

CCH Federal Taxation
Comprehensive Topics
2014

1. Committee reports of the House Ways and Means Committee, the Senate Finance Committee, and the conference committees are published by the Government Printing Office and are also reprinted in the Internal Revenue Bulletin and Cumulative Bulletin.

- *a. True
- b. False

2. Title 26 of the United States Code contains the statutes that authorize the Treasury Department, specifically, the Internal Revenue Service, to collect taxes for the federal government.

- *a. True
- b. False

3. Section numbers run consecutively through the entire Code, but with occasional breaks in their sequence.

- *a. True
- b. False

4. All Revenue Rulings are published in the Internal Revenue Bulletin, and eventually in the Cumulative Bulletin.

- *a. True
- b. False

5. If the IRS revokes or modifies a published ruling, open tax years can be retroactively affected for all taxpayers.

- *a. True
- b. False

6. Since regulations, revenue rulings, and acquiesced Tax Court decisions all lack judicial authority, an IRS agent would more easily be persuaded by reference to District Court and Circuit Court decisions.

- a. True
- *b. False

7. Information Releases (IRs) usually are not published in the Internal Revenue Bulletin, but are distributed via a practitioners' mailing list.

- a. True
- *b. False

8. Private letter rulings by the Internal Revenue Service are only made available by an official court order.

- a. True
- *b. False

9. A thorough legislative history and background of a Section of the Internal Revenue Code is generally found in the CCH and RIA tax services.

- a. True
- *b. False

10. The Internal Revenue Code of 1986 is arranged as follows: Chapter, Subtitle, Subchapter, Part, Section, Subpart, Subsection.

- a. True
- *b. False

11. The IRS must follow the precedents set by decisions of the U.S. Court of Federal Claims.

- a. True
- *b. False

12. In a Court of Appeals dispute between the 5th and 8th Circuits, the U.S. Tax Court operating within the 5th Circuit will usually refer the case to the U.S. Supreme Court.

- a. True
- *b. False

13. Current tax law dates back only to post-1986 Internal Revenue Code developments.

- a. True
- *b. False

14. The Citator Service outlines the history of a court case, from inception, through appeals and tells which later cases or rulings have cited it.

- *a. True
- b. False

15. The CCH "Citator," outlines current amendments to the Code.

- a. True
- *b. False

16. The Mertens tax service is a tax service that is sometimes cited by the courts.

- *a. True
- b. False

17. "Closed Fact" tax research relates to the various procedures involved in "before-the-facts planning" situations.

- a. True
- *b. False

18. Tax Court decisions that involve issues not previously decided by the Court are released as Memorandum decisions.

- a. True
- *b. False

19. The IRS might issue an Acquiescence or a Nonacquiescence to a Regular Tax Court decision, but not to a Memorandum decision.

- a. True
- *b. False

20. Tax "evasion" and "avoidance" are almost identical concepts, both relating to the willful failure to comply with tax laws.

- a. True
- *b. False

21. A practitioner who is an income tax return preparer and who files a power of attorney with the Internal Revenue Service may receive and endorse a taxpayer's refund check.

- a. True

*b. False

22. A corporation may be represented by one of its bona fide officers before the Internal Revenue Service.

*a. True
b. False

23. An individual who is a regular full-time employee of a partnership may represent the partnership before the Internal Revenue Service.

*a. True
b. False

24. An accountant discovers an error on a client's returns. The accountant must advise the client and the Internal Revenue Service of the error.

a. True
*b. False

25. A claim for refund (Form 1040X, Amended U.S. Individual Income Tax Return) must be filed within three years from the date the return was due or filed, or within two years from the date the tax was paid, whichever is later.

*a. True
b. False

26. A notice of deficiency received by a taxpayer from the Internal Revenue Service means that a proposed tax liability has been automatically assessed and the taxpayer can no longer take his or her case to the Tax Court.

a. True
*b. False

27. Determination letters regarding the written qualifications of an individually designed retirement plan are issued by the Internal Revenue Service's National Office in Washington.

a. True
*b. False

28. The taxpayer or the Government may appeal decisions of a District Court to the Court of Appeals.

- *a. True
- b. False

29. Decisions of the Court of Federal Claims are appealed to the U.S. Supreme Court.

- a. True
- *b. False

30. The U.S. Tax Court is an independent judicial body that has no connection with the Internal Revenue Service.

- *a. True
- b. False

31. An unenrolled individual may represent his or her regular full-time employer before the Internal Revenue Service.

- *a. True
- b. False

32. An examination of Farley Field's 2013 income tax return resulted in an unagreed deficiency of \$20,000, and he has requested that his case be heard by the Tax Court under the Small Tax Case procedures. If his case is handled using these procedures, he cannot appeal the decision.

- *a. True
- b. False

33. The Tax Court hears cases only if the tax has been assessed or paid.

- a. True
- *b. False

34. Doris Duncan received a statutory notice of deficiency at her residence in Ohio. If she wishes to appeal the deficiency to the Tax Court, she may file a petition at any time within 120 days of the issuance of the notice.

- a. True
- *b. False

35. The U.S. Supreme Court is not obligated to hear all tax cases that are appealed to it.

- *a. True

b. False

36. The Commissioner of Internal Revenue may appeal an adverse decision of the Tax Court.

*a. True

b. False

37. The Tax Court is less likely to be lenient in its enforcement of the rules of evidence than the District Court or the Court of Federal Claims.

a. True

*b. False

38. A jury trial is allowed in the Tax Court.

a. True

*b. False

39. Payment of tax is not necessary to litigate in the District Court.

a. True

*b. False

40. Taxpayers may request a determination letter from the National Office of the IRS.

a. True

*b. False

41. Arnold Ames, a partner in an accounting firm, discovers that one of his clients omitted a substantial amount of gross income. Arnold should immediately notify his partners and the IRS.

a. True

*b. False

42. A claim for refund must be filed within three years from the date the return was filed or within three years from the date the tax was paid, whichever date is later.

a. True

*b. False

43. If the taxpayer disagrees with an examiner's findings, the taxpayer must first make an appeal to the IRS before going to the courts.

- a. True
- *b. False

44. Barry Broom's tax return was examined by a tax auditor who determined additional tax due of \$2,400. Barry does not agree with the proposed change and requests a conference with the Appeals Office. Barry is required to submit a written protest with his request to the Appeals Office.

- a. True
- *b. False

45. Secondary sources of authority such as tax services, citators, and legal periodicals are references that explain and comment on primary sources of authority.

- *a. True
- b. False

46. Regulations often define terms, clarify language used in the Code, and explain how the President believes the tax laws should be interpreted.

- a. True
- *b. False

47. The American Institute of Certified Public Accountants (AICPA) has adopted Statements on Standards for Tax Service that are enforceable against all tax practitioners.

- a. True
- *b. False

48. The Internal Revenue Code of 1939 replaced the piecemeal annual revenue acts.

- *a. True
- b. False

49. Revenue legislation begins in the Senate.

- a. True
- *b. False

50. The internal revenue laws were revised by the Tax Reform Act of 1986 and renamed the Internal Revenue Code of 1986.

- *a. True
- b. False

51. Upon examination of a tax return, the IRS has the authority to impose additional taxes and penalties.

- *a. True
- b. False

52. Decisions of the U.S. Courts of Appeals and some decisions of other federal courts may be reviewed by the United States Supreme Court. The Supreme Court is obligated to hear all federal tax cases that it has been requested to review.

- a. True
- *b. False

53. Regulations may be legislative, interpretative, and procedural, and are afforded different weight by the courts.

- *a. True
- b. False

54. Revenue rulings are issued on the basis of Code sections and may be subsequently changed (modified) or revoked to reflect subsequent law or regulation changes and court decisions.

- *a. True
- b. False

55. The purpose of revenue rulings is to promote uniform application of the tax law to an entire set of facts. Therefore, IRS employees must follow the rulings, while taxpayers may appeal adverse return examination decisions based on these rulings.

- *a. True
- b. False

56. The United States Tax Court is a court of national jurisdiction.

- *a. True
- b. False

57. Both the taxpayer and the government may appeal decisions of the U.S. Tax Court or U.S. District Court to the U.S. Court of Appeals.

- *a. True
- b. False

58. Practice before the IRS is available only for "enrolled agents."

- a. True
- *b. False

59. The Tax Code provides criminal penalties for tax professionals that include prison time.

- *a. True
- b. False

60. The Internal Revenue Code and IRS revenue rulings are types of primary sources of tax authority.

- *a. True
- b. False

61. Research products prepared by publishing companies can be relied on as primary tax authorities.

- a. True
- *b. False

62. A return preparer who fails to sign a tax return is subject to civil penalties as contained in the Internal Revenue Code.

- *a. True
- b. False

63. When an individual taxpayer wishes to file a claim for refund of federal income tax, he or she should file an appeal with the appropriate IRS Appeals Office.

- a. True
- *b. False

64. In order for a case to be handled in the U.S. Tax Court under the "small tax case procedures," the amount involved must be \$25,000 or less for any one tax year.

- a. True

*b. False

65. Which of the following arrangements of an Internal Revenue Code citation is customary?

- a. Section 21(A) II(1) (a)iii
- b. Section 81(A) (iv), 2(b)c
- *c. Section 243(a) (3) (C) (ii)
- d. Section 482(B) (4) (d)-i
- e. Section 501(IV) (a) 5(B) (iii)

66. Determine the correct explanation for the following CCH citation--
72- 1 USTC P9725 (CA-2 1972).

- a. CCH, U.S. Tax Court, P9725, 2nd District of California, 1972, page 1.
- *b. CCH, U.S. Tax Cases, U.S. Court of Appeals, Second Circuit, 1972, Vol. 1, P9725.
- c. CCH, U.S. Tax Cases, 2nd Circuit of California, 1972, Vol. 1, P9725.
- d. CCH, U.S. Tax Court, U.S. Second Court of Appeals, 1972, California, Vol. 2, P9725.

67. Determine the correct CCH citation for the following--U.S. District Court of Florida, 1969, Volume 2, P9354, CCH U.S. Tax Cases.

- a. USTC 69-2, U.S. Dist. Fla., P9354
- *b. 69-2 USTC P9354 (DC Fla. 1969)
- c. 69-2 USTC, Fla., P9354
- d. USDC-FLA (1969), USTC 69-2, P9354, CCH

68. The major portion of the CCH Standard Federal Tax Reports, in Volumes 1 through 18, consists of the various "Compilations." The purpose of the compilations is:

- a. To offer tax planning ideas related to each income tax topic, and to direct the user to appropriate research articles in selected periodicals.
- b. To provide the reader with in-depth discussions of general concepts of law without reflecting details of the various Code sections or regulations.
- c. To outline related current developments, cross-referenced to each Code section, and to provide in-depth coverage of the legislative history of each Code section.
- *d. To reflect the text of each Code section, followed by Regulations, Committee Reports, Explanations, and editorial opinion.

69. Which of the following statements is true?

- a. Technical Information Releases and Announcements are published in the Internal Revenue Bulletin, and are typically included in the Cumulative Bulletin.
- b. The IRS issues "Determination Letters" and publishes summaries of these letters in the Internal Revenue Bulletin; they are rarely reprinted in the Cumulative Bulletin.
- c. The editorial opinion included in the leading looseleaf tax services is an excellent substitute for authoritative sources of law since it is more direct and easier to understand.
- *d. LEXIS/NEXIS is one of the leading computerized legal data bank services which affords the researcher-user access to the full texts of primary source materials.

70. The authority of the U.S. government to raise revenue through a federal income tax is derived from:

- a. The Internal Revenue Service
- b. Eisner v. Macomber (a Supreme Court case)
- *c. The 16th Amendment to the Constitution
- d. The House Ways and Means Committee

71. Which of the following statements regarding Revenue Rulings is correct?

- a. Revenue Rulings present judicial interpretations of tax law.
- *b. Revenue Rulings present administrative interpretations of tax law.
- c. Revenue Rulings have the same authoritative weight as Treasury Regulations.
- d. The legal citation for a Revenue Ruling refers to the associated Internal Revenue Code section.

72. Which of the following statements regarding Treasury Regulations is false?

- a. In dealing with the IRS, Treasury Regulations have the authority of law.
- *b. Courts are bound to follow Treasury Regulations when they are in conflict with the law.
- c. The legal citation for a Treasury Regulation refers to the associated Internal Revenue Code section.
- d. Regulations are published in the Federal Register.

73. Which of the following sources of tax law are cross-referenced to related Internal Revenue Code sections through the use of a similar numbering system?

- a. Revenue Rulings
- b. Tax Court cases
- *c. Treasury Regulations

d. Determination Letters

74. Upon completion of an audit, which procedural form does the IRS agent give to the taxpayer?

- a. Form 870, Waiver of Restrictions
- b. 30-day letter
- c. 90-day letter
- *d. Revenue Agent's Report

75. When dealing with the Tax Court, which of the following pronouncements has the highest authority?

- a. Revenue Procedures
- *b. Treasury Regulations
- c. Revenue Rulings
- d. Technical Information Releases

76. Which of the following are not published either by the government or by any of the private publishing services?

- a. Private Letter Rulings
- b. Tax Court Memorandum Decisions
- c. Revenue Procedures
- *d. Determination Letters

77. Which level of the IRS handles the majority of tax audits?

- a. The National Office
- b. The Chief Counsel
- c. The Regional Service Centers
- *d. The District Offices

78. Which of the following options is not available to a taxpayer after receipt of a 30-day letter from the IRS?

- a. Sign the Form 879 and await assessment of the deficiency.
- b. File a protest and obtain a conference at the Appellate Division of the IRS.
- c. Either request or await a 90-day letter.
- *d. Request a rehearing by a new IRS agent.

79. Which of the following types of tax matters are typically handled by a Correspondence Examination?

- a. Audits involving complex corporate reorganizations
- *b. Simple matters that can usually be resolved by mail
- c. Tax shelter examinations

d. TCMP audits

80. The term "Practice before the IRS" refers to:

- a. Tax planning for nonprofit organizations
- b. Macro-economic tax projections
- *c. Representing a client before the IRS
- d. Tax planning for timber and forest investments

81. The term "tax doctrine" refers to a:

- a. Legal concept that is found in Treasury Regulations
- b. Statutory provision of the tax law
- *c. Judicial interpretation with strong precedential value
- d. Tax treaty with a foreign country

82. Which of the following is published in the Cumulative Bulletin?

- a. Treasury Regulations
- *b. Revenue Rulings
- c. Internal Revenue Code amendments
- d. Tax Court cases

83. The "Compilations" which comprise the major portion of Volumes 1 through 18 of the CCH Standard Tax Service:

- a. Are not arranged in Code section order
- b. Do not include related Treasury Regulations
- c. Do not contain any CCH editorial opinion
- *d. Do not contain the full text of Revenue Rulings

84. Which of the following is not true regarding the CCH Citator:

- a. Includes Tax Court cases
- b. Includes Private Letter Rulings
- *c. Contains cross-references to the Compilation volumes
- d. Outlines the history of most Revenue Rulings

85. Which of the following is not permitted to "practice before the IRS"?

- a. Attorney
- b. CPA
- *c. Bookkeeping service
- d. Enrolled agent

86. Which of the following is not a "mathematical error" as defined in Code Section 6213?

- a. An error in addition, subtraction, multiplication, or division shown on any return
- b. An incorrect use of any IRS table if such incorrect use is apparent from other information on the return
- *c. An omission of income which should be included on the return
- d. Inconsistent entries on the return

87. Jury trial is available in the:

- a. Tax Court
- b. "Small Tax Cases" procedures of the Tax Court
- c. Court of Federal Claims
- *d. District Court

88. Which of the following litigation is not under the Tax Court's jurisdiction?

- a. Income tax
- b. Estate tax
- c. Excess profits tax
- *d. Employment tax

89. If the fraud penalty is assessed, which one of the following may be assessed with respect to the same underpayment?

- a. Negligence penalty
- b. Failure to file penalty
- c. Failure to pay penalty
- *d. Underpayments of estimated tax penalty

90. If any part of any understatement of liability as to a return or claim for refund is due to a willful attempt to understate the liability, the preparer could be subject to a "per return" penalty of:

- a. \$250
- b. \$1,000
- *c. \$5,000
- d. \$10,000

91. Any preparer who endorses or otherwise negotiates a refund check issued to a taxpayer for a return or claim for refund prepared by the preparer is subject, with respect to each such check, to a penalty of:

- a. \$25
- b. \$50
- c. \$100

*d. \$500

92. Interest is paid by the IRS on overpayment of tax if any overpayment of tax is not refunded within which of the following number of days after the due date of the return (or filing date, if later):

- a. 10 days
- b. 30 days
- *c. 45 days
- d. 60 days

93. What is the applicable length of time for the statute of limitations on assessment of taxes if the taxpayer willfully evades taxes?

- *a. No limitation
- b. 18 months
- c. 3 years
- d. 6 years

94. Which of the following helps solve taxpayer problems of dealing with the IRS?

- a. Chief Financial Officer
- b. Chief Compliance Officer
- c. Chief Information Officer
- *d. National Taxpayer Advocate

95. If a taxpayer under review disagrees with the revenue agent, he or she may:

- a. Request a conference in the IRS Appeals Office.
- b. File a petition in the Tax Court within the 90-day period after receiving the statutory notice of deficiency.
- c. Wait for the 90-day period to expire, pay the assessment, and start a refund suit in the District Court or the Claims Court.
- *d. All of the above.

96. Which of the following may not occur during the Appeals conference?

- a. The taxpayer may represent himself or herself.
- b. The Appeals Officer may request that the taxpayer submit additional information which could involve additional conferences.
- *c. New issues may be raised by the Appeals Officer regardless of the reasons for raising them.
- d. The Appeals Office may resolve controversies between the taxpayer and the IRS by considering the "hazards of litigation."

97. All of the following statements relating to Form 870-AD are true, except:

- a. By signing Form 870-AD, the taxpayer waives restrictions on the assessment and collection of any deficiency.
- *b. Form 870-AD stops the running of interest when filed.
- c. Form 870-AD is merely the taxpayer's offer to waive restrictions and interest will run until 30 days after the IRS has accepted the offer.
- d. The taxpayer is not required to sign Form 870-AD if the taxpayer does not agree with the decision at the Appeals level.

98. All of the following statements regarding determination letters are true, except:

- a. A determination letter is generally issued in the same circumstances as a private ruling.
- *b. Determination letters are issued by the National Office of the IRS.
- c. Most determination letters are issued in matters involving pension plans and exempt organizations.
- d. A determination letter is issued in response to a written inquiry of the taxpayer which applies the principles and precedents announced by the National Office to a specific set of facts.

99. There is no limitation on the period for assessment:

- a. If the taxpayer omits from gross income an amount which is in excess of 25 percent of the amount of gross income stated on the return.
- b. In the case of a deficiency attributable to the application of a carryback (capital loss, net operating loss, or investment credit carryback).
- *c. If the taxpayer files a false return.
- d. If a personal holding company fails to file with its return a schedule regarding its status as a personal holding company.
- e. In all of the above cases.

100. Leo Lambert, a calendar year taxpayer, filed his 2012 individual income tax return on March 15, 2013, and attached a check for the balance of tax due as shown on the return. On June 15, 2013, Leo discovered that he had failed to include, in his itemized deductions, \$1,000 interest on his home mortgage. In order for Leo to recover the tax that he would have saved by utilizing the \$1,000 deduction, he must file an amended return no later than:

- a. December 31, 2015
- b. March 15, 2016
- *c. April 15, 2016
- d. June 15, 2016

101. In response to a preliminary (30-day) letter, a written protest discussing the facts and legal arguments must accompany a written request for an Appeals Conference in which of the following cases?

- a. A proposed \$2,000 tax increase
- b. The tax return examination was made in an IRS office by a tax auditor
- c. The tax return examination was made by correspondence
- *d. A proposed disallowance of a \$3,000 refund claim

102. Barbara Bigsby filed her 2011 Form 1040 on April 15, 2012, but did not pay her tax liability of \$3,000. On June 15, 2013, she paid the tax in full. In 2014, Barbara discovered additional deductions for 2011 that will result in a refund of \$1,000. To receive her refund, Barbara must file an amended income tax return by:

- a. April 15, 2016
- b. June 15, 2016
- c. April 15, 2015
- *d. June 15, 2015

103. Brian Bogart wishes to appeal the findings of the United States Court of Federal Claims concerning his tax liability. Brian must appeal to:

- a. United States Court of Appeals for Brian's circuit
- b. United States Board of Tax Appeals
- c. United States District Court
- *d. United States Court of Appeals for the Federal Circuit

104. The maximum amount of a deficiency that may be heard under the "Small Tax Cases" procedures of the U.S. Tax Court is:

- a. \$5,000
- b. \$10,000
- c. \$20,000
- d. \$25,000
- *e. \$50,000

105. What are the two Congressional Committees that have primary responsibility for the drafting of tax bills?

- a. Senate Ways and Means and the House Finance Committees.
- *b. House Ways and Means and the Senate Finance Committees.
- c. House Tax and the Senate Tax Committees.
- d. House Revenue and the Senate Revenue Committees.

106. Which of the following is an example of a primary source of law?

- a. Citators.
- b. Periodicals.
- c. Commercial tax services.
- *d. None of the above.

107. Which of the following is most likely to help explain the intent of Congress when it enacts tax legislation?

- *a. Committee Reports.
- b. Internal Revenue Code.
- c. Income Tax Regulations.
- d. IRS Letter Rulings.

108. In addition to regulations, the IRS issues which one of the following that interpret and apply the tax laws to a specific set of facts?

- a. Case law annotations.
- *b. Rulings and pronouncements.
- c. Executive summaries and outlines.
- d. Public Laws.

109. Which of the following statements is not true with respect to IRS/taxpayer litigation?

- a. If the IRS "acquiesces" it accepts the court's conclusion and follows it in disputes involving other taxpayers with similar situations.
- *b. If the IRS issues a "nonacquiescence," it accepts the court's conclusion but does not intend to follow the decision in disputes involving other taxpayers with similar situations.
- c. After the IRS issues an acquiescence or nonacquiescence to a decision issued by the Tax Court, the case citation is followed by an (Acq.) or (Nonacq.).
- d. If the IRS issues a "nonacquiescence" it does not accept the court's conclusion and does not intend to follow the decision in disputes involving other taxpayers with similar situations.

110. Which of the following statements is not true with respect to tax litigation?

- a. Of the three types of opinions issued by the Tax Court, a memorandum opinion (in theory not always in practice) applies well established principles of law to facts found by the court.
- b. If a taxpayer elects the Tax Court's "small tax procedures" (available for disputes involving \$50,000 or less), a summary opinion, which is not open to appeal is issued by the Tax Court.
- *c. District courts hear only disputes involving federal tax law.

d. Decisions by a U.S. district court may be appealed to the Court of Appeals having jurisdiction over the district court.

111. Which of the following is not true with respect to citators?

- *a. Published only by the IRS.
- b. Help establish that case law or rulings referenced are valid and authoritative.
- c. Helps determine whether a case or ruling has been modified or supplemented.
- d. Helps determine whether other subsequent cases and ruling have mentioned the case in question.

112. Which one of the following could be found in the citation for a decision by a U.S. Court of Appeals?

- *a. F.3d.
- b. Fed. Cl.
- c. F.Supp 2d.
- d. Dec.

113. Regulations can be in the form of:

- *a. temporary, proposed, or final Regulations.
- b. court decisions.
- c. public laws.
- d. (a) or (b).

114. The Tax Court may issue an opinion as a "Regular," as opposed to a "Memorandum" opinion, if

- a. The amount at issue exceeds \$25,000 (for individuals, trusts and estates) or \$100,000 (for all other taxpayers).
- b. The issue involves the Constitutional validity of any federal revenue-raising provision.
- *c. The Tax Court considers the case to be expressive of a new point not previously covered by one of its published decisions.
- d. Both the taxpayer and the IRS petition for publication of the opinion as a "Regular" decision.

115. All of the following statements relating to Treasury regulations are true except:

- a. temporary regulations are issued to provide guidance for the public and IRS employees until final regulations are issued.
- *b. the rules contained in temporary regulations can never be used as authority by taxpayers but, instead, are meant to aid in taxpayer compliance with IRS rules and regulations.
- c. final regulations supersede temporary regulations.

d. proposed regulations are issued to solicit public written comments.

116. Which of the following is a primary source of tax authority:

- a. revenue ruling.
- b. Tax Court case.
- c. temporary regulation.
- *d. all of the above.

117. John Jones filed his 2012 individual income tax return on March 30, 2013, and attached a check for the tax due as shown on the return. On January 15, 2014, John discovered that he had understated his itemized deductions on his 2012 tax return. What is the last day on which he can file a claim for refund? (Assume that none of the dates below fall on a weekend or holiday.)

- a. March 30, 2015
- b. April 15, 2015
- c. March 30, 2016
- *d. April 15, 2016

118. Paul Parrot, who lives in Paris, Texas, receives a letter from the IRS stating that the result of a recent examination is a tax deficiency of \$15,000. The examination was handled by a revenue agent at Paul's art studio, his only place of business. The letter also states that Paul has a right to file a protest if he does not agree with the proposal. Generally, how many days does Paul have to file a written request?

- a. 15
- *b. 30
- c. 60
- d. 90

119. Compare and contrast the following tax related terms: "statutory" tax provision v. tax "doctrine."

Correct Answer:

A statutory provision relates to the Internal Revenue Code whereas a tax doctrine is a well recognized principle that has evolved from judicial interpretation of the laws.

120. List and discuss the various "primary" or "authoritative" sources of tax reference materials.

Correct Answer:

Statutory: The Code. Administrative: Treasury Regulations and Internal Revenue Service Rulings. Judicial: The various decisions of the trial and appellate courts.

121. In which government publications are proposed, temporary, and final Treasury Regulations reproduced?

Correct Answer:
The Federal Register.

122. Assume that the citation for a given Revenue Ruling is as follows: Rev. Rul. 82-45, 1982-1 CB 234. Explain what the various abbreviations and numbers mean.

Correct Answer:
The 45th Revenue Ruling of 1982, found on page 234 of the 1st Cumulative Bulletin of 1982.

123. Why is Mertens Law of Federal Taxation frequently quoted in judicial decisions?

Correct Answer:
Mertens is frequently quoted because it is a heavily annotated tax service, providing in-depth discussions of general concepts of tax law. However, Mertens is not generally used as a comprehensive, self-contained reference service.

124. What role does the Internal Revenue Service play in interpreting the tax law?

Correct Answer:
The IRS issues Revenue Rulings, Revenue Procedures, and Technical Information Releases as administrative interpretations of the law. Additionally, the IRS issues Private Letter Rulings, Technical Advice Memoranda, and Determination Letters.

125. What sanctions are available to the AICPA Tax Division which might be invoked for noncompliance by one of its members with the various Statements on Responsibilities in Tax Practice?

Correct Answer:
None. The Statements are really only advisory opinions of the AICPA as to what are appropriate standards of conduct in certain situations. However, tax practitioners should be familiar with the Statements since they indicate the viewpoint of the AICPA and some accounting firms use the Statements as policy in their firms.

126. Judy Jensen files her return two months after the due date and pays the remaining \$20,000 of tax owed by her. What are her delinquency penalties?

Correct Answer:

Judy's total penalties (disregarding interest) are \$2,000 consisting of a failure to pay penalty of \$200 ($.5\% \times 2 \text{ months} \times \$20,000$) and a failure to file penalty of \$1,800 ($5\% \times 2 \text{ months} \times \$20,000$) less ($.5\% \times 2 \text{ months} \times \$20,000$).

127. Due to negligence, Roy Rugby underpaid his taxes by \$50,000. What is his total negligence penalty?

Correct Answer:

Roy's penalty is \$10,000 ($20\% \times \$50,000$).

128. Stanley Strummer had the following items on his timely filed 2013 income tax return:

Gross receipts	\$1,000,000
Cost of goods sold	(\$750,000)
Capital gain	\$50,000
Capital loss	(\$75,000)

Stanley inadvertently omitted some income on his 2013 return. What is the statute of limitations if he omitted \$300,000 income on the return? What if he omitted \$250,000 income?

Correct Answer:

25 percent of gross income of \$1,050,000 ($\$1,000,000 + \$50,000$) is \$262,500. If Stanley omitted \$300,000 income which is greater than \$262,500, the statute of limitation would be six years. If Stanley omitted \$250,000 income which is less than \$262,500, the statute of limitation would be three years.

129. Nancy Norris gives a painting to a church and takes a charitable contribution in the amount of \$150,000. If the actual value was only \$50,000 and if the tax underpayment is \$40,000, how much valuation overstatement penalty should she pay?

Correct Answer:

The valuation claimed (\$150,000) is 300 percent of the correct valuation (\$50,000). The penalty is 40 percent of the underpayment of tax. Nancy's underpayment of tax is \$40,000, which means the penalty is \$16,000.

130. Answer the following questions concerning the statute of limitations for assessment of tax liability:

(a.) What is the general rule for the statute of limitations on assessment of tax liability?

(b.) What are the exceptions to the general rule?

Correct Answer:

(a.) Assessment of any tax must be made within three years after the return was filed or after the due date for filing, whichever is later.

(b.) The exceptions to the general rule are as follows:

(1.) There is no limitation on the period for assessment in the following cases: (1) false return; (2) willful attempt to evade tax; and (3) no return.

(2.) If the taxpayer omits from gross income an amount that is in excess of 25 percent of the amount of gross income stated on the return, the tax may be assessed at any time within six years after the return is filed or the due date for filing, whichever is later.

(3.) Where both the taxpayer and the IRS agree, the statute of limitations may be extended for a specific period.

(4.) Certain taxpayers may request a prompt assessment. The period of assessment may be shortened to 18 months in the case of a decedent, the estate of a decedent, or a corporation that is dissolved or contemplating dissolution.

(5.) If a personal holding company fails to file with its return a schedule regarding its status as a personal holding company, the tax may be assessed at any time within six years after the return is filed.

(6.) In the case of a deficiency attributable to the application of a carryback (capital loss, net operating loss, or credit), the statute of limitations runs from the year of the loss rather than the carryback year.

Sections 1311 through 1314 contain provisions to mitigate the effect of the statute of limitations where inequitable results might occur.

131. What are the five accuracy-related penalties?

Correct Answer:

The accuracy-related penalties are as follows:

- (1.) Negligence
- (2.) Substantial understatement of income tax
- (3.) Substantial valuation overstatement
- (4.) Substantial overstatement of pension liabilities
- (5.) Substantial estate or gift tax valuation understatement

132. What factors should a taxpayer consider in deciding whether to litigate a case and where to litigate?

Correct Answer:

Factors to consider in deciding whether to litigate a case and where to litigate include:

- (1.) Jurisdiction
- (2.) Payment of tax
- (3.) Jury trial
- (4.) Rules of evidence
- (5.) Expertise of judges
- (6.) Publicity
- (7.) Legal precedent
- (8.) Factual precedent
- (9.) Statute of limitations
- (10.) Discovery

133. What are some reasonable causes for failure to file a tax return and/or to pay one's tax liability?

Correct Answer:

The following are some reasonable causes for purposes of the delinquency penalties:

- (1.) A return mailed in time but returned for insufficient postage.
- (2.) A return filed within the legal period but in the wrong district.
- (3.) Death or serious illness of the taxpayer or in the immediate family.
- (4.) Unavoidable absence of the taxpayer.
- (5.) Destruction of the taxpayer's business or business records by fire or other casualty.
- (6.) Erroneous information given the taxpayer by an IRS official, or a request for proper blanks or returns not furnished by the IRS in sufficient time to permit the filing of the return by the due date.
- (7.) Taxpayer made an effort to obtain assistance or information necessary to complete the return by a personal appearance at an IRS office but was unsuccessful because the taxpayer, through no fault, was unable to see an IRS representative.
- (8.) The taxpayer is unable to obtain the records necessary to determine the amount of tax due for reasons beyond the taxpayer's control.
- (9.) Taxpayer contacts a competent tax adviser, furnishes the necessary information, and then is incorrectly advised that the filing of a return is not required.

134. The Federal Tax Archives Library of CCH ACCESS contains information on tax laws from prior tax years. Describe why this information may be useful to a tax return preparer.

Correct Answer:

Occasionally a tax return preparer may have a client who has failed to file tax returns for numerous years. The Federal Tax Archives Library offers information on tax rates and allowable deductions since the 1978 tax year. Also, a tax return preparer may discover that an error was made on a prior year's return. The Federal Tax Archives Library can be useful in preparing an amended tax return.