passive TI / Worldwide TI). Limit = \$10,000 * (\$5,000 / \$100,000) = \$10,000 * 0.05 = \$500. Credit is lesser of foreign tax paid (\$500) or limit (\$500). Credit = \$500. *Topic: International Information Reporting (Foreign Tax Credit Limitation)*

11 - \$3,000 Estate taxable income = Income (\$20,000) - Expenses (\$2,000) - Income Distribution Deduction (\$15,000) = \$3,000. (Ignoring exemption amount). *Topic: Estate Tax (Form 1041 Taxable Income)*

12 - Potentially Taxable Gift Direct payment of rent for someone else is considered a gift to that person. Unlike direct payments for tuition or medical expenses, there is no specific exclusion for rent payments. Since the \$25,000 amount exceeds the \$18,000 annual gift tax exclusion for 2024, the excess (\$7,000) is a potentially taxable gift that requires filing Form 709 (though tax may not be due if covered by the lifetime exclusion). *Topic: Gift Tax (Taxable Gifts / Exclusions)*

13 - \$9,760 Maximum Housing Exclusion = Lesser of [Actual Expenses (\$30k)] or [Limit (\$35k)] = \$30k. Base Housing Amount = 16% * Max FEIE = 0.16 * \$126,500 = \$20,240. Housing Exclusion = Housing Expenses (\$30,000) - Base Amount (\$20,240) = \$9,760. *Topic: International Information Reporting (Foreign Housing Exclusion/Deduction)*

14 - \$8,000 Total available credit = Carryforward (\$5,000) + Current year tax paid (\$4,000) = \$9,000. Credit claimed is limited by the FTC limitation (\$8,000). Claim \$8,000. *Topic: International Information Reporting (Foreign Tax Credit Carryover)*

15 - \$1,900 Tax on dividends = \$3,000 * 30% = \$900. Tax on ECI = \$10,000 * 10% = \$1,000. Total U.S. tax = \$900 + \$1,000 = \$1,900. *Topic: Specialized Returns (Nonresident Aliens Taxation)*

16 - Yes The Bona Fide Residence Test requires establishing residency for an uninterrupted period including one *full* tax year (Jan 1 - Dec 31). Establishing residency on Jan 1, 2024, and remaining resident all year meets this. *Topic: International Information Reporting (Foreign Earned Income Exclusion Tests)*

17 - \$5,000 Basis for determining loss on gifted property (when FMV < donor basis) is the FMV at time of gift (\$20,000). Loss = Selling Price (\$15,000) - Basis for loss (\$20,000) = -\$5,000. Deductible loss is \$5,000. *Topic: Gift Tax (Basis of Gifted Property)*

18 - April 1, 2024 The first-year choice election (Sec 7701(b)(4)) allows an alien who meets the substantial presence test for the following year, and meets specific presence requirements in the current year (presence for 31 consecutive days and presence for 75% of days from the start of that period to year-end), to choose to be treated as a U.S. resident starting from the first day of that 31-day period. Since the individual arrived April 1st and was present continuously, their qualifying 31-day period starts April 1st, making that their residency starting date under the election, rather than the date they met the substantial presence test later in the year. *Topic: Specialized Returns (Dual-Status Aliens / First-Year Choice Election)*

19 - \$15,000 The annual exclusion for gifts to a non-citizen spouse is \$185,000 for 2024. The taxable gift is the amount exceeding this exclusion: \$200,000 (gift) - \$185,000 (exclusion) = \$15,000. *Topic: Gift Tax (Gifts to Non-Citizen Spouse)*

20 - \$500 Foreign tax paid (\$2,000) exceeds the FTC limitation (\$1,500). Unused credit = \$2,000 - \$1,500 = \$500. This \$500 can be carried back/forward. *Topic: International Information Reporting (Foreign Tax Credit Carryover)*

Solutions - PART 2: BUSINESSES

Section 2.1 - Business

2.1.1 Business Tax Fundamentals: Entities, Accounting, and Compliance

Multiple Choice 2.1.1

1 - b. 15% The Inflation Reduction Act imposes a 15% corporate alternative minimum tax (CAMT) on the adjusted financial statement income of certain large corporations with average financial statement income exceeding \$1 billion. *Topic: Inflation Reduction Act - Corporate Alternative Minimum Tax (CAMT)*

2 - c. Limited Liability Partnership (LLP) Lesson 1 explicitly mentions the most common forms of business as the sole proprietorship, partnership, corporation, S corporation, and Limited Liability Company (LLC). Limited Liability Partnership (LLP) is not listed among these common forms in this section. *Topic: Business Entities - Common Forms*

3 - c. 12 consecutive months beginning January 1st and ending December 31st. The text defines a calendar year as 12 consecutive months beginning on January 1st and ending on December 31st. *Topic: Accounting Periods - Calendar Year*

4 - c. In the tax year in which they actually pay them. Under the cash method, taxpayers generally deduct expenses in the tax year in which they actually pay them. *Topic: Accounting Methods - Cash Method*

5 - d. A C corporation. The text states that a corporation (other than an S corporation) with average annual gross receipts exceeding the threshold (stated as \$5 million in source [285] but \$30 million indexed for inflation in source [291]) cannot use the cash method. Partnerships with such a corporation as a partner and exceeding the threshold also cannot use the cash method. Tax shelters are also excluded. *Topic: Accounting Methods - Cash Method Exclusions*

6 - c. All its principal partners, if they have the same tax year. The rules for a partnership's required tax year state that if there is no majority interest tax year, the partnership must use the tax year of all its principal partners, provided they share the same tax year. A principal partner has a 5% or more interest. *Topic: Accounting Periods*

7 - b. The 15th day of the 4th month following the close of the tax year. As of December 31, 2015, C corporation tax returns are generally due on the 15th day of the fourth month following the close of the tax year (e.g., April 15 for calendar year). *Topic: Filing Dates - C Corporations*

8 - b. \$1 million or less OR 30 or fewer employees. The text defines an eligible small business for the Disabled Access Credit as one that earned \$1 million or less OR had no more than 30 full-time employees in the previous year. *Topic: Common Business Credits - Disabled Access Credit Eligibility*

9 - b. 50% The Small Business Health Care Tax Credit is generally available to small employers that pay at least half (50%) of the cost of single coverage for their employees. *Topic: Common Business Credits - Small Business Health Care Tax Credit Eligibility*

10 - c. Taxable income computed without regard to the NOL deduction itself (with certain modifications). The text states the NOL deduction for tax years beginning after Dec 31, 2020, cannot exceed the sum of pre-2018 NOLs plus the lesser of post-2017 NOLs or 80% of the excess of taxable income (computed without NOL, QBI, or Sec 250 deductions) over pre-2018 NOLs. *Topic: Common Business Deductions - Net Operating Loss (NOL) Limitation*

Fill-in-the-Blanks 2.1.1

1 - Employer Identification Number An Employer Identification Number (EIN) is a nine-digit number assigned by the IRS used to identify a business entity. *Topic: Business Entities - Employer Identification Number (EIN)*

2 - December A fiscal year is defined as 12 consecutive months ending on the last day of any month except December. *Topic: Accounting Periods - Fiscal Year*

3 - earned Under the accrual method of accounting, taxpayers generally report income in the year it is earned. *Topic: Accounting Methods - Accrual Method*

4 - applies An expense a taxpayer pays in advance is deductible only in the year to which it applies, unless the 12-month rule exception applies. *Topic: Accounting Methods - Prepaid Expenses*

5 - March 15 Partnership tax returns (Form 1065) are generally due March 15 (for calendar year taxpayers), or the 15th day of the third month following the close of the tax year. *Topic: Filing Dates - Partnerships*

6 - nonrefundable The text explicitly states the Disabled Access Credit provides a nonrefundable credit for eligible small businesses. *Topic: Common Business Credits - Disabled Access Credit*

7 - SHOP (Small Business Health Options Program) To be eligible for the Small Business Health Care Tax Credit for tax years beginning in 2014 or later, the employer must generally pay premiums for employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace. *Topic: Common Business Credits - Small Business Health Care Tax Credit*

8 - Net Operating Loss If a business's deductions for the year are more than its income for the year, it may have a net operating loss (NOL). *Topic: Common Business Deductions - Net Operating Loss (NOL)*

9 - \$5 The simplified option for the home office deduction allows a standard deduction of \$5 per square foot of home used for business (maximum 300 square feet). *Topic: Common Business Deductions - Home Office Deduction (Simplified Option)*

10 - 50 Applicable Large Employers (ALEs) are generally those with 50 or more full-time employees, including full-time equivalent employees. *Topic: Affordable Care Act Compliance - Applicable Large Employer (ALE)*

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Calculation Problems 2.1.1

1 - Year ending June 30 If one or more partners having the same tax year own a majority interest (more than 50%) in partnership profits and capital, the partnership must use the tax year of those partners. Partner A owns 60% and has a June 30 year-end. *Topic: Accounting Periods - Partnership Required Tax Year*

2 - \$1,200 The expense qualifies for the 12-month rule because the benefit does not extend beyond 12 months after the first date benefits are realized (July 1) and ends before the end of the next tax year. The deduction is limited to the amount applicable to 2024 (6 months / 12 months * \$2,400 = \$1,200). *Topic: Accounting Methods - Prepaid Expenses (12-Month Rule)*

3 - No A C corporation cannot use the cash method if its average annual gross receipts for the 3 prior tax years exceed the inflation-adjusted threshold (\$30 million used in text example). Z Corp's average is $(\$35\text{M} + \$28\text{M} + \$30\text{M}) / 3 = \31M , which exceeds the threshold. *Topic: Accounting Methods - Cash Method Eligibility*

4 - January 15, 2025 C corporation tax returns are generally due by the 15th day of the 4th month after the end of its tax year. For a September 30 year-end, the 4th month ends January 31, so the due date is January 15. *Topic: Filing Dates - C Corporations*

5 - \$4,000 The Disabled Access Credit is 50% of eligible expenditures between \$250 and \$10,250. Eligible expenditures are $\$8,250 - \$250 = \$8,000$. Credit = $50\% * \$8,000 = \$4,000$. (Based on general rules, specific calculation formula not in L1 text). *Topic: Common Business Credits - Disabled Access Credit Calculation*

6 - \$40,000 The business meets the criteria (<25 FTEs, <\$65k avg wages, pays >=50% premiums). The maximum credit for a small business employer is 50% of premiums paid. Credit = $50\% * \$80,000 = \$40,000$. *Topic: Common Business Credits - Small Business Health Care Tax Credit Calculation*

7 - \$150,000 The deduction includes pre-2018 NOLs (\$50,000) plus the limited post-2017 NOLs. The limit is the lesser of the post-2017 NOL (\$100,000) or 80% of (Taxable Income [\$200k] - pre-2018 NOL [\$50k]). $80\% \text{ of } \$150,000 = \$120,000$. Lesser amount is \$100,000. Total deduction = $\$50,000 + \$100,000 = \$150,000$. *Topic: Common Business Deductions - NOL Deduction Limit Calculation*

8 - \$1,250 The simplified option allows \$5 per square foot, up to 300 sq ft. Deduction = $250 \text{ sq ft} * \$5/\text{sq ft} = \$1,250$. *Topic: Common Business Deductions - Home Office Deduction (Simplified Option)*

9 - \$3,300 The penalty for failure to file correct information returns/furnish payee statements (like 1095-C) after Dec 31, 2015, is generally \$330 per return (up to annual max), unless reasonable cause is shown. $10 \text{ returns} * \$330/\text{return} = \$3,300$. *Topic: Affordable Care Act Compliance - Reporting Penalties*

10 - \$1,000 Under the deferral method for advance payments for services to be performed by the end of the *next* tax year, the business includes the portion earned in the current year. $\$3,000 \text{ for } 6 \text{ months} = \$500/\text{month}$. Amount earned in 2024 (Nov, Dec) = $2 \text{ months} * \$500/\text{month} = \$1,000$. *Topic: Accounting Methods - Advance Payments for Services*

2.1.2 Sole Proprietorships and Self-Employment Tax

Multiple Choice 2.1.2

1 - b. Someone who owns an unincorporated business by himself or herself. The text defines a sole proprietor as someone who owns an unincorporated business by himself or herself. *Topic: Sole Proprietors - Definition*

2 - d. Lack of protection from personal liability for business debts. The text explicitly states the biggest potential downside of operating as a sole proprietorship is the lack of protection from personal liability, meaning personal assets may be subject to business claims. *Topic: Sole Proprietors - Unlimited Liability*

3 - c. The business is owned and operated by the spouses as co-owners (and not in the name of a state law entity like an LLC). One of the requirements for a Qualified Joint Venture (QJV) is that the trade or business is owned and operated by the spouses as co-owners and not in the name of a state law entity such as an LLC or LLP. *Topic: Husband and Wife Businesses - Qualified Joint Ventures (QJV)*

4 - b. A full-time life insurance salesperson who sells primarily for one company. The text lists four types of workers considered statutory employees under certain conditions, including a full-time life insurance salesperson who sells primarily for one company. *Topic: Sole Proprietors - Statutory Employees*

5 - d. Number of hours worked per week. Worker classification depends on behavioral control, financial control, and the type of relationship. The text explicitly states it is not based merely on how often the worker is paid or whether the work is part-time or full-time. *Topic: Independent Contractor vs. Employee - Determination Factors*

6 - c. At least three years. The IRS presumes an activity is carried on for profit if it makes a profit during at least three of the last five tax years, including the current year. *Topic: Hobby Income versus Business Income - Profit Motive Presumption*

7 - c. 4 years after the date the tax becomes due or is paid, whichever is later. The text states that all employment tax records must be kept for at least 4 years after the date that the tax becomes due or is paid, whichever is later. *Topic: Recordkeeping*

8 - b. To request the correct name and Taxpayer Identification Number (TIN) of an independent contractor. Form W-9, Request for Taxpayer Identification Number and Certification, is used to request the correct name and Taxpayer Identification Number (TIN) (SSN or EIN) of a worker determined to be an independent contractor. *Topic: Forms for Independent Contractors - Form W-9*

9 - b. Social Security Tax and Medicare Tax. Self-Employment (SE) tax is described as a

Social Security and Medicare tax primarily for individuals who work for themselves. *Topic:*
Self-Employment Tax - Components

10 - b. \$400 A taxpayer must pay SE tax and file Schedule SE if their net earnings from self-employment (excluding church employee income) were \$400 or more. *Topic:*
Self-Employment Tax - Filing Threshold

Fill-in-the-Blanks 2.1.2

1 - Schedule C Sole proprietors file a Schedule C - Profit or Loss From Business with their Form 1040 to report business income or loss. *Topic: Sole Proprietors - Reporting*

2 - sole proprietorship A sole proprietorship is defined as an unincorporated business owned and operated by one individual with no legal distinction between the owner and the business. *Topic: Sole Proprietors - Definition*

3 - Qualified Joint Venture (QJV) If a taxpayer and spouse both participate as the only active members of a jointly owned and operated business and file jointly, they can elect to be taxed as a Qualified Joint Venture instead of a Partnership. *Topic: Husband and Wife Businesses - Qualified Joint Ventures (QJV)*

4 - Relationship The three categories of evidence for determining worker status are Behavioral, Financial, and Type of Relationship. *Topic: Independent Contractor vs. Employee - Determination Factors*

5 - hobby A hobby is defined as an activity done regularly in one's leisure time for pleasure and not principally done with the goal of making a profit. *Topic: Hobby Income versus Business Income - Definition*

6 - 1099-MISC If a business pays someone who is not an employee (like a subcontractor) \$600 or more for services during the year, Form 1099-MISC needs to be completed and provided to the contractor and the IRS. *Topic: Forms for Independent Contractors - Form 1099-MISC*

7 - 24 A payor generally must withhold 24% of certain taxable payments under backup withholding rules if the payee fails to furnish a correct TIN. *Topic: Forms for Independent Contractors - Backup Withholding*

8 - 15.3 For 2024, the SE tax rate on net earnings is 15.3% (12.4% Social Security tax plus 2.9% Medicare tax). *Topic: Self-Employment Tax - Rate*

9 - \$168,600 For 2024, the Social Security component (12.4%) of the SE tax applies only to the first \$168,600 of wages/self-employment earnings. *Topic: Self-Employment Tax - Social Security Limit*

10 - Regular To figure net earnings using the regular method, multiply self-employment earnings by 92.35%. *Topic: Figuring Earnings Subject to SE Tax - Regular Method*

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Calculation Problems 2.1.2

1 - \$7,064.78 (or rounded equivalent) First, find net earnings subject to SE tax: $\$50,000 * 0.9235 = \$46,175$. Then, calculate SE tax: $\$46,175 * 15.3\% = \$7,064.78$. (Note: This assumes \$46,175 is below the \$168,600 SS limit). *Topic: Self-Employment Tax - Calculation*

2 - \$3,532.39 (or rounded equivalent) The SE tax deduction is one-half of the calculated SE tax. $\$7,064.78 / 2 = \$3,532.39$ (rounded). *Topic: Self-Employment Tax - Deduction*

3 - \$90 Total Medicare wages + SE income = $\$180,000 + \$30,000 = \$210,000$. Threshold for single is \$200,000. Amount subject to Additional Medicare Tax = $\$210,000 - \$200,000 = \$10,000$. Tax = $\$10,000 * 0.9\% = \90 . *Topic: Self-Employment Tax - Additional Medicare Tax*

4 - \$5,225 Deductible mileage expense = $7,500 \text{ miles} * \$0.67/\text{mile} = \$5,025$. Total deduction = $\$5,025 + \200 (parking/tolls) = $\$5,225$. *Topic: Schedule C Expenses - Car and Truck (Standard Mileage)*

5 - \$74,000 COGS = Beginning Inventory + Purchases + Cost of Labor + Materials/Supplies + Other Costs - Ending Inventory. $\text{COGS} = \$15,000 + \$50,000 + \$20,000 + \$5,000 + \$2,000 - \$18,000 = \$74,000$. *Topic: Schedule C - Cost of Goods Sold (COGS)*

6 - \$300 The insurance policy covers 12 months. Under the 12-month rule, the expense is deductible in the year paid if the benefit doesn't extend beyond 12 months or the end of the next tax year. Here, the deduction in 2024 is limited to the portion applicable to 2024 (Oct, Nov, Dec). $\$1,200 / 12 \text{ months} * 3 \text{ months} = \300 . *Topic: Schedule C Expenses - Insurance (Prepaid)*

7 - 60% Business use percentage = Business miles / Total miles. Percentage = 9,000 / 15,000 = 0.60 or 60%. Commuting miles are generally considered personal use. *Topic: Schedule C Expenses - Car and Truck (Business Use %)*

8 - \$3,600 Ann meets the tests to use the nonfarm optional method (regular self-employment, < 5 years use, net profit < \$7,493 and < 72.189% of gross income). If gross nonfarm income is \$10,380 or less, net earnings under the method are two-thirds of gross income. Net Earnings = (2/3) * \$5,400 = \$3,600. This is higher than her actual net earnings (\$1,200 * 0.9235 = \$1,108), so she can report \$3,600. *Topic: Figuring Earnings Subject to SE Tax - Nonfarm Optional Method*

9 - \$0 Backup withholding applies if the payee fails to furnish a correct TIN. Since the contractor provided a valid W-9 (which contains the TIN), backup withholding does not apply. *Topic: Forms for Independent Contractors - Backup Withholding*

10 - Contractor B only Form 1099-MISC is required if a business pays \$600 or more to an independent contractor for services during the year. Only Contractor B (\$700) meets this threshold. *Topic: Forms for Independent Contractors - Form 1099-MISC Threshold*

2.1.3 Partnership Taxation: Formation, Operations, and Transactions

Multiple Choice 2.1.3

1 - b. The relationship between two or more persons who join to carry on a trade or business, contributing money, property, or skill, and expecting to share profits and losses. The text defines a partnership as the relationship existing between two or more persons who join to carry on a trade or business, where each person contributes money, property, labor or skill, and expects to share in the profits and losses. *Topic: Partnership Definition*

2 - c. Form 1065 A partnership must file an annual information return, Form 1065 - U.S. Return of Partnership Income, to report income, deductions, gains, losses, etc., from its operations. *Topic: Partnership Filing Requirements*

3 - b. Their share attributable to donated capital must not be proportionately greater than the donor's share attributable to the donor's capital. If a family member receives a gift of a capital interest where capital is a material income-producing factor, the donee's distributive share of income attributable to donated capital must not be proportionately greater than the donor's distributive share attributable to the donor's capital. The income must also be reduced by reasonable compensation for the donor's services. *Topic: Family Partnerships*

4 - c. An election by a husband and wife, who are the only members and materially participate, not to be treated as a partnership for federal tax purposes. A "qualified joint venture," whose only members are a husband and wife filing a joint return, can elect not to be treated as a partnership if both materially participate and the business is co-owned (not as an LLC). *Topic: Qualified Joint Venture (QJV)*

5 - b. Limited partner A limited partner's personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute. General partners are personally liable. *Topic: Partner Types*

6 - b. Payments made by a partnership to a partner for services or the use of capital, determined without regard to the partnership's income. Guaranteed payments are defined as payments made by a partnership to a partner for services or for the use of capital that are determined without regard to the partnership's income. *Topic: Guaranteed Payments*

7 - d. Costs for issuing and marketing interests in the partnership (syndication fees). Costs for issuing and marketing interests in the partnership, such as brokerage, registration, and legal fees (syndication fees), are capital expenses that cannot be amortized or depreciated as organizational costs. Legal fees for negotiation/preparation of the agreement, accounting fees for organization, and filing fees are generally organizational costs. *Topic: Organizational Costs*

8 - d. Neither gain nor loss is generally recognized by the partner or the partnership. Usually, neither the partner nor the partnership recognizes a gain or loss when property is contributed to the partnership in exchange for a partnership interest. Exceptions exist, such as for contributions to investment company partnerships. *Topic: Contribution of Property*

9 - b. It increases the basis. Any increase in a partner's individual liabilities because of an assumption of partnership liabilities, or an increase in the partner's share of partnership liabilities, is considered a contribution of money to the partnership by the partner, which increases basis. *Topic: Effect of Partnership Liabilities on Basis*

10 - c. At least 50%. A partnership terminates when at least 50% of the total interest in partnership capital and profits is sold or exchanged within a 12-month period. *Topic: Terminating a Partnership*

Fill-in-the-Blanks 2.1.3

1 - information A partnership must file an annual information return (Form 1065) to report income, deductions, etc., but it generally does not pay income tax itself. *Topic: Partnership Taxation Overview*

2 - K-1 The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners to report their share of income, deductions, credits, etc.. *Topic: Partnership Reporting*

3 - General A general partner is a partner who is personally liable for partnership debts. *Topic: Partner Types*

4 - guaranteed Payments made by a partnership to a partner for services or for the use of capital, determined without regard to partnership income, are called guaranteed payments. *Topic: Guaranteed Payments*

5 - property Usually, neither the partner nor the partnership recognizes a gain or loss when property is contributed to the partnership in exchange for a partnership interest. *Topic: Contribution of Property*

6 - decreased A partner's basis is decreased (but never below zero) by the partner's distributive share of partnership losses (including capital losses). *Topic: Basis of Partner's Interest*

7 - decrease A partner's adjusted basis in his or her partnership interest is decreased (but not below zero) by the money and adjusted basis of property distributed to the partner. *Topic: Partnership Distributions*

8 - nonrecourse Nonrecourse loans are those liabilities of the partnership for which no partner or related person bears the economic risk of loss. *Topic: Partnership Liabilities*

9 - ordinary If a partner receives money or property in exchange for any part of a partnership interest, the amount due to his or her share of the partnership's unrealized receivables or inventory items results in ordinary income or loss. *Topic: Disposition of Partner's Interest*

10 - \$245 A penalty is assessed if a partnership fails to file Form 1065 by the due date. In 2024, the penalty is \$245 for each month or part of a month (max 12 months), multiplied by the number of partners. *Topic: Penalties*

Matching**2.1.3**

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Calculation Problems 2.1.3

1 - \$12,500 Initial basis = Adjusted basis of property contributed (\$15,000) minus the portion of the liability assumed by the other partner ($50\% * \$5,000 = \$2,500$). $\$15,000 - \$2,500 = \$12,500$. Partner B's basis is \$10,000 cash + \$2,500 liability assumed = \$12,500. *Topic: Basis of Partner's Interest (Contribution with Liability)*

2 - \$3,000 The basis of property (other than money) distributed in a non-liquidating distribution is its adjusted basis to the partnership (\$3,000), but limited to the partner's basis (\$12,000) reduced by cash received (\$6,000). Limit = $\$12,000 - \$6,000 = \$6,000$. Since the partnership's basis (\$3,000) is less than the limit (\$6,000), the partner's basis in the land is \$3,000. *Topic: Partner's Basis for Distributed Property (Non-liquidating)*

3 - \$7,000 In a complete liquidation, basis is allocated first to cash (\$10,000), then unrealized receivables/inventory (\$8,000). Remaining basis ($\$30,000 - \$10,000 - \$8,000 = \$12,000$) is allocated to other assets. If only one other asset (the capital asset) is distributed, it takes the remaining basis up to its basis to the partnership (\$7,000). Since \$7,000 is less than \$12,000, the basis is \$7,000. (A capital loss of \$5,000 would be recognized). *Topic: Partner's Basis for Distributed Property (Liquidating)*

4 - \$3,000 Partner E's distributive share is $20\% * \$60,000 = \$12,000$. The minimum payment is \$15,000. The guaranteed payment is the amount by which the minimum (\$15,000) exceeds the distributive share (\$12,000), which is \$3,000. *Topic: Guaranteed Payments*

5 - \$400 The partnership's annual depreciation is $10\% * \$5,000$ basis = \$500. The built-in gain is $\$12,000$ FMV - $\$5,000$ basis = \$7,000. Depreciation must generally be allocated first to the non-contributing partner (G) up to their share of tax depreciation calculated as if basis equaled FMV ($50\% * (10\% * \$12,000$ FMV) = \$600). However, the total partnership depreciation is only \$500. So, G gets \$400 allocated (assuming traditional method, details complex but G cannot get more depreciation than F would if basis=FMV, and total cannot exceed partnership's \$500). *Note: This requires applying Reg. 1.704-3 rules not fully detailed in the lesson text snippet. Topic: Allocation of Depreciation on Contributed Property*

6 - \$40,000 capital gain Amount realized = Cash received (\$50,000) + Liability relief (\$10,000) = \$60,000. Gain realized = Amount Realized (\$60,000) - Adjusted Basis (\$20,000) = \$40,000. Since there are no unrealized receivables or inventory, the gain is capital gain. *Topic: Disposition of Partner's Interest (Gain Calculation)*

7 - \$5,016.67 Total organizational costs = \$8,000. Max current deduction = \$5,000. Remaining to amortize = $\$8,000 - \$5,000 = \$3,000$. Amortization period = 180 months. Monthly amortization = $\$3,000 / 180 = \16.67 . Amortization for 2024 (1 month, Dec) = \$16.67. Total 2024 deduction = $\$5,000 + \$16.67 = \$5,016.67$. *Topic: Organizational Costs (Amortization)*

8 - \$4,900 The return is due March 15, 2025. It was filed July 15, 2025. Failure period is 4 months (Apr, May, Jun, Jul). Penalty = $\$245 * \# \text{ partners} * \# \text{ months} = \$245 * 5 * 4 = \$4,900$. *Topic: Penalties (Late Filing Form 1065)*

9 - \$40,000 If a partner contributes property to a partnership, the partnership's basis for the property is the same as the partner's adjusted basis for the property when it was contributed. The FMV difference is handled through allocation rules under Sec 704(c). *Topic: Partnership Basis in Contributed Property*

10 - \$2,000 capital gain A partner recognizes gain on a distribution only to the extent that money distributed exceeds the adjusted basis of the partner's interest immediately before the distribution. Here, cash (\$12,000) exceeds basis (\$10,000). Gain recognized = $\$12,000 - \$10,000 = \$2,000$. The gain is generally treated as capital gain. *Topic: Partnership Distributions (Gain Recognition)*

2.1.4 Corporate Taxation: Formation, Operations, and Distributions

Multiple Choice 2.1.4

1 - b. Any corporation that is taxed separately from its owners. The text defines a C corporation, under United States Federal income tax law, as any corporation that is taxed separately from its owners, distinguished from an S corporation which generally is not. *Topic: Corporation Definition*

2 - c. \$1 billion The Corporate Alternative Minimum Tax (CAMT) generally applies to applicable corporations which meet an "average annual adjusted financial statement income test" (AFSI Test), requiring average AFSI for the three-taxable-year period to exceed \$1 billion. *Topic: Inflation Reduction Act - Corporate Alternative Minimum Tax (CAMT)*

3 - c. Not taxable (gain/loss recognition is deferred). Under Section 351, if property is transferred to a corporation by one or more persons solely in exchange for stock, and immediately after the exchange such person or persons are in control of the corporation, no gain or loss is recognized[cite: 1576, 1587]. *Topic: Forming a Corporation - Section 351 Exchange*

4 - c. 80% To be in control of a corporation for Section 351 purposes, the transferor(s) must own, immediately after the exchange, at least 80% of the total combined voting power of all classes of stock entitled to vote AND at least 80% of the total number of shares of all other classes of stock (i.e., nonvoting stock). *Topic: Forming a Corporation - Section 351 Control Test*

5 - b. 21% The Tax Cuts and Jobs Act (TCJA) implemented a flat 21% corporate tax rate. *Topic: Corporate Tax Rate*

6 - b. It retains earnings beyond the reasonable needs of the business, potentially to help shareholders avoid income tax. A corporation may be subject to an accumulated earnings tax if it allows earnings to accumulate beyond the reasonable needs of the business, and the purpose is to avoid income tax with respect to its shareholders. *Topic: Accumulated Earnings Tax*

7 - b. Gain is recognized as if the property were sold for its fair market value. A corporation will recognize a gain on the distribution of appreciated property to a shareholder as if the property were sold to the distributee at its Fair Market Value (FMV). If the property is subject to a liability or the shareholder assumes one, the FMV is treated as not less than the liability amount. *Topic: Money or Property Distributions*

8 - c. 65% If the receiving corporation owns 20% or more of the distributing corporation's stock, it can generally deduct 65% of the dividends received, subject to limitations. *Topic: Dividends-Received Deduction*

9 - c. Large multinational corporations from reducing their U.S. tax base through payments to foreign related parties. The Base Erosion and Anti-Abuse Tax (BEAT) was created to deter U.S. corporations from eroding the U.S. tax base by making tax-deductible payments ("base erosion payments") to foreign related parties. *Topic: Base Erosion and Anti-Abuse Tax (BEAT)*

10 - c. Form 966 A corporation (or a farmer's cooperative) must file Form 966 - Corporate Dissolution or Liquidation if it adopts a resolution or plan to dissolve the corporation or liquidate any of its stock. *Topic: Corporate Liquidations/Dissolutions*

Fill-in-the-Blanks Solutions 2.1.4

1 - C A corporation taxed separately from its owners under Subchapter C of the Internal Revenue Code is known as a C corporation. *Topic: Corporation Definition*

2 - 1120 Corporations generally use Form 1120 - U.S. Corporation Income Tax Return, to report income, gains, losses, deductions, credits, and figure tax liability. *Topic: Filing Requirements*

3 - 351 A transfer of property to a corporation in exchange for stock is generally tax-free under IRC Section 351 if the transferor(s) are in control immediately after the exchange. *Topic: Forming a Corporation - Section 351 Exchange*

4 - 21 The Tax Cuts and Jobs Act (TCJA) established a flat corporate tax rate of 21%. *Topic: Corporate Tax Rate*

5 - Accumulated Corporations that allow earnings to accumulate beyond the reasonable needs of the business may be subject to the Accumulated Earnings Tax. *Topic: Accumulated Earnings Tax*

6 - Earnings The term "earnings and profits" (E&P) describes the maximum amount of corporate funds distributable to shareholders without reducing capital; distributions from E&P are generally dividends. *Topic: Earnings and Profits (E&P)*

7 - 50 A corporation can generally deduct 50% of dividends received if it owns less than 20% of the distributing domestic corporation's stock. *Topic: Dividends-Received Deduction*

8 - BEAT The Base Erosion and Anti-Abuse Tax (BEAT) is designed to deter base erosion through deductible payments to foreign related parties. *Topic: Base Erosion and Anti-Abuse Tax (BEAT)*

9 - Global Intangible Low-Taxed Income U.S. shareholders of Controlled Foreign Corporations (CFCs) may be required to include their Global Intangible Low-Taxed Income (GILTI) as currently taxable income. *Topic: Global Intangible Low-Taxed Income (GILTI)*

10 - 8827 Corporations use Form 8827 - Credit for Prior Year Minimum Tax - Corporations to figure the minimum tax credit for AMT incurred in prior tax years. *Topic: Credit for Prior Year Minimum Tax*

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Calculation Problems Solutions 2.1.4

1 - \$105,000 The corporate income tax rate is a flat 21%. Tax liability = Taxable Income * Rate = \$500,000 * 0.21 = \$105,000. *Topic: Corporate Tax Rate*

2 - Yes The CAMT applies if average annual AFSI for the three-year period exceeds \$1 billion. Average = (\$900M + \$1,100M + \$1,300M) / 3 = \$3,300M / 3 = \$1,100M (\$1.1 billion). Since \$1.1B > \$1B, it meets the test. *Topic: Corporate Alternative Minimum Tax (CAMT) Applicability*

3 - \$10,000 In a Section 351 exchange, gain is recognized to the extent liabilities assumed by the corporation exceed the adjusted basis of the property transferred. Gain = Liabilities (\$60,000) - Basis (\$50,000) = \$10,000. *Topic: Forming a Corporation - Section 351 Liability Exception*

4 - \$0 The basis of property contributed to capital by a person other than a shareholder is zero. Cash is treated as property in this context. *Topic: Capital Contributions*

5 - \$52,000 The ownership is 30% (which is 20% or more), so the DRD percentage is 65%. DRD = Dividends Received * Percentage = \$80,000 * 0.65 = \$52,000. *Topic: Dividends-Received Deduction (DRD)*

6 - \$45,000 Ownership is 15% (< 20%), so the base DRD rate is 50%. Potential DRD = $\$90,000 * 0.50 = \$45,000$. Taxable income limitation: DRD is generally limited to 50% of taxable income (computed without DRD, NOL, etc.). Limit = $\$100,000 * 0.50 = \$50,000$. The DRD is the lesser of the potential DRD (\$45,000) or the limit (\$50,000), *unless* taking the full potential DRD creates or increases an NOL. Here, $\$100k - \$45k = \$55k$ (no NOL created), so the DRD is \$45,000. *Topic: Dividends-Received Deduction (Taxable Income Limit)*

7 - \$20,000 A corporation recognizes gain on the distribution of appreciated property as if sold at FMV. Gain = FMV (\$50,000) - Adjusted Basis (\$30,000) = \$20,000. *Topic: Money or Property Distributions (Corporate Gain)*

8 - \$40,000 The deduction limit is 10% of taxable income computed *before* the charitable contribution deduction and the DRD. Base for limit = \$400,000. Limit = $\$400,000 * 0.10 = \$40,000$. *Topic: Charitable Contributions (Corporate Limit)*

9 - \$5,000 Corporate capital losses are carried back 3 years and forward 5 years. Carryback: \$15,000 loss offsets \$5,000 (2021) + \$3,000 (2022) + \$2,000 (2023) = \$10,000 total gain. Remaining loss to carry forward = $\$15,000 - \$10,000 = \$5,000$. *Topic: Capital Losses (Corporate Carryback/Carryforward)*

10 - \$4,000 Total costs = \$60,000. Costs exceed \$50,000 by \$10,000. Current deduction reduced to \$0 ($\$5,000 - \$10,000 < 0$). All \$60,000 must be amortized over 180 months. Monthly amortization = $\$60,000 / 180 = \333.33 . Amortization for 2024 (assuming business started Jan 1) = $12 * \$333.33 = \$4,000$. *Topic: Organizational Costs (Amortization)*

2.1.5 S Corporations and Limited Liability Companies: Taxation and Classification

Multiple Choice 2.1.5

1 - d. Partnership Allowable shareholders for an S corporation include individuals, certain trusts, and estates. Partnerships, corporations, and non-resident aliens may not be shareholders. *Topic: S Corporations - Eligibility Requirements*

2 - c. Partnership A domestic Limited Liability Company (LLC) with at least two members is classified as a partnership for Federal income tax purposes by default, unless it files Form 8832 to elect corporate status. *Topic: Limited Liability Company (LLC) - Default Classification (Multi-Member)*

3 - d. Disregarded Entity An LLC with only one member is treated as an entity disregarded as separate from its owner for income tax purposes by default, unless it files Form 8832 to elect corporate status. *Topic: Limited Liability Company (LLC) - Default Classification (Single-Member)*

4 - d. Form 8832 An eligible entity like an LLC uses Form 8832, Entity Classification Election, to elect how it will be classified for Federal tax purposes, such as electing to be treated as a corporation. (Form 2553 is used to elect S corp status, which implies corporate classification). *Topic: Limited Liability Company (LLC) - Corporate Classification Election*

5 - c. The partnership contributes all assets/liabilities to the corporation for stock, then liquidates by distributing the stock. An election by an LLC classified as a partnership to change its classification to a corporation is treated as if the partnership contributed all its assets and liabilities to the corporation in exchange for stock, and then the partnership immediately liquidated by distributing the stock to its partners. *Topic: Limited Liability Company (LLC) - Change in Classification Effects*

6 - c. The shareholder's pro rata share of separately stated income items (including tax-exempt income). A shareholder's basis in S corporation stock is increased by their pro rata share of all income items (including tax-exempt income) that are separately stated and passed through, and the non-separately stated income. Basis is decreased by distributions, losses/deductions, and non-deductible expenses. *Topic: S Corporations - Stock Basis Adjustments*

7 - c. Accumulated Adjustments Account (AAA). For an S corporation with accumulated E&P from prior C corporation years, distributions are treated first as a nontaxable distribution from the AAA to the extent of the shareholder's stock basis. Only after AAA is depleted are distributions treated as dividends from E&P. *Topic: S Corporations - Distribution Order*

8 - c. It was previously a C corporation and sells appreciated assets within the recognition period. The Built-in Gains (BIG) tax may apply to an S corporation that was previously a C corporation if it has a net recognized built-in gain (from assets held at conversion) during the applicable recognition period (generally 5 years). *Topic: S Corporations - Built-in Gains Tax*

9 - c. 5 years If an S corporation election is terminated or revoked, the corporation (or a successor) generally cannot make another S election for any tax year before the 5th tax year after the first tax year in which the termination/revocation took effect, unless the IRS consents. *Topic: S Corporations - Termination/Revocation of Election*

10 - c. Generally, none of the members are personally liable for the debts of the LLC. Unlike a partnership, generally, none of the members of an LLC are personally liable for its debts. This limited liability is a key feature regardless of tax classification. *Topic: Limited Liability Company (LLC) - Liability Protection*

Fill-in-the-Blanks 2.1.5

1 - K-1 The S corporation should send the taxpayer (shareholder) a copy of Schedule K-1 (Form 1120-S) showing his or her share of the S corporation's income, credits, and deductions for the tax year. *Topic: S Corporations - Reporting to Shareholders*

2 - 100 To qualify for S corporation status, a corporation must have no more than 100 shareholders. *Topic: S Corporations - Eligibility Requirements*

3 - partnership A domestic LLC with at least two members is classified as a partnership for Federal income tax purposes by default. *Topic: Limited Liability Company (LLC) - Default Classification (Multi-Member)*

4 - 8832 An LLC files Form 8832, Entity Classification Election, to elect to be treated as a corporation for federal tax purposes (if not electing S status simultaneously). *Topic: Limited Liability Company (LLC) - Corporate Classification Election*

5 - disregarded A single-member LLC is treated as an entity disregarded as separate from its owner for income tax purposes by default. *Topic: Limited Liability Company (LLC) - Default Classification (Single-Member)*

6 - stock, debt The deduction for a shareholder's share of S corporation losses and deductions is limited to the adjusted basis of their stock and any debt the corporation owes the shareholder. *Topic: S Corporations - Shareholder Loss Limitations*

7 - Passive Investment Income (PII) An S corporation with accumulated C corporation E&P may be subject to the Passive Investment Income (PII) tax if its passive investment income exceeds 25% of gross receipts for 3 consecutive years. *Topic: S Corporations - Passive Investment Income Tax*

8 - Qualified Subchapter S Subsidiary An S corporation can elect to treat a wholly owned eligible domestic subsidiary as a Qualified Subchapter S Subsidiary (QSub), which is disregarded as a separate entity for tax purposes. *Topic: S Corporations - QSub Election*

9 - Accumulated Adjustments Account The Accumulated Adjustments Account (AAA) tracks the cumulative post-1982 S corporation income that has been taxed to shareholders but not yet distributed. *Topic: S Corporations - Accumulated Adjustments Account (AAA)*

10 - 60 Generally, once an LLC has elected to change its classification, it cannot elect again to change its classification during the 60 months after the effective date of the election. *Topic: Limited Liability Company (LLC) - Subsequent Elections*

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Calculation Problems 2.1.5

1 - \$11,200 Beginning Basis \$12,000 + Ordinary Income \$6,000 + Tax-Exempt Income \$500 - Non-deductible Expenses \$300 - Distribution \$7,000 = \$11,200. *Topic: S Corporations - Stock Basis Calculation*

2 - Loss deduction \$4,000; Ending debt basis \$0 The \$5,500 loss first reduces stock basis to zero (not applicable here as it starts at zero). Then, it reduces debt basis. \$4,000 (debt basis) - \$5,500 (loss) = -\$1,500. Debt basis cannot go below zero. Therefore, only \$4,000 of the loss can be deducted (reducing debt basis to \$0). The remaining \$1,500 loss is suspended. *Topic: S Corporations - Loss Limitation (Stock/Debt Basis)*

3 - \$5,000 dividend; \$25,000 reduces basis Distribution (\$45,000) first comes from AAA (\$25,000) - tax-free reduction of basis. Next, from Accumulated E&P (\$5,000) - taxed as a dividend. Remaining distribution (\$45,000 - \$25,000 - \$5,000 = \$15,000) is a tax-free return of capital reducing remaining basis. Shareholder basis before ROC = \$50,000 - \$25,000 (AAA) = \$25,000. \$15,000 ROC is less than remaining basis, so it's tax-free. *Topic: S Corporations - Distribution Characterization*

4 - \$16,800 Recognized built-in gain is the lesser of the gain recognized on sale (\$190k - \$100k = \$90k) or the built-in gain at conversion (\$180k - \$100k = \$80k). So, \$80,000. BIG Tax = Net Recognized Built-in Gain * Highest Corporate Rate = \$80,000 * 21% = \$16,800. *Topic: S Corporations - Built-in Gains Tax Calculation*

5 - \$12,000 Excess Net Passive Income = Net Passive Income * [(Passive Investment Income - (25% * Gross Receipts)) / Passive Investment Income]. Net Passive Income = \$40,000 (PII) - \$8,000 (Expenses) = \$32,000. PII Threshold = 25% * \$100,000 (Gross Receipts) = \$25,000. Calculation = \$32,000 * [(\$40,000 - \$25,000) / \$40,000] = \$32,000 * (\$15,000 / \$40,000) = \$32,000 * 0.375 = \$12,000. *Topic: S Corporations - Passive Investment Income Tax Calculation*

6 - \$1,000 suspended Total basis = Stock (\$1,000) + Debt (\$3,000) = \$4,000. Loss = \$5,000. Deductible loss is limited to total basis (\$4,000). Suspended loss = Total Loss (\$5,000) - Deductible Loss (\$4,000) = \$1,000. *Topic: S Corporations - Loss Limitation (Stock/Debt Basis)*

7 - Form 1065 A domestic LLC with at least two members is classified as a partnership by default and generally files Form 1065, U.S. Return of Partnership Income. *Topic: Limited Liability Company (LLC) - Filing Requirements*

8 - Corporation distributes assets/liabilities to shareholders in liquidation; shareholders contribute assets/liabilities to new partnership. An election by an LLC classified as a corporation to change its classification to a partnership is treated as if the corporation distributed all its assets and liabilities to its shareholders in liquidation, and the shareholders immediately contributed all the distributed assets and liabilities to a new partnership. *Topic: Limited Liability Company (LLC) - Change in Classification Effects*

9 - Reported on Corporation X's tax return (as if a division/branch). A single-member LLC owned by a corporation is treated as a disregarded entity (like a branch or division) by default. Its income, deductions, etc., are reported directly on the owner corporation's tax return. *Topic: Limited Liability Company (LLC) - Disregarded Entity Reporting*

10 - \$6,000 S corporation distributions are tax-free return of capital up to stock basis. Basis is reduced to \$0 by the first \$9,000 of the distribution. The excess distribution (\$15,000 - \$9,000 = \$6,000) is treated as gain from the sale or exchange of property (capital gain). *Topic: S Corporations - Distribution Exceeding Basis*

Section 2.2 - Business Financial Information

2.2.1 Business Expenses, Deductions, and Entity Filing Information

Multiple Choice 2.2.1

1 - c. Both ordinary and necessary for the business. To be deductible, a business expense must be both ordinary (common and accepted in the field) and necessary (helpful and appropriate for the business). *Topic: Business Expenses - General Rule*

2 - c. Schedule C (Form 1040) A sole proprietor files Form 1040, Schedule C - Profit or Loss From Business, to report the income and expenses of the business. *Topic: Sole Proprietor Filing Information*

3 - b. 50% Taxpayers may generally deduct 50% of the food and beverage expenses associated with operating their trade or business (unless an exception applies, like the temporary 100% rule for restaurant meals which expired). *Topic: Business Expenses - Meals Deduction Limit*

4 - b. \$25 A taxpayer can deduct no more than \$25 for business gifts given directly or indirectly to each person during the tax year. *Topic: Business Expenses - Gift Deduction Limit*

5 - c. Federal income tax. Federal income taxes (including self-employment tax paid by a sole proprietor on their own behalf, though a portion is deductible as an adjustment to income) are not deductible as business expenses. State income tax attributable to business, employer FICA, and business property taxes are generally deductible. *Topic: Deductible Taxes*

6 - c. Form 1065 Partnerships file an information return, generally Form 1065 - U.S. Return of Partnership Income, annually. *Topic: Partnership Filing Information*

7 - c. Accrual method If an inventory is necessary to account for income, the taxpayer must generally use an accrual method of accounting for purchases and sales. *Topic: Accounting Methods - Inventory Requirement*

8 - c. Pass-through entities like sole proprietorships, partnerships, and S corporations. The Section 199A deduction is available for qualified business income from qualified trades or businesses, often operated through pass-through entities. It's not available for C corporations (they have their own rate) or for employees' wage income. *Topic: IRC Section 199A Deduction Eligibility*

9 - c. Deductible expenses for the year exceed its income for the year. A net operating loss (NOL) occurs if a taxpayer's deductions for the year are more than their income for the year. *Topic: Net Operating Loss (NOL) Definition*

10 - d. Indefinitely Net operating losses arising in tax years beginning after Dec 31, 2017, can generally be carried forward indefinitely (but the deduction may be limited to 80% of taxable income). The 2-year carryback was generally eliminated (except for farming/insurance). *Topic: Net Operating Loss (NOL) Carryforward Period*

Fill-in-the-Blanks 2.2.1

1 - ordinary An ordinary expense is one that is common and accepted in the taxpayer's field of business. *Topic: Business Expenses - Ordinary Definition*

2 - necessary A necessary expense is one that is helpful and appropriate for the business; it does not have to be indispensable. *Topic: Business Expenses - Necessary Definition*

3 - 1125-A Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065 or 1065-B, use Form 1125-A - Cost of Goods Sold to calculate and deduct cost of goods sold. *Topic: Cost of Goods Sold Reporting*

4 - travel Travel expenses are the ordinary and necessary expenses of traveling away from home for business, profession, or job. *Topic: Deductible Expenses - Travel*

5 - entertainment Effective for amounts paid or incurred after Dec 31, 2017, no deduction is allowed for activities generally considered entertainment, amusement, or recreation. *Topic: Deductible Expenses - Entertainment*

6 - trade A business bad debt is a loss from the worthlessness of a debt created or acquired in the taxpayer's trade or business, or closely related to it. *Topic: Deductible Expenses - Bad Debts*

7 - deductible The employer can deduct the Social Security and Medicare taxes paid out of their own funds as an employer. *Topic: Deductible Taxes - Employment Taxes*

8 - Operating If a taxpayer's deductions for the year are more than income, they may have a Net Operating Loss (NOL). *Topic: Net Operating Loss (NOL)*

9 - 199A Taxpayers may be entitled to a deduction under Section 199A of up to 20% of qualified business income (QBI) from qualified trades or businesses. *Topic: IRC Section 199A Deduction*

10 - 3rd (third) Generally, a domestic partnership must file Form 1065 by the 15th day of the 3rd month following the date its tax year ended. *Topic: Partnership Filing Information - Due Date*

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Calculation Problems 2.2.1

1 - \$90,000 Gross Profit = Gross Receipts - Cost of Goods Sold = \$150,000 - \$60,000 = \$90,000. *Topic: Business Income Calculation*

2 - \$45 The deduction for qualifying business meals is generally limited to 50%. Deduction = \$90 * 50% = \$45. *Topic: Business Expenses - Meal Deduction Calculation*

3 - \$75 The deduction for business gifts is limited to \$25 per recipient per year. Total Deduction = 3 clients * \$25/client = \$75. *Topic: Business Expenses - Gift Deduction Calculation*

4 - Employer share of FICA taxes (\$8,000) State income tax may be deductible, but often as an itemized deduction for a sole proprietor unless it's a gross income tax. Federal income tax is not deductible. Employer's share of FICA is deductible. *Topic: Deductible Taxes*

5 - March 15, 2025 Partnership Form 1065 is generally due by the 15th day of the 3rd month after the end of its tax year. For a calendar year partnership, this is March 15. *Topic: Partnership Filing Information - Due Date*

6 - 20% The accumulated earnings tax rate is 20%. *Topic: Accumulated Earnings Tax Rate*

7 - \$590 Airfare (\$400) + Lodging (\$150) + Deductible Meals (\$80 * 50% = \$40) = \$590. Entertainment (\$100) is non-deductible. *Topic: Deductible Expenses - Travel and Meals Calculation*

8 - \$1,500 If using the specific charge-off method, a business bad debt is deductible in the year it becomes wholly or partially worthless. Here, the \$1,500 is deductible. *Topic: Deductible Expenses - Bad Debt Deduction*

9 - \$10,000 The Section 199A deduction is generally 20% of QBI ($\$50,000 * 20\% = \$10,000$), limited by 20% of taxable income before the QBI deduction ($\$80,000 * 20\% = \$16,000$). The deduction is the lesser amount, \$10,000 (assuming no SSTB or wage/basis limits apply at this income level). *Topic: IRC Section 199A Deduction Calculation*

10 - \$25,000 $NOL = Deductions - Gross\ Income = \$120,000 - \$95,000 = \$25,000$. (Modifications might apply depending on types of income/deductions, but basic calculation shown). *Topic: Net Operating Loss (NOL) Calculation*

2.2.2 Cost Recovery: Depreciation, Section 179, and Capitalization

Multiple Choice 2.2.2

- 1 - c. Through annual tax deductions over the property's determined recovery period.** Depreciation is described as a method of deducting the cost of business property by spreading it over more than one tax year, deducting part of the cost each year over a specified recovery period. *Topic: Depreciation Definition*
- 2 - c. Modified Accelerated Cost Recovery System (MACRS)** The text states the method for depreciating most business and investment property placed in service after 1986 is called the Modified Accelerated Cost Recovery System (MACRS). *Topic: Depreciation Systems*
- 3 - c. Mid-Month Convention** The mid-month convention must be used for nonresidential real property, residential rental property, and any railroad grading or tunnel bore under MACRS. *Topic: Depreciation Conventions*
- 4 - b. More than 40% of the basis of such property is placed in service during the last 3 months of the year.** The mid-quarter convention must be used if the total depreciable bases of MACRS property (excluding certain real property and property placed in service/disposed of in the same year) placed in service during the last 3 months of the tax year are more than 40% of the total depreciable bases of all such MACRS property placed in service during the entire year. *Topic: Depreciation Conventions*
- 5 - c. Expense the cost (up to a limit) of certain qualifying property in the year it is placed in service.** Under Section 179, a taxpayer might be able to treat all or part of the cost of certain qualifying property as an expense (deduct it) in the year the property was acquired and placed in service, instead of capitalizing and depreciating it. *Topic: Section 179 Election Purpose*
- 6 - c. Taxable income from the active conduct of any trade or business during the year.** The total cost that can be deducted under Section 179 is limited to the taxable income earned from the taxpayer's active trade or business during the year (figured without the Section 179 deduction). *Topic: Section 179 Election Limitations*
- 7 - c. 60%** The text states that the bonus depreciation amount for qualified property is phased down: 80% for 2023, 60% in 2024, 40% in 2025, and 20% in 2026. *Topic: Bonus Depreciation Rate*
- 8 - c. Passenger automobiles weighing 6,000 lbs or less** Listed property includes passenger automobiles weighing 6,000 pounds or less, other property used for transportation (if its nature lends itself to personal use), property used for entertainment/recreation, and certain computers placed in service before 2018. *Topic: Listed Property Definition*

9 - b. Capitalized and depreciated. The final regulations under Section 263(a) require taxpayers to capitalize costs paid to improve tangible property, including costs resulting in a betterment, restoration, or adaptation to a new/different use. Capitalized costs are recovered through depreciation. *Topic: Capitalization vs. Repair*

10 - d. Form 4562 The text indicates taxpayers use Form 4562, Depreciation and Amortization, to figure and report Section 179 deductions, depreciation under MACRS, and amortization. *Topic: Reporting Depreciation and Amortization*

Fill-in-the-Blanks

- 1 - Depreciation** Depreciation is the method of deducting the cost of business property expected to last more than 1 year. *Topic: Depreciation Definition*
- 2 - MACRS** The depreciation method for most business property placed in service after 1986 is the Modified Accelerated Cost Recovery System (MACRS). *Topic: Depreciation Systems*
- 3 - Half-Year** Use the half-year convention if neither the mid-quarter convention nor the mid-month convention applies. *Topic: Depreciation Conventions*
- 4 - 179** A taxpayer might be able to treat all or part of the cost of certain qualifying property as an expense in the year acquired under Section 179. *Topic: Section 179 Election*
- 5 - Bonus** The additional first-year depreciation allowance under Section 168(k) is commonly referred to as Bonus Depreciation. *Topic: Bonus Depreciation*
- 6 - Listed** Listed property is a specific class subject to special rules if used 50% or less for business, including cars, certain transport property, entertainment/recreation property, and pre-2018 computers. *Topic: Listed Property*
- 7 - capitalize** Section 263(a) generally requires taxpayers to capitalize the costs of acquiring, producing, and improving tangible property. *Topic: Capitalization Requirement*
- 8 - De Minimis** The De Minimis Safe Harbor allows taxpayers to elect to deduct amounts paid for tangible property below certain thresholds (\$5,000 with AFS, \$2,500 without AFS as of 2016). *Topic: Capitalization and Repairs - De Minimis Safe Harbor*
- 9 - 27.5** Under GDS, the recovery period for residential rental property is 27.5 years. *Topic: MACRS Recovery Periods*
- 10 - 39** Under GDS, the recovery period for nonresidential real property placed in service after May 12, 1993, is 39 years. *Topic: MACRS Recovery Periods*

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Calculation Problems 2.2.2

1 - \$2,858 Depreciation = Basis * Rate * Convention Adjustment. For 7-year property using half-year convention, first-year rate is 14.29%. Deduction = $\$20,000 * 0.1429 = \$2,858$. *Topic: MACRS Depreciation Calculation*

2 - \$50,000 The maximum Section 179 expense deduction for 2024 is \$1,220,000, limited by the property placed in service (\$1,250,000) and the business taxable income limit (\$50,000). The deduction is limited to the taxable income of \$50,000. *Topic: Section 179 Deduction Limitation (Taxable Income)*

3 - \$102,000 Bonus Depreciation = Cost * Bonus Rate = $\$150,000 * 60\% = \$90,000$. Remaining Basis = $\$150,000 - \$90,000 = \$60,000$. Regular MACRS (5-yr, HY, 20% rate) = $\$60,000 * 0.20 = \$12,000$. Total Deduction = $\$90,000 + \$12,000 = \$102,000$. *Topic: Bonus Depreciation & MACRS Calculation*

4 - Mid-Quarter Convention Total basis = $\$10k + \$5k + \$16k = \$31k$. Basis placed in last 3 months (Oct-Dec) = $\$16k$ (Machine C). Percentage = $\$16k / \$31k = 51.6\%$. Since this exceeds 40%, the mid-quarter convention must be used for all three assets. *Topic: Depreciation Conventions (Mid-Quarter Test)*

5 - \$1,200 The basis for depreciation for property converted from personal to business use is the lesser of its adjusted basis (cost, assuming no adjustments) or its Fair Market Value (FMV) on the date of conversion. Lesser of \$2,000 or \$1,200 is \$1,200. *Topic: Basis for Depreciation (Converted Property)*

6 - Capital improvement (must be depreciated) Replacing a roof is generally considered a restoration or betterment that improves the property or restores a major component, and therefore must be capitalized and depreciated, not deducted as a repair. *Topic: Capitalization vs. Repair*

7 - 30 years (if placed in service after 2017) The ADS recovery period for residential rental property placed in service after 2017 is 30 years (it was 40 years prior). *Topic: ADS Recovery Periods*

8 - \$2,086.50 Nonresidential real property (39-year) placed in service in October uses the Mid-Month convention. The first-year depreciation percentage for Month 10 is 0.535%. Deduction = $\$390,000 * 0.00535 = \$2,086.50$. *Topic: MACRS Depreciation Calculation (Real Property)*

9 - \$35,000 Assuming truck limits don't apply/are high enough: Elect full Sec 179 (\$35,000, subject to limits). No remaining basis for Bonus or MACRS. If Sec 179 limit applies, take max Sec 179, then 60% Bonus on remainder, then MACRS on remainder. *If focusing only on order:* Elect Section 179 first. Then apply Bonus Depreciation to remaining basis. Then apply regular MACRS to remaining basis. Calculation depends heavily on specific truck limits not provided. *Topic: Cost Recovery Order (Sec 179, Bonus, MACRS)*

10 - Yes The De Minimis Safe Harbor allows expensing items up to \$5,000 per item/invoice if the taxpayer has an AFS. Since each chair costs \$200 (which is less than \$5,000), the business can elect to deduct the \$2,000 total cost currently. *Topic: De Minimis Safe Harbor Election*

2.2.3 Property Dispositions, Exchanges, Financial Analysis, and Penalties

Multiple Choice 2.2.3

1 - c. Amount Realized minus Adjusted Basis. Gain or loss realized from a sale or exchange of property is the Amount Realized minus the Adjusted Basis of the property given up. *Topic: Gain or Loss Calculation*

2 - d. Stocks and bonds held for investment. Capital assets include property held for investment (like stocks and bonds) or personal use. Inventory, receivables from ordinary business, and depreciable property used in business are generally not capital assets. *Topic: Capital Asset Definition*

3 - d. Depreciable real or personal property Section 1231 assets include depreciable property and real property used in a trade or business and held for more than 1 year. *Topic: Section 1231 Asset Definition*

4 - b. Form 4797 Use Form 4797 - Sales of Business Property to report sales or exchanges of property used in a trade or business, depreciable property, certain Section 126 property, and involuntary conversions (other than casualty/theft). *Topic: Reporting Business Property Sales*

5 - b. Real property held for productive use in a trade or business or for investment. Under the TCJA, for exchanges completed after Dec 31, 2017, Section 1031 like-kind exchange treatment applies only to exchanges of real property held for productive use in a trade or business or for investment. Personal property no longer qualifies. *Topic: Like-Kind Exchanges (Section 1031) - Qualifying Property*

6 - b. Boot In a Section 1031 exchange, cash or other non-like-kind property received is commonly referred to as "boot." Gain is recognized to the extent of boot received. *Topic: Like-Kind Exchanges (Section 1031) - Boot*

7 - c. Purchase qualified replacement property within a specified period (usually 2 or 3 years). Under Section 1033, gain on an involuntary conversion can generally be deferred if qualified replacement property is purchased within the replacement period (typically 2 years for destruction/theft, 3 years for condemnation of business/investment real property). *Topic: Involuntary Conversions (Section 1033)*

8 - c. The lesser of the adjusted basis or the FMV at the time of conversion. When property converted from personal to business use is later sold, the basis for figuring a loss is its basis for depreciation (lesser of adjusted basis or FMV at conversion) adjusted for depreciation taken. *Topic: Converted Property - Basis for Loss*

9 - c. 20% The accuracy-related penalty under Section 6662 is generally 20% of the portion of the underpayment attributable to negligence or disregard of rules, or substantial understatement of income tax. *Topic: Penalties - Accuracy-Related Penalty Rate*

10 - c. 0.5% per month or part of a month, up to 25%. The failure-to-pay penalty is generally 0.5% (1/2 of 1%) of the unpaid tax for each month or part of a month the tax is not paid, up to a maximum of 25%. *Topic: Penalties - Failure-to-Pay Penalty Rate*

Fill-in-the-Blanks 2.2.3

- 1 - Adjusted** Adjusted Basis is the original cost or other basis plus additions (improvements) and minus deductions (depreciation, casualty losses). *Topic: Basis Definition*
- 2 - Amount** The Amount Realized from a sale or exchange is the total money received plus the FMV of all property or services received, including liabilities assumed by the buyer. *Topic: Amount Realized Definition*
- 3 - capital** Property held for personal use or investment, such as stocks or bonds, is generally classified as a capital asset. *Topic: Capital Asset Definition*
- 4 - 1231** Depreciable property and real property used in a trade or business and held longer than 1 year are generally Section 1231 assets. *Topic: Section 1231 Asset Definition*
- 5 - 4797** Gains and losses from sales or exchanges of business property (including Sec 1231 assets) are reported on Form 4797. *Topic: Reporting Business Property Sales*
- 6 - 1031** An exchange of qualifying real properties may allow for tax deferral under IRC Section 1031. *Topic: Like-Kind Exchanges (Section 1031)*
- 7 - Boot** Any non-like-kind property or cash received in an otherwise qualifying like-kind exchange is referred to as boot. Gain is recognized up to the amount of boot received. *Topic: Like-Kind Exchanges (Section 1031) - Boot*
- 8 - involuntary** Gain from property destroyed, stolen, or condemned may be deferred under the involuntary conversion rules of Section 1033 if replaced with qualified property. *Topic: Involuntary Conversions (Section 1033)*
- 9 - accuracy-related** The accuracy-related penalty can apply if tax is underpaid due to negligence, disregard of rules, or substantial understatement of income tax. *Topic: Penalties - Accuracy-Related Penalty*
- 10 - waived (or abated)** Interest on underpayments is generally mandatory and cannot be waived or abated by the IRS, even if there is reasonable cause for the underpayment (unlike penalties). *Topic: Interest on Underpayments*

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Calculation Problems 2.2.3

1 - \$3,000 gain Adjusted Basis = Original Cost (\$40,000) - Accumulated Depreciation (\$18,000) = \$22,000. Gain Realized = Amount Realized (\$25,000) - Adjusted Basis (\$22,000) = \$3,000. *Topic: Gain or Loss Calculation*

2 - \$30,000 Gain Realized = FMV of property received (\$220,000) + Boot received (\$30,000 cash) - Basis of property given up (\$100,000) = \$150,000. Gain Recognized is the lesser of Gain Realized (\$150,000) or Boot Received (\$30,000). Recognized gain = \$30,000. *Topic: Like-Kind Exchanges (Section 1031) - Gain Recognition with Boot*

3 - \$100,000 Basis of New Property = Basis of Old Property (\$100,000) - Boot Received (\$30,000) + Gain Recognized (\$30,000) = \$100,000. (Alternatively: FMV of New Property (\$220,000) - Deferred Gain (\$150,000 - \$30,000 = \$120,000) = \$100,000). *Topic: Like-Kind Exchanges (Section 1031) - Basis Calculation*

4 - \$0 Gain Realized = Amount Realized (\$200,000) - Adjusted Basis (\$150,000) = \$50,000. Since the cost of replacement property (\$210,000) is greater than the amount realized (\$200,000), the taxpayer can elect to defer the entire gain. Gain Recognized = \$0. *Topic: Involuntary Conversions (Section 1033) - Gain Recognition*

5 - \$160,000 Basis of Replacement Property = Cost of Replacement Property (\$210,000) - Gain Deferred (\$50,000) = \$160,000. *Topic: Involuntary Conversions (Section 1033) - Basis Calculation*

6 - Section 1231 gain (likely treated as long-term capital gain) Gain on sale of Section 1231 property held > 1 year is Sec 1231 gain. If total Sec 1231 gains > losses, and no nonrecaptured prior year losses, the net gain is treated as long-term capital gain. *Topic: Section 1231 Gain Characterization*

7 - \$5,000 Net Section 1231 gain (\$12,000) is treated as ordinary income to the extent of nonrecaptured Section 1231 losses from the previous 5 years (\$5,000). The remaining \$7,000 is long-term capital gain. *Topic: Section 1231 Lookback Rule*

8 - \$3,000 Understatement = \$65,000 - \$50,000 = \$15,000. Accuracy-Related Penalty = Underpayment * Rate = \$15,000 * 20% = \$3,000. *Topic: Penalties - Accuracy-Related Penalty Calculation*

9 - \$60 Failure-to-Pay Penalty = Unpaid Tax * Rate * Number of Months (or part). Penalty = \$4,000 * 0.5% * 3 months = \$60. *Topic: Penalties - Failure-to-Pay Penalty Calculation*

10 - \$0 Basis for determining loss on converted property = Lesser of Adjusted Basis or FMV at conversion. FMV (\$180k) < Cost Basis (\$200k). Basis for depreciation/loss = \$180,000. Adjusted basis at sale = \$180,000 - \$10,000 depreciation = \$170,000. Loss = Amount Realized (\$170,000) - Adjusted Basis (\$170,000) = \$0. *Topic: Converted Property - Sale at Loss*

Section 2.3 - Specialized Returns and Taxpayers

2.3.1 Specialized Returns and Taxpayers: Trusts, Exempt Orgs, Retirement, and Rentals

Multiple Choice 2.3.1

1 - d. Form 1041 The fiduciary of a domestic decedent's estate, trust, or bankruptcy estate uses Form 1041, U.S. Income Tax Return for Estates and Trusts, to report income, deductions, gains, losses, etc.. *Topic: Trust and Estate Income Tax - Filing Requirements*

2 - b. Limits the income distribution deduction and determines the amount taxed to beneficiaries. The income distribution deduction allowable to estates and trusts is limited to Distributable Net Income (DNI). DNI is also used to determine how much of a distribution is includible in the beneficiary's gross income. *Topic: Trust and Estate Income Tax - Distributable Net Income (DNI)*

3 - c. Simple Trust A trust may qualify as a simple trust if it is required to distribute all income currently, does not provide for charitable contributions, and does not distribute amounts allocated to corpus. *Topic: Trust and Estate Income Tax - Trust Types*

4 - b. Form 1023 Form 1023, Application for Recognition of Exemption Under Section 501(c)(3), is used by organizations (corporations, unincorporated associations, trusts) to apply for recognition as tax-exempt under Section 501(c)(3). *Topic: Tax-Exempt Organizations - Application for Exemption*

5 - c. A trade or business, regularly carried on, not substantially related to its exempt purpose. For most organizations, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption. *Topic: Tax-Exempt Organizations - Unrelated Business Taxable Income (UBTI)*

6 - d. SEP (Simplified Employee Pension) Plan SEPs provide a simplified method where an employer adopts a SEP agreement and makes contributions directly to a traditional IRA (SEP-IRA) set up for eligible employees. *Topic: Retirement Plans - SEP Plans*

7 - c. 100 A SIMPLE IRA plan can be established by small employers, generally meaning those with 100 or fewer employees who received at least \$5,000 in compensation in the preceding year. *Topic: Retirement Plans - SIMPLE IRA Eligibility*

8 - d. 73 A taxpayer generally has to start taking Required Minimum Distributions (RMDs) from traditional IRAs, SEP IRAs, SIMPLE IRAs, or retirement plan accounts when they reach age 73 (as of 2024). *Topic: Retirement Plans - Required Minimum Distributions (RMDs)*

9 - d. Qualifies as a real estate professional and materially participates. Generally, rental activities are passive. However, if a taxpayer qualifies as a real estate professional, rental real estate activities in which they materially participate are not passive activities. *Topic: Rental Property - Passive Activity Limitations*

10 - b. \$100,000 The maximum special allowance of \$25,000 for passive rental real estate losses is reduced by 50% of the amount of the taxpayer's modified adjusted gross income (MAGI) that exceeds \$100,000. *Topic: Rental Property - Passive Loss Limitation (\$25k Allowance)*

Fill-in-the-Blanks 2.3.1

1 - fiduciary A fiduciary is a trustee of a trust, or an executor, executrix, administrator, personal representative, or person in possession of property of a decedent's estate. *Topic: Trust and Estate Income Tax - Definitions*

2 - K-1 Schedule K-1 (Form 1041) is used to notify beneficiaries of the amounts to be included on their income tax returns from an estate or trust. *Topic: Trust and Estate Income Tax - Reporting to Beneficiaries*

3 - grantor A trust is a grantor trust if the grantor retains certain powers or ownership benefits, causing the income, deductions, etc., to be treated as belonging directly to the grantor. *Topic: Trust and Estate Income Tax - Trust Types*

4 - Distributable Net Income (DNI) The income distribution deduction allowable to estates and trusts for amounts distributed to beneficiaries is limited to Distributable Net Income (DNI). *Topic: Trust and Estate Income Tax - Income Distribution Deduction*

5 - 990 Most tax-exempt organizations are required to file an annual information return, generally Form 990, 990-EZ, or 990-N (for small organizations). *Topic: Tax-Exempt Organizations - Filing Requirements*

6 - Unrelated Income from a trade or business regularly carried on by an exempt organization that is not substantially related to its exempt purpose is called Unrelated Business Taxable Income (UBTI). *Topic: Tax-Exempt Organizations - Unrelated Business Taxable Income (UBTI)*

7 - Defined Benefit Contributions to a defined benefit plan are based on what is needed to provide definitely determinable benefits to plan participants, requiring actuarial assumptions. *Topic: Retirement Plans - Plan Types*

8 - 73 Required Minimum Distributions (RMDs) generally must begin by April 1 following the year the IRA owner reaches age 73. *Topic: Retirement Plans - Required Minimum Distributions (RMDs)*

9 - passive Rental activities are generally passive activities for loss limitation purposes, regardless of material participation (unless the taxpayer is a real estate professional). *Topic: Rental Property - Passive Activity Limitations*

10 - real estate A taxpayer may qualify as a real estate professional if they meet requirements regarding time spent and material participation in real property trades or businesses. *Topic: Rental Property - Real Estate Professional*

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Calculation Problems 2.3.1

1 - \$13,500 Distributable Net Income (DNI) is calculated starting with the trust's taxable income before the distribution deduction, adjusted for certain items. Fees must be allocated between taxable and tax-exempt income. Fees allocable to tax-exempt = $\$1,500 * (\$5,000 \text{ Tax-Exempt} / \$15,000 \text{ Total Income}) = \500 . Adjusted Tax-Exempt Interest = $\$5,000 - \$500 = \$4,500$. Adjusted Total Income (Taxable Income before distribution) = $\$10,000 \text{ Taxable Interest} - (\$1,500 \text{ Total Fees} - \$500 \text{ Fees allocable to tax-exempt}) = \$10,000 - \$1,000 = \$9,000$. DNI = Adjusted Total Income ($\$9,000$) + Adjusted Tax-Exempt Interest ($\$4,500$) = $\$13,500$.

Topic: Trust and Estate Income Tax - DNI Calculation

2 - \$15,000 The income distribution deduction is the lesser of the amount distributed ($\$8,000 + \$7,000 = \$15,000$) or DNI ($\$19,000$), excluding tax-exempt income. Assuming no tax-exempt income, deduction = Lesser of $\$15,000$ or $\$19,000 = \$15,000$. *Topic: Trust and Estate Income Tax - Income Distribution Deduction*

3 - Form 990-N (e-Postcard) Generally, exempt organizations (other than private foundations or Sec 509(a)(3) supporting orgs) with annual gross receipts normally $\$50,000$ or less are eligible to file the electronic notice Form 990-N instead of Form 990 or 990-EZ. *Topic: Tax-Exempt Organizations - Filing Thresholds*

4 - Yes UBTI is income from a trade or business, regularly carried on, not substantially related to the exempt purpose. Operating a public parking lot is likely a trade or business not substantially related to most charities' exempt purposes. Income from selling mission-related books might be related. *Topic: Tax-Exempt Organizations - UBTI Determination*

5 - \$20,000 SEP contributions cannot exceed the lesser of 25% of the employee's compensation or \$69,000 (for 2024). $25\% \text{ of } \$80,000 = \$20,000$. Since \$20,000 is less than \$69,000, the max contribution is \$20,000. *Topic: Retirement Plans - SEP Contribution Limits*

6 - \$16,000 The maximum employee salary reduction contribution to a SIMPLE IRA for an employee under age 50 is \$16,000 for 2024. *Topic: Retirement Plans - SIMPLE IRA Contribution Limits*

7 - \$12,195.12 $RMD = \text{Prior Year-End Account Balance} / \text{Distribution Period from Uniform Lifetime Table}$. $RMD = \$300,000 / 24.6 = \$12,195.12$ (approx). *Topic: Retirement Plans - RMD Calculation*

8 - \$15,000 The \$25,000 allowance is reduced by 50% of MAGI over \$100,000. $\text{Reduction} = 50\% * (\$120,000 - \$100,000) = 50\% * \$20,000 = \$10,000$. Allowed loss = \$25,000 - \$10,000 = \$15,000. The taxpayer can deduct \$15,000 of the \$30,000 loss against nonpassive income. *Topic: Rental Property - Passive Loss Allowance Phaseout*

9 - Yes The taxpayer qualifies if more than half the personal services performed in *all* trades/businesses are in real property trades/businesses where they materially participate, AND they perform >750 hours in those real property trades/businesses. Here, 600 hours (rental mgmt) / (600 + 500) total hours = 54.5%. This is more than half. If they also materially participate and meet the 750-hour test (which 600 hours does not meet alone), they could qualify. *Just based on the >50% test, the answer is yes, they meet that specific test.* *Topic: Rental Property - Real Estate Professional Tests*

10 - \$15,000 The amount included in the beneficiary's income is the lesser of the amount distributed (\$18,000) or DNI (\$15,000), adjusted for any tax-exempt income included in DNI. Assuming DNI includes only taxable income, the beneficiary reports \$15,000. *Topic: Trust and Estate Income Tax - Beneficiary Taxation*

2.3.2 Farm Taxation: Income, Expenses, and Assets

Multiple Choice 2.3.2

1 - a. Stock farm, dairy farm, poultry farm, or fruit farm. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges, and orchards. *Topic: Farming Definition*

2 - c. Schedule F Individuals, trusts, and partnerships generally report farm income on Schedule F (Form 1040) - Profit or Loss From Farming. *Topic: Reporting Farm Income*

3 - c. Either the cash or accrual method. Most farmers use the cash method, but farmers can generally choose either the cash or accrual method, unless required to use accrual (e.g., certain corporations/partnerships/tax shelters). *Topic: Farmer Accounting Methods*

4 - b. Actually or constructively receive payment. Under the cash method, farmers include in gross income all items of income actually or constructively received during the tax year. *Topic: Cash Method for Farmers*

5 - b. Section 1231 Asset Sales of livestock held for draft, breeding, sport, or dairy purposes (and held for the required period) may result in Section 1231 gains or losses. *Topic: Sales and Exchanges - Livestock Characterization*

6 - d. 24 months or more To qualify as Section 1231 transactions, cattle and horses held for draft, breeding, dairy, or sporting purposes must be held for 24 months or more. *Topic: Section 1231 Holding Periods (Livestock)*

7 - b. 50% of other deductible farm expenses for the year. A cash-method farmer's deduction for prepaid farm supplies (feed, seed, fertilizer, etc.) paid during the year may be limited to 50% of the other deductible farm expenses for the year. *Topic: Deductible Expenses*

8 - b. 25% The deduction a farmer can choose to take for soil and water conservation expenditures cannot be more than 25% of the gross income derived from farming during the tax year. *Topic: Deductible Expenses - Soil and Water Conservation Limit*

9 - c. 7 years The text indicates that used agricultural machinery and equipment placed in service after 2017 has a 7-year recovery period under GDS. (Note: New machinery placed after 2017 is 5-year property). *Topic: Depreciation - Farm Property Recovery Periods*

10 - c. Postpone reporting the proceeds as income until the year following the damage, if income normally would have been reported then. If a farmer receives insurance proceeds due to crop damage, they can elect under Section 451(f) to postpone reporting the income until the following year if they can show the income from the crop normally would have been reported in that following year. *Topic: Farm Income*

Fill-in-the-Blanks 2.3.2

1 - farming A taxpayer is in the business of farming if they cultivate, operate, or manage a farm for profit. *Topic: Farming Definition*

2 - F Individuals use Schedule F (Form 1040) to figure net profit or loss from regular farming operations. *Topic: Reporting Farm Income*

3 - cash Under the cash method, farmers generally deduct expenses when paid and report income when received. *Topic: Farmer Accounting Methods*

4 - accrual Under an accrual method of accounting, a farmer generally reports income in the year earned and deducts or capitalizes expenses in the year incurred. *Topic: Farmer Accounting Methods*

5 - 1231 Livestock held for draft, breeding, or dairy purposes and held for the required period can be Section 1231 property. *Topic: Sales and Exchanges - Livestock Characterization*

6 - ordinary Livestock held primarily for sale must be included in inventory, and gain or loss on their sale is generally ordinary income or loss, reported on Schedule F. *Topic: Sales and Exchanges - Livestock Characterization*

7 - prepaid A cash basis farmer's deduction for prepaid farm supplies may be limited to 50% of other deductible farm expenses for the year. *Topic: Deductible Expenses - Prepaid Farm Supplies Limit*

8 - Soil A taxpayer can deduct soil and water conservation expenses for land used in farming, subject to limits. *Topic: Deductible Expenses - Soil and Water Conservation*

9 - depreciation The cost of farm assets expected to last more than one year, such as machinery, equipment, and buildings (except land), is recovered through depreciation deductions. *Topic: Depreciation*

10 - 4797 Gains and losses from Section 1231 transactions, including sales of qualifying livestock held for draft, breeding, sport, or dairy purposes, are reported on Form 4797. *Topic: Reporting Farm Asset Sales*

Matching**2.3.2**

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Calculation Problems 2.3.2

1 - \$1,500 gain For a cash-basis farmer, the basis of raised livestock is generally zero because the costs of raising them are deducted currently. $\text{Gain} = \text{Amount Realized } (\$1,500) - \text{Adjusted Basis } (\$0) = \$1,500$. It's ordinary income if held primarily for sale, or potentially Sec 1231 gain if held for breeding/dairy > 24 mos. *Topic: Sales and Exchanges - Raised Livestock Gain*

2 - \$700 (Ordinary Gain) $\text{Adjusted Basis} = \text{Cost } (\$3,000) - \text{Depreciation } (\$500) = \$2,500$. $\text{Amount Realized} = \$3,200$. $\text{Realized Gain} = \$3,200 - \$2,500 = \$700$. The required holding period for cattle for Section 1231 treatment is 24 months. Since the bull was held only 18 months, it does not qualify for Section 1231 treatment, and the \$700 gain is characterized as ordinary income. *Topic: Sales and Exchanges - Purchased Livestock Gain/Loss Characterization*

3 - Ordinary income As determined in problem 2, the bull did not meet the 24-month holding period requirement for Section 1231 treatment for cattle. Therefore, the \$700 gain is ordinary income. *Topic: Sales and Exchanges - Livestock Characterization*

4 - \$15,000 The deduction for prepaid farm supplies is limited to 50% of other deductible farm expenses. $\text{Limit} = 50\% * \$30,000 = \$15,000$. Since the prepayment (\$20,000) exceeds the limit, the deduction in 2024 is capped at \$15,000. The excess \$5,000 is deducted when consumed. *Topic: Deductible Expenses - Prepaid Farm Supplies Limit Calculation*

5 - \$6,250 The deduction for soil and water conservation expenses is limited to 25% of gross income from farming. Limit = $25\% * \$25,000 = \$6,250$. Since the expenses (\$8,000) exceed the limit, the deduction is capped at \$6,250. The excess can be carried forward. *Topic: Deductible Expenses - Soil and Water Conservation Limit Calculation*

6 - \$5,716 A new tractor is 7-year MACRS property. Using the half-year convention, the first-year depreciation rate is 14.29%. Deduction = Basis (\$40,000) * Rate (0.1429) = \$5,716. *Topic: Depreciation - Farm Property Calculation*

7 - 50 head The farmer normally sells 100 head but sold 150 head due to weather conditions. The excess number sold due to weather is $150 - 100 = 50$ head. Gain on these 50 head may be eligible for deferral. *Topic: Sales and Exchanges - Weather-Related Sales Deferral*

8 - \$25,000 The deduction is limited to 25% of gross income from farming. Limit = $25\% * \$100,000 = \$25,000$. Since the expenses (\$30,000) exceed the limit, the deduction is \$25,000. *Topic: Deductible Expenses - Soil and Water Conservation Limit Calculation*

9 - \$21,000 Gross Profit from Purchased Livestock = \$10,000 Sales - \$4,000 Basis = \$6,000. Total Farm Income = \$6,000 + \$50,000 (Raised Produce) = \$56,000. Net Farm Profit = Total Farm Income (\$56,000) - Deductible Expenses (\$35,000) = \$21,000. *Topic: Schedule F Calculation*

10 - Yes The required holding period for livestock (other than cattle and horses) for Section 1231 treatment is 12 months or longer. The hogs were held from July 1, 2023, to September 1, 2024, which is longer than 12 months. Therefore, they qualify as Section 1231 assets. *Topic: Section 1231 Holding Periods (Livestock)*

Solutions - PART 3: REPRESENTATION, PRACTICES AND PROCEDURES

Section 3.1 - Practices and Procedures

Multiple Choice 3.1

1 - c. Circular 230 Treasury Department Circular No. 230 contains the regulations governing practice before the Internal Revenue Service, outlining rules, duties, and sanctions for practitioners. *Topic: Rules for Tax Preparers - Circular 230*

2 - c. Preparing and filing documents with the IRS for a taxpayer Circular 230 defines "practice before the IRS" to include preparing and filing necessary documents, representing taxpayers at conferences, and providing written tax advice. Furnishing information or appearing as a witness is explicitly excluded. *Topic: Practice Before the IRS*

3 - b. 16 hours (including 2 ethics) Enrolled agents are required to complete a minimum of 72 hours per 3-year cycle, with a minimum of 16 hours each year, including 2 hours of ethics annually. *Topic: Continuing Professional Education (CPE) Requirements*

4 - c. Promptly advise the client of the error and its consequences. Circular 230, Section 10.21, requires practitioners who know of a client's noncompliance, error, or omission on a return or document submitted to the IRS to promptly advise the client of the noncompliance and its consequences. Practitioners are not required to notify the IRS. *Topic: Client Omissions (Circular 230 §10.21)*

5 - b. Services in connection with the IRS examination of, or challenge to, an original tax return. Contingent fees are generally prohibited for preparing original returns but are allowed under specific circumstances, including services rendered in connection with an IRS examination or challenge to an original or amended return, or claims for credit or refund connected to assessed interest/penalties. *Topic: Fees (Circular 230 §10.27)*

6 - c. 5 years A practitioner who has been disbarred may petition for reinstatement before the IRS after the expiration of 5 years following the disbarment. *Topic: Disciplinary Proceedings (Reinstatement)*

7 - c. Form 8867 Paid preparers must submit Form 8867, Paid Preparer's Due Diligence Checklist, with returns claiming the EITC, CTC/ACTC/ODC, AOTC, or Head of Household status to document compliance with due diligence requirements. *Topic: Paid Preparer's Due Diligence Checklist*

8 - c. \$635 For returns and claims filed in calendar year 2025, the penalty under IRC Section 6695(g) for failure to meet due diligence requirements for the specified credits (EITC, CTC/ACTC/ODC, AOTC, HOH) is \$635 per failure. *Topic: Tax Return Preparer Penalties (Due Diligence Penalty)*

9 - c. 6 years If a taxpayer omits income that should be reported, and the amount is more than 25% of the gross income shown on the return, the statute of limitations for the IRS to assess additional tax is extended from 3 years to 6 years. *Topic: Individual Income Tax Penalties (Statute of Limitations)*

10 - d. The Sarbanes-Oxley Act of 2002 The Sarbanes-Oxley Act of 2002 mandated reforms to enhance corporate responsibility and combat fraud, including the creation of the Public Company Accounting Oversight Board (PCAOB). *Topic: Sarbanes-Oxley Act of 2002*

11 - b. Return Preparer Office (RPO) While the OPR handles practitioner conduct and discipline, the Return Preparer Office (RPO) is responsible for matters related to the authority to practice, including processing enrollment applications, administering testing, and CPE. *Topic: IRS Offices (RPO vs OPR)*

12 - c. Enrolled Retirement Plan Agents & Enrolled Actuaries Circular 230 limits the practice of Enrolled Retirement Plan Agents and Enrolled Actuaries principally to Internal Revenue Code sections related to employee retirement plans. *Topic: Practice Before the IRS (Limited Practice Rights)*

13 - c. Placement on the roster of inactive enrolled individuals for up to three years Failure to meet renewal requirements (CPE, fees) after receiving notice and failing to respond adequately can lead to placement on the inactive roster for three years, after which enrollment terminates if not reinstated. *Topic: Enrollment Renewal and Inactive Status*

14 - c. On most occasions, unless the information appears incorrect, inconsistent, or incomplete. Circular 230 §10.34 allows practitioners to generally rely in good faith on client-furnished information without verification, but they must not ignore implications of information that appears incorrect, inconsistent, or incomplete and must make reasonable inquiries in such cases. *Topic: Due Diligence & Reliance on Client Information (Circular 230 §10.34)*

15 - c. Endorsing or otherwise negotiating a refund check issued to the client. Circular 230 §10.31 explicitly prohibits practitioners who prepare returns from endorsing or otherwise negotiating any refund check issued to their client by the government related to federal tax liability. *Topic: Negotiation of Taxpayer Checks (Circular 230 §10.31)*

16 - b. Communicating clearly with the client regarding the terms of the engagement. Circular 230 §10.33 outlines best practices, including clear communication regarding the engagement's terms, scope, and purpose. Guaranteeing refunds, relying solely on verbal assertions, or ignoring audit possibilities are not best practices. *Topic: Best Practices (Circular 230 §10.33)*

17 - c. Not frivolous. Circular 230 §10.34 prohibits practitioners from advising a client to take, or signing a return that takes, a position that lacks a reasonable basis, is an unreasonable position, or is a willful attempt to understate liability or recklessly disregards rules. It also prohibits advising on or signing returns with frivolous positions. A position only needs to be "not frivolous" to avoid this specific prohibition. *Topic: Tax Returns and Documents Standards (Circular 230 §10.34)*

18 - b. A monetary penalty up to the gross income derived from the sanctioned conduct Circular 230 §10.50 and 31 USC §330 authorize the Secretary of the Treasury (delegated to OPR) to impose monetary penalties on practitioners or firms engaging in conduct subject to sanction, in addition to or in lieu of censure/suspension/disbarment. The penalty cannot exceed the gross income derived from the conduct. *Topic: Sanctions (Monetary Penalties)*

19 - a. Reasonable basis Disclosure on Form 8275 may protect against the substantial understatement penalty only if there is a reasonable basis for the position. Reasonable basis is a standard higher than not frivolous but lower than substantial authority. *Topic: Accuracy-Related Penalties (Reasonable Basis)*

20 - c. Withheld income and employment taxes (trust fund taxes) The Trust Fund Recovery Penalty (TFRP) applies specifically to unpaid "trust fund taxes," defined as withheld income tax, employee's share of FICA (Social Security and Medicare) taxes, and collected excise taxes. *Topic: Trust Fund Recovery Penalty (TFRP)*

Fill-in-the-Blanks 3.1

1 - Professional Responsibility The Office of Professional Responsibility (OPR) has primary responsibility for practitioner conduct and discipline under Circular 230. *Topic: IRS Offices (OPR)*

2 - five Circular 230 is divided into five subparts: A (Authority to Practice), B (Duties and Restrictions), C (Sanctions), D (Disciplinary Proceedings), and E (General Provisions). *Topic: Circular 230 Structure*

3 - 18 Applicants for enrollment must be at least 18 years of age. *Topic: Enrollment Eligibility*

4 - three Enrolled agents must renew their credentials every three years, based on the last digit of their SSN. *Topic: Enrollment Renewal*

5 - 36 Practitioners must retain copies of written consents obtained regarding conflicts of interest for at least 36 months from the date the representation concludes. *Topic: Conflict of Interest (Record Retention)*

6 - 75% The civil fraud penalty under IRC Section 6663 can be up to 75% of the portion of the underpayment attributable to fraud. *Topic: Individual Income Tax Penalties (Civil Fraud)*

7 - \$510 For tax returns required to be filed in 2024, if the return is filed more than 60 days after the due date (including extensions), the minimum failure-to-file penalty is the smaller of \$510 or 100% of the unpaid tax. *Topic: Individual Income Tax Penalties (Failure to File)*

8 - 75% The penalty under IRC Section 6694(b) for understatement due to willful or reckless conduct by a preparer is the greater of \$5,000 or 75% (increased from 50% by the PATH Act) of the income derived by the preparer from the return or claim. *Topic: Tax Return Preparer Penalties (Willful/Reckless Conduct)*

9 - three Paid preparers must keep copies of Form 8867 and other required due diligence records for three years from the latest relevant date (due date, filing date, etc.). *Topic: Paid Preparer's Due Diligence (Record Retention)*

10 - notary public Circular 230 §10.26 prohibits a practitioner who is also a notary public from performing notary acts regarding any matter before the IRS in which they are employed as counsel/agent or have a material interest. *Topic: Notaries (Circular 230 §10.26)*

11 - due diligence Circular 230 §10.22 requires practitioners to exercise due diligence in preparing returns, determining correctness of representations, etc. *Topic: Due Diligence (Circular 230 §10.22)*

12 - 230 The regulations governing practice before the IRS are contained in Treasury Department Circular No. 230. *Topic: Circular 230 Identification*

13 - four Circular 230 §10.6(h) requires individuals applying for renewal to retain CPE records for four years following the date of renewal. *Topic: CPE Record Retention*

14 - implications Circular 230 §10.34 states that while practitioners can generally rely on client information, they may not ignore the implications of information furnished if it appears incorrect, inconsistent, or incomplete. *Topic: Reliance on Client Information (Circular 230 §10.34)*

15 - delay Circular 230 §10.23 prohibits practitioners from unreasonably delaying the prompt disposition of any matter before the IRS. *Topic: Prompt Disposition of Matters (Circular 230 §10.23)*

16 - negotiate Circular 230 §10.31 prohibits practitioners who prepare returns from endorsing or otherwise negotiating (cashing) client refund checks issued by the government. *Topic: Negotiation of Taxpayer Checks (Circular 230 §10.31)*

17 - bar Circular 230 §10.32 clarifies that the regulations do not authorize persons who are not members of the bar to practice law. *Topic: Practice of Law (Circular 230 §10.32)*

18 - disreputable Circular 230 §10.51 lists examples of incompetence and disreputable conduct for which practitioners can be sanctioned. *Topic: Sanctions (Disreputable Conduct)*

19 - Office (of) Professional Responsibility Suspected violations of Circular 230 by IRS employees are reported to the Director of the Office of Professional Responsibility (OPR). *Topic: Reporting Violations (OPR)*

20 - passport The Fixing America's Surface Transportation (FAST) Act requires the Department of State to deny or revoke a passport for taxpayers certified by the IRS as having seriously delinquent tax debt. *Topic: FAST Act (Passport Revocation)*

Matching 3.1

| Set 1 | Set 2 |
|-------|-------|
| 1-e | 11-m |
| 2-g | 12-l |
| 3-d | 13-r |
| 4-i | 14-p |
| 5-f | 15-k |
| 6-j | 16-s |
| 7-c | 17-o |
| 8-h | 18-t |
| 9-b | 19-n |
| 10-a | 20-q |

Calculation Problems 3.1

1 - 27 hours The total requirement is 72 hours. Hours completed = 20 (Year 1) + 25 (Year 2) = 45 hours. Hours needed in Year 3 = 72 - 45 = 27 hours. *Topic: CPE Requirements*

2 - \$360 The penalty for failure to furnish a copy to the taxpayer is \$60 per failure for returns filed in 2025. Total penalty = 6 failures * \$60/failure = \$360. The annual maximum is \$31,500. *Topic: Tax Return Preparer Penalties*

3 - Yes The understatement is \$8,000. The thresholds are 10% of correct tax (10% * \$40,000 = \$4,000) or \$5,000. The understatement is substantial because \$8,000 is greater than \$5,000. *Topic: Accuracy-Related Penalty (Substantial Understatement)*

4 - No, \$500 Contingent fees are not permissible for preparing an original return. The calculated fee would be 10% * \$5,000 = \$500. *Topic: Fees (Contingent Fees)*

5 - 0 hours No CPE is required while an enrolled agent is on inactive retirement status. *Topic: Enrollment Renewal (Inactive Status)*

6 - \$635 For returns filed in calendar year 2025, the penalty under IRC 6695(f) for a preparer improperly negotiating a client's refund check is \$635 per check. *Topic: Tax Return Preparer Penalties (Negotiation of Checks)*

7 - June 30, 2027 Circular 230 §10.30 requires retention of direct mail/e-commerce communications for 36 months from the date of last use. June 30, 2024 + 36 months = June 30, 2027. *Topic: Solicitation (Record Retention)*

8 - \$1,500 The Failure to File penalty is 5% per month or part of a month the return is late, capped at 25%. For 3 months late: $3 * 5\% = 15\%$. Penalty = $15\% * \$10,000 = \$1,500$. *Topic: Individual Income Tax Penalties (Failure to File)*

9 - \$100 The Failure-to-Pay penalty is 0.5% per month or part of a month the tax remains unpaid (up to 25%). For 4 months late on \$5,000: $(0.005 * 4) * \$5,000 = 0.02 * \$5,000 = \$100$. *Topic: Individual Income Tax Penalties (Failure to Pay)*

10 - \$19.75 The question states the fee is \$19.75 for 2024. *Topic: Preparer Tax Identification Number (PTIN)*

11 - 8 hours Enrollment was effective September 1, 2024. Months enrolled in 2024: Sept, Oct, Nov, Dec = 4 months. CPE required = $4 \text{ months} * 2 \text{ hours/month} = 8 \text{ hours}$. (Ethics requirement also applies pro-rata, needing 2 hours for the year enrolled). *Topic: CPE Requirements (Initial Enrollment)*

12 - \$20,000 The maximum monetary penalty OPR can impose under 31 USC §330 is up to the amount of gross income derived from the conduct giving rise to the penalty. Maximum penalty = \$20,000. *Topic: Sanctions (Monetary Penalties)*

13 - \$6,000 The penalty for failure to furnish PTIN is \$60 per failure for returns filed in 2025. $100 \text{ failures} * \$60/\text{failure} = \$6,000$. This is less than the annual maximum penalty of \$31,500. *Topic: Tax Return Preparer Penalties*

14 - \$500 The accuracy-related penalty for negligence is 20% of the underpayment attributable to negligence. Penalty = $20\% * \$2,500 = \500 . *Topic: Accuracy-Related Penalty (Negligence)*

15 - 6 hours An enrolled agent can claim a maximum of 6 hours of CPE credit annually for instructing qualified programs. *Topic: CPE Requirements (Instructor Credits)*

16 - Yes Disclosure via Form 8275 only avoids the substantial understatement penalty if the position has at least a reasonable basis. Since the position lacks a reasonable basis, the penalty could still apply despite disclosure. *Topic: Accuracy-Related Penalties (Disclosure Exception)*

17 - 11 returns The mandatory e-filing requirement applies if the firm (all preparers combined) anticipates preparing and filing 11 or more Forms 1040/1041. *Topic: E-file Mandate*

18 - \$60 The penalty for failure to file correct information returns (including the Section 6060 return reporting preparer employees) is \$60 per failure for returns filed in 2025, subject to an annual maximum. *Topic: Tax Return Preparer Penalties (Information Returns)*

19 - 25% The Failure to File penalty accrues at 5% per month or part of a month, up to a maximum of 5 months. Since the return is 7 months late, the maximum penalty percentage of 25% applies. *Topic: Individual Income Tax Penalties (Failure to File)*

20 - Three years An individual placed in inactive status must file for renewal and meet requirements within three years; otherwise, their enrollment terminates. *Topic: Enrollment Renewal (Inactive Status Termination)*

Section 3.2 - Representation before the IRS

Multiple Choice 3.2

1 - c. Form 2848 Form 2848, Power of Attorney and Declaration of Representative, is used to authorize an eligible individual to represent a taxpayer before the IRS, including receiving information and performing acts like signing agreements. Form 8821 only authorizes information access. Form 4506-T requests transcripts. Form 9465 requests an installment agreement. *Topic: Power of Attorney (Forms)*

2 - b. To process and record representative authorizations like Form 2848 and Form 8821. The Centralized Authorization File (CAF) system is an IRS computer database containing information on the authority granted by taxpayers to their representatives via forms like Form 2848 and Form 8821. *Topic: Power of Attorney (CAF System)*

3 - c. Only if the taxpayer specifically authorizes this act on the Form 2848. A recognized representative can substitute or delegate authority to another recognized representative only if this act is specifically authorized by the taxpayer on the power of attorney (Form 2848). *Topic: Power of Attorney (Substitution/Delegation)*

4 - d. Tax Return Transcript A Tax Return Transcript shows most line items from the original tax return as filed, including forms and schedules, but does not reflect changes made after filing. A Tax Account Transcript shows basic data and subsequent adjustments. *Topic: Building Taxpayer's Case (Transcripts)*

5 - c. Providing for the taxpayer's (and family's) health and welfare and/or production of income. Allowable living expenses under the Collection Financial Standards must meet the necessary expense test, defined as expenses needed for the taxpayer's (and family's) health, welfare, and/or production of income. *Topic: Taxpayer Financial Situation (Collection Financial Standards)*

6 - c. Until the period of limitations for that return runs out (generally 3 years). Taxpayers should generally keep records supporting items on a tax return until the period of limitations for that return runs out, which is typically 3 years from the date the return was filed or due, whichever is later. *Topic: Supporting Documentation (Record Retention)*

7 - c. The Internal Revenue Code (IRC) Federal tax law begins with the Internal Revenue Code (IRC), which is the primary source of statutory federal tax law in the U.S. Regulations, rulings, and court decisions interpret the Code. *Topic: Legal Authority and References (IRC)*

8 - b. Basic data including marital status, AGI, taxable income, and adjustments made after filing. A Tax Account Transcript shows basic return data (like marital status, AGI, taxable income) and includes adjustments made either by the taxpayer or the IRS after the return was filed. *Topic: Building Taxpayer's Case (Transcripts)*

9 - d. Initiating criminal prosecution solely for inability to pay. Enforced collection actions include issuing levies, assessing the TFRP, and issuing summonses. Inability to pay is generally a civil matter; criminal prosecution requires elements like fraud or willful evasion, not just inability to pay. *Topic: Taxpayer Financial Situation (Enforced Collection)*

10 - b. Form 2848 allows representation and performance of acts, while Form 8821 only authorizes inspection/receipt of information. Form 2848 grants authority to represent the taxpayer and perform acts (like signing agreements), while Form 8821 only authorizes the designated individual or entity to inspect and/or receive confidential tax information. *Topic: Power of Attorney (Forms 2848 vs 8821)*

11 - c. If the taxpayer has a disease or injury preventing them from signing, and the POA specifically authorizes it. A representative named on a Form 2848 is generally not permitted to sign an individual income tax return unless specifically authorized by the taxpayer on the form AND the signature is permitted under regulations (e.g., taxpayer unable to sign due to disease or injury, or continuous absence from the U.S.). *Topic: Power of Attorney*

12 - b. Send a letter to the IRS stating the revocation, listing matters/periods, and signing it. If a taxpayer wants to revoke a POA without naming a new representative and doesn't have a copy of the original POA, they should send a signed and dated statement to the IRS indicating revocation, listing the matters and periods, and the name/address of the representative whose authority is revoked. *Topic: Power of Attorney (Revocation)*

13 - c. Determining the representative's own capacity and suitability for the case. Preliminary work when building a taxpayer's case includes assessing potential criminal aspects, conflicts of interest, and the representative's own competence, expertise, and time available to handle the issue. *Topic: Building Taxpayer's Case (Preliminary Work)*

14 - c. Installment Agreement An Installment Agreement allows taxpayers financially unable to pay immediately to make monthly payments over time. An OIC settles for less. CNC status means the IRS stops active collection. Form 1127 requests an extension due to undue hardship. *Topic: Taxpayer Financial Situation (Installment Agreements)*

15 - c. Authorizing a representative to sign a consent to extend the assessment period. Form 2848 grants authority to perform acts like signing consents to extend the statutory period for assessment. Form 8821 only grants access to information. A checkbox on the return or fiduciary status doesn't require Form 2848 for discussion. *Topic: Power of Attorney (Acts Authorized)*

16 - b. Tax Account Transcript The Tax Account Transcript shows basic data (marital status, AGI, taxable income) and transaction history, including subsequent adjustments. The Tax Return Transcript shows original return data. *Topic: Building Taxpayer's Case (Transcripts)*

17 - c. The IRS will generally not take enforced collection actions. The IRS generally will not take enforced collection actions, such as issuing levies, while an installment agreement request is being considered, while an agreement is in effect, for 30 days after rejection, or during an appeal of a rejection/termination. *Topic: Taxpayer Financial Situation (Installment Agreements)*

18 - b. Invoices showing purchase price, date acquired, and cost of improvements. Verifying business asset information requires records showing when/how acquired, purchase price, cost of improvements, depreciation taken, usage, and disposition details. Invoices are key supporting documents for purchases and improvements. *Topic: Supporting Documentation (Assets)*

19 - c. IRS Publications Authoritative sources include the Internal Revenue Code, Treasury Regulations (Final and Temporary), Revenue Rulings, Revenue Procedures, and court decisions. IRS Publications provide helpful guidance but are not considered primary legal authority. *Topic: Legal Authority and References*

20 - d. Seizing the taxpayer's property to satisfy a pre-petition debt (unless stay is lifted). The filing of a bankruptcy petition imposes an automatic stay, which generally prohibits creditors, including the IRS, from taking actions to collect pre-petition debts, such as seizing property. Exceptions allow the IRS to perform audits, assess tax, issue notices, etc. *Topic: Taxpayer Financial Situation (Bankruptcy Automatic Stay)*

Fill-in-the-Blanks 3.2

1 - refund A power of attorney generally authorizes the representative to perform all acts a taxpayer can, but this authorization typically excludes the power to receive a refund check payable to the taxpayer. *Topic: Power of Attorney (Limitations)*

2 - Form 2848 While the IRS accepts non-IRS POAs that meet specific requirements, they cannot be recorded on the CAF system unless a completed Form 2848 (signed by the representative) is attached. *Topic: Power of Attorney (Non-IRS POA and CAF)*

3 - three / 3 The IRS will not record future tax years or periods on the CAF system if they exceed three years from December 31 of the year the POA is received. *Topic: Power of Attorney (CAF Future Years)*

4 - error Selecting a return for audit does not always suggest an error has been made; returns are selected for various reasons, including random sampling and document matching. *Topic: Building Taxpayer's Case (Audits)*

5 - Account A Tax Account Transcript shows basic data and changes made after filing. *Topic: Building Taxpayer's Case (Transcripts)*

6 - installment The IRS generally suspends enforced collection actions while an installment agreement request is pending or an agreement is active. *Topic: Taxpayer Financial Situation (Installment Agreements)*

7 - production of income The necessary expense test requires expenses to be necessary for health and welfare and/or the production of income. *Topic: Taxpayer Financial Situation (Collection Financial Standards)*

8 - disposed of Records relating to the basis of property (cost, improvements, depreciation) must be kept until the period of limitations expires for the year in which the taxpayer disposes of the property. *Topic: Supporting Documentation (Asset Record Retention)*

9 - Treasury Regulations Treasury Regulations (often called "the Regs") are the IRS's official interpretation of the Internal Revenue Code. *Topic: Legal Authority and References (Regulations)*

10 - Revenue Procedure A Revenue Procedure is an official statement of IRS procedure affecting taxpayers, often providing instructions or details on how to comply with an IRS position. *Topic: Legal Authority and References (Revenue Procedures)*

11 - incapacitated A standard power of attorney typically terminates if the taxpayer becomes incapacitated or incompetent, though a durable POA may continue if authorized. *Topic: Power of Attorney (Termination)*

12 - 4506-T Form 4506-T, Request for Transcript of Tax Return, is used to obtain various transcript types, including the Tax Return Transcript. Form 4506 requests a full copy. *Topic: Building Taxpayer's Case (Transcripts)*

13 - Offer in Compromise An Offer in Compromise (OIC) allows settlement of tax debt for less than the full amount based on specific grounds like doubt as to collectibility or liability, or effective tax administration. *Topic: Taxpayer Financial Situation (Offer in Compromise)*

14 - Financial The IRS Collection Financial Standards are used to evaluate a taxpayer's ability to pay based on income and allowable expenses. *Topic: Taxpayer Financial Situation (Collection Financial Standards)*

15 - burden (of) proof The burden of proof is the responsibility to prove entries, deductions, and statements made on a tax return, which generally rests with the taxpayer. *Topic: Supporting Documentation (Burden of Proof)*

16 - Temporary Temporary Treasury Regulations may be issued without the usual public comment period when guidance is urgently needed. *Topic: Legal Authority and References (Regulations)*

17 - Internal Revenue Bulletin The Internal Revenue Bulletin (IRB) is the official publication for IRS rulings, procedures, Treasury Decisions, etc. *Topic: Legal Authority and References (IRB)*

18 - 10 / ten IRC Section 6502 provides a 10-year statutory period for collection after assessment, though this period can be suspended. *Topic: Taxpayer Financial Situation (CSED)*

19 - National / Local National Standards apply nationwide for items like food, clothing, etc. Local Standards vary by state/county for housing and utilities. *Topic: Taxpayer Financial Situation (Collection Financial Standards)*

20 - field An audit conducted at the taxpayer's location (home, business, accountant's office) is called a field audit. An audit at an IRS office is an office audit. *Topic: Building Taxpayer's Case (Audits)*

Matching 3.2

| Set 1 | Set 2 |
|-------|-------|
| 1-d | 11-t |
| 2-a | 12-k |
| 3-f | 13-m |
| 4-c | 14-r |
| 5-h | 15-q |
| 6-e | 16-s |
| 7-g | 17-n |
| 8-i | 18-l |
| 9-b | 19-o |
| 10-j | 20-p |

Calculation Problems 3.2

1 - \$1,677 Sum of allowances for 3 persons from Table 2-3: Food \$977 + Housekeeping \$83 + Apparel \$187 + Personal Care \$87 + Miscellaneous \$343 = \$1,677. *Topic: Taxpayer Financial Situation (National Standards)*

2 - \$83 Table 2-4 shows the monthly out-of-pocket health care standard for individuals under 65 is \$83. *Topic: Taxpayer Financial Situation (National Standards)*

3 - \$158 Table 2-4 shows the monthly out-of-pocket health care standard for individuals 65 and older is \$158. *Topic: Taxpayer Financial Situation (National Standards)*

4 - 2028 The IRS records future periods listed on Form 2848 up to 3 years from December 31 of the year received. If received in 2025, Dec 31, 2025 + 3 years = Dec 31, 2028. Thus, 2026, 2027, and 2028 would be recorded, but 2029 would not. *Topic: Power of Attorney (CAF Future Years)*

5 - \$156 Setup fee for online DDIA is \$22. Setup fee for standard agreement by phone is \$178. Difference = \$178 - \$22 = \$156. *Topic: Taxpayer Financial Situation (Installment Agreement Fees)*

6 - Direct Debit The text states that for businesses, balances over \$10,000 must be paid by Direct Debit when setting up an installment agreement. Since \$18,000 > \$10,000, Direct Debit is required. *Topic: Taxpayer Financial Situation (Installment Agreements)*

7 - Yes Individuals who owe \$50,000 or less can use the Online Payment Agreement (OPA) application. Since $\$45,000 \leq \$50,000$, they can use OPA. *Topic: Taxpayer Financial Situation (Installment Agreements)*

8 - \$1,143 Table 2-3 shows the monthly food allowance for a family of four is \$1,143. *Topic: Taxpayer Financial Situation (National Standards)*

9 - \$237 From Table 2-3 for two persons: Apparel & Services (\$157) + Personal Care Products & Services (\$80) = \$237. *Topic: Taxpayer Financial Situation (National Standards)*

10 - \$108 Increase = Miscellaneous allowance for two persons (\$279) - Miscellaneous allowance for one person (\$171) = \$108. *Topic: Taxpayer Financial Situation (National Standards)*

11 - \$808 Sum of allowances for 1 person from Table 2-3: Food \$458 + Housekeeping \$44 + Apparel \$87 + Personal Care \$48 + Miscellaneous \$171 = \$808. *Topic: Taxpayer Financial Situation (National Standards)*

12 - \$323 Difference = Food allowance for four persons (\$1,143) - Food allowance for two persons (\$820) = \$323. *Topic: Taxpayer Financial Situation (National Standards)*

13 - \$316 Allowance per person age 65 or older = \$158. Total for couple = $2 * \$158 = \316 . *Topic: Taxpayer Financial Situation (National Standards)*

14 - 2029 The IRS records future periods up to 3 years from Dec 31 of the year received. Received July 1, 2025 -> Dec 31, 2025 + 3 years -> Dec 31, 2028. Years 2026, 2027, 2028 recorded. Year 2029 is beyond the limit. *Topic: Power of Attorney (CAF Future Years)*

15 - \$10,000 A taxpayer is eligible for a guaranteed installment agreement if the tax owed is not more than \$10,000 (and other conditions are met). *Topic: Taxpayer Financial Situation (Installment Agreements)*

16 - 3 years One condition for a guaranteed installment agreement is that the taxpayer agrees to pay the full amount owed within 3 years. *Topic: Taxpayer Financial Situation (Installment Agreements)*

17 - \$69 The setup fee for applying online for a standard long-term payment plan (not DDIA) in 2024 is \$69, per Table 2-1. (Note: The source cited Table 2-1, but the value \$69 appears under 'Apply online:' in Option 2. The table label refers to "Payment Plans (2024)"). *Topic: Taxpayer Financial Situation (Installment Agreement Fees)*

18 - \$165 From Table 2-3: Housekeeping for three persons (\$83) + Housekeeping for four persons (\$82) = \$165. *Topic: Taxpayer Financial Situation (National Standards)*

19 - \$62 Difference = Miscellaneous for four persons (\$405) - Miscellaneous for three persons (\$343) = \$62. *Topic: Taxpayer Financial Situation (National Standards)*

20 - Three years Both Tax Return Transcripts and Tax Account Transcripts are generally available for the current year and the past three years. *Topic: Building Taxpayer's Case (Transcripts)*

Section 3.3 - Specific Types of Representation

Multiple Choice 3.3

1 - d. 10 years from assessment Internal Revenue Code Section 6502 generally provides that the length of the period for collection after assessment of a tax liability is 10 years. *Topic: Collections Statute of Limitations (CSED)*

2 - b. Form 1127 Taxpayers use Form 1127, Application for Extension of Time for Payment of Tax Due to Undue Hardship, to request an extension under IRC Section 6161. *Topic: Representing Taxpayer in Collection Process (Extension to Pay)*

3 - b. The amount offered represents the most the IRS can expect to collect within a reasonable time. The IRS generally approves an OIC when the offered amount is the most they can expect to collect within a reasonable period. Taxpayers must be current with filing/payments and not in open bankruptcy. *Topic: Representing Taxpayer in Collection Process (Offer in Compromise)*

4 - b. 30 days A taxpayer generally has 30 days from the date shown on a CDP notice (like NFTL filing or final notice of intent to levy) to request a CDP hearing using Form 12153. *Topic: Representing Taxpayer in Collection Process (CDP Hearing)*

5 - b. Individuals responsible for collecting and paying withheld income and employment taxes who willfully fail to do so. The TFRP may be assessed against any person who is responsible for collecting or paying trust fund taxes (withheld income and employment taxes) and willfully fails to do so. *Topic: Representing Taxpayer in Collection Process (Trust Fund Recovery Penalty)*

6 - d. Statutory Notice of Deficiency (90-day Letter) If a taxpayer doesn't agree with audit changes after Appeals (or bypasses Appeals), the IRS issues a Statutory Notice of Deficiency (90-day letter), notifying them of the intent to assess and their right to petition the Tax Court. *Topic: Representing Taxpayer Before Appeals (Notices)*

7 - c. The taxpayer must present new information not considered in the original audit, or show they did not appear for the audit. Audit Reconsideration may be requested if the taxpayer has additional information not provided during the original audit, did not appear for the audit, or believes there was a material error. Payment status doesn't preclude a request if tax remains unpaid. *Topic: Representing Taxpayer in Audits/Examinations (Audit Reconsideration)*

8 - b. U.S. District Court or U.S. Court of Federal Claims These courts generally hear tax cases only after the taxpayer has paid the tax and filed a claim for a credit or refund which the IRS has denied or not acted upon within 6 months. The Tax Court hears cases before payment. *Topic: Representing Taxpayer Before Appeals (Appeals to Courts)*

9 - c. The requester's reason for needing the information. A FOIA request must be in writing, state it's made under FOIA, reasonably describe the records sought, include requester identification (and proof if for personal records), and include a commitment to pay fees. The reason for the request is generally not required. *Topic: Freedom of Information Act (FOIA)*

10 - d. Collection Appeals Program (CAP) The Collection Appeals Program (CAP) allows taxpayers to appeal many collection actions quickly, often before or after the action is taken (like liens, levies, installment agreement issues), but CAP decisions cannot be appealed to court. CDP offers court appeal rights. *Topic: Representing Taxpayer in Collection Process (Collection Appeals)*

11 - c. A substantial financial loss if forced to pay on the due date (e.g., selling property at a sacrifice price). "Undue hardship" for Form 1127 means more than inconvenience; the taxpayer must show substantial financial loss, like having to sell property at a sacrifice price, if forced to pay on the due date. *Topic: Representing Taxpayer in Collection Process (Extension to Pay - Undue Hardship)*

12 - b. Collection activities are generally suspended, but a Notice of Federal Tax Lien may still be filed. While an OIC is pending, collection activities are generally suspended, and the collection statute is extended. However, the IRS may still file a Notice of Federal Tax Lien. Existing installment agreement payments are not required during OIC evaluation. *Topic: Representing Taxpayer in Collection Process (Offer in Compromise)*

13 - b. CDP decisions can be appealed to the U.S. Tax Court, while CAP decisions generally cannot. A key difference is judicial review: taxpayers can petition the Tax Court if they disagree with a CDP determination, but CAP decisions made by Appeals are final and cannot be taken to court. Both can address liens and levies. *Topic: Representing Taxpayer in Collection Process (CDP vs CAP)*

14 - c. If there was an unreasonable error or delay by the IRS in performing a ministerial or managerial act. The IRS can abate interest only if an unreasonable error or delay in performing a ministerial or managerial act occurred by an IRS officer or employee, and the taxpayer did not significantly contribute to the error/delay. Reasonable cause is generally for penalty abatement, not interest. *Topic: Penalties and/or Interest Abatement*

15 - c. The attorney-client privilege, but only for noncriminal tax matters before the IRS or federal court. IRC Section 7525 extends the common law attorney-client confidentiality privilege to federally authorized tax practitioners regarding tax advice, but it applies only in noncriminal tax matters before the IRS or in federal court proceedings involving the U.S.. *Topic: Representing Taxpayer in Audits/Examinations (Practitioner Privilege)*

16 - b. To summarize the examiner's proposed changes to the tax liability after an audit. A Revenue Agent Report (RAR), like Form 4549, contains information explaining the proposed adjustments and how the resulting tax liability was computed following an examination. *Topic: Representing Taxpayer in Audits/Examinations (Revenue Agent Report)*

17 - c. Statutory Notice of Deficiency (90-day letter) If a taxpayer doesn't respond to a 30-day letter or fails to reach an agreement with Appeals, the IRS typically issues a Statutory Notice of Deficiency (90-day letter), which allows the taxpayer 90 days (or 150 if outside the U.S.) to petition the Tax Court. *Topic: Representing Taxpayer Before Appeals (Notices)*

18 - c. Separation of Liability Relief Separation of Liability relief provides for the allocation of an understatement of tax (plus penalties/interest) on a joint return between spouses when they are no longer married, are legally separated, or have lived apart for 12 months. The allocation is generally based on items attributable to each spouse. *Topic: Representing Taxpayer in Audits/Examinations (Innocent Spouse Relief Types)*

19 - d. Nine While the FOIA grants access rights, the IRS (like other agencies) may withhold information pursuant to nine exemptions and three specific exclusions contained in the FOIA statute. *Topic: Freedom of Information Act (FOIA Exemptions)*

20 - d. \$25,000 If the Tax Court determines a taxpayer's petition was primarily intended to cause delay, or the position was frivolous or groundless, the Court may impose a penalty of up to \$25,000. *Topic: Appeals to the Courts (Tax Court Penalties)*

Fill-in-the-Blanks 3.3

1 - five / 5 The law requires the IRS to notify the taxpayer in writing within 5 business days after filing a Notice of Federal Tax Lien. *Topic: Representing Taxpayer in Collection Process (Lien Notice)*

2 - Equivalent If a taxpayer misses the 30-day deadline for a CDP hearing, they can request an Equivalent Hearing within one year from the levy notice date or one year plus five business days from the NFTL filing date. *Topic: Representing Taxpayer in Collection Process (Equivalent Hearing)*

3 - Currently Not Collectible When the IRS determines collection potential is low due to hardship, inability to locate, etc., the account may be placed in Currently Not Collectible (CNC) status, suspending active collection. *Topic: Representing Taxpayer in Collection Process (Currently Not Collectible)*

4 - employee The TFRP amount equals the unpaid trust fund taxes, which are the withheld income taxes plus the employee's share of withheld FICA taxes. *Topic: Representing Taxpayer in Collection Process (Trust Fund Recovery Penalty)*

5 - 3 / 2 To request a credit or refund of interest paid, Form 843 must generally be filed within 3 years from the date the original return was filed or 2 years from the date the interest was paid, whichever is later. *Topic: Penalties and/or Interest Abatement (Claim Time Limits)*

6 - 90 A taxpayer has 90 days (150 days if the notice is addressed outside the U.S.) from the date a Statutory Notice of Deficiency is mailed to file a petition with the Tax Court. *Topic: Representing Taxpayer Before Appeals (Tax Court Petition Deadline)*

7 - \$25,000 A formal written protest is generally required for Appeals unless the taxpayer qualifies for the small case request procedure, which applies if the total amount for any tax period (tax, penalties, proposed assessment, or claimed refund) is not more than \$25,000. *Topic: Representing Taxpayer Before Appeals (Written Protest Threshold)*

8 - noncriminal The IRC Section 7525 privilege applies common law attorney-client confidentiality protections to federally authorized tax practitioners giving tax advice, but only in noncriminal tax matters before the IRS or in noncriminal federal court tax proceedings. *Topic: Representing Taxpayer in Audits/Examinations (Practitioner Privilege Scope)*

9 - 2 / two A taxpayer generally must file suit for a credit or refund no later than 2 years after the IRS mails a notice of claim disallowance. (They can file earlier if the IRS hasn't acted within 6 months of the claim being filed). *Topic: Representing Taxpayer Before Appeals (Refund Suit Deadline)*

10 - nine / 9 A request to the IRS for the return of wrongfully levied property must be made in writing within 9 months of the date of the levy. *Topic: Representing Taxpayer in Collection Process (Wrongful Levy)*

11 - lien / levy A lien is the government's legal claim against property to secure a debt, while a levy is the actual seizure of property to satisfy the debt. *Topic: Representing Taxpayer in Collection Process (Lien vs Levy)*

12 - third parties The IRS must generally give reasonable advance notice before contacting third parties (neighbors, banks, employers) regarding a taxpayer's liability, subject to exceptions. *Topic: Representing Taxpayer in Collection Process (Third Party Contact)*

13 - \$10,000 IRS policy generally requires filing a Notice of Federal Tax Lien (NFTL) on accounts being reported CNC when the aggregate unpaid balance of assessments is \$10,000 or more. *Topic: Representing Taxpayer in Collection Process (CNC and Liens)*

14 - responsible The TFRP may be assessed against any person considered "responsible" for collecting and paying over trust fund taxes. A responsible person has the duty and power to direct these actions. *Topic: Representing Taxpayer in Collection Process*

15 - managerial A managerial act involves the exercise of judgment or discretion concerning personnel management or the loss of records by the IRS. Unreasonable delay or error in such acts can be grounds for interest abatement. *Topic: Penalties and/or Interest Abatement*

16 - ministerial A ministerial act is a procedural or mechanical IRS action not involving judgment or discretion. Unreasonable error or delay in such acts can be grounds for interest abatement. *Topic: Penalties and/or Interest Abatement (Ministerial Act)*

17 - 13711 If an Offer in Compromise is rejected, the taxpayer may appeal the rejection within 30 days using Form 13711, Request for Appeal of Offer in Compromise. *Topic: Representing Taxpayer in Collection Process (OIC Appeal)*

18 - Law The standard format for Form 886-A, Explanations of Items (used in unagreed cases), includes sections for Facts, Law (stating applicable Code, Regs, Rulings), Government's Position, Taxpayer's Position, and Conclusion. *Topic: Representing Taxpayer in Audits/Examinations (Revenue Agent Report)*

19 - small case request If the total amount for any tax period is \$25,000 or less, a taxpayer may make a small case request to Appeals instead of filing a formal written protest. *Topic: Representing Taxpayer Before Appeals (Small Case Request)*

20 - identity If a FOIA request involves an individual's or business's tax records, the requester must provide proof of identity, such as a copy of a driver's license or a notarized statement. *Topic: Freedom of Information Act (FOIA Request Requirements)*

Matching 3.3

| Set 1 | Set 2 |
|-------|-------|
| 1-g | 11-m |
| 2-c | 12-r |
| 3-e | 13-l |
| 4-a | 14-n |
| 5-i | 15-o |
| 6-b | 16-k |
| 7-d | 17-t |
| 8-f | 18-s |
| 9-j | 19-p |
| 10-h | 20-q |

Calculation Problems 3.3

1 - June 15, 2030 The CSED is 10 years from the date of assessment. 10 years from June 15, 2020, is June 15, 2030. *Topic: Collection Statute Expiration Date (CSED)*

2 - Yes The notice date is March 1, 2025. The request must be made within 30 days. March 25, 2025, is within 30 days of March 1, 2025. *Topic: Collection Due Process (CDP) Hearing Deadline*

3 - May 8, 2026 The deadline is one year plus five business days after the NFTL filing date. One year after May 1, 2025, is May 1, 2026. Assuming May 1, 2026, is a Friday, five business days would be May 8, 2026. (Exact date depends on weekends/holidays). *Topic: Equivalent Hearing Deadline*

4 - 5 business days The IRS is required to notify a taxpayer within 5 business days after filing a Notice of Federal Tax Lien. *Topic: Notice of Federal Tax Lien Filing*

5 - 30 days If an OIC is rejected, the taxpayer generally has 30 days to appeal using Form 13711. *Topic: Offer in Compromise (OIC) Appeal Deadline*

6 - Yes The deadline is the later of 3 years from filing or 2 years from payment. 2 years from payment (18 months ago) is the later date here. Since 18 months is within the 2-year limit from payment, the claim is timely. *Topic: Interest Abatement Claim Deadline*

7 - October 8, 2025 The deadline is 90 days after the mailing date. July 10 + 90 days = October 8, 2025. *Topic: Tax Court Petition Deadline*

8 - No The small case request procedure applies only if the total amount for the tax period is \$25,000 or less. \$27,000 exceeds this threshold. *Topic: Appeals Small Case Request Threshold*

9 - Approx. 9 months The collection statute is suspended while an OIC is pending (8 months) and for 30 days after rejection if no appeal is filed. Total suspension is approximately 8 months + 1 month = 9 months. *Topic: Collection Statute Expiration Date (CSED Suspension - OIC)*

10 - 11 months The statute was suspended from OIC submission (April 1, 2025) until the date Appeals issued its final determination (March 1, 2026). This period is 11 months. (The 30 days for filing the appeal is included within this suspension period). *Topic: CSED Suspension (OIC Pending/Appeal)*

11 - 24 months The CSED is suspended for the period of the automatic stay (18 months) plus 6 months. Total suspension/extension = 18 + 6 = 24 months. *Topic: CSED Suspension (Bankruptcy)*

12 - June 1, 2027 An Offer in Compromise is automatically accepted if the IRS does not make a determination within two years of the IRS receipt date[cite: 1414]. June 1, 2025 + 2 years = June 1, 2027. *Topic: Offer in Compromise (Evaluation Timeframe)*

13 - \$50,000 The TFRP amount is equal to the unpaid balance of the trust fund tax. Since the unpaid amount was \$50,000, the potential penalty is \$50,000. *Topic: Trust Fund Recovery Penalty (TFRP) Amount*

14 - April 13, 2026 The deadline is 180 days from the mailing date of the notice of final determination. October 15, 2025 + 180 days = April 13, 2026. *Topic: Interest Abatement Appeal to Tax Court Deadline*

15 - \$25,000 The Tax Court may impose a penalty of up to \$25,000 if a taxpayer unreasonably fails to pursue administrative remedies or takes a frivolous or groundless position. *Topic: Tax Court Penalties*

16 - No The deadline is generally 30 days from the date of the 30-day letter. July 10, 2025, is more than 30 days after June 1, 2025. *Topic: Appeals Request Deadline (30-Day Letter)*

17 - Yes A taxpayer can file suit if the IRS has not acted on a refund claim within 6 months from the date it was filed. September 1, 2025, is 6 months after March 1, 2025. *Topic: Refund Suit Timing*

18 - No The suit must be filed no later than 2 years after the mailing date of the notice of claim disallowance. 2 years and 3 months is beyond the deadline. *Topic: Refund Suit Deadline*

19 - \$65 The request should include a commitment to pay applicable fees. Total estimated fees = \$50 (search) + \$15 (copying) = \$65. *Topic: Freedom of Information Act (FOIA Fees)*

20 - No The deadline to request Innocent Spouse Relief or Separation of Liability is generally 2 years from the date the IRS *first attempted to collect* the tax. Since no collection attempt was made, the clock hasn't started for these provisions based solely on the notice of deficiency. (Equitable relief has different timing rules based on the CSED). *Topic: Innocent Spouse Relief Timing*

Section 3.4 - Completion of the Filing Process

Multiple Choice 3.4

1 - b. 11 Any tax return preparer who anticipates preparing and filing 11 or more Forms 1040 and 1041 during a calendar year must generally use IRS e-file. Members of firms must count returns in aggregate. *Topic: IRS e-File Requirements*

2 - c. Form 8944 Specified tax return preparers may request an undue hardship waiver from the e-file requirement using Form 8944, Preparer e-file Hardship Waiver Request, generally submitted by February 15th. *Topic: IRS e-File Requirements (Waiver)*

3 - c. A number assigned by the IRS to identify firms authorized for IRS e-file. The IRS assigns an Electronic Filing Identification Number (EFIN) to identify firms that have completed the application and suitability check to become an Authorized IRS e-file Provider. *Topic: IRS e-File (EFIN)*

4 - c. Gramm-Leach-Bliley Act (GLBA) The Gramm-Leach-Bliley Act (GLBA), and its implementing rules like the FTC Safeguards Rule, require financial institutions (including preparers) to ensure the security and confidentiality of customer information. *Topic: Safeguarding Taxpayer Information (GLBA)*

5 - c. \$10,000 IRC Section 6713 imposes a monetary penalty of \$250 for each unauthorized disclosure or use of taxpayer information by a preparer, with a maximum total penalty of \$10,000 per calendar year. *Topic: Safeguarding Taxpayer Information (IRC §6713 Penalty)*

6 - b. Form 8879 Form 8879, IRS e-file Signature Authorization, is the declaration and signature form used when an ERO uses the Practitioner PIN method or enters the taxpayer's PIN for an e-filed individual return. *Topic: Significance of Signatures (Form 8879)*

7 - b. 24 hours If an ERO receives a rejection and cannot rectify the reason, they must take reasonable steps to inform the taxpayer of the rejection within 24 hours. *Topic: Rejected Electronically Filed Returns (Notification)*

8 - b. Electronic Federal Tax Payment System (EFTPS) EFTPS is a free system offered by the U.S. Treasury allowing enrolled individual and business taxpayers to make federal tax payments electronically via the internet or phone. *Topic: Payment Options (EFTPS)*

9 - c. Three Taxpayers can use Form 8888 to request their refund be directly deposited into up to three separate accounts. *Topic: Refund Options (Direct Deposit - Form 8888)*

10 - b. Form 8379 A taxpayer whose share of a joint refund was or will be offset for their spouse's separate past-due debt may be able to reclaim their share by filing Form 8379, Injured Spouse Allocation. *Topic: Refund Options (Injured Spouse)*

11 - c. Educational background check The IRS suitability check for e-file providers may include credit history, tax compliance, criminal background, and prior e-file compliance checks. Educational background is not typically listed as part of this check. *Topic: IRS e-File Provider Application (Suitability Check)*

12 - c. Timely originating the electronic submission of returns they either prepared or collected from a taxpayer. An ERO originates the electronic submission after taxpayer authorization. Responsibilities include timely origination, submitting paper docs if needed, providing copies, retaining records, etc.. Software development and payment processing are typically separate roles. Refund timing is up to the IRS. *Topic: IRS e-File (ERO Responsibilities)*

13 - c. Information Security Plan (WISP) The FTC Safeguards Rule requires covered entities, including tax preparers, to create, implement, and maintain a written Information Security Plan (WISP) with appropriate safeguards. *Topic: Written Information Security Plans (WISP)*

14 - c. Form 8879-PE Form 8879-PE is the IRS e-file Signature Authorization used when a general partner or LLC member manager uses a PIN to sign an electronic partnership return (Form 1065). Form 8879 is for 1040, 8879-C for 1120, 8879-EO for exempt orgs. *Topic: Significance of Signatures (Partnership e-file)*

15 - b. File the return on paper with Form 8948 explaining the reject code. If an e-file reject occurs because a dependent's SSN was used elsewhere, and the preparer confirms the taxpayer is entitled to the exemption, the return must generally be filed on paper. Form 8948, Preparer Explanation for Not Filing Electronically, should be attached. *Topic: Rejected Electronically Filed Returns (Resolution)*

16 - c. IRS Direct Pay IRS Direct Pay allows individual taxpayers with an SSN to make Form 1040 series payments directly from a checking or savings account via an IRS web application. EFTPS requires enrollment. OPA sets up installment agreements. *Topic: Payment Options (IRS Direct Pay)*

17 - b. Direct deposit to a SIMPLE IRA. Refunds can be directly deposited to traditional IRAs, Roth IRAs, or SEP-IRAs, but not SIMPLE IRAs. Direct deposit to checking/savings, purchase of savings bonds, and paper checks are other options. *Topic: Refund Options (IRA Deposits)*

18 - c. Federal student loans The Treasury Offset Program (TOP) allows BFS to offset federal tax refunds for debts such as past-due child support, federal agency non-tax debts (like student loans), state income tax, and certain unemployment debts. Private debts are generally not included. *Topic: Refund Options (Offsets)*

19 - c. File Form 1040-X, Amended U.S. Individual Income Tax Return. If a taxpayer needs to correct an error after filing related to filing status, income, deductions, or credits, they should generally file Form 1040-X, Amended U.S. Individual Income Tax Return. *Topic: Amended Returns*

20 - c. IRC Section 7216 IRC Section 7216 imposes criminal penalties (misdemeanor) on preparers who knowingly or recklessly disclose or use tax return information improperly. IRC Section 6713 imposes monetary penalties for such actions. *Topic: Safeguarding Taxpayer Information (IRC §7216)*

Fill-in-the-Blanks 3.4

- 1 - Electronic Return Originator** The ERO is the Authorized IRS e-file Provider that originates the electronic submission of a return. *Topic: IRS e-File Roles (ERO)*
- 2 - Written Information Security Plan** Federal law requires preparers to have a written data security plan, often referred to as a Written Information Security Plan or WISP, under the FTC Safeguards Rule. *Topic: Written Information Security Plans (WISP)*
- 3 - 7216** IRC Section 7216 imposes criminal penalties for improper disclosure or use of return information. *Topic: Safeguarding Taxpayer Information (IRC §7216)*
- 4 - perjury** Tax returns are signed under penalty of perjury, declaring that the information is true, correct, and complete to the best of the taxpayer's knowledge. *Topic: Significance of Signatures*
- 5 - 10 / ten** If an e-filed return is rejected, the taxpayer must generally file a corrected electronic return or a paper return within 10 calendar days after the IRS rejection notification to be considered timely filed. *Topic: Rejected Electronically Filed Returns (Timely Resubmission)*
- 6 - \$25,000** For individual installment agreements set up in 2024, balances over \$25,000 must generally be paid by Direct Debit. *Topic: Payment Options (Installment Agreements)*
- 7 - \$1,000** Individuals generally must pay estimated tax if they expect to owe at least \$1,000 when they file their return (and meet withholding requirements). *Topic: Payment Options (Estimated Taxes)*
- 8 - three / 3** The IRS limits direct deposits to a maximum of three refunds into a single financial account or prepaid debit card per year. *Topic: Refund Options (Direct Deposit Limit)*
- 9 - \$5,000** Using Form 8888, taxpayers can elect to use part of their refund to buy up to \$5,000 in U.S. Series I Savings Bonds. *Topic: Refund Options (Savings Bonds)*
- 10 - 3 / 2** A claim for refund (Form 1040-X) must generally be filed within 3 years from the date the original return was filed (or due date, if later) or 2 years from the date the tax was paid, whichever is later. *Topic: Amended Returns (Time Limit)*
- 11 - firm** The EFIN is assigned to and owned by the firm (business or organization) that applied to be an Authorized IRS e-file Provider. *Topic: IRS e-File (EFIN)*
- 12 - technical** The GLBA Safeguards Rule requires administrative, physical, and technical safeguards appropriate to the entity's size, complexity, and activities. *Topic: Safeguarding Taxpayer Information (Safeguards)*

13 - security An adverse event affecting confidentiality, integrity, or availability of taxpayer data is an information security incident. *Topic: Safeguarding Taxpayer Information (Incidents)*

14 - personal Failure to comply with the Safeguards Rule can result in FTC enforcement actions, including fines against the company and potentially against individuals within the firm. *Topic: Written Information Security Plans (WISP Penalties)*

15 - Social Security Administration Taxpayers report name changes to the Social Security Administration (SSA), typically using Form SS-5, so IRS records match. *Topic: Taxpayer Data (Name Changes)*

16 - SSA (Social Security Administration) If an e-file reject occurs due to a name/SSN mismatch, the taxpayer likely needs to contact the SSA to ensure their records are correct. *Topic: Rejected Electronically Filed Returns (Resolution)*

17 - \$100,000 High balance tax payments of \$100,000 or greater made via debit or credit card may require special coordination with the payment processor. *Topic: Payment Options (Card Payments)*

18 - 250% Taxpayers with income at or below 250% of the federal poverty guidelines may qualify for reduced user fees (\$43) for installment agreements. *Topic: Payment Options (Installment Agreement Fees)*

19 - IRS2Go Refund status can be checked via the "Where's My Refund?" tool on IRS.gov or the IRS2Go mobile app. *Topic: Refund Options (Status Check)*

20 - larger / more If a taxpayer receives a refund larger than expected, they should not cash the check until receiving an IRS notice explaining the difference. *Topic: Refund Options (Incorrect Amount)*

Matching 3.4

| Set 1 | Set 2 |
|-------|-------|
| 1-h | 11-r |
| 2-e | 12-m |
| 3-b | 13-k |
| 4-j | 14-s |
| 5-g | 15-q |
| 6-d | 16-t |
| 7-a | 17-p |
| 8-f | 18-l |
| 9-i | 19-n |
| 10-c | 20-o |

Calculation Problems 3.4

1 - Yes Total returns = 5 (A) + 8 (B) + 2 (C) = 15 returns. Since 15 is more than 11, the firm meets the threshold, and all preparers in the firm generally must e-file. *Topic: E-file Mandate (Firm Aggregate)*

2 - 4 years Employment tax records must generally be kept for at least 4 years after the date the tax becomes due or is paid, whichever is later. *Topic: Record Maintenance*

3 - \$10,000 The penalty under IRC §6713 is \$250 per disclosure, but the total amount imposed on a person for a calendar year cannot exceed \$10,000. *Topic: Safeguarding Taxpayer Information (IRC §6713 Penalty Limit)*

4 - Wednesday, March 13th The ERO must mail Form 8453 within 3 business days after receiving acceptance acknowledgment. If acceptance is received Friday, March 8th, the 3 business days are Monday (11th), Tuesday (12th), and Wednesday (13th). *Topic: E-file Procedures (Form 8453 Deadline)*

5 - \$5,000 Using Form 8888, taxpayers can elect to use part or all of their refund to buy up to \$5,000 in U.S. Series I Savings Bonds. *Topic: Refund Options (Savings Bonds)*

6 - \$178 Table 4-3 shows the fee for applying by phone, mail, or in-person for a standard long-term payment plan (Option 2) is \$178. *Topic: Payment Options (Installment Agreement Fees)*

7 - No Corporations generally have to make estimated tax payments if they expect to owe tax of \$500 or more. Since \$450 is less than \$500, they are generally not required. *Topic: Payment Options (Estimated Taxes - Corporate Threshold)*

8 - 1 refund The IRS limits direct deposits to three refunds per single account per year. Attempting to deposit a fourth refund to that account would likely result in rejection (IRS would issue a check instead). The question asks how many *reject*, so 4 attempts - 3 allowed = 1 rejected. *Topic: Refund Options (Direct Deposit Limit)*

9 - December 31st (of 2024) Preparer Tax Identification Numbers (PTINs) must be renewed annually by December 31st for the upcoming (e.g., 2025) filing season. *Topic: Preparer Tax Identification Number (PTIN Renewal)*

10 - \$5,000 The penalty under IRC §6713 is \$250 per improper use. 20 uses * \$250/use = \$5,000. This is below the annual maximum of \$10,000. *Topic: Safeguarding Taxpayer Information (IRC §6713 Penalty)*

11 - 12 returns The threshold applies to the combined number of Forms 1040 and 1041. Total = 9 (1040) + 3 (1041) = 12 returns. *Topic: E-file Mandate (Forms Counted)*

12 - 3 years While some ERO records have specific retention periods, general tax return records (and likely copies of filed returns/signature forms) should align with the standard 3-year statute of limitations for assessment/refund unless a longer period applies. (Note: The text in L4 S4.2 specifies EROs must retain certain material until the end of the calendar year at their business address, but Pub 1345 typically requires 3 years for Forms 8879/8453 and return copies). *Topic: Record Maintenance (ERO Records)*

13 - \$1,750 The penalty is \$250 per unauthorized use. 7 uses * \$250/use = \$1,750. This is below the \$10,000 annual maximum. *Topic: Safeguarding Taxpayer Information (IRC §6713 Penalty)*

14 - Wednesday, March 13th Acknowledgement received Friday, March 8th. The next 3 business days are Monday March 11th, Tuesday March 12th, and Wednesday March 13th. *Topic: E-file Procedures (Form 8453 Deadline)*

15 - 2 filings The rule mentioned limits filings from one software package to five. Filing 7 returns exceeds this limit by 2. *Topic: IRS e-File Rules (Online Filing Limit)*

16 - \$0 (Waived) Table 4-3 indicates the setup fee for low-income taxpayers applying online for a Direct Debit Installment Agreement (DDIA) is waived. *Topic: Payment Options (Installment Agreement Fees - Low Income)*

17 - \$2,000 The prior year safe harbor requires paying the lesser of 90% of current year tax or 100% of prior year tax. 100% of the prior year tax liability (\$2,000) is \$2,000. *Topic: Payment Options (Estimated Tax Safe Harbor)*

18 - \$1,980 The current year safe harbor requires paying at least 90% of the current year tax liability. $90\% \text{ of } \$2,200 = \$1,980$. *Topic: Payment Options (Estimated Tax Safe Harbor)*

19 - 12 weeks The text states refunds from amended returns will generally be issued within 12 weeks. *Topic: Amended Returns (Processing Time)*

20 - \$10,800 To meet the 90% current year safe harbor for estimated taxes, the taxpayer must pay at least 90% of the tax shown on the current year return. $90\% \text{ of } \$12,000 = \$10,800$. *Topic: Payment Options (Estimated Tax Safe Harbor)*