

Final Exam

1040 Workshop

The following exam is attached only for your convenience. To access the official exam for this self-study course, please log into your account online and take the Final Exam from the course details page. A passing score of 70 percent or better will receive course credit and a Certificate of Completion.

1. Richard anticipates reporting a taxable income of \$210,000 for 2025. When he files his federal income taxes as a single taxpayer, of the following marginal income tax rate brackets, he would be taxed at the:
 - a. 22% rate.
 - b. 24% rate.
 - c. 32% rate.
 - d. 35% rate.
2. Stanley's total itemized deductions, otherwise allowable, have been subject to §68. On his 2025 tax return, since he is married filing jointly with an AGI of \$330,000, how would the §68 limitation on his total itemized deductions be applied:
 - a. his deductions would be subject to phase-out and reduction.
 - b. he would still take a partial deduction.
 - c. his deductions must be amortized over five years.
 - d. there would be no §68 limitation because of the TCJA suspension.
3. Who of the following taxpayers would most likely be able to deduct mileage for operating a passenger vehicle using the standard mileage rate?
 - a. Sally, for mileage to and from her daughter's daycare.
 - b. Ralph, for commuting to his job.
 - c. Lisa, for travel to and from a church retreat.
 - d. Randy, for delivery of food to his grocery store customers.
4. Mario and Inez, who were married and became naturalized U.S. citizens early last year, met this March with their tax advisor for help filing their tax returns. They want to know what their filing options are. Their tax advisor explains to them that they have two options. They may file a joint return or:
 - a. head of household returns.
 - b. a nonresident return specially prepared by the IRS.

- c. separate returns.
 - d. single taxpayer returns.
5. Harry and Sally were married on December, 28 so they could spend part of their honeymoon celebrating New Year's Eve in New York City. When it comes to filing his federal income taxes, which day of the year would Harry use to determine marital status?
- a. the first day.
 - b. the last day.
 - c. April 15th.
 - d. June 15th.
6. The company Joe works for has transferred him to Saudi Arabia to work on a two-year project. However, his spouse, Sandra, does not want to live in Saudi Arabia, so the couple, who have two small children, have agreed to live apart during those two years. Sandra, who is an attorney, is responsible for caring for their children and for most of the expenses associated with maintaining their household in Joe's absence. She decides to file a separate return. Assuming Joe and Sandra meet all the necessary criteria for taxpayers in their situation, what conclusion may the IRS make regarding their filing status?
- a. Joe and Sandra are common law spouses.
 - b. Sandra is an "injured" spouse.
 - c. One spouse or the other qualifies as head of household.
 - d. Joe and Sandra can be deemed unmarried.
7. Phil, who is from Canada, became a naturalized U.S. citizen in October. In December, he married Martina, who is an Argentinean, in Saratoga Springs, New York. Their tax advisor should inform them that, in order to file a joint return, at least one spouse must be a U.S. citizen or resident, and that, in their case, Phil's citizenship would be determined:
- a. at the end of the year.
 - b. at the beginning of the tax year.
 - c. on the due date of the return.
 - d. on April 15th of the calendar year.
8. Sharon and Jerrod, who have been filing separately, meet with their tax advisor to discuss switching to a joint return. Their advisor should explain to them that, to switch, they must refile jointly within three years from the:
- a. date they filed separate returns.
 - b. date of their tax assessment.
 - c. due date of the separate returns.
 - d. close of the taxable year.

9. Brad is married and would like to file as head of household, in lieu of married filing separately, since he has learned he qualifies. Should he decide to file as head of household, Brad would reasonably expect that:

- a.** he would also qualify for the earned income credit.
- b.** his personal exemption would be higher.
- c.** his standard deduction would be higher.
- d.** his tax would be higher.

10. In discussing filing as head of household with Frank, you explain that another condition he must meet is that a qualifying person must have lived with him in his home for over half the tax year. Frank replies that he has an elderly parent but does not know if she qualifies. You explain to him that he can meet this eligibility requirement even if Frank's mother:

- a.** files her own return.
- b.** is a nonresident alien.
- c.** is claimed as a dependent by another.
- d.** lives in a rest home.

11. Michelle has learned that the value of some fringe benefits she receives from her employer is includable in her gross income. She consults with you to find out how they are included. You would explain to her that, under Reg. §1.61-21(b), she would include the fringe benefit's fair market value, less any amounts paid by her or by:

- a.** certain case law exceptions.
- b.** the earned income credit advance payments.
- c.** reimbursed expenses.
- d.** statutory exclusion.

12. Samantha has purchased a rental property and anticipates receiving security deposits from her tenants. Since she has never previously owned rental property, Samantha consults with you concerning the relationship between such deposits and her income. You explain to her that security deposits could be excluded from income if the deposit is:

- a.** applied to the last month's rent.
- b.** returned to the tenant upon termination of the lease.
- c.** invested with interest going to the tenant.
- d.** used for improvements to the premises.

13. During the most recent tax year, Arnie received a new top-of-the-line fly fishing rod from his employer as an award for his outstanding sales performance. Arnie learns he must include this prize in his gross income and, when he meets with his tax advisor, asks him how he would do this. His advisor should explain to him that the value of the fly fishing rod is included in gross income based on its:

- a.** actual cost.
- b.** replacement value.
- c.** estimated value.
- d.** fair market value.

14. Jim is preparing to file his federal income taxes and notes that several unusual financial events have happened to him during the preceding year. He calls you to discuss which of these he needs to include in his gross income. Of the items he listed, you explain to him that he must include:

- a.** his discharge of indebtedness.
- b.** his insurance proceeds.
- c.** gifts.
- d.** municipal bonds.

15. Marty's bank has foreclosed on a recourse loan he took out to purchase some property. Marty consults with his advisor to find out what this means from a tax and financial standpoint. His advisor should inform Marty that, with recourse indebtedness, he may receive ordinary income and that:

- a.** his debts are dischargeable in bankruptcy.
- b.** he is personally liable on the debt.
- c.** his lender has unlimited time to collect the debt.
- d.** his lending institution only looks to the property for recovery.

16. Susan and Ken want to exchange some personal property with friends and meet with their tax advisor to discuss the matter. Their tax advisor points out to them that the value of property received could be included in income if received:

- a.** as a gift.
- b.** as an inheritance.
- c.** as damages.
- d.** in a barter transaction.

17. Al would like to know what comprises taxable investment income for his minor children. You should explain to him that this would include amounts derived from property received by his children as gifts under the Uniform Gifts to Minors Act *or* under the:

- a.** Uniform Conveyance Act.
- b.** Uniform Commercial Code.
- c.** Uniform Support Act.
- d.** Uniform Transfers to Minors Act.

18. Mike is considering some §135 educational savings bonds, which he wishes to use to help finance his two daughters' college educations. He wants to know how to apply the tax advantage of using such a bond for educational purposes. Among the things you would point out to him, you would want him to make sure that the bonds:

- a.** are owned jointly by him and his spouse.
- b.** were issued in 1988.
- c.** were issued to a taxpayer who is 22.
- d.** are purchased by a parent and placed in his daughters' names.

19. Which of the following individuals is in the best position to exclude from gross income an amount received as being under a qualified §117 scholarship?

- a.** Hallie, who received a full scholarship from Sarah Lawrence College and is majoring in English as a degree candidate.
- b.** Mary, who is confined to a wheelchair and is taking an adult continuing education class at the local community college.
- c.** Barry, who received a post-graduate research fellowship at the University of Pittsburgh.
- d.** Carrie, who is a non-degree part-time student at Ball State University.

20. Following the untimely death of her spouse, Duane, Tonya received proceeds from his life insurance policy, which were payable upon death. Specifically, under §101(a), Tonya would treat these payments as:

- a.** deductible by her for gift tax purposes.
- b.** excludable from her gross income.
- c.** includable in the gross income of the estate.
- d.** subject to the alternative minimum tax.

21. During an insurance seminar he is presenting, Ethan is discussing damages resulting from personal injuries. A participant lists damages for certain injuries and would like to know which damages are excludable from income. Of the four listed below, Ethan should explain that damages are excludable from income when they are:

- a.** damages on account of nonphysical personal injury.
- b.** damages solely on account of emotional distress.
- c.** punitive damages on account of personal sickness.
- d.** damages on account of physical injury.

22. During the most recent tax year, Conrad paid interest and would like to be able to deduct these payments. Under §163 & §162, he would generally be able to deduct interest he pays during the tax year on:

- a.** debts related to his business.
- b.** debts allocable to personal credit cards.
- c.** income tax owed.
- d.** mortgage commissions, abstract fees, and recording fees.

23. During the most recent tax year, Nora paid interest on a loan to purchase some investment property. During their meeting, her accountant points out that Nora should be entitled to a deduction for such investment interest expense up to the amount of her:

- a.** investment expenses.
- b.** gross investment income.
- c.** net capital gain.
- d.** net investment income.

24. Robert took out a mortgage this year to finance some home improvements, including adding a new bedroom and bathroom and expanding the kitchen. For tax purposes, Robert should treat this debt as:

- a.** personal debt.
- b.** home equity debt.
- c.** home acquisition debt.
- d.** grandfathered debt.

25. Matthew and Joan took out a \$100,000 loan on their residence in order to help their daughter, a talented cellist who was accepted at the Juilliard School of Music, finance her education. Under §163, such a loan would most likely be classified as:

- a.** a student loan.
- b.** a nonrecourse loan.
- c.** deductible acquisition indebtedness.
- d.** nondeductible home equity loan.

26. If, in 2025, Ralph reports an adjusted gross income of \$100,000 on his federal tax return and also incurs medical and dental expenses during the same year. Under §213, what amount of these expenses could Ralph personally deduct?

- a.** amounts exceeding \$5,500.
- b.** amounts exceeding \$7,500.
- c.** amounts exceeding \$10,000.
- d.** amounts exceeding \$11,500.

27. Stanley, who owns a small tool manufacturing business, donated to four different organizations during the recent tax year. Of the organizations to which Stanley donated, for which one may Stanley deduct up to 50% of his adjusted gross income prior to carrying back any net operating loss?

- a.** First United Methodist Church.
- b.** Ames, Iowa, community bank.
- c.** A locally owned Montessori school.
- d.** Fox Indian tribal casino.

28. Gary made a charitable cash contribution of \$350 to the local food bank. In order to substantiate and therefore claim the deduction, what special requirement must Gary meet?

- a.** Gary must not receive any goods or services.
- b.** Gary must receive an account statement from the food bank.
- c.** Gary must write a check and retain it when canceled.
- d.** Gary must receive written recognition from the food bank for the amount donated.

29. James has learned that personal casualty losses are now generally disallowed. However, he has recently suffered a business casualty loss at his auto dealership and asks how they will be treated:

- a.** they are subject to a \$100-per-event reduction.
- b.** they are subject to the 10%-of-adjusted gross income threshold.
- c.** they are not subject to any restrictions.
- d.** they are fully deductible regardless of whether the damage occurred in a federal disaster area.

30. Frank is a member of the Armed Forces and has been on active duty for the past year. He has received a military order to move to a new base and has been granted a permanent change of station. Which of the following statements is true regarding his deduction for moving expenses?

- a.** Frank is eligible for the deduction for moving expenses.
- b.** Frank is not eligible for any deduction for moving expenses.
- c.** Frank is only eligible for the deduction of moving expenses outside the U.S.
- d.** Frank is eligible for a moving expense credit.

31. Carrie has a three-year-old child, whom she places in daycare during the days she works. Under §21, what would be the tax treatment of these expenses related to the care of her child?

- a.** They are amortizable.
- b.** They may qualify for a credit.
- c.** They are excludable from gross income.
- d.** They are nondeductible personal expenses.

32. Julie and Matt are married and have a combined income of \$30,000. They both work and meet the criteria established by law for the earned income tax credit (EITC). Which of the following statements is true regarding the earned income tax credit?

- a.** Their income will reduce the EITC to zero.
- b.** They are eligible for the EITC, but only if they owe taxes.
- c.** They are eligible for the EITC, but only if they earned enough money to file a return.
- d.** They are eligible for the EITC and may qualify for a refund even if they do not owe any tax.

33. Pedro, who is married and files jointly, expects an AGI of \$120,000 in 2025 and would like to claim a child tax credit under §24 for his two children, who are ages 10 and 7 respectively. Which of the following is likely in his case?

- a.** Based on his income, he will exceed the phaseout limit.
- b.** He will be unable to claim the credit since it has expired.
- c.** He will receive a \$2,000 tax credit per child.
- d.** He will receive a \$2,500 tax credit.

34. Laura had been attending the University of Oregon for two years when she found out students are eligible for the §25A American Opportunity tax credit. In Laura's case, the maximum annual credit amount for qualified tuition and related expenses potentially available to her in 2025 under this provision would be:

- a.** \$0.
- b.** \$2,000.
- c.** \$2,500.

d. \$2,800.

35. Katherine owns several apartment buildings in Corvallis, Oregon, that she rents out to university students. She uses part of the rental income to pay for insurance premiums. How should Katherine treat insurance premiums paid for rental purposes?

- a.** amortize them.
- b.** capitalize them.
- c.** subtract them from gross income to arrive at reportable income.
- d.** deduct them.

36. Wayne owns several rental units in Manhattan, Kansas, where he teaches in the French Department at Kansas State University. When Wayne has his accountant prepare and file his federal income tax returns, his accountant should be able to deduct as a rental expense a portion of tax return preparation fees spent on:

- a.** Schedule A.
- b.** Schedule B.
- c.** Schedule E.
- d.** Schedule D.

37. Sunny, the owner of a small herbal skincare products company, leases a commercial building for her manufacturing operation. Her agreement with the landlord requires her to pay real estate taxes on the leased building. How should she treat these taxes when she files her federal income taxes?

- a.** She may amortize them over the term of the lease.
- b.** She may deduct them as additional rent.
- c.** She may deduct them as property taxes.
- d.** She may take them as a lessor allowance.

38. Marilyn purchased a leasehold that she wants to use for business rental purposes. In her case, an equal portion of the cost is deductible each year over:

- a.** 10 years.
- b.** 27.5 years.
- c.** 39 years.
- d.** the term of the lease.

39. Makasuki is involved in a multi-level cosmetic activity that was held to be a not-for-profit business by the IRS. While she is allowed deductions for depreciation, insurance, and other expenses associated with her organization, these would be allowed only to the extent that:

- a.** adjusted gross income exceeds tax credits.
- b.** gross income exceeds said deductions.
- c.** investment income exceeds investment expenses.
- d.** net distributable income matches these expenses.

40. As a sole proprietor, Sheila's self-employment tax rate is based on net earnings and is a total of OASDI and MHI rates. As you assist her with her tax return, you should inform her that as a result of this combination, her total self-employment tax rate during the 2025 tax year is:

- a.** 7.65%.
- b.** 12.4%.
- c.** 13.3%.
- d.** 15.3%.

41. During a seminar you are presenting on the business use of a home, a participant states that she was told expenses related to any business use of her home are deductible as long as these expenses are merely appropriate and helpful to her business. You would need to explain to her that this was true formerly, but that long ago Congress adopted the §280A home office rules to prevent this deduction from being used to write off:

- a.** computers used in the home.
- b.** associated utility costs.
- c.** personal expenses.
- d.** home offices used by the self-employed.

42. During your seminar on the business use of a home, another participant asks if the home office deduction is limited when business use is made of a residence. You would reply that this deduction is limited to:

- a.** business taxable income.
- b.** net investment income.
- c.** gross income from the business use.
- d.** the taxpayer's adjusted gross income.

43. Molly needs to travel away from home in her work as a sales representative for a farm implements manufacturing firm. Therefore, she would treat her travel expenses as:

- a.** deductible.
- b.** amortizable.
- c.** 80% deductible.
- d.** 50% deductible.

44. Liam graduated from Emory University, packed a few possessions and took off across the country, stopping in various locations to take temporary jobs before moving on. Since Liam is unable to establish a tax home, the IRS would classify him for travel purposes as:

- a.** a taxpayer at large.
- b.** a roving employee.
- c.** an itinerant worker.
- d.** a seasonal worker.

45. Christopher does not have a tax home but wants to claim a "regular place of abode in a real substantial sense" in order to still be able to deduct travel expenses. According to IRS rules, Christopher would have this qualifying abode if he:

- a.** meets two of three requirements under the reasonable abode test.
- b.** files an election with the IRS designating one of their work locations as their tax home.
- c.** meets four of five requirements under the principal factors test.
- d.** meets just one requirement of the reasonable abode test.

46. John, who lives and works in Boulder, Colorado, needs to head a project in Dubai, where he will be located for the next five months. How would the IRS treat John's situation?

- a.** John would be deemed an itinerant worker.
- b.** John would be deemed away from home for the entire temporary period.
- c.** John would lose his "tax home."
- d.** John's "tax home" would move with him.

47. Barb drives from Billings, Montana, to Moses Lake, Washington, to visit a new customer who is opening an account with the company she works for in Billings. Which of the following tax concepts, based on a court case, would determine whether Barb is away from home and therefore able to deduct her travel expenses for meals (subject to the 50% rule) and lodging?

- a. the sleep and rest rule.
- b. the Correll rule.
- c. the extended stay rule.
- d. the 50-mile rule.

48. Lisa is on a four-week vacation traveling through Spain and southern France and is accompanied by her spouse, James. However, while in Barcelona, Lisa met with some potential customers and established two new major accounts over two days of business meetings. Which of the following would apply in Lisa's case?

- a. All travel expenses are allowed since she had business expenses in Barcelona.
- b. Her travel and business expenses at the destination are not allowed.
- c. Her travel expenses are not allowed but her business expenses in Barcelona are allowed.
- d. She must prorate her travel expenses between business and personal.

49. Peter takes a seven-day trip to Korea and Japan to arrange for the sale and distribution of the solar panels his company manufactures. While in Japan, he visited Kyoto for two days to enjoy the city and experience its unique culture. In Peter's case, how would travel costs be treated?

- a. They are treated the same as domestic travel costs.
- b. They can be fully deductible.
- c. They are not deductible.
- d. They must be prorated.

50. Of the following individuals, who may most likely deduct certain business-related expenditures for meals (subject to the 50% rule) and lodging?

- a. Jennifer, whose business-related travel as a pharmaceutical sales representative takes her away from Kalispell, Montana, where her family resides, to several states in the western United States.
- b. Greg, who is a construction foreman is put on a project to decommission several dams in other states, requiring a long absence away from home for an indefinite period.
- c. Brenda, who is a wine distributor residing in Buelton, California, and regularly drives around the surrounding area visiting customers.
- d. Jason, who is starting up a new consulting business and traveling around the Portland area "prospecting" for business.

51. Bernard is an English professor at the University of Colorado in Boulder. Of the following conferences and conventions he attended during the recent tax year, he should be able to deduct his travel costs, meals (subject to the 50% rule), lodging, and incidental expenses for:

- a. attending the national booksellers' convention in Phoenix, Arizona.
- b. attending the yoga and spiritual healing conference in Honolulu, Hawaii for less than three days, where he gave a talk.
- c. attending the Western Literature Conference in Salt Lake City, Utah, where he presented a paper on the novels of Wallace Stegner.
- d. Sponsoring and attending a bereavement support conference in Colorado Springs, Colorado.

52. Oliver, who works in the film industry, would like to attend a professional convention for computer graphics artists, which will be held on a cruise ship. For his expenses to be potentially deductible, Oliver must make sure that:

- a. the cruise is on a foreign flag vessel.
- b. fifty percent of the ports of call must be located in the United States.
- c. he limits his expenses to \$2,000.
- d. the convention is not on a sailing ship.

53. Paul is a business owner and has incurred food and beverage expenses associated with operating his trade or business. Which of the following statements is true regarding the deduction of these expenses?

- a. Paul is not eligible for any deduction for food and beverage expenses.
- b. Paul is eligible for a 50% deduction of the cost of business meals, regardless of whether he or his employees are present.
- c. Paul is eligible for a 100% deduction of the cost of business meals only if he or his employees are present and the food or beverages are not considered lavish or extravagant.
- d. Paul is eligible for a 50% deduction of the cost of business meals only if he or his employees are present and the food or beverages are not considered lavish or extravagant.

54. Matthew is discussing travel expenses with his accountant, who reminds him that these expenses must be appropriately substantiated to be deducted or reimbursed. Matthew asks how he would go about this. His accountant should explain that such expenses be properly substantiated by:

- a. reasonable estimates.
- b. contemporaneous records.
- c. adequate records or corroborated statements.
- d. a journal entry or trip book.

55. Olivia did not save the travel receipts she had accumulated while attending an academic conference at the University of California-Santa Cruz and is now unable to obtain them. The tax result of failing to keep these receipts would be that:

- a.** no deductions are allowed.
- b.** partial deductions are allowed under the Cohan rule.
- c.** Olivia must use an accountable plan.
- d.** the deductions are suspended pending substantiation.

56. Ashley accumulated many business-related travel, meal, and business gift expenses as a pharmaceutical sales representative. The common element required to be proved for all of these categories of expenses would be:

- a.** place.
- b.** time.
- c.** business relationship
- d.** description.

57. Shane purchased an appreciation gift for a loyal client. He was able to substantiate all the elements qualifying it as a §274(b) business gift. Nevertheless, the deductible dollar amount would be limited to:

- a.** \$25.
- b.** \$35.
- c.** \$50.
- d.** \$60.

58. Michelle cannot adequately substantiate or prove her business expenses. When she discusses this problem with her accountant, he explains that, under Reg. §1.274-5T(c)(5), she may be allowed to prove expenses by reconstructing them. The reason this may be allowed in her case is that:

- a.** she did not know she had to keep records.
- b.** she is dealing with a death in the family.
- c.** her records were destroyed in a fire at her office.
- d.** she has always provided them before.

59. Kelsey asked her accountant how long she should keep her expense records after the filing date of her most recent tax return. Her accountant recommends that she should at least maintain these records for:

- a.** 1 year.
- b.** 18 months.
- c.** 2 years.
- d.** 3 years.

60. Albert is an employee of a company that has an accountable plan. Which of the following statements is true regarding the allowances or reimbursements paid to Albert for business-related expenses?

- a.** They are counted as income and are subject to withholding.
- b.** They are not counted as income and are not subject to withholding.
- c.** They are counted as income but are not subject to withholding.
- d.** They are not counted as income but are subject to withholding.

61. Kyle's employer paid his business expense reimbursements under a non-accountable plan. As a result, Kyle would report these payments as:

- a.** taxable compensation.
- b.** a tax-free fringe.
- c.** an alternative minimum tax preference.
- d.** exempt income.

62. Jordan emphasizes to his employees that adequate accounting is crucial for any employer to take deductions for certain reimbursed expenses. However, by providing a per diem allowance, Jordan can meet the adequate accounting requirement for which substantiation element?

- a.** time and date.
- b.** business purpose.
- c.** place.
- d.** amount.

63. Jordan checks out the regular federal per diem rate and finds they vary among locations. Jordan should consult annual IRS Publication 1542 in order to identify the rates in:

- a.** the continental U.S.
- b.** Alaska and Hawaii.
- c.** European Commonwealth.
- d.** the western hemisphere.

64. Who of the following taxpayers would be required to prorate the federal per diem and meal and incidental expenses (M&IE) rate?

- a.** Jim, who uses an accountable plan.
- b.** Loretta, who travels fewer than 24 hours.
- c.** Denise, who commutes twice a week to a location in Fort Collins for continuing education credit.
- d.** Mark, whose per diem allowance rate is less than the federal per diem rate.

65. Sarah is employed by a closely-held corporation owned by her family. Normally, the federal per diem rate would be unavailable to her. However, she may nevertheless be able to use this federal per diem rate because she is:

- a.** a stockholder's sister.

- b.** a less than 10% shareholder.
- c.** a full-time student.
- d.** a part-time employee.

66. Karen lives in Kirkland and drives 10 miles every day to Seattle for her administrative job at the University of Washington. What would be the tax treatment of her daily commute?

- a.** She would treat it as a nondeductible personal expense.
- b.** She would treat it as an educational expense.
- c.** She would treat it as a deductible transportation cost.
- d.** She would treat it as a 50% deductible expense.

67. Austin owns an environmental remediation business and commutes to his regular office in Laramie, Wyoming. He is hired by a client to head up an environmental remediation project involving leaky storage tanks in Fort Collins, Colorado, about an hour away. Austin drives directly to the remediation site from his home in Laramie each day until the completion of his remediation work which is expected to last less than six months. His accountant informs Austin that, since his work involves daily travel to this temporary work location, he should treat these expenses as:

- a.** local commuting expenses.
- b.** deductible business expenses.
- c.** nondeductible personal expenses.
- d.** the same as any other business travel expenses.

68. Melissa is a self-employed tax accountant and has a §280A qualified home office. Her work often involves travel to the offices of her clients. How should Melissa treat transportation between her home office and these other places of work?

- a.** as nondeductible travel expenses.
- b.** as local commute expenses.
- c.** as deductible.
- d.** as 50% deductible.

69. Herb is an electrician and uses his car to drive to work locations. During the year he drove 18,000 miles of which 12,000 miles were for business purposes. How would Herb's deductible car expenses be determined?

- a.** as a ratio of business to total use.
- b.** by consulting IRS mixed-use tables.
- c.** by subtracting personal use from business use.
- d.** as a ratio of business to personal use.

70. Tony's work as a gallery owner and art dealer requires extensive travel around the state and sometimes out of state to locate artwork. Which of the following forms should Tony use to calculate his depreciation deduction for wear and tear on his car due to extensive travel?

- a.** Form 1065.
- b.** Form 4562.
- c.** Form 2553.
- d.** Form 1060.

71. Jerry learned from his accountant that, under MACRS, automobiles are actually depreciated over six years. However, after discussing Jerry's particular situation over his car use, his accountant informs him that he would be allowed to recover any depreciable automobile basis that remains after three years at:

- a.** the applicable federal rate.
- b.** the general fleet rate.
- c.** the annual lease value amount.
- d.** a flat specified dollar amount each year.

72. Sonia uses the standard mileage method to deduct the business use of her Subaru car. Under this method, the standard amount of deduction that Sonia would use for every mile traveled for business would:

- a.** be based on average monthly use.
- b.** not exceed the actual total cost.
- c.** be used regardless of actual cost.
- d.** use the same table for autos and trucks.

73. Arthur wants to deduct transportation expenses related to receiving medical care. His accountant explains to him that, under §213, medical service transportation expenses can be deducted. However, such deductible medical expenses:

- a.** are subject to the 50% reduction rule.
- b.** must be determined using the standard mileage method.
- c.** must be determined using the actual cost method.
- d.** must exceed 7.5% of AGI.

74. Irene drives her own car each week to deliver food to families around her county as a volunteer for her local food bank. Irene may decide to deduct a standard amount for miles traveled rather than:

- a.** taking the fixed amount available for charitable workers.
- b.** taking the standardized deduction for all charitable contributions.
- c.** itemizing the vehicle expenses during charitable use.
- d.** using the annual lease method to value the charitable use.

75. George received a new gas grill in recognition of his long employee service with a home improvement products company. Under §74, George should, for tax purposes, treat his award as:

- a.** incentive compensation.
- b.** an excludable fringe benefit.
- c.** an employee gift.
- d.** a statutory productivity benefit.

76. Trevor is discussing fringe benefits at a tax seminar he is presenting before members of the local Chamber of Commerce. A participant lists several items and asks which one would be an example of a de minimis fringe benefit. Of the several examples he listed, a de minimis fringe benefit would be:

- a.** a small HDTV for use in product testing.
- b.** a grocery store certificate for a turkey at Thanksgiving.
- c.** a company car provided to a sales representative.
- d.** parking for university faculty.

77. Janet's employer provides her with a company car. In exchange, Janet pays a predetermined amount for the personal use of the car. Under the commuting value method, what is the least amount that Janet must pay?

- a.** \$1.50 per one-way commute.
- b.** \$5 per one-way commute.
- c.** \$10.25 per day.
- d.** \$19 per day.

78. Lane, who is a self-employed contractor, uses the cash method of accounting in his business. Under this accounting method, he would report all items of income in the year the income is:

- a.** actually or constructively received.
- b.** contracted for even if not earned.
- c.** economically performed.
- d.** undisputed and fixed.

79. Delbert has chosen to expense equipment he uses in his business. Under §179, he may elect to treat the permitted expensing amount as:

- a. an immediate deduction.
- b. a 25% per year tax credit.
- c. bonus depreciation.
- d. amortization of the vehicle's cost.

80. Stanley has taken the full deduction allowed for the costs associated with the start-up of a new partnership he entered into with two business associates. Under §195, the current amortization period for costs in excess of this amount would be:

- a. 5 years.
- b. 10 years.
- c. 15 years.
- d. 20 years.

81. Stanley meets with his tax advisor about the tax treatment of costs associated with forming a partnership. The advisor points out that, under §195, Stanley needs to distinguish between organizational and start-up costs. Which of the following could Stanley include as §195 start-up costs?

- a. investigating the creation of his business.
- b. deductible interest.
- c. financial planning costs.
- d. legal litigation fees.

82. Ted owns land in Montana and has transferred an easement on it to the Wildlife Conservancy to be protected as prime nature habitat. For tax purposes, Ted would treat the granting of the easement as:

- a. a nontaxable sale of property.
- b. the imposition of a voluntary restriction.
- c. a contribution of a public right-of-way.
- d. an involuntary conversion.

83. Alice received property as a beneficiary of her father's estate when he died during the most recent tax year. What would be the starting date for the holding period of property that Alice acquired?

- a. one year following death.
- b. the date of death.
- c. when probate closes.
- d. when Form 706 is filed.

84. Lorraine was gifted a lake home from her father and meets with her tax advisor who informs her that the holding period for the lake home would be determined by:

- a. it's ultimate disposition.
- b. it's nature as real or personal property.
- c. adding on the holding period of her father.
- d. the relationship between the parties giving and receiving the gift.

85. Travis inherited his father's hunting lodge when his father died early this year. Travis should know that, because he inherited the property, its basis would be the fair market value of the hunting lodge on the:

- a. date of his father's death.
- b. date seven months following the decedent's death.
- c. opening of probate.
- d. due date of Form 706.

86. William had purchased and occupied a house in Denver for eighteen months with his family. However, he sold the home when he lost his job and found a new job in North Dakota. Under the circumstances, William would:

- a. be entitled to the full allowable §121 exclusion.
- b. ineligible for the §121 exclusion.
- c. be entitled to a pro-rated §121 exclusion.
- d. need to hold on to the house for five years before selling it.

87. Kyle and Brenda purchased a home in Boise, Idaho, where they planned to settle. However, because of unforeseen circumstances, he sold his home in Boise and moved his family to the Dallas area. Kyle qualified for a prorated §121 exclusion which is determined by the ratio of the total time the home in Boise was owned and used as their main residence during a five-year period to:

- a. 12 months.
- b. 18 months.
- c. 24 months.
- d. 60 months.

88. Gail sold her condo and meets with her accountant. Her accountant informs her that she should be able to report the sale on the §453 installment method since she received two payments from the seller after the:

- a. close of the tax year.
- b. date of the sale.
- c. close of the transaction.
- d. down payment is received.

89. Chris is a real estate broker who owns some residential lots he would like to sell. His accountant informs him that he is allowed to report these sales on the §453 installment method if an election is made to pay:

- a. capital gains taxes from these sales.
- b. excise taxes from these sales.
- c. a surtax on these transactions.
- d. interest on related installment obligations.

90. Tom purchased some commercial property for \$550,000 and pledged an installment obligation as security for the loan he took out to acquire the property. Under pledging rules of §453A(d)(1), the net proceeds of the loan in his case would be considered as:

- a. payment on the installment obligation.
- b. acquisition indebtedness.
- c. nontaxable loan proceeds.
- d. a return of basis.

91. Mike made a §453 installment sale of a commercial office building he owned. In a later agreement with his buyer, he established an irrevocable escrow account to pay the remaining installments plus interest. The amount he placed in the escrow account would then represent:

- a. a payment of the balance of the obligation.
- b. a surety contract.
- c. a wraparound mortgage.
- d. additional security and collateral.

92. Barb repossessed some rental property she had sold to a business associate, Glenn, three years earlier. Under Reg. §1.1038-1, for the rules for repossession to apply, what must the repossession do to Glenn's installment obligation to Barb?

- a. as a minimum, partly satisfy it.
- b. fully discharge it.
- c. modify the interest rate charged.
- d. postpone its payment.

93. Personal property Nicole sold Matt is now subject to judicial sale and Nicole intends to bid on the property. She should presume that the property's fair market value under §1038 & Reg. §1.166-6 would be deemed:

- a. its appraised value.
- b. its agreed value.
- c. its cost to the seller.
- d. the amount it sells for.

94. Hallie sold a commercial office building to Ben. Several years later, Ben began having difficulty making payments and Hallie had to repossess the

property. Under §1038, Hallie would be permitted, in effect, the same adjusted basis in the repossessed property as she had:

- a. after depreciation.
- b. at the time of purchase.
- c. immediately before repossession.
- d. prior to the original sale.

95. Jane is figuring her gain on her repossession of a commercial building she sold to Arthur. In a §1038 repossession such as this, what must Jane subtract from the total payments she received, or is considered to have received, on the sale to determine her gain, if any?

- a. the total gain previously reported as income.
- b. the adjusted basis of the property.
- c. the fair market value of the property.
- d. the cost of the property.

96. The county government took possession of a strip of Jerry's property running adjacent to a county road for a road widening project. Jerry is upset by this and curious how tax law categorizes such an event. His tax advisor should state that the term that defines the process used to take property in this manner is referred to as a(n):

- a. adverse possession.
- b. condemnation.
- c. involuntary conversion.
- d. confiscation.

97. After receiving a condemnation notice, Tony decides to sell his property to a third party and buy a new home in a more secluded wooded residential neighborhood. With respect to his original property, Tony is deemed to have:

- a. sold under threat of condemnation.
- b. made a §453 sale.
- c. received a condemnation award.
- d. received severance damages.

98. Harold's property was taken for public use in order to expand a critical wetland habitat, a move he supported on condition he receive compensation. Harold received some adjacent public land in exchange. For tax purposes, the exchange property he received would be termed a:

- a. compensatory award.
- b. condemnation award.
- c. damages award.
- d. severance award.

99. When the state condemned forty acres of George's farmland to run a power line, George received severance damages for the reduction in the value of the portion of his farm retained by him. Under §1033, these damages would be deemed to have been paid as a consequence of:

- a. easements.
- b. public lands acquisition.
- c. collateral damage.
- d. the condemnation.

100. Tim would like to postpone the gain he received on some condemned property and consults with his tax advisor about how to make that happen. His advisor should explain to him that, under §1033, Tim can postpone reporting the gain if he purchases replacement property:

- a. within the general geographical area.
- b. before the end of the tax year.
- c. within a particular time period.
- d. identical to the property condemned.

101. Hannah has borrowed some money, which she secured with her family's summer home, to purchase commercial property for her business. She meets with her tax advisor, who explains to her that, under the §465 at-risk rules, losses can be limited. Hannah tells of her recent transaction and her advisor states that the at-risk rules:

- a. apply only to personal property.
- b. increase the potential gain on the disposition of property.
- c. apply to real estate.
- d. apply to property purchased with a nonrecourse loan.

102. A participant in your tax seminar, Alice, lists four types of items and would like to know which ones are permitted nonrecognition treatment in a §1031 exchange. You would reply to her that §1031 permits the tax-free exchange of:

- a. bonds.
- b. notes and installment obligations.
- c. rental real estate.
- d. stock and securities.

103. Jonah is discussing §1031 exchanges as part of a series of tax seminars. A participant asks if any types of property have been added to the original disallowed list of properties. Jonah would affirm that §1031 now specifically disallows exchanges involving:

- a. real property interests.
- b. partnership interests and personal property.
- c. leasehold interests.
- d. investment properties.

104. When you point out during your tax seminar that some §1031 exchanges may result in partial taxation, Alice inquires when is it possible for an exchange to be fully tax-deferred. You point out that it could be fully tax deferred when:

- a. the amount of boot equals or exceeds the realized gain.
- b. property is solely exchanged for qualifying like-kind property.
- c. the taxpayer receives mortgage relief in the exchange.
- d. the taxpayer receives other unlike-kind property in the exchange.

105. Marty is contemplating a §1031 exchange but, since boot will be involved in the exchange, he is concerned about the maximum taxable gain he may suffer. Marty's tax advisor explains to him that, under §1031(b), there is a gain limitation with the maximum taxable amount being equal to or less than either the:

- a. boot given or the realized gain.
- b. net boot received or the realized gain.
- c. boot given or the adjusted basis of property received.
- d. boot received or the carryover basis of property given.

106. Francis is negotiating a §1031 exchange and has been informed by her broker that the transaction may involve mortgage boot. Since Francis is not familiar with mortgage boot, she calls her tax advisor to find out. Her advisor should explain that, under §1031, mortgage boot consists of:

- a. liabilities for which an exchange party takes responsibility.
- b. money taken in an exchange.
- c. nonqualifying property received in an exchange.
- d. non-like kind property.

107. Sophia is engaging in a commercial property exchange that involves mortgage boot. Under the §1031 offset rules, Sophia would determine net boot on the basis that:

- a. mortgage boot received is offset by mortgage boot given.
- b. mortgage boot given offsets property boot received.
- c. mortgage boot includes any non-like-kind property.
- d. mortgage boot includes cash.

108. Silvia engaged in a §1031 property exchange during the most recent tax year. In addition to Schedule D (Form 1040), which provides reporting guidelines for exchanges, Silvia must file:

- a. a forty-five-day notice with the IRS.
- b. Form 1120S.
- c. Form 8824.
- d. proof of residency.

109. John wants to structure a §1031 exchange and is debating using a multiple-party format with three parties. While these formats can vary, you should advise John that the accommodator is often:

- a. a real estate broker.
- b. a strawman.
- c. the exchanger's attorney.
- d. the buyer.

110. Zack and Alex have agreed to a delayed exchange. In consulting with their respective tax advisors, they learned that, while specifically providing for delayed exchanges, the §1031 applies detailed time limits on:

- a. selecting a qualified intermediary.
- b. filing Form 8824.
- c. identifying replacement property.
- d. refinancing any property to be exchanged.

111. In carrying out their delayed exchange, what must Zack and Alex make sure they accomplish within 180 days?

- a. the filing of any request for an extension to complete the exchange.
- b. close on the replacement property and complete the exchange.
- c. exchanges initiated in any calendar year after April 15.
- d. identification of the property to be acquired.

112. Greg wants to use a qualified intermediary in a delayed exchange with Alison. Under the §1031, who would qualify as such an intermediary?

- a. Cynthia, who acquires the replacement property for a fee.
- b. Greg's accountant or real estate agent.
- c. Phil, the purchaser of the exchangor's relinquished property.
- d. Henry, who is selling the replacement property to the exchangor.

113. In further discussing William's qualified deferred compensation plan, William's tax advisor should warn that, while qualified retirement plans are very popular, they are also:

- a. rarely planned with any logic.
- b. immediately taxable to the employee.
- c. rarely appreciated by employees.
- d. nondeductible by the employer.

114. Emmy Lou runs a woolen mill and her business is doing well enough that she would like to start a qualified retirement plan for her employees. After establishing the plan, she can begin transferring money into the qualified retirement plan for an employee's benefit. What is this action called?

- a. funding a retirement account.
- b. operating a retirement account.
- c. ERISA compliance.
- d. benefiting a retirement account.

115. William, whose start-up light manufacturing business is thriving, wants to offer his employees a qualified deferred compensation plan. He consults with his tax advisor who explains that qualified plan contributions:

- a. may be based on non-qualified deferred compensation arrangements.
- b. may not be determined by imputed salary.
- c. are deductible in the employee's taxable year.
- d. are deductible as a miscellaneous expense.

116. Five years after William began his pension plan, the assets within his corporate plan were insufficient to pay benefits to plan participants in his company. The Pension Benefit Guarantee Corporation (PBGC) may need to step in to pay benefits. How much may the PBGC recover from William's company?

- a. no more than 10% of its net worth.
- b. up to 30% of its net worth plus additional sums.

- c. half of the amount that the PBGC pays the participants.
- d. the full amount that the PBGC pays the participants.

117. William would like to have his company's qualified pension plan hold its assets in a trust. However, William's tax advisor points out that in order to be valid the trust must satisfy several requirements, one of which is that the trust is:

- a. controlled by the employer.
- b. established with a financial institution.
- c. created or organized in the U.S.
- d. irrevocable.

118. Anne has worked for two years in the human resources department of her company. Her employer-derived benefits package includes a three-year cliff vesting schedule. Under this schedule, if Anne were to leave the company today, what percent of employer-derived benefits would she receive?

- a. 100%.
- b. 80%.
- c. 40%.
- d. 0%.

119. Ken would like to offer the employees who work at his plumbing and heating company either a defined contribution plan or a defined benefit plan. No matter what he chooses, Ken would, under §415, need to comply with limitations based on:

- a. annual benefits.
- b. cost of living adjustments.
- c. the participant's compensation.
- d. annual additions.

120. Leah's business doing well and she has added a retirement plan to her employees' benefits package. As established by §404, she must use either the level funding method or the normal cost method in order to determine the minimum deductible annual contribution. The reason for this would be that Leah is using a:

- a. defined benefit pension plan.
- b. profit-sharing plan.
- c. stock bonus plan.
- d. simplified employee pension plan.