

SEE 1. Sample Test Questions

Terminology KEY for SEE Sample Test Questions

Abbreviation/Term/Symbol:

IRC or Code Section
 Instructions
 Form
 Pub or Publication
 IRB
 31 U.S.C.
 C.F.R.
 Treas. Reg. or Regulations
 DOL
 Cir. 230
 IRM
 T.C. Memo
 §

Refers to:

Internal Revenue Code
 IRS Form Instructions
 IRS Tax Form
 IRS Publication
 Internal Revenue Bulletin
 Title 31 of United States Code
 Code of Federal Regulations
 Treasury Regulations
 Department of Labor
 Treasury Department Circular 230
 Internal Revenue Manual
 Tax Court Memo
 Symbol for Code Section

Numbers and/or letters following the code section symbol are used to guide the user to the appropriate area in the Code for that reference.

1. Two taxpayers married on November 30. That same year, the husband enrolled in an accredited college to further his career and subsequently received a Form 1098-T, Tuition Statement. The wife was employed with an income of \$45,000 and paid for the husband's education expenses. Based on their circumstances, what is the correct method to report the education credit?

- (A) Taxpayers must file a joint return to claim an education credit
- (B) Based on the wife's AGI, they do not qualify to claim an education credit
- (C) Husband is ineligible to claim an education credit because the wife paid his education expenses
- (D) Wife should report nonqualified education expenses on Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits)

Key: A

References: IRC § 25A(g)(6); Instructions for Form 8863; page 2

2. The taxpayer has a child under the age of 24 who is a full-time student in their 2nd year of college. The student will be claimed as a dependent on the taxpayer's return.

The student's educational expenses included \$8,000 for tuition and room and board of \$4,000.

The student received a \$5,000 scholarship for tuition use only, as well as an additional \$2,500 scholarship to pay any of the student's college expenses.

Which of the following statements is correct, based on the information above?

- (A) The student can claim the American Opportunity credit on their return for tuition expenses of \$2,500 and should report as income \$2,000 of the \$2,500 scholarship
- (B) The taxpayer can claim the American Opportunity credit on their return for tuition expenses of \$2,500, and the student should report as income \$2,000 of the \$2,500 scholarship
- (C) The taxpayer can claim the American Opportunity credit on their return for tuition expenses of \$2,500, and the student should not report any of the \$2,500 scholarship as income
- (D) The taxpayer can claim the American Opportunity credit on their return for tuition expenses of \$2,500 and should report as income \$2,000 of the \$2,500 scholarship

Key: B

References: IRC § 25A(i); IRC § 117; Publication 970, pp. 5, 7

3. Which of the following statements is correct regarding Form 1095A, Health Insurance Marketplace Statement?

- (A) Taxpayers do not need Form 1095A to complete Form 8962, Premium Tax Credit, to reconcile advance payments of the premium tax credit or claim the premium tax credit on their tax return
- (B) Taxpayers will receive Form 1095A to complete Form 8962, Premium Tax Credit, if they have been covered by an employer insurance plan for the entire year
- (C) Taxpayers will use Form 1095A to complete Form 8962, Premium Tax Credit, to reconcile advance payments of the premium tax credit or claim the premium tax credit on their tax return
- (D) Taxpayers will attach a Form 1095A with their return to reconcile advance payments of the premium tax credit or claim the premium tax credit on their tax return

Key: C

References: Form 8962 Instructions, p. 2

4. To avoid the penalty for not having insurance, taxpayers must be enrolled in qualifying health coverage, also called minimum essential coverage. All of the following are examples of minimum essential coverage EXCEPT:

- (A) Certain insurance coverage that may provide limited benefits. That includes, but is not limited to, the following types of plans: stand-alone dental and vision, accident or disability income or workers' compensation
- (B) Employer-sponsored coverage. That includes, but is not limited to, the following types of plans: a self-insured group health plan for employees, retiree and COBRA coverage
- (C) Individual health coverage. That includes, but is not limited to, the following types of plans: health insurance purchased directly from an insurance company, or Health Insurance Marketplace
- (D) Coverage under government-sponsored programs. That includes, but is not limited to, the following types of plans: Medicare Part A coverage, Medicare Advantage Plans and most Medicaid coverage

Key: A

References: Publication 974, p. 8

5. Which of the following situations will disqualify a single individual from claiming the premium tax credit?

SEE 1

- (A) Marriage to an individual enrolled in a qualified health plan
- (B) Increase in household income to 390% of the federal poverty line
- (C) Inheritance of \$1,100,000 non-income producing vacation home
- (D) Becoming eligible as a dependent on their parent's joint tax return

Key: D

References: IRC § 36B(c)(1)(C); Publication Title: 17, Chapter 37, Premium Tax Credit, Pgs. 246-247; Pub 974; Instructions for Form 8962

6. All of the following income types are reported on Form 1099-MISC EXCEPT:

- (A) Non-employee compensation over \$600
- (B) Payments made to a physician or supplier or provider of medical or healthcare services of \$600 or more made in the course of your trade of business
- (C) Canceled debt payments of \$600 or more
- (D) Crop insurance proceeds of \$600 or more

Key: C

References: 2018 Instructions for Form 1099-MISC, pp. 6-9; Treas. Reg. 1.6041-1

7. What is the total amount a sole proprietor is obligated to report on 1099-MISC forms based on the following expenses claimed on schedule C?

Incorporated law firm: \$600

Sign printer: \$800 (\$600 labor and \$200 materials)

Web page designer: \$500

Incorporated janitorial company: \$800

Consultant A: \$1,000 (\$400 paid in cash and \$600 paid by check)

Consultant B: \$500 paid in cash

Consultant C: \$400 paid by check

- (A) \$1,400
- (B) \$1,600
- (C) \$2,000
- (D) \$2,400

Key: D

References: 2018 Instructions for Form 1099-MISC, page 2 states that attorneys' fees of \$600 or more are reportable in 1099-MISC and page 8 states that services by nonemployee includes parts and materials. Pub 15-A, pp. 8-10 covers whether someone is an employee or a nonemployee independent contractor.

SEE 1

8. A taxpayer who receives a Form 1099-MISC with the wrong dollar amount in box 7 should do which of the following?

- (A) Contact IRS for a corrected Form 1099-MISC
- (B) Contact the payer for a corrected Form 1099-MISC
- (C) Report the incorrect amount stated on the Form 1099-MISC as income
- (D) Disregard the Form 1099-MISC since it is incorrect

Key: B

References: Instructions for Recipient on Form 1099-MISC (2018)

9. A 62-year-old, married taxpayer files Married Filing Separately, and lives apart from the spouse for an entire taxable year. What is the taxpayer's base amount for computing taxable Social Security benefits?

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

Key: B

References: § 86(c)(1); IRS, Publication 915; page 3

10. To find out if a taxpayer's Social Security benefits may be taxable, all of the following are taken into account EXCEPT:

- (A) Interest that is tax-exempt
- (B) The exclusion for foreign earned income
- (C) Notary fees received
- (D) Unemployment benefits

Key: B

References: § 86(b)(2); IRS, Publication 17, Pg.84

11. Which of the following statements is correct regarding repayment of Social Security benefits received in a prior year if the total figure shown in box 5 for all of your current year Forms SSA-1099 and RRB-1099 is a negative amount and the portion of the negative amount that represents benefits you included in gross income in the prior year is \$3,000 or less?

- (A) The taxpayer must amend the prior year return to claim a deduction on Schedule A (Form 1040), and it is not subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions
- (B) The taxpayer must amend the prior year return to claim a deduction on Schedule A (Form 1040), and it is subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions

SEE 1

(C) The taxpayer can claim a deduction on Schedule A (Form 1040) for the portion of the negative amount that represents benefits you included in gross income in the prior year, and it is not subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions

(D) The taxpayer can claim a deduction on Schedule A (Form 1040) for the portion of the negative amount that represents benefits you included in gross income in the prior year, and it is subject to the 2%-of-adjusted-gross-income limit that applies to certain miscellaneous itemized deductions

Key: D

References: Publication 17, pp. 85, 88, 92

12. The Affordable Care Act requires individuals to have qualifying health coverage, qualify for a coverage exemption, or make an individual responsibility payment when they file their tax return. All of the following are exempt from the individual shared responsibility payment EXCEPT:

(A) A US citizen physically present in a foreign country for at least 330 full days during a period of 12 consecutive months

(B) A US citizen who owns a home valued at \$1,500,000 but gross income falls below the return filing threshold

(C) A US citizen who is currently incarcerated

(D) A US citizen, single parent, filing Head of Household with two children and gross income of \$125,000

Key: D

References: IRC § 5000A(d); Instructions for Form 8965

13. Which of the following individuals are exempt from the individual shared responsibility payment?

(A) Residents of states that expanded Medicaid coverage

(B) Taxpayers with no coverage for less than four years

(C) Members of certain religious sects in existence since 1950

(D) Taxpayers ineligible for Medicaid for any reason

Key: C

References: IRS, IRC § 5000A(d)(2), Instructions for Form 8965; Publication 5187 Affordable Care Act: What You and Your Family Need to Know, Pgs: 6 - 7

14. The Net Investment Income Tax may apply to which of the following?

(A) Alimony

(B) Taxable mutual fund distribution

(C) Tax exempt municipal bond interest

(D) Traditional IRA distribution

SEE 1

Key: B

References: IRC § 1411(c)(1) and (5); Instructions for Form 8960 Net Investment Income Tax--Individuals, Estates, and Trusts, pages 1, 5 and 6

15. A couple filed their 2008 return as Married Filing Jointly and claimed \$7,500 for the first-time homebuyer credit. The couple used this home as a primary residence. In the current year, they converted the home into rental property. What, if any, is the tax obligation of the taxpayers regarding the first-time homebuyer credit?

- (A) They must pay the unpaid balance of the credit
- (B) They must pro-rate the credit received over 15 years and repay 50% of the original credit
- (C) They must reduce their depreciable basis in the property by 50% of the unpaid balance of the credit
- (D) Since they used this home as a primary residence for 5 years, there is no requirement to repay

Key: A

References: IRC § 36(f)(2), IRB 2009-6: Form 5405 Instructions, pp. 2-4

16. Upon reviewing a new client's prior year tax return, the preparer sees taxes paid for the first-time homebuyer credit. The preparer should ask the taxpayer all of the following EXCEPT:

- (A) What was the total amount of the original credit received?
- (B) How much of the original credit was repaid on prior years returns?
- (C) Was the entire credit used towards the purchase of their main home?
- (D) Are the taxpayers still using the home that generated the credit as their main home?

Key: C

References: IRC § 36(f), 2016 Instructions for Form 5405: To properly complete Form 5405, all of the questions should be asked except for the use of the proceeds of the credit. There was no stipulation as to how the credit would be used when the first-time homebuyer received it.

17. What form may be filed when you are repaying the first-time homebuyer credit?

- (A) Form 1040 EZ
- (B) Form 1040 A
- (C) Form 1040 ES
- (D) Form 1040

Key: D

References: IRS Pub 17, Pg. 8; Instructions for Form 1040; Form 1040, Line 60b; Instructions for Form 5405

18. Which of the following is true regarding the Report of Foreign Bank and Financial Accounts (FBAR) requirements?

SEE 1

- (A) The FinCEN Form 114 (FBAR) must be filed by anyone with a financial interest in or signature authority over a foreign bank account
- (B) The due date for the FBAR filing is generally July 15 of the current tax year for individuals
- (C) The FinCEN Form 114 (FBAR) is filed with your current tax year individual income tax return
- (D) The FinCEN Form 114 (FBAR) is filed online with the Financial Crimes Enforcement Network

Key: D

References: 31 C.F.R. §§ 1010.350(b); 1010.306(c); Publication 54, pg. 8 (2017).

19. When *e-filing* their federal return, a taxpayer who meets the requirements to file both Form 8938, Statement of Specified Foreign Financial Assets, and Form 114, Report of Foreign Bank and Financial Accounts, should:

- (A) Attach both forms to their federal return
- (B) Attach only the Form 8938 to their federal return and file the Form 114 through the Financial Crimes Enforcement Network's E-Filing system
- (C) Attach only the Form 114 to their federal return as it contains the 8938 information
- (D) Send both forms in separately to the Internal Revenue Service

Key: B

References: Form 8938 Instructions, Pg. 1 (2017); Publication 4261, pg. 1 (2016).

<https://www.irs.gov/businesses/comparison-of-form-8938-and-fbar-requirements> states that the Form 114 is not filed with a federal tax return

20. The requirement to file the FinCEN Form 114 applies to U.S. Persons with a financial interest in or signature authority over any foreign financial account(s), if the aggregate value of these accounts, at any time during the calendar year, exceeds:

- (A) \$1,000
- (B) \$5,000
- (C) \$7,500
- (D) \$10,000

Key: D

References: IRS, Bank Secrecy Act, (31 U.S.C. § 5314); 31 C.F.R. §§ 1010.350(a); 1010.306(c); Publication 4261, pg. 1 (2016).