Learning Assignments & Objectives

As a result of studying each assignment, you should be able to meet the objectives listed below each assignment.

ASSIGNMENT	SUBJECT
Chapter 1	**Individual Tax Elements**

At the start of Chapter 1, participants should identify the following major topics for study:

* Tax rates and tables
* Filing status
* Gross income
* Dividends and distributions
* Discharge of debt income
* Exclusions from income
* Nonbusiness and personal deductions
* Education and medical expenses
* Casualty and theft losses
* Tax credits

Learning Objectives

After reading Chapter 1, participants will be able to:

1. Identify federal revenue tax sources noting the definitive role of gross income and, determine a client's tax liability using current rates, tables, and statutory amounts, and their withholding and/or estimated tax responsibility.

2. Specify the various filing statuses and their filing requirements noting the advantages and disadvantages of each.

3. Determine what constitutes gross income under §61 noting the tax treatment of compensation, fringe benefits, rental income, Social Security benefits, alimony, prizes and awards, identify dividend and distribution types and their tax differences, and specify how debt discharge can result in taxable income.

4. Identify the mechanics of income exclusions such as education-related exclusions, gift and inheritance exclusions, insurance, personal injury awards, interest on state and local obligations, and the foreign earned income exclusion.

5. Recognize income tax deductions and their use to reduce tax liability by:

a. Identifying personal, spousal and dependency exemptions and reporting requirements including pre-2005 dependency rules;

b. Specifying the deductibility of §163 interest categories, §162 educational expenses, §217 moving expenses, §165 casualty & theft losses, and §164 taxes noting their proper reporting and substantiation;

c. Determining variables that impact the deductibility of charitable contributions, and identifying qualified organizations, permissible contributions contribution limitations, their tax treatment, and substantiation requirements;

d. Identifying the deductibility of medical care expenses including medical insurance, meals and lodging, transportation, home improvements and lifetime care payments noting the impact of Medicare;

e. Specifying deductions that are subject to the 2% of AGI limitation, deductions not subject to the 2% limit, and nondeductible expenses.

6. Determine distinctions among several types of tax credits identifying the eligibility requirements and noting the cited changes created by recent tax legislation to individual tax returns.

After studying the materials in Chapter 1, answer the exam questions 1 to 49.

ASSIGNMENT	**SUBJECT**
Chapter 2	**Expenses, Deductions & Accounting**

At the start of Chapter 2, participants should identify the following major topics for study:

* Landlord's rental expenses
* Health insurance costs
* Home office deduction
* Travel and entertainment expenses
* Employee expense reimbursement and reporting
* Automobile deductions
* Fringe benefits
* Methods of accounting
* Expensing and depreciation
* Amortization

Learning Objectives

After reading Chapter 2, participants will be able to:

1. Recognize the tax treatment of rental property expenses noting their impact on landlords and tenants taking into consideration the tax differences given to rent, advance payments, and security deposits.

2. Identify the application of the hobby loss rules to a business, determine deductible health insurance costs and the requirements of the home-office deduction, and specify self-employment taxes and available business and investment credits.

3. Determine how to properly deduct travel and entertainment expenses by:

a. Identifying deductible business travel expenses, a taxpayer's tax home, if any, and work locations based on the IRS's definition, and recalling the "away from home" requirement and "sleep and/or rest" rule;

b. Specifying the key elements of deductible domestic and foreign business travel costs noting the Reg. §1.162 deduction of convention and meeting expenses;

c. Identifying §274 entertainment deductibility tests, determining the limits on home entertaining, ticket purchases, and meals and entertainment noting eight exceptions to the percentage reduction rule; and

d. Recognizing the substantiation requirements associated with business gifts, employee achievement awards, and sales incentive awards.

4. Determine the differences between accountable and nonaccountable plans including the requirements for an accountable plan particularly adequately accounting for travel and other employee business expenses.

5. Determine what constitutes local transportation and commuting including how nondeductible personal commuting relates to local business transportation expenses.

6. Identify the apportionment of automobile expenses between personal and business use, the actual cost and standard mileage methods, and the gas guzzler tax.

7. Specify the various types of excluded fringe benefits that can increase employers' deductions and incentive-based compensation of employees listing examples of each.

8. Recognize the cash, accrual, or other methods of accounting, select available accounting periods noting their impact on income and expenses, and identify expensing, depreciation, and amortization.

After studying the materials in Chapter 2, answer the exam questions 50 to 112.

ASSIGNMENT	SUBJECT
Chapter 3	**Property Transfers & Retirement Plans**

At the start of Chapter 3, participants should identify the following major topics for study:

* Sales and exchanges of property
* Home sale exclusion
* Installment sales
* Repossession
* Involuntary conversions
* At-risk rules
* Like-kind exchanges
* Retirement plans
* IRAs
* SIMPLEs

Learning Objectives

After reading Chapter 3, participants will be able to:

1. Specify the tax consequences on the sale of easements and the holding period and basis of inherited property.

2. Identify the application elements of the §121 home sale exclusion noting associated safe harbor regulations.

3. Recognize the importance of the installment method and §453 requirements, and specify the §453 basic terminology.

4. Identify the variables that determine which §1038 rules apply noting distinctions among the rules, calculations, and effects of repossessions of personal property and repossessions of real property, and recognize when a bad debt deduction may be taken on a repossession.

5. Specify the tax treatment of a §1033 involuntary conversion by:

a. Determining related terminology and the tax consequences of receiving a condemnation award or severance damages;

b. Identifying gain or loss from condemnations noting the reporting of payments associated with involuntary conversions; and

c. Determining whether clients can postpone gain on condemned, damaged, destroyed, or stolen property and specifying the related party rule.

6. Recognize the scope of the §465 at-risk rules and their effect on property depreciation, and identify the requirements, mechanics, and types of §1031 like-kind exchange.

7. Identify qualified deferred compensation plans and nonqualified plans by:

a. Determining the major benefit of the qualified deferred plans and the calculation basis of benefits and contributions; and

b. Recognizing the current and deferred advantages and the disadvantages of corporate plans noting fiduciary responsibilities and prohibited transactions.

8. Identify the requirements of the basic forms of qualified pension plans permitting clients to compare and contrast such plans.

9. Determine the distinctions between defined contribution and defined benefit plans, specify the types of defined contribution plans, and identify their effect on retirement benefits.

10. Identify how self-employed plans differ from qualified plans for other business types and owners, and specify the requirements of IRAs and the special requirements of Roth IRAs.

11. Determine what constitutes SEPs and SIMPLEs noting the mechanics and eligibility requirements of each type of plan.

After studying the materials in Chapter 3, answer the exam questions 113 to 171.

ASSIGNMENT	**SUBJECT**
Chapter 4	**Losses, AMT & Compliance**

At the start of Chapter 4, participants should identify the following major topics for study:

* Passive loss rules
* Suspension of disallowed losses under §469
* Computing the alternative minimum tax
* Minimum AMT tax credit
* Reporting compliance rules and provisions
* Accuracy related penalties
* Information reporting penalty final regulations
* Penalty for unrealistic position
* Statute of limitations for assessments
* Examination of returns

Learning Objectives

After reading Chapter 4, participants will be able to:

1. Identify basic income types and the “buckets” of income and loss under §469 that can influence what can be deducted, determine the suspension of disallowed passive losses, and recognize the special rules for transfers deemed not to be fully taxable dispositions.

2. Specify differences between the regular and alternative minimum tax noting the application tax preferences and adjustments, and determine the life of assets under ADS, alternative minimum taxable income, passive losses under the AMT, and what constitutes ACE.

3. Identify the reporting requirements for real estate transactions, independent contractors, and cash reporting.

4. Recognize types of accuracy related and unrealistic position penalties, and specify the IRS's examination of returns policy and assessment process including applicable statute of limitations.

After studying the materials in Chapter 4, answer the exam questions 172 to 200.

Notice

C.P.E. TEST

1040 Workshop

Instructions: Please read each question carefully and indicate your answer by circling the correct response. If you feel there is more than one correct response, choose the "most" correct.

1. Richard anticipates reporting a taxable income of $200,000 for 2015. When he files his federal income taxes as a single taxpayer, of the six current marginal income tax rate brackets, he would be taxed at the:

- **a.** 25% rate.
- **b.** 28% rate.
- **c.** 33% rate.
- **d.** 35% rate.

2. Donna's nephew is living with her and she wants to claim him as a dependent. While Donna's brother could claim his son as a dependent, he is willing to let Donna take the deduction. If Donna is able to take her nephew as a dependent, the standard deduction would be:

- **a.** suspended.
- **b.** limited.
- **c.** disallowed.
- **d.** still allowed to her brother.

3. Stanley's total itemized deductions, otherwise allowable, are subject to §68. On his 2015 tax return, since he is married filing jointly with an AGI of $320,000, how would the §68 limitation on his total itemized deductions be applied:

- **a.** there would be no §68 limitation.
- **b.** he would still take a full deduction.
- **c.** his deductions must be amortized over five years.
- **d.** his deductions would be subject to phase out and reduction.

4. 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 moving from Denver to Boise for a new job.

5. 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.

6. 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.

7. 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 for head of household.
- **d.** Joe and Sandra can be deemed unmarried.

8. During the most recent tax year, Norman and Nancy finally concluded their divorce. Since they were still married for the previous year, both Norman and Nancy would be liable for any tax, interest, and/or penalties owed on their:

- **a.** total joint return income.
- **b.** share of the joint return income.
- **c.** one half of the income reported on the joint return.
- **d.** attributable income shown on the joint return.

9. 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 end of the tax year.
- **b.** at beginning of the tax year.
- **c.** on the due date of the return.
- **d.** on April 15th of the calendar year.

10. Brad is married and would like to file as head of household, 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.

11. 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.

12. Frank would like to file as head of household and meets with you to discuss whether he qualifies. You should explain to him that taxpayers need to meet several conditions, one of which would be that the taxpayer:

- **a.** is divorced by April 15 of the tax year.
- **b.** pays for over 50% of keeping up a residence.
- **c.** received an interlocutory decree of divorce.
- **d.** filed for divorce or separation.

13. 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 for 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.

14. Gerald is meeting with his tax advisor who explains to him that, under §61, gross income includes "all income from whatever sources derived." Gerald lists four financial items that he has received during the most recent tax year and wants to know which ones, if any, need to be included. Of the four items Gerald listed, his advisor informs him that he would need to include:

- **a.** payment for services rendered.
- **b.** trade discounts.
- **c.** frequent flyer miles.
- **d.** employee achievement awards.

15. 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, minus any amounts paid by or for the recipient and:

- **a.** certain caselaw exceptions.
- **b.** earned income credit advance payments.
- **c.** reimbursed expenses.
- **d.** specific regulatory exceptions.

16. Samantha has purchased 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.

17. Marge has recently divorced and started to receive alimony payments. When she meets with her tax advisor, she explains to Marge that under §61 such payments will be treated as:

- **a.** qualified dependency support.
- **b.** includable in the recipient's income.
- **c.** nondeductible by the payor.
- **d.** tax exempt to the recipient.

18. During the most recent tax year, Arnie received a new top-of-of-the-line fly fishing rod from 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.

19. Jim is preparing to file his federal income taxes and notes that several unusual financial events have happen 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.

20. 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 for the debt.
- **c.** his lender has an unlimited time to collect the debt.
- **d.** his lending institution only looks to the property for recovery.

21. Susan and Ken want to exchange some personal property they own with relatives 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.

22. John's accountant discovered that John recovered a payment for an amount previously taken as a deduction. Now, John would like to know the tax consequences. His accountant explains that if, in the current tax year, a taxpayer recovers a payment in an amount that was previously taken as a tax deduction, current income will increase by:

- **a.** the amount of the tax benefit in the earlier year.
- **b.** the amount of the tax credit.
- **c.** the amount of taxable income in the earlier year.
- **d.** the amount that it was reduced in the earlier year.

23. Randy incurred expenses related to his minor daughter's for profit toy commercial production activity. During his meeting with you, Randy would like to know how to handle these expenses when filing his federal income taxes. You would need to explain to him that these expenses would be:

- **a.** deducted on his daughter's tax return.
- **b.** deemed a gift.
- **c.** deducted on Form 8615.
- **d.** disallowed as deduction.

24. 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.

25. Reese, the teenage daughter of Greg and Marie, received income in the form of dividends and interest. Since their daughter's gross income was below a specified dollar amount and comprised of only dividends and interest, Greg and Marie would have the option to:

- **a.** make an election to report the amount on their tax return.
- **b.** claim the child tax credit.
- **c.** double the child's standard deduction.
- **d.** deduct all childcare expenses.

26. 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.

27. 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 wheel chair 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 the Ball State University.

28. Leah, who won All State recognition as a high school basketball player and a member of her high school choir, is deciding on the college of her choice. She is looking to several sources of funding for her college education. However, under §117, she would need to include in her income any money she received in the form of a(n):

- **a.** athletic scholarship.
- **b.** cash scholarship prize that did not require educational use.
- **c.** Pell Grant.
- **d.** Supplemental Educational Opportunity Grant.

29. 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.

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

31. Edward and Patricia both earned income while providing the engineering services in India. Under §911, either one of them might exclude all or a portion of their foreign income from their gross income provided they satisfy:

- **a.** the 45-day test.
- **b.** the 180-day test.
- **c.** the 230-day test.
- **d.** the 330-day test.

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

- **a.** debts related to his business.
- **b.** debts allocable to the production of qualified property.
- **c.** income tax owed.
- **d.** mortgage commissions, abstract fees, and recording fees.

33. During the most recent tax year, Nora paid interest on a loan she took out in order to purchase some investment property. During their meeting, her accountant points out to her 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.

34. 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 would treat this debt as:

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

35. 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 qualify as:

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

36. Jessica, who works part-time for a non-profit charity in Minneapolis, is enrolled in a work related skills program at the University of Minnesota and lives off-campus. Jessica commutes to her classes in her car, sometimes from work and sometimes from her house. Since certain of her education expenses are deductible, which local transportation costs might Jessica be able to claim?

- **a.** costs of traveling directly from work to school.
- **b.** costs incurred for traveling within the Minneapolis-Saint Paul area.
- **c.** costs for meals and mileage.
- **d.** costs for mileage and incidental expenses.

37. If, in 2015, Ralph reports an adjusted gross income of $95,750 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 $7,181.
- **b.** amounts exceeding $9,575.
- **c.** amounts exceeding $9,750.
- **d.** amounts exceeding $11.969.

38. Charles traveled from Wyoming to Seattle in order to receive specialized medical treatment. Charles would be able to deduct certain costs associated with lodging but not meals while away from home provided he receives medical attention associated with a:

- **a.** clinic.
- **b.** pharmacy.
- **c.** hospital.
- **d.** research facility.

39. James is explaining medical benefits to a group of new employees at a company. One employee wants to know how tax deductible costs are affected when the insurance compensates her for medical expenses. James should explain that they would be reduced by:

- **a.** 5% of the her AGI.
- **b.** the full amount once the deductible is met.
- **c.** the reimbursed amount.
- **d.** 50% of co-pays.

40. 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 chest.
- **c.** A locally owned Montessori school.
- **d.** Fox Indian tribal government.

41. 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 cancelled.
- **d.** Gary must receive written recognition from the food bank for the amount donated.

42. James suffered hail damage to his personal residence, requiring that he replace his roof, windows, and siding. However, insurance reimbursed him for all but his $500 deductible. Under §165, James would:

- **a.** still be able to deduct his nonbusiness casualty losses of $100 or more.
- **b.** still deduct any losses that exceed 10% of his adjusted gross income.
- **c.** deduct the $500.
- **d.** subtract the reimbursement from the amount of the loss.

43. John accepted a new job working for a farm implement manufacturer in Albert Lea, Minnesota. Under §217, what is the timeframe during which he could consider moving expenses as closely associated in time to the beginning of work?

- **a.** 12 months.
- **b.** 15 months.
- **c.** 18 months.
- **d.** 24 months.

44. Janet took a new job and decided to move to be closer to the job. However, Janet was unable to deduct moving expenses under §217 since the location of the new job would need to be ________ farther from the former home than the distance between her former home and former workplace.

- **a.** 50 miles
- **b.** 40 miles
- **c.** 35 miles
- **d.** 10 miles

45. Carrie has a three-year old child, whom she places in day care 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.

46. Julie works a low-paying fulltime job. Her spouse, Matt, has been unemployed for 14 months after being laid off from his construction job. Under the American Recovery & Reinvestment Act, they would qualify for a temporary increase in the earned income tax credit (EITC). This would be especially to their advantage, since the Act added a credit schedule for:

- **a.** taxpayers with no qualifying children.
- **b.** taxpayers with one qualifying child.
- **c.** taxpayers with two qualifying children.
- **d.** taxpayers with three or more qualifying children.

47. Lewis and Brenda, who anticipate an AGI of $190,000, adopted a child from Rwanda in March 2015. Under ATRA, which of the following apply regarding their potential §23 adoption credit:

- **a.** It would be subject to phase out and reduction.
- **b.** They would be eligible for the maximum adoption credit.
- **c.** The adoption credit would no longer apply.
- **d.** They would be ineligible for the credit.

48. Pedro, who is married and files jointly, expects an AGI of $95,000 in 2015 and would like to claim a child tax credit 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 expires in 2014.
- **c.** He will receive a $1000 tax credit per child.
- **d.** He will receive a $3,000 tax credit.

49. Laura had been attending the University of Oregon for two years when she found out students are eligible for the American Opportunity tax credit. In Laura's case, the maximum annual credit amount for qualified tuition and related expenses potentially available to her in 2015 under this provision would be:

- **a.** $0.
- **b.** $2,000.
- **c.** $2,500.
- **d.** $2.800.

50. Marilyn purchased a leasehold which 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.

51. 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.** deduct them.
- **d.** subtract them from gross income to arrive at reportable income.

52. 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 Part I of:

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

53. Sunny, the owner of a small herbal skin care 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.

54. Juan is a self-employed computer technician and pays for his own health insurance. Since the law changed in 2003, Juan may now deduct:

- **a.** no health insurance costs.
- **b.** 50% of health insurance costs.
- **c.** hospitalization insurance costs only.
- **d.** 100% of health insurance costs.

55. Makasuki is involved in a multi-level cosmetic activity which 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.

56. Gary, who is employed as a plant research specialist at the University of California-Davis during the academic year, spends his summers raising fruits and vegetables in his garden and selling the excess at the local farmer's market. Gary explains to his accountant that his market garden is simply a hobby. However, the accountant points out to Gary that the IRS would consider his activity to be for profit if Gary shows a profit for:

- **a.** at least two years out of five consecutive years.
- **b.** at least three years out of five consecutive years.
- **c.** at least three years out of six consecutive years.
- **d.** at least four years out of seven consecutive years.

57. 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 2015 tax year is:

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

58. During a seminar you are presenting on the business use of the 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.

59. During your seminar on business use of the 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 limited to:

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

60. 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.

61. 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.

62. 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.

63. Craig works for an environmental organization in Montana, where its main office is located, but which also has offices located in Idaho and Wyoming. His job requires that he work one day a week at the Idaho office and two days a week the Wyoming office, where he maintains his own office, and the other two days at the Montana main office. Which of the following would be the deciding factor in determining where Craig's tax home is presumed to be located?

- **a.** where the Montana office is located.
- **b.** where Craig's family resides.
- **c.** where Craig chooses to locate his tax home.
- **d.** where Craig maintains a physical office.

64. 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.

65. You are giving a tax seminar related to work and travel. A participant would like to know, under current law, the critical factor used to differentiate a temporary job assignment from an indefinite one. You would reply that, the critical factor would be:

- **a.** location of job.
- **b.** expectation of returning to the taxpayer's tax home once the job ended.
- **c.** application of the rigid one-year indefinite stay rule.
- **d.** the amount of the travel expenses.

66. Of the following individuals, who may most likely deduct certain business-related expenditures for meals and lodging?

- **a.** Jennifer, whose business-related travel as a pharmaceuticals 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 and 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.

67. 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 a Barb is away from home and therefore able to deduct her travel expenses for meals and lodging?

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

68. Jerry believes he has safely determined that his travel is away from his tax home and has a business purpose. However, what else must Jerry determine?

- **a.** the categories of his expenditures.
- **b.** the miles traveled for business.
- **c.** the number of travel locations.
- **d.** the number of breakfast, lunch, and dinner meals.

69. 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 meets with some potential customers and establishes 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.

70. 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 visits 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.

71. 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, 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.

72. 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 deducible, 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.

73. Brian attended a business meeting over dinner at a restaurant and later he and his business associates listened to a live performance by a blues singer and her band. Under the associated test, when entertainment occurs on the same day as the business discussion, the presumption would be that the blues performance:

- **a.** takes place directly before or after the business discussion.
- **b.** is fully deductible.
- **c.** is directly related to their business.
- **d.** is not considered business entertainment.

74. David went to company owned hunting lodge for a business meeting with associates, which included some musical entertainment. When he met with his accountant, he was dismayed to learn that he might not be allowed a deduction, since his entertainment could be held to be in association with:

- **a.** an entertainment facility.
- **b.** a charitable sporting event.
- **c.** a theater.
- **d.** a night club.

75. You are meeting with your client, Paul, and he lays out for you the expenses he incurred during a recent business trip to New York and wants to know which of the following might escape the entertainment reduction rule. Of these he listed, the only one that is fully deductible would be:

- **a.** skyboxes at Giants Stadium for an NFL playoff game.
- **b.** tickets purchased for a Broadway musical.
- **c.** food and drinks that are included as de minimis fringe benefits.
- **d.** taxes and tips associated with the purchase of a meal at a restaurant.

76. Matthew is discussing travel and entertainment 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.

77. Olivia did not save her travel and entertainment receipts she had accumulated while attending an academic conference in 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 Cohan rule.
- **c.** Olivia must use an accountable plan.
- **d.** the deductions are suspended pending substantiation.

78. Ashley accumulated many business-related travel expenses, meal and entertainment expenses, 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.

79. 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.

80. When helping Shane qualify his gift as a §274(b) business gift, you reviewed the five required elements with him. Interestingly, this category of expense had which unique element to be proved?

- **a.** description.
- **b.** amount.
- **c.** place.
- **d.** business purpose.

81. Doug is having trouble sorting out his business travel and entertainment expenses and discusses his problem with his accountant who explains to him the adequate records substantiation rule. Doug would like to know substantiation must occur. His accountant would explain to him that, under this rule, Doug must make his record of the business expense:

- **a.** at or about the time of the expenditure.
- **b.** within a reasonable time after the expenditure.
- **c.** prior to the filing of their tax return.
- **d.** contemporaneous with the expenditure.

82. 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.

83. Kelsey inquires of 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.

84. Albert, who returned to the business world after coaching high school football for 28 years, wants to claim business expenses as an "above-the-line" deduction. Albert is surprised to learn from his accountant that, because of the Family Support Act, this deduction is no longer exempt from the:

- **a.** listed property limitation.
- **b.** 2% AGI limit.
- **c.** 7.5% limit.
- **d.** 50% reduction.

85. Kyle's employer paid his business expense reimbursements under a nonaccountable plan. As a result, Kyle would report these payments as:

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

86. Jordan switched from reimbursing his employees' expenses under a nonaccountable plan to reimbursing them under an accountable plan. What is a consequence of meeting these rules for Jordan?

- **a.** Jordan does not have to complete Form 2016.
- **b.** Jordan may waive obtaining receipts from the employee.
- **c.** Jordan excludes reimbursements from the employee's income.
- **d.** Employee meal and entertainment costs are not subject to the reduction rule.

87. 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.

88. 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.

89. Who of the following taxpayers would be allowed to claim the special standard meal allowance?

- **a.** Megan, who is a film actress.
- **b.** Burt, who travels frequently as a sales representative for a tool manufacturing firm.
- **c.** Denny, who works as the chief engineer for a mining company.
- **d.** Frank, a pilot for Southwest Airlines.

90. 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 fulltime student.
- **d.** a part-time employee.

91. 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.

92. Phil fails to return any excess return of excess per diem allowances within a reasonable timeframe under his employer's reimbursement arrangement. In his case, what would be the tax treatment of these amounts?

- **a.** They would be treated as unreasonable compensation.
- **b.** They would be treated as a nonstatutory fringe benefit.
- **c.** They would be treated as supplementary income.
- **d.** They would be treated as though paid under a nonaccountable plan.

93. Aaron's per diem allowance reimbursement ended up exceeding the federal rate. One consequence of receiving this excess would be that:

- **a.** Aaron is required to report this portion as compensation income.
- **b.** Aaron must return this portion to his or her employer.
- **c.** The employer may exclude the full amount from Aaron's Form W-2.
- **d.** Aaron is not obliged to report the allowance on the return.

94. Karen lives in Kirkland and drives every day into Seattle to 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.

95. Austin owns an environmental remediation business and commutes to his regular office in Laramie, Wyoming. He is hired to 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 completion of his remediation work. 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.

96. 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.

97. 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 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.

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

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

99. Ariel acquired a vehicle which she uses exclusively for her work as a freelance newspaper correspondent, and which she placed in service in January. Under the half-year convention, when is her vehicle actually deemed to have been placed in service?

- **a.** at the beginning of the tax year for MACRS.
- **b.** during the middle of the tax year for MACRS.
- **c.** at the end of the tax year for ACRS.
- **d.** during the six months period after the vehicle's acquisition.

100. 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 some depreciable automobile basis that remains after these six years at a rate less than:

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

101. You are presenting a tax seminar discussing limitations for vehicles not predominately used in a qualified business use. A participant asks what is excluded from "qualified business use." You would explain to her that, under the provisions Tax Reform Act of 1984, qualified business use excludes the use of property held purely for:

- **a.** use in a trade.
- **b.** a business activity.
- **c.** business transportation.
- **d.** income production purposes.

102. Sonia uses the standard mileage method to deduct the business use of her Subaru. Under this method, the "flat" or 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 actual total cost.
- **c.** be used regardless of actual cost.
- **d.** use the same table for autos and trucks.

103. Molly owns three vehicles, and uses her second vehicle, a Toyota Corolla, as an alternative or replacement in her line of work as a consultant. How would using the Corolla affect Molly's use of the standard mileage rate?

- **a.** Molly may be required to prorate standard mileage rate.
- **b.** Molly may no longer use the standard mileage rate.
- **c.** Molly may only use the standard mileage rate for half the year.
- **d.** Molly may continue to use the standard mileage rate.

104. 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.

105. 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 10% of AGI.

106. 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.

107. 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.

108. Janet's employer provides her a company car. In exchange, Janet pays a predetermined amount for 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.

109. 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.

110. Delbert has chosen to expense a vehicle 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.** an amortization of the vehicle's cost.

111. 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.

112. 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.** advertising his business's opening.
- **b.** deductible interest.
- **c.** financial planning costs.
- **d.** legal fees.

113. 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.

114. 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 months after death.
- **b.** the date of death.
- **c.** when probate closes.
- **d.** when the Form 706 is filed.

115. 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.** its ultimate disposition.
- **b.** its nature as real or personal property.
- **c.** adding on the holding period of her father.
- **d.** the relationship of the parties giving and receiving the gift.

116. 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:

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

117. Kyle and Brenda purchased a home in Boise, Idaho, where they planned to settle. However, Kyle lost his job but found another in Dallas. He sold his home in Boise and moved his family to the Dallas area. Since Kyle qualifies for a prorated §121 exclusion, he can prorate the 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.

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

119. Gail sold her condo to Robert and meets with her accountant to discuss the tax consequences of the sale. Her accountant informs her that she should be able to report the gain from the sale of her condo on the §453 installment method, since she received two payments from Robert after:

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

120. 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.

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

122. 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 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.

123. 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.

124. When Robin repossessed some property she sold to Trevor, she experienced a gain, which she is required to report under §1038. She would report the gain on the same form she used to report the:

- **a.** foreclosure.
- **b.** original sale.
- **c.** debt discharge
- **d.** repossession.

125. Sarah is figuring her gain or loss on the §1038 repossession of property she installment sold to Brad. If she ends up with a gain on the repossession, Sarah would treat this gain the same as:

- **a.** a reorganization.
- **b.** a tax-free exchange.
- **c.** an involuntary conversion.
- **d.** the gain on the original sale.

126. Personal property Nicole sold Matt is now subject 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.

127. 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 essence, the same adjusted basis as she had:

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

128. 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.

129. 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.

130. After receiving a condemnation notice, Tony decides to sell his property to a third party and buys 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.

131. Larry voluntarily decides to sell his property to third party when he discovers that an adjacent property is being condemned by a power company to run high voltage power lines. Larry wants the sale to be considered a §1033 condemnation and consults with his tax advisor. His advisor should explain to Larry that, for this to happen, one requirement that must be met would be:

- **a.** the property has a substantial economic relationship to nearby condemned property.
- **b.** the property is a separate economic unit from the property actually condemned.
- **c.** a neighbor's nearby property was condemned.
- **d.** the property adjoins the condemned property.

132. Under threat of condemnation to give public access to the beach, Pamela grants a walkway easement on her beach front property. When she meets with her tax advisor, he should tell her that, for tax purposes, her easement would be considered:

- **a.** a forced sale.
- **b.** a voluntary sale.
- **c.** a condemnation award.
- **d.** severance damages.

133. 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.

134. When the county condemned Reba's land to build a road, they promised to pay her cash in exchange. However, their payment was delayed. When Reba finally received payment, the county included interest. How should Reba treat the county's payment of interest?

- **a.** It should be added to the cost of the acquired property.
- **b.** It should be treated as part of the award.
- **c.** It should be reported separately as ordinary income.
- **d.** It should be treated as tax-exempt municipal interest.

135. 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.

136. 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.

137. 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 are limited. Hannah tells of her recent transaction and her advisor states that with respect to the at-risk rules:

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

138. During a tax seminar you are presenting, a participant, Ernie, would like to know the distinguishing features of a §1031 like-kind exchange. You might first want to point out that this type of transfer is conceptually different than:

- **a.** a transfer of property solely for money.
- **b.** the capitalization of a partnership or corporation.
- **c.** a barter transaction.
- **d.** a stock for stock reorganization.

139. Another 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.

140. 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 would be fully tax deferred when:

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

141. In an otherwise qualified §1031 exchange, Susan also received cash, which her accountant says is technically called "boot." What is the tax consequence of Susan receiving such cash in the exchange?

- **a.** conversion of the exchange into an involuntary conversion.
- **b.** failure of the transaction to qualify as a §1031 exchange.
- **c.** partial application of §1031.
- **d.** taxation of all realized gain.

142. Marty is contemplating a profitable §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 taxable amount being equal to or less than either:

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

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

144. Sophia is engaging in a commercial property exchange which 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.

145. Alan has participated in a §1031 property exchange in which he had to pay brokerage commissions. Subsequently, Alan would treat the brokerage commissions under R.R. 72-456 as:

a. property boot paid.
b. property boot received.
c. mortgage boot paid.
d. mortgage boot received.

146. 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.

147. John wants to structure a §1031 exchange and is debating whether to use a *Baird Publishing* or *Alderson* format. While these formats are similar, you should advise John that a critical difference between the two formats is that in a *Baird Publishing* exchange, the accommodator is:

a. a qualified intermediary.
b. a strawman.
c. the buyer.
d. the seller.

148. 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 Tax Reform Act of 1984 applies time limits on:

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

149. In carrying out their delayed exchange, what must Zack and Alex make sure they accomplish within 180 days as established by the Tax Reform Act of 1984?

- **a.** the filing of any request for a time extension to complete the exchange.
- **b.** receipt of the property to be acquired and completing the exchange.
- **c.** exchanges initiated in any calendar year after April 15.
- **d.** identification of the property to be acquired.

150. Zack and Alex are pleased to find that not only did Tax Reform Act of 1984 settle many open delayed exchange issues but, the IRS followed in 1991 with expansive regulations. In light of these 1991 regulations, what would you advise Zack and Alex as qualifying for a §1031 delayed exchange?

- **a.** a reverse *Starker* case format exchange.
- **b.** an exchange of investment property for property used the same way.
- **c.** a completed sale and a subsequent purchase of like-kind property.
- **d.** an exchange of rental property for a residence with a home office.

151. Greg wants to use a qualified intermediary in a delayed exchange with his client, Alison. Under the §1031 regulations, who would qualify as 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.

152. Candace entered into a delayed exchanged and received interest payments in cash. While the receipt of these payments did not jeopardize §1031 treatment, Candace would need to treat the interest payments as:

- **a.** proceeds of a partial sale.
- **b.** property boot.
- **c.** exchange value credits.
- **d.** taxable income or interest.

153. Jonah is discussing §1031 exchanges as part of a series of tax seminars he is presenting during a conference. A seminar participant asks if the Tax Reform Act of 1984 disallowed any types of exchanges. Jonah would affirm that it specifically disallowed exchanges involving:

- **a.** real property interests.
- **b.** partnership interests.
- **c.** leasehold interests.
- **d.** installment obligations.

154. 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.

155. 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 attributable salary.
- **c.** are deductible in the employee's taxable year.
- **d.** are deductible as a miscellaneous expense.

156. 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.

157. 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 the William's company?

- **a.** no more than 10% of its net worth.
- **b.** no more than 30% of its net worth.
- **c.** half of the amount that the PBGC pays the participants.
- **d.** the full amount that the PBGC pays the participants.

158. 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:

- **a.** the trust is controlled by the employer.
- **b.** the trust is established with a financial institution.
- **c.** the trust has a trustee.
- **d.** the trust is irrevocable.

159. Anne has worked for four years in the human resources department of her company. Her employer-derived benefits package includes a five-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%.

160. Ken would like to offer the employees that 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.

161. Leah's business doing well and she has added a retirement plan to her employees' benefit 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.

162. Richard has offered his employees a qualified pension plan and would like to furnish his active plan participants supplemental benefits. Which of the following may he provide?

- **a.** disability pension benefits.
- **b.** benefits for hospitalization.
- **c.** medical expense benefits.
- **d.** benefits for accidents.

163. Gordon is concerned about the rising cost of pension plans but wants to offer some kind of plan to his employees. If he wanted to go with a plan with the lowest employer costs, he would want to choose a:

a. cafeteria compensation plan.

b. profit-sharing plan.

c. thrift plan.

d. money purchase pension plan.

164. Leif has established a defined contribution plan at his outdoor clothing and equipment firm, requiring employees to contribute as a condition of participation. In establishing this plan, which of the following applies to Leif's company?

a. Employees may voluntarily make plan contributions.

b. The contributions made by employees are deductible.

c. The plan is allowed to be discriminatory.

d. All plan benefits are 100% vested.

165. Kurt has decided to terminate the profit sharing plan he had been offering his employees at his farm implements manufacturing firm. In order to safely do this without offering a business reason, his business would need to have been in existence for at least:

a. 3 years.

b. 5 years.

c. 7 years.

d. 10 years.

166. Owen is the owner of two closely-related businesses and would like to know from his tax advisor how he would figure his maximum contribution under a self-employed plan. His advisor should explain to him that he:

a. allow an additional deduction for each business.

b. treat each business and contribution separately.

c. can only contribute to the plan of one business.

d. treat the businesses as one.

167. Neither Sarah nor her spouse, Giovanni, is covered by an employer-sponsored retirement plan. Given this, what percentage of the maximum IRA contribution should they be able to deduct?

a. 25%.

b. 50%.

c. 75%.

d. 100%.

168. During a lecture on retirement plans, Herb mentions that many plans have nondiscriminatory requirements with respect to the establishment, availability, and funding. A participant asks if there are any plans that allow for discrimination. He should explain that one such plan would be a(n):

- **a.** simplified employee pension plan.
- **b.** individual retirement arrangement.
- **c.** §401(k) plan.
- **d.** self-insured medical reimbursement plan.

169. Amy meets with you to seek some tax advice and asks about Roth Individual Retirement Arrangements (Roth IRAs). She wants to know what is a unique characteristic of such accounts. You should explain to her that:

- **a.** she must designate an account or annuity as a Roth IRA at its inception.
- **b.** Roth IRA distributions are taxed at capital gains rates.
- **c.** Earnings and qualified distributions are included in income.
- **d.** only individuals under 70½ years of age may make contributions to Roth IRAs.

170. Wally is a small business owner and wants to offer his employees a retirement plan. He meets with you to seek your advice and asks about Simplified Employee Pension Plans (SEPs). You explain to him that SEPs have discrimination rules and that he will likely need to cover:

- **a.** members of unions.
- **b.** contract workers.
- **c.** nonresident aliens.
- **d.** part-time employees.

171. Mike owns a computer repair business, has three employees, and wants an uncomplicated retirement plan. He is considering a savings incentive match plan for employees (SIMPLE) plan and meets with you to seek advice particularly, as to whether he is eligible to establish such a plan. You should explain to him that he could be eligible if he were:

- **a.** an employee.
- **b.** an employer who maintains other retirement plans.
- **c.** an employer with 100 or more employees.
- **d.** self-employed.

172. Brian experiences partnership losses that have been deemed as originating from passive activities. His tax advisor explains to him that, under §469, passive activity deductions may not exceed passive activity income in a given year. Brian inquires if there is any instance in which the losses are allowed in their entirety. His advisor should explain that they would be when a taxpayer has suspended losses from such an activity and:

- **a.** a material portion of the activity is disposed of.
- **b.** a substantial portion of the activity is disposed of.
- **c.** any portion of the activity is disposed of.
- **d.** the whole interest in the activity is disposed of.

173. Having received his answer regarding suspended losses, Brian asks his tax advisor what is not subject to the §469 limitations. His advisor should explain that §469 does not affect:

- **a.** rental activities.
- **b.** investment income.
- **c.** active losses.
- **d.** corporations.

174. Since §469 limits the deductibility of losses derived from passive activities, Brian wonders what happens if events change and passive losses become active losses. His advisor should explain that such losses may then offset:

- **a.** only passive income.
- **b.** any form of income.
- **c.** capital gain from the disposition of an asset.
- **d.** only investment income.

175. Melissa wants to claim credits from passive activities and discusses this with her tax advisor. He explains to her that these credits are limited under §469 to:

- **a.** income tax allocable to income from net passive activities.
- **b.** portfolio income.
- **c.** net investment income.
- **d.** taxable income.

176. During a "Taxes for Tough Times" seminar, Robert asks what would happen under §469, if a taxpayer abandoned his rental property. The presenter should explain that such an abandonment would:

- **a.** trigger any suspended losses.
- **b.** not be considered a taxable disposition.
- **c.** be deemed as occurring in a future tax year.
- **d.** constitute an ordinary loss.

177. Angela disposed of an entire interest in a passive activity in a taxable sale to a related party. The tax consequence of such a disposition would be:

- **a.** no deduction is permitted for suspended losses.
- **b.** a partial deduction is allowed for suspended losses in the year of sale.
- **c.** a full deduction is allowed for suspended losses in the year of sale.
- **d.** all losses remain passive until the end of the following year.

178. You are explaining to your client, Fiona, how suspended losses are triggered. She asks the reasoning behind this often confusing rule. You should explain that the Congressional rationale for §469 is that taxpayers only take passive losses:

- **a.** upon a tax loss.
- **b.** upon real financial loss.
- **c.** when real property actually changes hands.
- **d.** when they no longer hold title to the property.

179. Marilyn has gifted an apartment building she owns to her daughter. Under §469(j)(6), Marilyn's gift of her interest in the building, which constitutes a passive activity, would mean that:

- **a.** her daughter would take the associated losses.
- **b.** passive losses would convert into active losses.
- **c.** all passive losses would be freed.
- **d.** suspended losses would not be triggered.

180. Under §469, Sheri has been carrying forward disallowed losses and credits in full and meets with her tax advisor to discuss the tax consequences. Her advisor should explain that, under §469, such losses and credits would be treated in the latter years as:

- **a.** active losses and credits.
- **b.** passive losses and credits.
- **c.** portfolio losses and credits.
- **d.** capital losses and credits.

181. Marilyn is licensed as a real estate professional and during the most recent tax year materially participated in certain rental real estate activities. Her accountant should explain that under special §469 rules, she will treat these activities as:

- **a.** portfolio activities.
- **b.** investment activities.
- **c.** nonpassive activities.
- **d.** business activities.

182. You are explaining to your clients, David and Alicia that, when certain taxpayers take selected deductions and credits, they may become subject to the alternative minimum tax (AMT). They want to know which taxpayers excluded from the AMT. You should inform them that the AMT does not apply to:

- **a.** partnerships and S corporations.
- **b.** estates and trusts.
- **c.** individuals who are already subject to the regular tax.
- **d.** sole proprietorships.

183. Ralph is helping his client, Ann, figure the alternative minimum tax (AMT). In making this calculation, he would need to deduct from regular tax her:

- **a.** distributable net income.
- **b.** net investment income.
- **c.** tentative minimum tax.
- **d.** unrelated business income.

184. Charles, who lives in Binghamton, New York, needs to figure his alternative minimum tax. Which of the following would be tax preference or adjustment item that he would he need to treat differently for alternative minimum tax purposes than for regular tax purposes?

- **a.** State of New York tax refund.
- **b.** ordinary losses.
- **c.** capital losses.
- **d.** self-employment income.

185. Sally decided not to itemize her deductions this year in filing her tax return. Therefore, in figuring her alternative minimum tax, if any, Sally would:

- **a.** subtract the standard deduction from taxable income.
- **b.** add the standard deduction to taxable income.
- **c.** multiply the standard deduction by taxable income.
- **d.** ignore the standard deduction for AMT purposes.

186. Percy's spouse had major surgery requiring a long hospital stay, before making a complete recovery. For AMT purposes, he could deduct medical expenses if they exceeded:

- **a.** 5% of the regular tax AGI.
- **b.** 7.5% of the regular tax AGI.
- **c.** 10% of the regular tax AGI.
- **d.** 12% of the regular tax AGI.

187. You explain to Frank that the AMT has positive adjustments that increase taxable income and negative adjustments that decrease taxable income. Given this, how would Frank treat his deduction of personal exemptions for AMT purposes?

- **a.** He would be prohibited from taking the deductions.
- **b.** He would be allowed the deductions.
- **c.** His deductions would be suspended.
- **d.** His deductions would be amortized.

188. Warren, who does business overseas, paid income tax to Spain during the most recent tax year. He has elected to credit these taxes in U.S. dollars. For alternative minimum tax (AMT) purposes, how would he treat the foreign tax credit?

- **a.** He would treat it as a tax preference for the purposes of the AMT.
- **b.** He would treat it as one of many credits allowed in figuring the AMT.
- **c.** It would not be allowed in calculating the AMT.
- **d.** It would be the only credit he could use to calculate the AMT.

189. Leighton, in figuring his alternative minimum tax (AMT), generated a minimum tax credit which he is told will help avoid any double taxation due to the treatment of certain income items recurring from year to year. As a result, upon payment of the alternative minimum tax (AMT), Leighton may apply this credit against his:

- **a.** capital gains.
- **b.** AMT tax and later years.
- **c.** ordinary income.
- **d.** regular tax liability in later years.

190. Sam received $45,000 cash in a single business transaction when he sold a used tractor from his farm implements business. Under IRS reporting requirements, Sam would need to:

- **a.** file an excise tax notice.
- **b.** file an information return with the IRS.
- **c.** obtain and retain the payor's Social Security number.
- **d.** withhold 28% of the payment.

191. Gary and Brian, who are part owners of a small business, filed Form 1065. They also attached Form 8308 since their partnership interests were exchanged under:

- **a.** §708 any twelve-month period.
- **b.** §751(a) during the year.
- **c.** §1032 during the year.
- **d.** the pass-through entity rules.

192. Kellie purchased a large number of business assets during the recent tax year from a business associate. As a result of her purchase, what must Kellie attach to her tax return?

- **a.** appraisals.
- **b.** Form 8271.
- **c.** Form 8594.
- **d.** Form 8832.

193. Marcus reported substantial valuation overstatements on his tax return and was cited by the IRS for failure to report accurately on his return. Given the particular nature of his reporting inaccuracy, Marcus can expect to pay a tax penalty of:

- **a.** 5%.
- **b.** 7%.
- **c.** 14%.
- **d.** 20%.

194. For which of the following taxpayers would a tax penalty for negligence be inapplicable?

- **a.** Joe, who has filed for bankruptcy.
- **b.** William, who engaged in accounting fraud.
- **c.** Sharon, who utilized an abusive tax shelter.
- **d.** Juan, who is a nonresident alien.

195. The IRS informed your client, Roger, that he will need to pay a tax penalty for substantial understatement of his income tax. He wants to know whether there is a way he would be able to avoid paying the penalty. After discussing his particular circumstance, you would point out to him that his best chance for avoiding the penalty would be:

- **a.** demonstrating reasonable cause and good faith.
- **b.** pointing out he filed in a timely manner.
- **c.** pointing out he used book value.
- **d.** showing he had deviated by 20% from the correct valuation.

196. Alexis understated a tax income liability by $5,750, resulting in the imposition of a tax penalty. However, the IRS allowed her understatement because she:

- **a.** provided adequate disclosure elsewhere.
- **b.** relied on the advice of an accountant.
- **c.** showed substantial authority for her claimed position.
- **d.** provided a witness for her claimed position.

197. During a tax seminar, Ron is discussing how penalties are imposed for unrealistic positions and reporting inaccuracies. A member of the audience wants to know under what other circumstances individuals would face penalties. Ron replies that one example would be when an individual fails to:

- **a.** file appropriate information returns.
- **b.** file business address changes.
- **c.** register as head of household.
- **d.** use e-filing when that option is available.

198. Barb omitted from reported gross income her self-employment earnings she received during the summer when she was not teaching high school. The omission represented 30% of her gross income for the tax year. In Barb's case, what would be the IRS statute of limitations for assessments?

- **a.** There would be no statute of limitations.
- **b.** The statute of limitations would be six years.
- **c.** The statute of limitations would be four years.
- **d.** The statute of limitations would be five years.

199. Sheila failed to report a tax-free exchange she transacted during a recent tax year. In her case, how would the IRS statute of limitations apply?

- **a.** The IRS could not require an assessment in this case.
- **b.** There would be no statute of limitations.
- **c.** The IRS would be subject to a six-year statute of limitations.
- **d.** The IRS would be subject to a three-year statute of limitations.

200. Karl was recently audited by the IRS and he realizes he could face a repeat examination within two years. However, Karl's tax advisor explains that he would have a good chance of being spared a repeat examination if:

- **a.** he and the IRS reach an understanding.
- **b.** the outcome of the audit results in little or no change in tax.
- **c.** a deficiency notice was not issued.
- **d.** the audit resulted in a tax refund.