

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

1. Because the law is complicated, most individual taxpayers are not able to complete their Federal income tax returns without outside assistance.
- True
  - False

**ANSWER:** True  
**RATIONALE:** More than 50% use tax return preparers and about 33% purchase tax return software.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

2. The ratification of the Sixteenth Amendment to the U.S. Constitution was necessary to validate the Federal income tax on corporations.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The Sixteenth Amendment validated only the tax on *individuals*. The income tax on corporations had been previously sanctioned by the courts.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

3. Before the Sixteenth Amendment to the Constitution was ratified, there was no valid Federal income tax on individuals.
- True
  - False

**ANSWER:** False  
**RATIONALE:** There existed a Federal income tax during the Civil War that was sanctioned by the U.S. Supreme Court.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

4. The first income tax on individuals (after the ratification of the Sixteenth Amendment to the Constitution) levied tax rates from a low of 2% to a high of 6%.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

5. The Federal income tax on individuals generates more revenue than the Federal income tax on corporations.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

6. The pay-as-you-go feature of the Federal income tax on individuals conforms to Adam Smith's canon (principle) of certainty.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Pay-as-you-go refers to the withholding provisions applicable to wages and other types of income and adds *convenience* to the tax system.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

7. The FICA tax (Medicare component) on wages is *progressive* since the tax due increases as wages increase.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The FICA tax (Medicare component) is *proportional* because the rate is constant regardless of the wages earned.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

8. The Federal estate and gift taxes are examples of *progressive* taxes.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

9. The Federal excise tax on cigarettes is an example of a *proportional* tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The tax is a flat \$1.01 per pack.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

10. Currently, the Federal corporate income tax is less *progressive* than the individual income tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Currently, the Federal corporate income tax has a flat rate of 21 percent; the individual income tax uses seven brackets from 10 percent to 37 percent.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

11. Mona inherits her mother's personal residence, which she converts to a furnished rental house. These changes should affect the amount of *ad valorem* property taxes levied on the properties.
- True
  - False

**ANSWER:** True

**RATIONALE:** Conversion from residential to rental use will increase the taxes. Furthermore, Mona's mother may have had a senior citizen exemption on the property, which will no longer be appropriate. Lastly, the furnishings in the rent house could now be subject to an *ad valorem* tax on personalty.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

12. A *fixture* will be subject to the *ad valorem* tax on *personalty* rather than the *ad valorem* tax on *realty*.
- True
  - False

**ANSWER:** False

**RATIONALE:** By definition, a fixture becomes part of the real estate to which it is attached.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

13. Even if property tax rates are not changed, the amount of *ad valorem* taxes imposed on realty may not remain the same.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Property taxes will vary in accordance with changes in the assessed value of the property.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

14. The *ad valorem* tax on personal use personalty is more often avoided by taxpayers than the *ad valorem* tax on business use personalty.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

15. An excise tax is often used to try to influence behavior.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Examples of excise taxes include those imposed on alcohol and tobacco products  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

16. There is a Federal excise tax on hotel occupancy.
- True
  - False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

17. The Federal gas-guzzler tax applies only to automobiles manufactured overseas and imported into the U.S.
- True
  - False

**ANSWER:** False  
**RATIONALE:** No such restriction is imposed. Although many of the European luxury and sports car manufacturers were initially hit hard by the tax, the law is silent on this matter.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

18. Like the Federal counterpart, the amount of the state excise taxes on gasoline varies from state to state.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The Federal excise tax rate on gasoline remains constant.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

19. Not all of the states that impose a general sales tax also have a use tax.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Every state that has a general sales tax also has a use tax. There are no states with only a sales or use tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

20. Sales made by mail order are not exempt from the application of a general sales (or use) tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** They are not exempt but compliance is sporadic.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

21. Two persons who live in the same state but in different counties may not be subject to the same general sales tax rate.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This possibility could exist if local jurisdictions exact additional sales taxes.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

22. States impose either a state income tax *or* a general sales tax, but not both types of taxes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Many states impose both.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

23. A safe and easy way for a taxpayer to avoid local and state sales taxes is to make the purchase in a state that levies no such taxes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** A review of the Example 5 discussion shows that this may not always be successful.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

24. On transfers by death, the Federal government relies on an estate tax, while states impose an estate tax, an inheritance tax, both taxes, or neither tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The Federal government relies on an estate tax while states impose an estate tax, an inheritance tax, both taxes, or neither tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

25. An inheritance tax is a tax on a decedent's right to pass property at death.
- True
  - False

**ANSWER:** False  
**RATIONALE:** What is described is an estate tax. An inheritance tax is a tax on an heir's right to receive property from a decedent.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

26. One of the major reasons for the enactment of the Federal estate tax was to prevent large amounts of wealth from being accumulated within the family unit.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

27. Under Clint's will, all of his property passes to either the Lutheran Church or to his wife. No Federal estate tax will be due on Clint's death in 2018.
- True
  - False

**ANSWER:** True  
**RATIONALE:** A combination of the charitable and marital deductions will eliminate Clint's taxable estate.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

28. Under the usual state inheritance tax, two heirs, a cousin and a son of the deceased, would not be taxed at the same rate.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The more closely related the heir is to the decedent, the larger the exemption allowed and/or the lower the tax rate imposed.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

29. The annual exclusion, currently \$15,000, is available for gift and estate tax purposes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The annual exclusion is not available for estate tax purposes.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

30. In 2018, José, a widower, sells land (fair market value of \$100,000) to his daughter, Linda, for \$50,000. José has not made a taxable gift.
- True
  - False

**ANSWER:** False  
**RATIONALE:** \$100,000 (value of land) – \$50,000 (consideration received) – \$15,000 (per donee annual exclusion) = \$35,000 (taxable gift).  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

31. Julius, a married taxpayer, makes gifts to each of his six children. A maximum of twelve annual exclusions could be allowed as to these gifts.
- True
  - False

**ANSWER:** True  
**RATIONALE:** If Julius can obtain the consent of his wife to make the election to split the gifts, twelve per donee annual exclusions are available.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

32. One of the motivations for making a gift is to save on income taxes.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This presumes that income-producing property is involved and that the donee is in a lower tax bracket than the donor.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

33. The formula for the Federal income tax on corporations is the same as that applicable to individuals.
- a. True
  - b. False

**ANSWER:** False  
**RATIONALE:** For example, an AGI determination is required only for individual taxpayers.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

34. A state income tax *can* be imposed on *nonresident* taxpayers who earn income within the state on an itinerant basis.
- a. True
  - b. False

**ANSWER:** True  
**RATIONALE:** Highly-paid taxpayers (e.g., entertainers, athletes) are often subject to a state's income tax. The so-called "jock tax" has been criticized since it singles out highly-paid and well known personalities and is not imposed on the average business traveler.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

**Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

35. For state income tax purposes, a majority of states allow a deduction for Federal income taxes.  
a. True  
b. False

**ANSWER:** False  
**RATIONALE:** Only a minority allow the deduction.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

36. Some states use their state income tax return as a means of collecting unpaid sales and use taxes.  
a. True  
b. False

**ANSWER:** True  
**RATIONALE:** Often a table is provided that suggests an amount to be used.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

37. No state has offered an income tax amnesty program more than once.
- a. True
  - b. False

**ANSWER:** False  
**RATIONALE:** A state may offer amnesty programs as often as desired.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

38. For Federal income tax purposes, there never has been a general amnesty period.
- a. True
  - b. False

**ANSWER:** True  
**RATIONALE:** Limited amnesty has been made available as to various tax penalties in certain tax shelter situations.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

39. Under state amnesty programs, all delinquent and unpaid income taxes are forgiven.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The taxes and interest are not forgiven. Generally, only the penalties are forgiven.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

40. When a state decouples from a Federal tax provision, it means that this provision will *not* apply for state income tax purposes.
- True
  - False

**ANSWER:** True  
**RATIONALE:** In view of tight state finances, decoupling from various Federal tax cuts has become quite common.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

41. The principal objective of the FUTA tax is to provide some measure of retirement security.
- True
  - False

**ANSWER:** False  
**RATIONALE:** This is the objective of the FICA tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

42. Currently, the tax base for the Social Security component of the FICA is *not* limited to a dollar amount.
- True
  - False

**ANSWER:** False  
**RATIONALE:** There is no dollar amount limitation on the Medicare component of FICA.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

43. A parent employs his twin daughters, age 17, in his sole proprietorship. The daughters are *not* subject to FICA coverage.
- True
  - False

**ANSWER:** True  
**RATIONALE:** An exemption exists for taxpayer's children who are *under age 18*.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

44. Unlike FICA, FUTA requires that employers comply with state as well as Federal rules.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This is a major difference between FICA and FUTA.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

45. A major advantage of a flat tax type of income tax is its simplicity.

- a. True
- b. False

**ANSWER:** True  
**RATIONALE:** Fewer deductions are allowed under the flat tax making it simpler than the current Federal income tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

46. The value added tax (VAT) *has not* had wide acceptance in the international community.

- a. True
- b. False

**ANSWER:** False  
**RATIONALE:** Its use in about 140 countries represents fairly wide acceptance.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

47. If more IRS audits are producing a greater number of *no change* results, this indicates increased compliance on the part of taxpayers.
- True
  - False

**ANSWER:** False

**RATIONALE:** It indicates that the IRS is not always choosing the right returns to audit (i.e., those that contain errors).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

48. The amount of a taxpayer's itemized deductions *will* increase the chance of being audited by the IRS.
- True
  - False

**ANSWER:** True

**RATIONALE:** If the taxpayer has itemized deductions that are unusually large, the chances of being selected for audit increase.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

49. In an office audit, the audit by the IRS takes place at the office of the taxpayer.
- True
  - False

**ANSWER:** False  
**RATIONALE:** What is described is a field audit. An office audit takes place at the office of the IRS.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

50. The IRS agent auditing the return *will* issue an RAR even if the taxpayer owes no additional taxes.
- True
  - False

**ANSWER:** True  
**RATIONALE:** An RAR can result in no change, a deficiency, or a refund.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

51. If a “special agent” becomes involved in the audit of a return, this indicates that the IRS suspects that fraud is involved.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

52. If a taxpayer files early (i.e., before the due date of the return), the statute of limitations on assessments begins on the date the return is filed.
- True
  - False

**ANSWER:** False  
**RATIONALE:** If begins on the due date of the return.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

53. For omissions from gross income in excess of 25% of that reported, there is no statute of limitations on additional income tax assessments by the IRS.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Unless fraud is involved, the statute of limitations in this case is six years.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

54. If an income tax return is *not* filed by a taxpayer, there is no statute of limitations on assessments of tax by the IRS.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

55. If fraud is involved, there is no time limit on the assessment of a deficiency by the IRS.
- a. True
  - b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

56. The IRS is required to redetermine the interest rate on underpayments and overpayments once a year.
- a. True
  - b. False

**ANSWER:** False  
**RATIONALE:** Interest rates are determined quarterly by the IRS.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG: Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

57. A calendar year taxpayer files his 2017 Federal income tax return on March 4, 2018. The return reflects an overpayment of \$6,000, and the taxpayer requests a refund of this amount. The refund is paid on May 16, 2018. The refund need not include interest.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Because 45 days have not gone by since the *due date* of the return, interest need not be paid on the refund.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

58. For individual taxpayers, the interest rate for income tax refunds (overpayments) *is* the same as that applicable to assessments (underpayments).
- True
  - False

**ANSWER:** True  
**RATIONALE:** There exists no difference in the applicable interest rates for *individual* taxpayers.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

59. During any month in which both the failure to file penalty and the failure to pay penalty apply, the failure to file penalty is *increased* by the amount of the failure to pay penalty.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The failure to file penalty *is reduced* by the amount of the failure to pay penalty.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

60. When interest is charged on a deficiency, any part of a month counts as a full month.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Interest accrues daily.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

61. For the negligence penalty to apply, the underpayment must be caused by intentional disregard of rules and regulations without intent to defraud.
- True
  - False

**ANSWER:** True  
**RATIONALE:** In the negligence penalty situation, there is no intent to defraud requirement.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

62. Upon audit by the IRS, Faith is assessed a deficiency of \$40,000 of which \$25,000 is attributable to negligence. The 20% negligence penalty will apply to \$25,000.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The negligence penalty applies only to \$25,000.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

63. If the tax deficiency is attributable to fraud, the negligence penalty will not be imposed.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

64. The *civil* fraud penalty can entail large fines and possible incarceration.
- True
  - False

**ANSWER:** False  
**RATIONALE:** What is described is *criminal* fraud. Civil fraud involves a monetary penalty of 75% of the deficiency attributable to fraud.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

65. Even though a client refuses to correct an error on a past return, it may be possible for a practitioner to continue to prepare returns for the client.
- True
  - False

**ANSWER:** True  
**RATIONALE:** However, if the error is material and carries over to the current year, the preparer should consider withdrawing from the engagement.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

66. In preparing an income tax return, the use of a client's estimates is *not* permitted.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Estimates are allowed if reasonable and not given the appearance of greater accuracy than is the case.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

67. In preparing a tax return, all questions on the return must be answered.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The question need not be answered if the information requested is not readily available, the answer is voluminous, or the question's meaning is uncertain.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

68. A CPA firm in California sends many of its less complex tax returns to be prepared by a group of accountants in India. If certain procedures are followed, this outsourcing of tax return preparation is proper.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Confidentiality must be secured; accuracy verified; and clients advised of the procedure.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

69. The objective of *pay-as-you-go* (*paygo*) is to improve administrative feasibility.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

70. When Congress enacts a tax cut that is phased in over a period of years, revenue neutrality is achieved.
- True
  - False

**ANSWER:** False  
**RATIONALE:** No tax cut is revenue neutral unless accompanied by a revenue offset. A phase-in merely postpones some of the revenue loss caused by the tax cut.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

71. A tax cut enacted by Congress that contains a *sunset provision* will make the tax cut temporary.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The sunset provision rescinds the change and reinstates former law.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

72. The tax law provides various tax credits, deductions, and exclusions that are designed to encourage taxpayers to obtain additional education. These provisions can be justified on both economic and equity grounds.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The justification is social and economic.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

73. Various tax provisions encourage the creation of certain types of retirement plans. Such provisions can be justified on both economic and social grounds.
- True
  - False

**ANSWER:** True

**RATIONALE:** The economic justification is attributable to the savings that result. In terms of social justification, private retirement plans supplement the meager benefits provided by Social Security and, thereby, circumvent the need for public assistance.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

74. To lessen, or eliminate, the effect of multiple taxation, a taxpayer who is subject to both foreign and U.S. income taxes on the same income is allowed either a deduction or a credit for the foreign tax paid.
- True
  - False

**ANSWER:** True

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

75. To mitigate the effect of the annual accounting period concept, the tax law permits the carryforward to other years of the excess charitable contributions of a particular year.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This is also the case with excess capital losses.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

76. Jason's business warehouse is destroyed by fire. As the insurance proceeds exceed the basis of the property, a gain results. If Jason shortly reinvests the proceeds in a new warehouse, no gain is recognized due to the application of the wherewithal to pay concept.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

77. As it is consistent with the wherewithal to pay concept, the tax law requires a seller to recognize gain in the year the installment sale occurs.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The seller is taxed in the years the installment payments are received.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

78. Stealth taxes have the effect of generating additional taxes from all taxpayers.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Stealth taxes phase out (or eliminate) certain tax benefits from *higher income* taxpayers.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

79. A provision in the law that compels accrual basis taxpayers to pay a tax on prepaid income in the year received and *not* when earned is consistent with generally accepted accounting principles.
- True
  - False

**ANSWER:** False  
**RATIONALE:** It is inconsistent with accounting rules, although it can be justified for tax purposes under the wherewithal to pay concept.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Communications  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

80. As a matter of administrative convenience, the IRS would prefer to have Congress decrease (rather than increase) the amount of the standard deduction allowed to individual taxpayers.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Just the opposite is the case.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-08 - LO: 1-08  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM



## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

81. In cases of doubt, courts have held that tax relief provisions should be broadly construed in favor of taxpayers.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Such provisions should be *narrowly* construed *in favor of* taxpayers.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-08 - LO: 1-08  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

82. On occasion, Congress has to enact legislation that clarifies the tax law in order to change a result reached by the U.S. Supreme Court.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-08 - LO: 1-08  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

83. Ultimately, most taxes are paid by individuals.

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** Corporations pay tax, but the tax is passed along eventually to individuals in the form of higher prices, lower wages and/or lower dividends.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-01 - LO: 1-01

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

84. The majority of IRS audits are handled by correspondence.

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** IRS stats for fiscal year 2016 show that approximately 71 percent of the almost 1.2 million audits were by correspondence rather than field audits.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

85. Sally's neighbor often brags that his employer often pays him in cash "off the books" to save him taxes. Sally is tired of hearing this and contacts the IRS to report the neighbor. If this tip results in taxes collected by the IRS, Sally will likely receive an award of a portion of the tax and penalties collected.

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** The U.S. tax laws include provisions where by tipsters may recover up to 30% of the tax and penalties collected by the IRS. The tipster's name is not given to the wrongdoer.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

86. "Bracket creep" will not exist if there is only a single (flat) tax rate for the income tax.

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** Bracket creep occurs when a taxpayer's income increases at the rate of inflation yet they are moved into a higher tax bracket. Adjusting the tax brackets for the effects of inflation avoids bracket creep. If there is only a single tax rate, a person won't move into a higher (or lower) tax bracket.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

87. Which, if any, of the following statements best describes the history of the Federal income tax?
- a. It did not exist during the Civil War.
  - b. The Federal income tax on corporations was held by the U.S. Supreme Court to be allowable under the U.S. Constitution.
  - c. The Federal income tax on individuals was held by the U.S. Supreme Court to be allowable under the U.S. Constitution.
  - d. Both the Federal income tax on individuals and on corporations was held by the U.S. Supreme Court to be contrary to the U.S. Constitution.
  - e. None of these.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Research

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

88. Which, if any, is *not* one of Adam Smith's canons (principles) of taxation?

- a. Economy in collection
- b. Certainty
- c. Convenience of payment
- d. Simplicity
- e. Equality

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

89. Which, if any, of the following taxes are *proportional* (rather than *progressive*)?

- a. State general sales tax
- b. Federal individual income tax
- c. Federal estate tax
- d. Federal gift tax
- e. All of these

**ANSWER:** a

**RATIONALE:** Sales taxes are applied at a constant rate that does not progress.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

90. Which, if any, of the following transactions will *increase* a taxing jurisdiction's revenue from the *ad valorem* tax imposed on real estate?
- A resident dies and leaves his farm to his church.
  - A large property owner issues a conservation easement as to some of her land.
  - A tax holiday issued 10 years ago has expired.
  - A bankrupt motel is acquired by the Red Cross and is to be used to provide housing for homeless persons.
  - None of these.

**ANSWER:** c

**RATIONALE:** Although a farm was probably subject to reduced valuation (due to its agricultural use), it will now be fully exempt since it is owned by a church (choice a.). Property that is subject to a conservation easement is usually appraised at a lower value (choice b.). The expiration of a tax holiday means that the property involved can now be taxed (choice c.). The motel has been converted from business property to exempt charitable use (choice d.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

91. Which, if any, of the following transactions will *decrease* a taxing jurisdiction's *ad valorem* tax revenue imposed on real estate?
- A tax holiday is granted to an out-of-state business that is searching for a new factory site.
  - An abandoned church is converted to a restaurant.
  - A public school is razed and turned into a city park.
  - A local university sells a dormitory that will be converted for use as an apartment building.
  - None of these.

**ANSWER:** a

**RATIONALE:** Choice a. has an effect since the tax holiday was granted. Choice b. will increase taxes as the church was abandoned and previously exempt. Choice c. converts one tax-exempt property (i.e., school) into another (i.e., public park). Choice d. probably places the building on the tax rolls because it is no longer owned by a tax-exempt institution.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

92. Which, if any, of the following is a typical characteristic of an *ad valorem* tax on personalty?
- Taxpayer compliance is greater for personal use property than for business use property.
  - The tax on automobiles sometimes considers the age of the vehicle.
  - Most states impose a tax on intangibles.
  - The tax on intangibles generates considerable revenue since it is difficult for taxpayers to avoid.
  - None of these.

**ANSWER:** b

**RATIONALE:** Taxpayer compliance is greater with business use property (choice a.). Very few states impose a tax on intangibles (choice c.) because it is easily avoided and does not generate much revenue (choice d.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

93. Federal excise taxes that are *no longer imposed* include:
- Tax on air travel.
  - Tax on wagering.
  - Tax on the manufacture of sporting equipment.
  - Tax on alcohol.
  - None of these.

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

94. Taxes *not imposed* by the Federal government include:

- a. Tobacco excise tax.
- b. Customs duties (tariffs on imports).
- c. Tax on rental cars.
- d. Gas guzzler tax.
- e. None of these.

**ANSWER:** c

**RATIONALE:** The Federal government imposes an excise tax on tobacco (choice a.), customs duties (choice b.), and a gas guzzler tax (choice d.). It does not impose a tax on rental cars (choice c.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

95. Taxes levied by *both* states and the Federal government include:

- a. General sales tax.
- b. Custom duties.
- c. Hotel occupancy tax.
- d. Franchise tax.
- e. None of these.

**ANSWER:** e

**RATIONALE:** Choices a., c., and d. are levied at the state or local level. Choice b. is strictly a Federal levy.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

96. Taxes levied by *all* states include:

- a. Tobacco excise tax.
- b. Individual income tax.
- c. Inheritance tax.
- d. General sales tax.
- e. None of these.

**ANSWER:** a

**RATIONALE:** All states impose a tobacco excise tax (choice a.). Most states impose individual income taxes (choice b.) and general sales taxes (choice d.), and only some states impose inheritance taxes (choice c.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

97. A use tax is imposed by:
- The Federal government and all states.
  - The Federal government and a majority of the states.
  - All states and not the Federal government.
  - Most of the states and not the Federal government.
  - None of these.

**ANSWER:** d

**RATIONALE:** A use tax is a complement to a general sales tax. Consequently, it is imposed by most states because only a few states do not have a general sales tax. At this point, the Federal government has no general sales tax.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

98. Burt and Lisa are married and live in a common law state. Burt wants to make gifts to their four children in 2018. What is the maximum amount of the annual exclusion they will be allowed for these gifts?
- a. \$15,000.
  - b. \$30,000.
  - c. \$60,000.
  - d. \$120,000.
  - e. None of these.

**ANSWER:** d

**RATIONALE:**  $4$  (number of donees)  $\times$   $\$15,000$  (annual exclusion)  $\times$   $2$  (number of donors) =  $\$120,000$ . It is assumed that Lisa will make the election to split the gifts.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

99. Property can be transferred within the family group by gift or at death. One motivation for preferring the gift approach is:
- To take advantage of the higher unified transfer tax credit available under the gift tax.
  - To avoid a future decline in value of the property transferred.
  - To take advantage of the per donee annual exclusion.
  - To shift income to higher bracket donees.
  - None of these.

**ANSWER:** c

**RATIONALE:** The per donee annual exclusion is only available for gift tax purposes (choice c.). Ideally, gifts should involve property that is expected to *appreciate* in value (choice b.). A higher unified tax credit is not available for gift tax purposes (choice a.). Usually the donor is trying to shift future income to *lower* bracket donees (choice d.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

100. Indicate which, if any, statement is *incorrect*. State income taxes:

- a. Can piggyback to the Federal version.
- b. Cannot apply to visiting nonresidents.
- c. Can decouple from the Federal version.
- d. Can provide occasional amnesty programs.
- e. None of these.

**ANSWER:** b

**RATIONALE:** Many states piggyback to the Federal system (choice a.). Some states, due to revenue shortfalls, have decoupled from various provisions of the Federal version (choice c.). The “jock tax,” although much criticized, is very much in being (choice b.). Some states have had more than one amnesty period (choice d.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

101. State income taxes *generally* can be characterized by:
- The same date for filing as the Federal income tax.
  - No provision for withholding procedures.
  - Allowance of a deduction for Federal income taxes paid.
  - Applying only to individuals and not applying to corporations.
  - None of these.

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

102. A characteristic of FICA is that:

- a. It does not apply when one spouse works for the other spouse.
- b. It is imposed only on the employer.
- c. It provides a modest source of income in the event of loss of employment.
- d. It is administered by both state and Federal governments.
- e. None of these.

**ANSWER:** e

**RATIONALE:** FICA is imposed on *both* the employer and the employee (choice b.). Spouses who work for each other are not exempt from the tax (choice a.). Its objective is retirement income, not loss of employment (choice c.). It is administered only by the Federal government (choice d.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

103. A characteristic of FUTA is that:

- a. It is imposed on both employer and employee.
- b. It is imposed solely on the employee.
- c. Compliance requires following guidelines issued by both state and Federal regulatory authorities.
- d. It is applicable to spouses of employees but *not* to any children under age 18.
- e. None of these.

**ANSWER:** c

**RATIONALE:** FUTA is imposed only on the employer (choices a. and b.). Choice d. refers to FICA. Because the administration of FUTA is shared by Federal and state governments, employers must comply with the rules issued by each (choice c.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

104. The U.S. (either Federal, state, or local) *does not* impose:
- Franchise taxes.
  - Severance taxes.
  - Occupational fees.
  - Custom duties.
  - Export duties.

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

105. The proposed *flat tax*:
- Would increase the number of deductions available to individuals
  - Would not require individuals to file returns.
  - Would tax the increment in value as goods move through the production and manufacturing stages to the marketplace.
  - Is a type of consumption tax.
  - None of these.

**ANSWER:** d

**RATIONALE:** There is only a single rate. The tax base is simplified by taxing only limited types of income. Many deductions and credits would be eliminated, which results in the tax being more of a form of consumption tax when considering how the individual and business tax systems operate.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

106. A VAT (value added tax):
- Is regressive in its effect.
  - Has not proved popular outside of the U.S.
  - Is *not* a tax on consumption.
  - Is used exclusively by third world (less developed) countries.
  - None of these.

**ANSWER:** a

**RATIONALE:** Both the VAT and a general sales tax are taxes on consumption (choice c.) and are regressive in effect (choice a.). The VAT has been adopted by many countries (choice b.), many of which (e.g., Japan, Denmark) *are not* third world countries (choice d.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

107. Characteristics of the “Fair Tax” (i.e., national sales tax) include which, if any, of the following:
- Abolition of the Federal individual (but not the corporate) income tax.
  - Abolition of all Federal income taxes but retention of payroll taxes (including the self-employment tax).
  - Abolition of all Federal income taxes and payroll taxes but retention of the Federal estate and gift taxes.
  - Abolition of all Federal income and payroll taxes as well as the Federal estate and gift taxes.
  - None of these.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** Multiple Choice  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

108. In terms of probability, which of the following taxpayers would be *least likely* to be audited by the IRS?
- Taxpayer owns and operates a check-cashing service.
  - Taxpayer is an employed electrician.
  - Taxpayer just received a \$3 million personal injury award as a result of a lawsuit.
  - Taxpayer just won a \$1 million slot machine jackpot at a Las Vegas casino.
  - Taxpayer has been audited several times before.

**ANSWER:** b  
**RATIONALE:** Employees are subject to income tax withholding and have little opportunity to avoid reporting income (choice b.). Casino gambling income is subject to Form 1099 reporting (choice d.).  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** Multiple Choice  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

109. Which of the following *is* a characteristic of the audit process?
- a. Most taxpayer audits involve “special” agents.
  - b. Self-employed taxpayers are less likely to be selected for audit than employed taxpayers.
  - c. Less important issues are handled by means of a correspondence audit.
  - d. If a taxpayer disagrees with the IRS auditor’s finding, the only resort is to the courts.
  - e. None of these.

**ANSWER:** c

**RATIONALE:** Special agents are assigned to an audit only when fraud might be involved (choice a.). Self-employed persons have more flexibility in manipulating income and deductions than do employed taxpayers (choice b.). The next step after an initial audit would be the Appeals Division within the IRS (choice d.). Settlement at this level could avoid costly litigation.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

**Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

110. David files his tax return 45 days after the due date. Along with the return, David remits a check for \$40,000 which is the balance of the tax owed. Disregarding the interest element, David's total failure to file and to pay penalties are:
- a. \$400.
  - b. \$3,600.
  - c. \$4,000.
  - d. \$4,400.
  - e. None of these.

**ANSWER:** c

**RATIONALE:** Following the procedure identified in Example 20, the penalty is determined as follows:

Failure to pay penalty [0.5% × \$40,000 × 2 (two months violation)]	\$ 400
Plus: Failure to file penalty [5% × \$40,000 × 2 (two months violation)]	\$4,000
Less: Failure to pay penalty	<u>(400)</u> <u>3,600</u>
Total penalties	<u><u>\$4,000</u></u>

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

111. A characteristic of the fraud penalties is:
- When negligence and civil fraud apply to a deficiency, the negligence penalty predominates.
  - Criminal fraud can result in a fine and a prison sentence.
  - The criminal fraud penalty is 75% of the deficiency attributable to the fraud.
  - The IRS has the same burden of proof in the case of criminal fraud than with civil fraud.
  - None of these.

**ANSWER:** b

**RATIONALE:** Choice b. describes criminal fraud, while choice c. describes civil fraud. When both negligence and civil fraud exists as to the same deficiency, both penalties cannot apply and the civil fraud penalty predominates (choice a.). In the case of criminal fraud, the IRS must also show willfulness on the part of the taxpayer (choice d.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

112. Regarding proper ethical guidelines, which (if any) of the following is correct?
- a. The use of client estimates in preparing a return may be acceptable.
  - b. Under no circumstances should a question on a tax return be left unanswered.
  - c. If a client has made a mistake in a prior year's return and refuses to correct it, you should withdraw from the engagement.
  - d. If the exact amount of a deduction is not certain (e.g., around mid-\$600s), it *should* be recorded as an odd amount (i.e., \$649) so as to increase the appearance of greater certainty.
  - e. None of these.

**ANSWER:** a

**RATIONALE:** In some cases, the use of client estimates is acceptable (choice a.), but they should not give the appearance of certainty (choice d.). Questions can be left blank if their meaning is uncertain or the answer is not readily available or voluminous (choice b.). Withdrawal is not necessary if the error is not material or does not have a carryover effect on the current year return (choice c.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Ethics

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

113. Both economic and social considerations can be used to justify:
- Favorable tax treatment for accident and health plans provided for employees and financed by employers.
  - Disallowance of any deduction for expenditures deemed to be contrary to public policy (e.g., fines, penalties, illegal kickbacks, bribes to government officials).
  - Various tax credits, deductions, and exclusions that are designed to encourage taxpayers to obtain additional education.
  - Allowance of a deduction for state and local income taxes paid.
  - None of these.

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

114. Social considerations can be used to justify:
- Allowance of a credit for child care expenses.
  - Allowing excess capital losses to be carried over to other years.
  - Allowing accelerated amortization for the cost of installing pollution control facilities.
  - Allowing a Federal income tax deduction for state and local sales taxes.
  - None of these.

**ANSWER:** a

**RATIONALE:** Equity considerations justify choices b. and d., and economic considerations justify choice c.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

115. Allowing a tax credit for certain solar energy property can be justified:
- As helping small businesses.
  - As promoting administrative feasibility.
  - As promoting a government policy to use alternative energy sources.
  - Based on the wherewithal to pay concept.
  - None of these.

**ANSWER:** c

**RATIONALE:** The credit may fit within federal or state policies on usage of natural resources and alternative energies.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

116. Provisions in the tax law that promote energy conservation and more use of alternative (non-fossil) fuels can be justified by:
- Political considerations.
  - Economic and social considerations.
  - Promoting administrative feasibility.
  - Encouragement of small business.
  - None of these.

**ANSWER:** b

**RATIONALE:** Although it may be “good politics” to promote measures that ease the problem of global warming (choice a.), the real justification is economic (curtail dependence on foreign oil) and social (reduce pollution)—choice b. The encouragement of small business (choice d.) is a byproduct of these conservation provisions, but is not their justification.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

117. Which, if any, of the following provisions *cannot* be justified as mitigating the effect of the annual accounting period concept?
- Nonrecognition of gain allowed for involuntary conversions.
  - Net operating loss carryover provisions.
  - Carry over of excess charitable contributions.
  - Use of the installment method to recognize gain.
  - Carry over of excess capital losses.

**ANSWER:** a

**RATIONALE:** The involuntary conversion provision is based on the wherewithal to pay concept (choice a.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

118. Which, if any, of the following provisions of the tax law *cannot* be justified as promoting administrative feasibility (simplifying the task of the IRS)?
- Penalties are imposed for failure to file a return or pay a tax on time.
  - Prepaid income is taxed in the year received and not in the year earned.
  - Annual adjustments for indexation increases the amount of the standard deduction allowed.
  - Personal casualty losses in Federally-declared disaster areas must exceed 10% of AGI to be deductible.
  - A deduction is allowed for charitable contributions.

**ANSWER:** e

**RATIONALE:** Choices a. through d. aid the IRS in administering the tax laws. Choice e., particularly when trying to value property contributions, will add to the audit effort required by the IRS.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

119. A landlord leases property upon which the tenant makes improvements. The improvements are significant and are not made in lieu of rent. At the end of the lease, the value of the improvements are not income to the landlord. This rule is an example of:
- A clear reflection of income result.
  - The tax benefit rule.
  - The arm's length concept.
  - The wherewithal to pay concept.
  - None of these.

**ANSWER:** d  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** Multiple Choice  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 10 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

120. Before proposing that the state's sales tax be expanded to include food, a legislator should ask whether:
- the state tax agency will allow this expansion.
  - a majority of his constituents agree.
  - grocery stores will be able to collect the tax.
  - the state's constitution allows for this tax.

**ANSWER:** d  
**RATIONALE:** New taxes need to be checked against the foundation governing documents of a jurisdiction (federal, state or local) to be sure the tax is allowed.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** Multiple Choice  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04  
**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

121. Jane is the tax director for Tangent Software Corporation. She is unsure whether Tangent is required to charge sales tax when software is provided to customers in State X via the “cloud.” This indicates that the sales tax does not meet the principle of:
- Equity.
  - Certainty.
  - Neutrality.
  - Economic growth and efficiency.

**ANSWER:** b

**RATIONALE:** Ambiguity in the description of the sales tax base causes this tax to not fully meet the principle of certainty. The confusion or ambiguity as to application to cloud transactions does not affect equity, neutrality, or economic growth and efficiency.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 1 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

122. Two years ago, State Y enacted a new income tax credit for college prep materials. The credit is available to individuals and is equal to 40 percent of the cost of the items. The credit may not exceed \$50 in any year. The State Y Director of Finance has discovered this year that the amount of credit claimed is far higher than expected. Which principle of good tax policy might not have been considered in designing this tax which caused the original cost estimate to be too low?
- Equity.
  - Simplicity.
  - Economy in collection.
  - Minimum tax gap.

**ANSWER:** d

**RATIONALE:** If not well-defined, many expenses might qualify as college prep materials. Also, some taxpayers may just claim a credit of \$1 to \$50 thinking that they likely have some purchase, such as books or magazines, that qualify, or that they will not be caught for improperly claiming a small tax credit they do not qualify for.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 1 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

123. Which of the following statements about a value added tax (VAT) is false?
- Many countries use a VAT.
  - The U.S. has imposed a VAT since 1913.
  - A VAT has been proposed in the U.S. to replace part of the income tax.
  - A VAT operates similarly to a sales tax.

**ANSWER:** b

**RATIONALE:** Over 100 countries use a VAT; the US does not. A VAT operates similarly to a sales tax, not an income tax. A VAT is border adjustable, meaning it can be imposed on imports, but not on exports. Various VAT proposals have been offered in the U.S. typically to replace a portion of income taxes or to supplement existing taxes.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

124. The quote engraved on the IRS building in Washington, DC, at the entrance states:
- Nothing is certain, except death and taxes.
  - Taxes are what we pay for civilized society.
  - Everyone welcome.
  - Taxes are the most difficult thing in the world to understand.
  - None of the above.

**ANSWER:** b

**RATIONALE:** This quote of Justice Oliver Wendell Holmes is engraved over the entrance to the IRS building at 1111 Constitution Avenue in Washington, DC.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-01 - LO: 1-01

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 2 min

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

125. Tax functions that accounting and finance professionals may assist clients with include all but the following:
- Tax compliance.
  - Tax planning.
  - Cash management to ensure timely payment of taxes.
  - Tax evasion.

**ANSWER:** d

**RATIONALE:** Tax evasion, is illegal. The other three tasks are specifically mentioned in the text as areas where accounting and finance professionals perform tax functions.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-01 - LO: 1-01

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

126. Which of the following taxes is only paid by the employer?
- FICA
  - FUTA
  - Social Security tax
  - Medicare tax

**ANSWER:** b

**RATIONALE:** The other listed taxes are paid by both employer and employee.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

127. A rationale for the installment method tax rule is:

- a. Ability to pay.
- b. Equity and fairness.
- c. Simplicity.
- d. Revenue neutrality.

**ANSWER:** a

**RATIONALE:** The installment sale method allows a taxpayer selling property with the buyer paying over more than one year to only report gain as he collects the purchase price. This ensures that he has funds available for paying the tax on the gain.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

128. The AICPA Statements on Standards for Tax Services are:

- a. Enforceable.
- b. Educational.
- c. Out-of-date.
- d. There is no such item.

**ANSWER:** a

**RATIONALE:** The SSTS are enforceable as part of the AICPA Code of Professional Conduct.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Ethics

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

129. “Bracket creep” is avoided by:
- Use of sunset provisions.
  - Providing special tax rules for small businesses.
  - The statute of limitations.
  - Adjusting the rate brackets for inflation annually

**ANSWER:** d

**RATIONALE:** To prevent the effects of inflation on a taxpayer’s income from pushing them into a higher tax bracket, the Federal individual income tax brackets are adjusted annually for the effect of inflation.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

*Match the statements that relate to each other. Note: Some choices may be used more than once or not at all.*

- Deferral of gains from involuntary conversions
- Carryforward of net operating losses
- “No change” is one possible result
- State income tax applied to visiting nonresident
- IRS special agent
- Undoing the “piggyback” result
- Ideal budget goal as to new tax legislation
- Every state that has a general sales tax has one
- Imposed by all states and the Federal government
- Imposed by some states but not the Federal government
- Imposed only by the Federal government
- No correct match provided

**DIFFICULTY:** Easy

**QUESTION TYPE:** Matching

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting  
United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

130. Employee temporarily working in another state for two months

**ANSWER:** d

**POINTS:** 1

131. Decoupling

**ANSWER:** f

**POINTS:** 1

132. Discriminant Index Function (DIF)

**ANSWER:** l

**POINTS:** 1

133. Tax fraud suspected

**ANSWER:** e

**POINTS:** 1

134. Revenue neutrality

**ANSWER:** g

**POINTS:** 1

135. Revenue Agent's Report (RAR)

**ANSWER:** c

**POINTS:** 1

136. Wherewithal to pay concept

**ANSWER:** a

**POINTS:** 1

137. Mitigation of the annual accounting period concept

**ANSWER:** b

**POINTS:** 1

138. Tax on transfers at death (inheritance type)

**ANSWER:** j

**POINTS:** 1



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

139. Excise tax on tobacco

**ANSWER:** i

**POINTS:** 1

140. Use tax

**ANSWER:** h

**POINTS:** 1

141. Income tax amnesty

**ANSWER:** j

**POINTS:** 1

142. Import taxes (customs duties)

**ANSWER:** k

**POINTS:** 1

143. "Pay-as-you-go" (paygo)

**ANSWER:** g

**POINTS:** 1

144. Export taxes

**ANSWER:** l

**POINTS:** 1

*Using the choices provided below, show the justification for each provision of the tax law listed.*

- a. Economic considerations
- b. Social considerations
- c. Equity considerations
- d. Both a. and b.

**DIFFICULTY:** Easy

**QUESTION TYPE:** Matching

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - TX - AICPA: FN Measurment  
United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

145. A tax credit for amounts spent to furnish care for children while the parent is at work.

*ANSWER:* b

*POINTS:* 1

146. Additional depreciation deduction allowed for the year the asset is acquired.

*ANSWER:* a

*POINTS:* 1

147. Tax brackets are increased for inflation.

*ANSWER:* c

*POINTS:* 1

148. A small business corporation can elect to avoid the corporate income tax.

*ANSWER:* a

*POINTS:* 1

149. A deduction for contributions by an employee to certain retirement plans.

*ANSWER:* d

*POINTS:* 1

150. A deduction for qualified tuition paid to obtain higher education.

*ANSWER:* d

*POINTS:* 1

151. A deduction for certain expenses (interest and taxes) incident to home ownership.

*ANSWER:* d

*POINTS:* 1

152. A Federal deduction for state and local income taxes paid.

*ANSWER:* c

*POINTS:* 1

153. A deduction for interest on student loans.

*ANSWER:* d

*POINTS:* 1

154. A bribe to the local sheriff, although business related, is not deductible.

*ANSWER:* b

*POINTS:* 1

155. Contributions to charitable organizations are deductible.

*ANSWER:* b

*POINTS:* 1

156. A Federal deduction for state and local sales taxes paid.

*ANSWER:* c

*POINTS:* 1

**Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

157. Tax credits available for the purchase of a vehicle that uses alternative (non-fossil) fuels.

**ANSWER:** a

**POINTS:** 1

158. Tax credits for home improvements that conserve energy.

**ANSWER:** a

**POINTS:** 1

159. More rapid expensing for tax purposes of the costs of installing pollution control devices.

**ANSWER:** a

**POINTS:** 1

*Match the statements that relate to each other. Note: Some choices may be used more than once.*

- a. 3 years from date return is filed
- b. 3 years from due date of return
- c. 20% of underpayment
- d. 5% per month (25% limit)
- e. 0.5% per month (25% limit)
- f. Conducted at IRS office
- g. Conducted at taxpayer's office
- h. 6 years
- i. 45-day grace period allowed to IRS
- j. No statute of limitations (period remains open)
- k. 75% of underpayment
- l. No correct match provided

**DIFFICULTY:** Easy

**QUESTION TYPE:** Matching

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

160. Office audit

**ANSWER:** f

**POINTS:** 1

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

161. Field audit

*ANSWER:* g

*POINTS:* 1

162. Failure to file penalty

*ANSWER:* d

*POINTS:* 1

163. Failure to pay penalty

*ANSWER:* e

*POINTS:* 1

164. Negligence penalty

*ANSWER:* c

*POINTS:* 1

165. Criminal fraud penalty

*ANSWER:* l

*POINTS:* 1

166. Fraud and statute of limitations

*ANSWER:* j

*POINTS:* 1

167. Early filing and statute of limitations (deficiency situations)

*ANSWER:* b

*POINTS:* 1

168. Late filing and statute limitations (deficiency situations)

*ANSWER:* a

*POINTS:* 1

169. No return and statute limitations

*ANSWER:* j

*POINTS:* 1

170. More than 25% gross income omission and statute of limitations

*ANSWER:* h

*POINTS:* 1

171. Interest due on refund

*ANSWER:* i

*POINTS:* 1

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

172. Taylor, a widow, makes cash gifts to her five married children (including their spouses) and to her seven grandchildren. What is the maximum amount Taylor can give for calendar year 2018 without using her unified transfer tax credit?

**ANSWER:** \$255,000.  $\$15,000$  (annual exclusion)  $\times$  17 donees = \$255,000.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

173. For the tax year 2017, Noah reported gross income of \$300,000 on his timely filed Federal income tax return.
- Presuming the general rule applies, when does the statute of limitations on assessments normally expire?
  - Suppose Noah inadvertently omitted gross income of \$76,000. When does the statute of limitations on assessments expire?
  - Suppose the omission was deliberate and not inadvertent. When does the statute of limitations on assessments expire?

**ANSWER:**

- Three years from April 17, 2018 (April 15, 2018 is a Sunday and April 16, 2018 is a holiday in the District of Columbia, making the due date April 17, 2018).
- If more than 25% of gross income is omitted, a six-year statute applies (i.e., 6 years from April 17, 2018). Here, it does as \$76,000 is more than \$75,000 ( $25\% \times \$300,000$ ).
- If fraud is involved, the statute never expires.

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** Subjective Short Answer  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis  
**KEYWORDS:** Bloom's: Application  
**OTHER:** Time: 10 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

**Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

174. Without obtaining an extension, Pam files her income tax return 55 days after the due date. With her return, she pays an additional tax of \$60,000. Disregarding any interest element, what is Pam’s penalty for failure to pay and to file?

**ANSWER:** \$6,000. Disregarding the interest element, Pam’s total penalties are as follows:

Failure to pay penalty ( $0.5\% \times \$60,000 \times 2$ months)		\$ 600
Plus: Failure to file penalty ( $5\% \times \$60,000 \times 2$ months)	\$6,000	
Less failure to pay penalty for same period	<u>(600)</u>	<u>5,400</u>
Total penalties		<u>\$6,000</u>

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** Subjective Short Answer  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Application  
**OTHER:** Time: 10 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

175. On his 2018 income tax return, Andrew omitted income and overstated deductions to the extent that his income tax was understated by \$500,000. Disregarding any interest element, what is Andrew's penalty if the understatement was due to:

- a. Negligence.
- b. Civil fraud.
- c. Criminal fraud.

**ANSWER:** a. \$100,000 (20% × \$500,000).  
b. \$375,000 (75% × \$500,000).  
c. Various fines and/or prison sentence.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

176. Several years ago, Logan purchased extra grazing land for his ranch at a cost of \$240,000. In 2018, the land is condemned by the state for development as a highway maintenance depot. Under the condemnation award, Logan receives \$600,000 for the land. Within the same year, he replaces the property with other grazing land. What is Logan's tax situation if the replacement land cost:

- a. \$210,000?
- b. \$360,000?
- c. \$630,000?
- d. Why?

- a. The full realized gain of \$360,000 [\$600,000 (condemnation proceeds) – \$240,000 (cost of land)] must be recognized, as only \$210,000 was reinvested. The condemnation proceeds of \$600,000 exceed the amount reinvested by more than \$360,000.
- b. As only \$360,000 was reinvested in replacement property, \$240,000 (\$600,000 – \$360,000) of the gain must be recognized.
- c. As the full \$600,000 was reinvested, no realized gain need be recognized.
- d. If some of the gain is not reinvested, consistent with the wherewithal to pay concept, there exists the ability to pay the tax. Thus, gain is recognized to the extent the proceeds are not reinvested.

**ANSWER:**

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** Subjective Short Answer  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Application  
**OTHER:** Time: 10 min.  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

177. Paige is the sole shareholder of Citron Corporation. During the year, Paige leases a building to Citron for a monthly rental of \$80,000. If the fair rental value of the building is \$60,000, what are the income tax consequences to the parties involved?

**ANSWER:** The rent charged by Paige is not “arms length”; as such, Citron Corporation’s rent deduction is \$60,000 (not \$80,000). The \$20,000 difference is a nondeductible dividend distribution. For Paige, the change merely requires reclassification. Instead of \$80,000 of rent income, she has \$60,000 of rent income and \$20,000 of dividend income.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

178. In 1987, Roy leased real estate to Drab Corporation for 20 years. Drab Corporation made significant capital improvements to the property. In 2006, Drab decides not to renew the lease and vacates the property. At that time, the value of the improvements is \$800,000. Roy sells the real estate in 2018 for \$1,200,000 of which \$900,000 is attributable to the improvements. When is Roy taxed on the improvements made by Drab Corporation?

**ANSWER:** Roy is not subject to taxation on the improvements until he disposes of the property (i.e., 2018). After a controversial Supreme Court decision years ago, Congress clarified the tax law to make it more consistent with the wherewithal to pay concept.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-08 - LO: 1-08

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

179. The Federal income tax is based on a pay-as-you-go system and has become a “mass tax.” Explain this statement.

**ANSWER:** The pay-as-you-go system is present in the wage and other withholding procedures. In the case of self-employed persons, it is manifested in the required quarterly payments for estimated taxes. The income tax became a mass tax during World War II when its coverage was extended to 74% of the population (from less than 6% in 1939).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Research

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

180. In terms of Adam Smith’s canons of taxation, how does the Federal income tax fare as far as *economy* is concerned?

**ANSWER:** Economy is present only if the collection procedure of the IRS is considered. Economy is not present, however, if the focus is on taxpayer compliance effort and costs.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

181. Due to the population change, the Goose Creek School District has decided to close one of its high schools. Since it has no further need of the property, the school is listed for sale. The two bids it receives are as follows:

United Methodist Church	\$1,700,000
Planet Motors	1,600,000

The United Methodist Church would use the property to establish a sectarian middle school. Planet, a well-known car dealership, would revamp the property and operate it as a branch location.

If you were a member of the School District board, what factors would you consider in evaluating the two bids?

**ANSWER:** Although the bid from the United Methodist Church is higher, several other factors need to be considered. Does, for example, Goose Creek School district exempt property owned by churches from its *ad valorem* taxes? If so, losing this property from the tax base could prove very costly over the long run. Also, it is probable that income-producing property (such as a car dealership) would be taxed at a higher rate than that owned by a nonprofit organization (a school operated by a church). This assumes, of course, that the school would be taxed at all. The auto dealership also would generate sales tax.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

182. Morgan inherits her father's personal residence including all of the furnishings. She plans to add a swimming pool and sauna to the property and rent it as a furnished house. What are some of the *ad valorem* property tax issues Morgan can anticipate?

**ANSWER:** The real estate taxes probably will increase for several reasons. The capital improvements and the conversion from residential to rental will trigger the increase. Furthermore, the furnishings may generate an *ad valorem* tax on personalty. (Depending on applicable law, furniture might not be subject to tax unless used for business purposes—such as in this case.)

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

183. In 2016, Deborah became 65 years old. In 2017 she added a swimming pool, and in 2018 she converted the residence to rental property and moved into an assisted living facility. Since 2015, Deborah's *ad valorem* property taxes have decreased once and increased twice. Explain.

**ANSWER:** The decrease probably came in 2016 when Deborah reached age 65. The increases probably occurred in 2017 when she added the pool and in 2018 when the residence was converted to rental property with the property reassessed due to change in use and/or removal of the homestead exemption.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

184. A lack of compliance in the payment of use taxes can be resolved by several means. In this regard, comment on the following:

- a. Registration of automobiles.
- b. Reporting of Internet purchases on state income tax returns.

**ANSWER:**

- a. As reflected in Example 5, re-registration of a car purchased out-of-state is the responsibility of the owner's home state to collect the use tax.
- b. Completing the state income tax return reminds (or forces) the taxpayer to pay use taxes on out-of-state-purchases.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology: Technology:

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

185. What are the pros and cons of the following state and local tax provisions?

- a. An *ad valorem* property tax holiday made available to a manufacturing plant that is relocating.
- b. Hotel occupancy tax and a rental car surcharge.
- c. A back-to-school sales tax holiday.
  - a. Such a holiday is designed to attract new industry to the area. This means more jobs and growth in consumption. On the other hand, if the tax holiday is too generous, this places a strain on available public revenue. The result could be that schools and capital maintenance (roads, public services) will suffer.
  - b. The hotel occupancy tax and car rental surcharges are popular because they mainly impact visitors. Also, they can generate considerable revenue to finance major capital improvements. If these taxes become excessive, however, they could discourage major events (such as conventions).
  - c. Such holidays are very popular with both merchants and consumers and serve the social need of defraying some of the costs of sending children to school. Once established, however, they are difficult to get rid of. Thus, they become an annual drain on sales tax revenue.

**ANSWER:**

**POINTS:**

1

**DIFFICULTY:**

Easy

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:**

Bloom's: Analysis

**OTHER:**

Time: 10 min.

**DATE CREATED:**

8/15/2018 10:41 AM

**DATE MODIFIED:**

8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

186. What is a severance tax? How productive can it be in terms of generating revenue?

**ANSWER:** A severance tax is one imposed when natural resources (e.g., oil, gas, iron ore, coal) are extracted. It is based on the notion that the state has an interest in such resources. For some states, the revenue from severance taxes can be significant. Alaska, for example, relies heavily on its severance taxes and has been able to avoid both a state income tax and a general sales tax.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Evaluation

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

187. What is the difference between an inheritance tax and an estate tax? Who imposes these taxes?

**ANSWER:** An inheritance tax is a tax on the right to receive property from a decedent. An estate tax is imposed on the right to pass property at death. The Federal government imposes estate taxes, while states impose inheritance taxes. Some states impose both, while others impose neither.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Evaluation

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

188. Logan dies with an estate worth \$20 million. Under his will, \$10 million passes to his wife while \$10 million goes to his church. What is Logan's Federal estate tax result?

**ANSWER:** None. After a marital deduction of \$10 million and a charitable deduction of \$10 million, Logan's taxable estate is \$0.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

189. What might cause an individual to owe income taxes in more than one state?

**ANSWER:** Working in more than one state, or owning income-generating property in more than one state.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

190. Virtually all state income tax returns contain checkoff boxes for donations to various causes. On what grounds has this procedure been criticized?

**ANSWER:** In many cases the procedure is overused (i.e., a multiplicity of boxes). This overuse adds complexity to the return. Also, in most cases the donation is being drawn from any income tax refund that might be due. Thus, taxpayers may not fully appreciate that they are paying for such checkoffs.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

191. State and local governments are sometimes forced to find ways to generate additional revenue. Comment on the pros and cons of the following procedures:

- a. Decouple what would be part of the piggyback format of the state income tax.
- b. Tax amnesty provisions.
- c. Internet shaming.

**ANSWER:**

- a. The decoupling process is easily accomplished as to new Federal tax changes that have never taken effect at the state level. Taxpayers are not apt to miss what they never have enjoyed.
- b. Tax amnesty provisions generate considerable revenue. It also unmask many taxpayers who have not previously paid taxes. Now that the taxing jurisdiction is aware of their existence, they will tend to pay taxes in the future.
- c. By use of a public Web site, the taxing authority posts the names of those taxpayers that are delinquent as to various taxes (e.g., sales, income). This public humiliation (or threat of) very often results in compliance.

**POINTS:**

1

**DIFFICULTY:**

Moderate

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:**

Bloom's: Evaluation

**OTHER:**

Time: 10 min.

**DATE CREATED:**

8/15/2018 10:41 AM

**DATE MODIFIED:**

8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

192. Briana lives in one state and works in the adjoining state. Both states tax the income she earns from her job. Does Briana have any relief from this apparent double taxation of the same income?

**ANSWER:** Most states allow their residents some form of tax credit for the income taxes paid to other states. In Briana's case, the credit would be allowed by the state where she lives for the taxes paid to the state where she works.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

193. In late June 2018, Art is audited by the state and a large deficiency is assessed. In November of the same year, his Federal income tax return is audited by the IRS. What has probably happened?

**ANSWER:** The IRS has been notified by the state concerning the results of the June audit.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

194. Two months after the burglary of his personal residence, Eric is audited by the IRS. Among the items taken in the burglary was a shoe box containing approximately \$50,000 in cash. Eric is the owner and operator of a cash-and-carry liquor store. Eric wonders why he was audited. Can you help explain?

**ANSWER:** Although Eric's audit by the IRS could be the result of sheer chance, this appears unlikely. Press coverage of the burglary, particularly if the items stolen were enumerated, could have put the IRS on notice. Why would anyone keep such a large amount of cash at his personal residence? Also, Eric is in a business where tax evasion is easily accomplished.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

195. Rick, the sole proprietor of an adult entertainment club, is audited by the IRS. On the third day of the field audit, the regular IRS agent is accompanied by a special agent. Should Rick be concerned by this new development? Explain.

**ANSWER:** Yes, he should. Special agents rarely appear during an audit unless the regular agent suspects that fraud may be involved. Considering the type of business Rick conducts, the heavy use of cash probably exists. With cash involved, tax evasion is easier to carry out.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

196. Tracy has just been audited and the IRS agent has issued an RAR that assesses a large deficiency. Since Tracy disagrees with the result, her next step is to go to court. Do you agree?

**ANSWER:** Tracy might save herself time and expense by going to the Appeals Division of the IRS. Here, the IRS has the authority to negotiate a settlement based on the “hazards of litigation” (i.e., the probabilities of winning or losing). If a settlement is reached, resort to the courts is avoided.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

197. Brayden files his Federal income tax return by April 15, but does not pay the tax. Although he expects to pay interest on the large amount of tax he still owes, he feels that the timely filing has avoided any penalties. Is Brayden’s assumption correct?

**ANSWER:** Although Brayden has avoided the failure to file penalty, the failure to pay penalty will apply. It is 0.5% per month up to a maximum of 25% of the tax due as shown on the return.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

198. Melinda has been referred to you by one of your clients. In the past, she has prepared her own income tax returns, but she has become overwhelmed by the increased complexity of the tax law. Consequently, Melinda wants you to prepare her return for calendar year 2018. In reviewing her 2017 return, you note that she has claimed as a deduction the entire cost of a business building that should have been capitalized and depreciated. What course of action should you follow?

**ANSWER:** You should recommend to Melinda that an amended return be filed for 2017 correcting the error. If she refuses, you should assess the gravity of the error and how it impacts on your ability to file an accurate return for 2018. If you cannot do so, then you must decline the engagement.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

199. Your client, Connie, won \$12,000 in a football office pool. She sees no reason to include it in her income for several reasons. First, the amount won will not be reported to the IRS. Second, as an average income employee, she is unlikely to be audited by the IRS. Third, she feels that she has probably lost this much in other past office pools. How do you respond?

**ANSWER:** As a practitioner, you cannot play the audit lottery. You must presume she will be audited irrespective of the probabilities. Although the use of estimates is allowed, Connie's assumptions as to her losses are not realistic. Even if they were reliable, gambling losses cannot be offset against gambling winnings but must be separately deducted. Thus, the \$12,000 must be reported as income or you cannot prepare Connie's return.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

200. Under what conditions is it permissible, from an ethical standpoint, for a CPA firm to outsource tax return preparation to a third party?

**ANSWER:** First, the clients' confidentiality must be preserved. Second, the CPA firm must verify the accuracy of the work. Third, the clients must be advised as to the practice.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Ethics  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM



## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

201. In terms of revenue neutrality, comment on a tax cut enacted by Congress that:

- a. contains revenue offsets.
- b. includes a sunset provision.

**ANSWER:**

- a. Ideally, to achieve revenue neutrality all tax cuts should be accompanied by revenue offsets.
- b. A sunset provision does not account for the immediate revenue losses generated by a tax cut. It merely provides that such losses will not continue beyond a specified date when the tax cut expires and the former tax law is reinstated.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

202. The tax law contains various tax credits, deductions, and exclusions that are designed to encourage taxpayers to obtain additional education. On what grounds can these provisions be justified?

**ANSWER:** Social and economic considerations. As to the latter, a better educated workforce carries a positive economic impact.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

203. The tax law contains various provisions that encourage home ownership.

- a. On what basis can this objective be justified?
- b. Are there any negative considerations? Explain.

**ANSWER:** a. Home ownership can be justified on economic and social grounds.  
b. Granting tax advantages to persons who are purchasing their homes places the taxpayers who rent at a disadvantage. The result is inequality in treatment.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

204. The tax law allows an income tax deduction (or a credit) for foreign income taxes. Explain why.

**ANSWER:** The deduction (or a credit) for foreign income taxes can be justified on the grounds that it mitigates the double tax imposed on the same income.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

205. The tax law allows, under certain conditions, deferral of gain recognition for involuntary conversions.

- a. What is the justification for this relief measure?
- b. What happens if the proceeds are not entirely reinvested?

- a. By recognizing that the taxpayer's relative economic situation has not changed and that he or she lacks the wherewithal to pay a tax, any recognition of realized gain is deferred.
- b. If the proceeds from an involuntary conversion are not fully reinvested in property that is similar or related in service or use, recognized gain results. Such recognized gain cannot exceed realized gain and will be limited to the amount of the proceeds not reinvested. Recognition is based on the notion that the taxpayer now has the wherewithal to pay the tax that results.

**ANSWER:**

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

206. How do the net operating loss provisions in the tax law mitigate the effect of the annual accounting concept?

**ANSWER:** Without the allowance of a loss carryforward, the losses would disappear. As shown by Example 24, this result places a business with profit and loss fluctuations on a more level playing field with one that maintains a stable income pattern.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

207. In connection with facilitating the function of the IRS in the administration of the tax laws, comment on the utility of the following:

- a. An increase in the amount of the standard deduction.
- b. Dollar and percentage limitations on the deduction of personal casualty losses in Federally-declared disaster areas.
- c. Availability of interest and penalties for taxpayer noncompliance.

**ANSWER:**

- a. An increase in the amount of the standard deduction reduces the number of taxpayers who choose to itemize their personal deductions. This, in turn, cuts down on the deductions the IRS has to check.
- b. Limitations placed on casualty and theft losses curtail the number of taxpayers who can claim the deduction.
- c. The imposition of extra penalties, in addition to the tax owed, definitely deters taxpayer noncompliance.

**POINTS:**

1

**DIFFICULTY:**

Moderate

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-08 - LO: 1-08

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:**

Bloom's: Comprehension

**OTHER:**

Time: 20 min.

**DATE CREATED:**

8/15/2018 10:41 AM

**DATE MODIFIED:**

8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

208. Congress reacts to judicial decisions that interpret the tax law in different ways. When it approves of a decision, Congress may act to amend the Code to incorporate the holding. When it disapproves, Congress may amend the Code to nullify its effect. Give an example of each one of these congressional reactions.

**ANSWER:** Congress approved of the judicial conclusion that most stock dividends should be nontaxable and amended the Code to this effect. However, it disagreed as to when leasehold improvements should be taxed to a lessor. Consistent with the wherewithal to pay concept, the improvements are to be taxed on the termination of the lease. Thus, Congress overturned a judicial holding that would have taxed such improvements in the year they are made by the lessee.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-08 - LO: 1-08

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

209. Can a taxpayer start the 3-year statute of limitations on additional assessments by the IRS by filing his income tax return early (i.e., before the due date)? Can the period be shortened by filing late (i.e., after the due date)?

**ANSWER:** The answer is *no* in both cases. When filing early, the statute starts to run on the due date of the return. When filing late however, the filing date controls.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-05 - LO: 1-05

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:41 AM

**DATE MODIFIED:** 8/15/2018 10:41 AM

## Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law

210. Congressman Smith wants to impose a new tax on sugar drinks. Analyze this proposal against the principles of equity, simplicity and neutrality.

**ANSWER:**

- Equity – The tax is regressive in that it will represent a larger portion of a low-income individual's income relative to a higher-income individual.
- Simplicity – While it sounds simple because the ingredients on a bottle should indicate if there is sugar, issues might arise as to how other forms of sugar, such as corn syrup, affect application of the tax. Also, the amount of sugar in beverages can vary so some might argue the tax should not apply if the sugar level is minimal. Will the tax apply to drinks already subject to the alcohol taxes? [Look for some discussion of problems of defining sugar drink, in the answer.]
- Neutrality – The tax will likely reduce sales of sugar drinks.

**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** Essay  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** CMPV.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min  
**DATE CREATED:** 8/15/2018 10:41 AM  
**DATE MODIFIED:** 8/15/2018 10:41 AM

## **Chapter 01: An Introduction to Taxation and Understanding the Federal Tax Law**

211. Ultimately, most taxes are paid by individuals. Explain what this means in terms of income and payroll taxes paid by a corporation.

**ANSWER:**

A corporation pays many types of taxes, but like any other expenditure, it is ultimately paid by an individual. Income taxes are included in the price the corporation charges for goods and services. Or all or part might result in reduced earnings affecting investors or through reduced wages affecting employees. The payroll taxes paid by the corporate employer are likely borne by workers in the form of lower wages. That is, if the employer did not have to pay the taxes, they could pay higher wages to employees. These taxes might also be borne by customers and investors.

**POINTS:**

1

**DIFFICULTY:**

Moderate

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:**

CMPV.SWFT.2019.LO: 1-03 - LO: 1-03

CMPV.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:**

United States - BUSPROG: Comprehension

**STATE STANDARDS:**

United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**OTHER:**

Time: 5 min.

**DATE CREATED:**

8/15/2018 10:41 AM

**DATE MODIFIED:**

8/15/2018 10:41 AM