

Chapter 01: Understanding and Working with the Federal Tax Law

True / False

1. Many states have balanced budgets because laws or constitutional amendments preclude deficit spending.
 - a. True
 - b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-01 - LO: 1-01

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

STATE STANDARDS: United States - TX - AICPA: FN-Measurement

United States - AK - AICPA: FN-Research

KEYWORDS: Bloom's: Knowledge

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2. The United States Federal government has a provision in the Constitution which precludes deficit spending.
 - a. True
 - b. False

ANSWER: False

RATIONALE: There is no such provision and the national debt continues to grow.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-01 - LO: 1-01

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

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

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KEYWORDS: Bloom's: Knowledge

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DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

3. Revenue-neutral tax laws reduce deficits.

- a. True
- b. False

ANSWER: False

RATIONALE: They do not reduce deficits, but do not aggravate the problem.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-01 - LO: 1-01

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

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KEYWORDS: Bloom's: Knowledge

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4. Longer class lives for depreciable property and the required use of straight-line method of depreciation would likely dampen the tax incentive for purchasing capital assets.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

STATE STANDARDS: United States - TX - AICPA: FN-Reporting
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KEYWORDS: Bloom's: Knowledge

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Chapter 01: Understanding and Working with the Federal Tax Law

5. The Internal Revenue Code is a compilation of Federal tax legislation that appears in Title 26 of the United States Code.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

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DATE MODIFIED: 11/15/2017 2:01 PM

6. The favorable treatment of research and development expenses is one means of controlling the economy.
- True
 - False

ANSWER: False

RATIONALE: This encourages certain activities (e.g., fostering technological progress). It does not control the economy.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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Chapter 01: Understanding and Working with the Federal Tax Law

7. The encouragement of private-sector pension plans can be justified under the encouragement of certain industries.
- True
 - False

ANSWER: False

RATIONALE: Justified under social considerations and encouragement of certain activities (e.g., savings).

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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8. One Internal Revenue Code section enables shareholders in a small business corporation to obtain an ordinary deduction for any loss recognized on a stock investment.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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Chapter 01: Understanding and Working with the Federal Tax Law

9. One of the justifications for the enactment of the tax law governing corporate reorganizations was the economic benefit it would provide businesses (including making them more efficient).
- a. True
 - b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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10. Although a corporation is subject to a Federal income tax, a partnership is not.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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DATE MODIFIED: 11/15/2017 2:01 PM

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11. The Federal income tax law allows a taxpayer to claim a deduction for state and local income taxes, but limits all state taxes to a maximum of \$10,000.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

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12. Alabama and South Carolina are community property states.

- a. True
- b. False

ANSWER: False

RATIONALE: They are common law states.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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DATE MODIFIED: 11/15/2017 2:01 PM

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13. A tax bill cannot originate in the Senate Finance Committee.

- a. True
- b. False

ANSWER: False

RATIONALE: Tax bills typically originate in the House Ways and Means Committee, but the Senate Finance Committee may attach a tax bill as a rider to other legislative proposals as was the case with the American Taxpayer Relief Act of 2012.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

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14. Taxpayers may read Committee Reports to determine the intent of Congress.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

15. These Internal Revenue Code citations are incorrect: § 212(1) and § 1221(1).

- a. True
- b. False

ANSWER: False

RATIONALE: These sections are correct (and a part of the Internal Revenue Code).

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

16. Internal Revenue Code § 6 involves gross income and § 7 outlines itemized deductions.

- a. True
- b. False

ANSWER: False

RATIONALE: These sections do not appear in the Internal Revenue Code.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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DATE CREATED: 11/15/2017 2:01 PM

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Chapter 01: Understanding and Working with the Federal Tax Law

17. Subchapter P refers to the subchapter in the Internal Revenue Code that deals with partners and partnerships.

- a. True
- b. False

ANSWER: False

RATIONALE: Subchapter K (not Subchapter P) in the Internal Revenue Code deals with partners and partnerships.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

18. Regulations are arranged in a different sequence than the Internal Revenue Code.

- a. True
- b. False

ANSWER: False

RATIONALE: Regulations are arranged in the same sequence as the Internal Revenue Code.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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KEYWORDS: Bloom's: Knowledge

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DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

19. Proposed Regulations have the force and effect of law.

- a. True
- b. False

ANSWER: False

RATIONALE: They carry no such weight.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

20. Temporary Regulations have the same authoritative value as Final Regulations for 4 years.

- a. True
- b. False

ANSWER: False

RATIONALE: Temporary Regulations have the same authoritative value for 3 (not 4) years.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

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Chapter 01: Understanding and Working with the Federal Tax Law

21. Proposed Regulations are published in the *Federal Register*.

- a. True
- b. False

ANSWER: True

RATIONALE: Proposed Regulations are published in the *Federal Register*.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

22. Regulations are issued by the Treasury Department.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

23. Revenue Rulings carry the same legal force and effect as Regulations.

- a. True
- b. False

ANSWER: False

RATIONALE: They do not carry the same legal force as Regulations.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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DATE MODIFIED: 11/15/2017 2:01 PM

24. A Revenue Ruling is a legislative source of Federal tax law.

- a. True
- b. False

ANSWER: False

RATIONALE: A Revenue Ruling is an administrative source of Federal tax law.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

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Chapter 01: Understanding and Working with the Federal Tax Law

25. Revenue Procedures deal with the internal management practices and procedures of the IRS.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

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26. Treasury Decisions are issued by the Treasury Department to promulgate new Regulations.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

27. Determination letters usually involve proposed transactions.

- a. True
- b. False

ANSWER: False
RATIONALE: They involve *completed* transactions.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Research
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.
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DATE MODIFIED: 11/15/2017 2:01 PM

28. Letter rulings are issued by the National Office of the IRS.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
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KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.
DATE CREATED: 11/15/2017 2:01 PM
DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

29. A taxpayer must pay any tax deficiency assessed by the IRS and sue for a refund to bring suit in the U.S. District Court.
- True
 - False

ANSWER: True

RATIONALE: Only in the U.S. Tax Court can a taxpayer file suit without first paying the assessed tax deficiency.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

30. In a U.S. District Court, a jury can decide both questions of fact and questions of law.
- True
 - False

ANSWER: False

RATIONALE: Questions of law are resolved by the presiding judge.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

31. A U.S. District Court must abide by the precedents set by the U.S. Court of Appeals of its jurisdiction.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

32. Appeals from the U.S. Court of Federal Claims go to the U.S. Supreme Court.

- a. True
- b. False

ANSWER: False

RATIONALE: The appeals are to the U.S. Court of Appeals for the Federal Circuit.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

33. A jury trial is available when a case is heard by a U.S. Court of Appeals.

- a. True
- b. False

ANSWER: False

RATIONALE: Jury trials do not occur in appellate courts.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 4/2/2018 3:14 PM

34. Only one judge hears a trial in a U.S. District Court.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

35. The *Golsen* rule no longer applies to the U.S. Tax Court.

- a. True
- b. False

ANSWER: False

RATIONALE: U.S. Tax Court still follows *Golsen*.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

36. When there is a direct conflict between an Internal Revenue Code section and a treaty provision, the most recent item takes precedence.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

37. "Legislative" regulations carry more weight than "interpretative" regulations.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-08 - LO: 1-08

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

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OTHER: Time: 2 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

38. The U.S. national debt is around \$11 trillion.

- a. True
- b. False

ANSWER: False

RATIONALE: The U.S. national debt is more than \$20 trillion.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 11:28 AM

DATE MODIFIED: 12/9/2017 11:29 AM

39. A change in the individual tax rate has an almost immediate impact on the economy.

- a. True
- b. False

ANSWER: True

RATIONALE: Either increasing or decreasing tax rates will affect individual consumption (and, therefore, the economy).

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 11:29 AM

DATE MODIFIED: 12/9/2017 11:30 AM

Chapter 01: Understanding and Working with the Federal Tax Law

40. The like-kind tax free exchange treatment is an example of the wherewithal to pay concept.

- a. True
- b. False

ANSWER: True

RATIONALE: Without relief, any realized gain would be recognized (and the taxpayer would not have the funds to pay any tax).

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:35 PM

DATE MODIFIED: 12/9/2017 12:36 PM

41. Indexation of various income tax components was eliminated by the Tax Cuts and Jobs Act of 2017.

- a. True
- b. False

ANSWER: False

RATIONALE: The Tax Cuts and Jobs Act of 2017 merely changed the indexation measure from the consumer price index for all-urban consumers (CPI-U) to chained CPI-U.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:36 PM

DATE MODIFIED: 4/2/2018 3:16 PM

42. When there is a direct conflict between a tax treaty and the Internal Revenue Code, the Internal Revenue Code takes precedence.

- a. True
- b. False

ANSWER: False

RATIONALE: The most recent item takes precedence.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:36 PM

DATE MODIFIED: 12/9/2017 12:37 PM

Chapter 01: Understanding and Working with the Federal Tax Law

43. The Standard Federal Tax Reporter is published by Research Institute of America.

- a. True
- b. False

ANSWER: False

RATIONALE: Published by Commerce Clearing House.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:37 PM

DATE MODIFIED: 12/9/2017 12:37 PM

44. The annual gift tax exclusion in 2018 is \$15,000.

- a. True
- b. False

ANSWER: True

RATIONALE: The exclusion was increased to \$15,000 in 2018 (from \$14,000 in 2017).

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:37 PM

DATE MODIFIED: 4/2/2018 3:17 PM

45. Internal Revenue Code Section 318, which deals with the definition of related parties with respect to stock redemptions, includes brothers and sisters in the related party definition.

- a. True
- b. False

ANSWER: False

RATIONALE: Brothers-sisters not included in the § 318 related party definition.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:39 PM

DATE MODIFIED: 12/9/2017 12:40 PM

Chapter 01: Understanding and Working with the Federal Tax Law

46. Complete avoidance of a capital gain tax occurs when the owner of appreciated property transfers it by death.
- a. True
 - b. False

ANSWER: True

RATIONALE: The related “step-up” in basis eliminates any appreciation.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:40 PM

DATE MODIFIED: 12/9/2017 12:40 PM

47. The taxation part of the CPA exam (REG) is now one-third essay.
- a. True
 - b. False

ANSWER: False

RATIONALE: The REG section is now 50 percent multiple choice and 50 percent small task simulations.

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:40 PM

DATE MODIFIED: 12/9/2017 12:41 PM

Chapter 01: Understanding and Working with the Federal Tax Law

Multiple Choice

48. Which provision could best be justified as a means of controlling the economy?

- a. Write-off of research and development expenditures.
- b. The § 179 immediate expensing of depreciable capital expenditures.
- c. Amortization of pollution control facilities.
- d. The rehabilitation tax credit.
- e. None of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

STATE STANDARDS: United States - TX - AICPA: FN-Measurement
United States - AK - AICPA: FN-Research

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 4/2/2018 3:15 PM

49. Which provision could best be justified as encouraging small business?

- a. Ordinary loss allowed on § 1244 stock.
- b. Percentage depletion.
- c. Charitable contributions deduction.
- d. Interest deduction on home mortgage.
- e. None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

STATE STANDARDS: United States - TX - AICPA: FN-Measurement
United States - AK - AICPA: FN-Research

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 4/2/2018 3:15 PM

Chapter 01: Understanding and Working with the Federal Tax Law

50. Which provision is *not* justified by social considerations?

- a. Refundable earned income credit.
- b. Adoption tax credit.
- c. Like-kind exchange treatment.
- d. Disallowance of illegal kickbacks.
- e. None of the above.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

STATE STANDARDS: United States - TX - AICPA: FN-Measurement

United States - AK - AICPA: FN-Research

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

51. Which state is *not* a community property state?

- a. Arizona.
- b. Texas.
- c. New Mexico
- d. Virginia
- e. None of the above.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

STATE STANDARDS: United States - TX - AICPA: FN-Measurement

United States - AK - AICPA: FN-Research

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

52. Douglas and Sue, related parties, are landlord and tenant as to certain business property. If the IRS questions the amount of rent Sue is paying to Douglas, this is an illustration of the:
- Arm's length concept.
 - Continuity of interest concept.
 - Tax benefit rule.
 - Substance over form concept.
 - None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-04 - LO: 1-04

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

STATE STANDARDS: United States - TX - AICPA: FN-Measurement
United States - AK - AICPA: FN-Research

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

53. Federal tax legislation generally originates in what committee?
- House Budget Committee.
 - Senate Finance Committee.
 - House Ways and Means Committee.
 - House Taxation Committee.
 - None of the above.

ANSWER: c

RATIONALE: The point of origination normally is the Ways and Means Committee of the House of Representatives.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

Chapter 01: Understanding and Working with the Federal Tax Law

54. Regulations are first published in:

- a. *Federal Register*.
- b. *Cumulative Bulletin*.
- c. *Internal Revenue Bulletin*.
- d. *I.R.S. Digest*.
- e. All of the above.

ANSWER: a

RATIONALE: Regulations are first published in the *Federal Register*.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:01 PM

DATE MODIFIED: 11/15/2017 2:01 PM

55. Which citation is considered to be a statutory (legislative) citation?

- a. Ltr. Rul. 199952058.
- b. Ann. 94-5, 1994-2 I.R.B. 39.
- c. Reg. § 1.1014-1(c)(1).
- d. § 351.
- e. None of the above.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

56. A Technical Advice Memorandum is issued by:

- a. Treasury Department.
- b. National Office of the IRS.
- c. Office of Chief Council.
- d. Area Director.
- e. None of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

57. Revenue Procedures are published in the:

- a. *Congressional Record*.
- b. *Federal Revenue Bulletin*.
- c. *Internal Revenue Bulletin*.
- d. *I.R.S. Digest*.
- e. None of the above.

ANSWER: c

RATIONALE: Revenue Procedures are published weekly in the *Internal Revenue Bulletin*.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

58. Determine the incorrect citation:

- a. TAM 20002704.
- b. *George W. Guill*, 112 T.C. ___, No. 22 (1999).
- c. *John H. Wong*, T.C. Summary Opinion 2009-152.
- d. Rev. Rul. 98-32, 1998-25 I.R.B. 4.
- e. None of the above.

ANSWER: a

RATIONALE: This citation should have 9 digits.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

59. Regarding Technical Advice Memoranda, which statement is *incorrect*?

- a. Issued by the National Office of IRS.
- b. Most often deal with a completed transaction.
- c. May be cited and used as precedent.
- d. Issued with multi-digit file numbers.
- e. None are incorrect.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

60. Which of the following sources has the *highest* tax authority?

- a. Treasury Regulation.
- b. Revenue Procedure.
- c. Internal Revenue Code.
- d. Temporary Regulation.
- e. All have the same weight.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05
CPET.SWFT.LO: 1-08 - LO: 1-08

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

61. Which of the following is an administrative source of tax law?

- a. Rev. Rul. 2010-19.
- b. Joint Conference Committee Report.
- c. Section 12(a) of the *Internal Revenue Code*.
- d. All of the above.
- e. None of the above.

ANSWER: a

RATIONALE: Revenue Rulings are issued by the National Office of the IRS.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

62. A decision in which of the following courts carries the lowest tax authority?

- a. U.S. Court of Appeals for the Federal Circuit.
- b. U.S. Court of Appeals for the Second Circuit.
- c. U.S. District Court.
- d. U.S. Supreme Court.
- e. U.S. Court of Appeals Federal Circuit.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

63. In *Forty-Four Cigar Co.*, 2 B.T.A. 1156, the 1156 stands for:

- a. The volume number.
- b. The year of the decision.
- c. The paragraph number.
- d. The page number.
- e. None of the above.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

64. Which statement is *not* true about this citation: *Bonkowski v. Comm.*, 29 TCM 1645 (1970), *aff'd* 458 F.2d 709 (CA-7, 1972), *cert. den.*?
- a. The Supreme Court decided not to agree or disagree with the Seventh Court of Appeals.
 - b. The Seventh Court of Appeals disagreed with the Tax Court.
 - c. The Tax Court decision starts on page 1645.
 - d. The Seventh Court of Appeals decision appears in Vol. 458.
 - e. All of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

65. Which of these notations would appear after a U.S. Tax Court citation if the IRS disagrees with the decision?
- a. *Rev'd* 935 F.2d 203 (1991).
 - b. *Nonacq.* 1979-1 C.B. 1.
 - c. *Cert. den.* 361 U.S. 875 (1959).
 - d. *Acq.* 1990-1 C.B. 2.
 - e. None of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

66. Which of the following refers to a trial court rather than an appellate court decision?

- a. *Forgeus v. Comm.*, 6 B.T.A. 291 (1927).
- b. *Farris v. Comm.*, 222 F.2d 320 (CA-10, 1955).
- c. *Danville Plywood Corp.*, 899 F.2d 3 (Fed Cir. 1990).
- d. *Boehm v. Comm.*, 326 U.S. 287 (1945).
- e. None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

67. Which citation refers to a Fourth Circuit Court of Appeals decision?

- a. 40 T.C. 1018.
- b. 2 TCM 205 (1951).
- c. 354 F.Supp. 1003 (D. Ct. Ga, 1972).
- d. 914 F.2d 396 (CA-3, 1990).
- e. None of the above.

ANSWER: e

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

68. Which state is located in the jurisdiction of the Fifth Circuit Court of Appeals?

- a. Louisiana.
- b. California.
- c. New York.
- d. South Carolina.
- e. None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

69. Interpret the following citation: 64-1 USTC ¶ 9618, *aff'd* in 344 F. 2d 966.
- A U.S. Tax Court Small Cases Division decision that was affirmed on appeal.
 - A U.S. Tax Court decision that was affirmed on appeal.
 - A U.S. District Court decision that was affirmed on appeal.
 - A U.S. Court of Appeals decision that was affirmed on appeal.
 - None of the above.

ANSWER:

c

RATIONALE:

USTCs report decisions of the U.S. District Courts, U.S. Court of Federal Claims, U.S. Court of Appeals, and the U.S. Supreme Court. They do not report the decisions of the U.S. Tax Court. West's F. 2d series reports the decisions of the U.S. Claims Court (before October 1982) and the U.S. Courts of Appeal. They do not report the decisions of the U.S. Tax Court, U.S. District Courts, and the U.S. Supreme Court. In the light of these conditions, what are the possibilities?

- Choice a. is not possible, since there is no appeal from the Small Cases Division of the U.S. Tax Court.
- Choice b. is not possible because the USTC series does not contain the decision of the U.S. Tax Court.
- Choice d. is not possible since an appeal from the U.S. Court of Appeals would have been to the U.S. Supreme Court.

What the citation represents, therefore, is the affirmation of an appeal of a U.S. District Court decision (reported in the USTCs) by a U.S. Court of Appeals (reported in the F.2d series), or choice c.

POINTS:

1

DIFFICULTY:

Easy

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS:

Bloom's: Comprehension

OTHER:

Time: 10 min.

DATE CREATED:

11/15/2017 2:02 PM

DATE MODIFIED:

11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

70. Which citation refers to a Second Circuit Court of Appeals decision?

- a. 40 T.C. 1018.
- b. 159 F. 2d 848 (CA-2, 1947).
- c. 354 F. Supp. 1003 (D. Ct. Ga, 1972).
- d. 914 F. 2d 396 (CA-3, 1990).
- e. None of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

71. Which citation refers to a U.S. Court of Federal Claims decision?

- a. *Apollo Computer, Inc. v. U.S.*, 95-1 USTC ¶ 50,015 (Fed. Cl., 1994).
- b. *Westreco, Inc.*, T.C. Memo. 1992-561 (1992).
- c. *Bausch & Lomb, Inc. v. Comm.*, 933 F. 2d 1084 (CA-2, 1991).
- d. *Portland Manufacturing Co. v. Comm.*, 35 AFTR 2d 1439 (CA-9, 1975).
- e. None of the above.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

72. If these citations appeared after a trial court decision, which one means that the decision was viewed favorably?
- a. *Aff'd* 633 F. 2d 512 (CA-7, 1980).
 - b. *Rem'd* 399 F. 2d 800 (CA-5, 1968).
 - c. *Rev'd* 914 F. 2d 396 (CA-3, 1990).
 - d. *Rev'd* 935 F. 2d 203 (CA-5, 1991).
 - e. None of the above.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Research
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 5 min.
DATE CREATED: 11/15/2017 2:02 PM
DATE MODIFIED: 11/15/2017 2:02 PM

73. Which trial court normally has 16 judges?
- a. U.S. Tax Court.
 - b. U.S. Court of Federal Claims.
 - c. U.S. Supreme Court.
 - d. U.S. Court of Appeals.
 - e. None of the above.

ANSWER: b
RATIONALE: The U.S. Tax Court normally has 19 regular judges. The U.S. Court of Federal Claims normally has 16. Neither the U.S. Court of Appeals nor the U.S. Supreme Court is a trial court.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Research
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 5 min.
DATE CREATED: 11/15/2017 2:02 PM
DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

74. Which trial court's jurisdiction depends on the geographical location of the taxpayer?

- a. U.S. Tax Court.
- b. U.S. District Court.
- c. U.S. Court of Federal Claims.
- d. Small Cases Division of the Tax Court.
- e. None of the above.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

75. Which trial court decision is generally less authoritative?

- a. U.S. District Court.
- b. U.S. Tax Court.
- c. U.S. Court of Federal Claims.
- d. Small Cases Division of the Tax Court.
- e. All of the above are the same.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

CPET.SWFT.LO: 1-08 - LO: 1-08

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

76. A Memorandum decision of the U.S. Tax Court could be cited as:

- a. T.C. Memo. 1990-650.
- b. 68-1 USTC ¶ 9200.
- c. 37 AFTR 2d 456.
- d. All of the above.
- e. None of the above.

ANSWER:

a

RATIONALE:

The T.C. Memo. citation (choice a.) refers to a memorandum decision of the U.S. Tax Court. CCH's U.S. Tax Cases series (USTC in choice b.) does not include decisions of the U.S. Tax Court. The same holds true of RIA's American Federal Tax Report (AFTR 2d in choice c.).

POINTS:

1

DIFFICULTY:

Easy

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS:

Bloom's: Comprehension

OTHER:

Time: 5 min.

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Chapter 01: Understanding and Working with the Federal Tax Law

77. Which court decision is generally more authoritative?

- a. A U.S. Tax Court decision.
- b. A U.S. Court of Federal Claims decision.
- c. A U.S. District Court decision.
- d. A U.S. Court of Appeals decision.
- e. A U.S. Tax Court Memorandum decision.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05
CPET.SWFT.LO: 1-08 - LO: 1-08

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

78. Which of the following statements about an acquiescence is correct?

- a. An acquiescence is issued in the *Federal Register*.
- b. Acquiescences are published only for certain regular decisions of the U.S. Tax Court.
- c. An acquiescence is published in the *Internal Revenue Bulletin*.
- d. The IRS does not issue acquiescences to adverse decisions that are not appealed.
- e. All of the above are correct.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

79. Which is a primary source of tax law?
- a. *J.W. Yarbo v. Comm.*, 737 F. 2d 479 (CA-5, 1984).
 - b. Article by a Federal judge in *Harvard Law Review*.
 - c. IRS Determination letter.
 - d. IRS Letter ruling.
 - e. All of the above are primary sources.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-08 - LO: 1-08

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

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

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

80. 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 is not income to the landlord. This rule is an example of:
- a. The wherewithal to pay concept.
 - b. The tax benefit rule.
 - c. The arm's length concept.
 - d. A clear reflection of income result.
 - e. None of the above.

ANSWER: a

RATIONALE: At the end of the lease, the landlord does not have the wherewithal to pay tax (but will, once the property is sold).

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:41 PM

DATE MODIFIED: 12/9/2017 12:42 PM

Chapter 01: Understanding and Working with the Federal Tax Law

81. The Internal Revenue Code was codified for the first time in what year?

- a. 1913.
- b. 1923.
- c. 1939.
- d. 1954.
- e. 1986.

ANSWER: c

RATIONALE: The Internal Revenue Code was first codified in 1939, and then re-codified in 1954 and 1986.

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:42 PM

DATE MODIFIED: 12/9/2017 12:44 PM

82. What statement is not true with respect to Temporary Regulations?

- a. May be cited as precedent.
- b. Issued with Proposed Regulations.
- c. Automatically expire within three years after the date of issuance.
- d. Can be found in the Federal Register.
- e. All of the above statements are true.

ANSWER: e

RATIONALE: All of the above are true.

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:44 PM

DATE MODIFIED: 12/9/2017 12:45 PM

Chapter 01: Understanding and Working with the Federal Tax Law

83. What administrative release deals with a proposed transaction rather than a completed transaction?

- a. Letter Ruling.
- b. Technical Advice Memorandum.
- c. Determination Letter.
- d. Field Service Advice.
- e. None of the above.

ANSWER: a

RATIONALE: Items b., c., and d. all are issued in response to completed transactions.

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:45 PM

DATE MODIFIED: 12/9/2017 12:46 PM

84. If a taxpayer decides not to pay a tax deficiency, he or she must go to which court?

- a. Appropriate U.S. Circuit Court of Appeals.
- b. U.S. District Court.
- c. U.S. Tax Court.
- d. U.S. Court of Federal Claims.
- e. None of the above is available.

ANSWER: c

RATIONALE: Only the U.S. Tax Court allows a taxpayer to seek a remedy without paying any tax deficiency up front.

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:47 PM

DATE MODIFIED: 12/9/2017 12:48 PM

Chapter 01: Understanding and Working with the Federal Tax Law

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

ANSWER: a

RATIONALE: Choice b, discourages undesirable practice; choice c, encourages certain activity; choice d, political considerations.

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:58 PM

DATE MODIFIED: 12/9/2017 1:01 PM

86. Social considerations can be used to justify:
- a. Allowing a federal income tax deduction for state and local sales tax.
 - b. Allowing excess capital losses to be carried over to other years.
 - c. Allowing accelerated amortization for the cost of installing pollution control facilities.
 - d. Allowance of a credit for child care expenses.
 - e. None of the above.

ANSWER: d

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

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 12:59 PM

DATE MODIFIED: 12/9/2017 1:00 PM

Chapter 01: Understanding and Working with the Federal Tax Law

87. Allowing a net operating loss carryforward can be justified:
- a. As mitigating the effect of the annual accounting period concept.
 - b. By economic considerations.
 - c. As promoting administrative feasibility.
 - d. Based on the wherewithal to pay concept.
 - e. None of the above.

ANSWER: a

RATIONALE: Allowing a NOL carryforward mitigates the effect of the annual accounting period concept.

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 1:01 PM

DATE MODIFIED: 4/2/2018 3:19 PM

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

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

DATE CREATED: 12/9/2017 1:02 PM

DATE MODIFIED: 4/2/2018 3:20 PM

Chapter 01: Understanding and Working with the Federal Tax Law

Essay

89. What impact has the community property system had on our Federal tax laws?

ANSWER: The position of the residents of community property states was so advantageous that many common law states actually adopted community property systems. The political pressure placed on Congress to correct the disparity in tax treatment was considerable. To a large extent, this correction was accomplished in the Revenue Act of 1948, which extended many of the community property tax advantages to residents of common law jurisdictions. Thus, common law states avoided the trauma of discarding their time-honored legal system familiar to everyone. The impact of community property law on the Federal estate and gift taxes is further explored in Chapters 17 and 18.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-02 - LO: 1-02

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

90. How does a treaty with a foreign country impact a section in the Internal Revenue Code?

ANSWER: The United States enters into tax treaties (sometimes called tax conventions) with foreign countries to render mutual assistance in tax enforcement and to avoid double taxation. Neither a tax law or tax treaty takes precedence. When there is a conflict, the most recently enacted item will take precedence.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

Chapter 01: Understanding and Working with the Federal Tax Law

91. Explain the *Golsen* doctrine.

ANSWER: Because the Tax Court is a national court, it decides cases from all parts of the country. For many years, the Tax Court followed a policy of deciding cases based on what it thought the result should be, even though its decision might be appealed to a U.S. Circuit Court of Appeals that had previously decided a similar case differently. A number of years ago this policy was changed in the *Golsen* decision. Now the Tax Court will decide a case as it feels the law should be applied *only* if the Circuit Court of Appeals of appropriate jurisdiction has not yet passed on the issue or has previously decided a similar case in accord with the Tax Court's decision. If the Circuit Court of Appeals of appropriate jurisdiction has previously held otherwise, the Tax Court will conform under the *Golsen* rule even though it disagrees with the holding.

POINTS: 3

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-05 - LO: 1-05

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 11/15/2017 2:02 PM

DATE MODIFIED: 11/15/2017 2:02 PM

92. What is the value of Actions on Decisions to a tax researcher?

ANSWER: Actions on Decisions tell a taxpayer the IRS's reaction to certain court decisions. The IRS follows a practice of either acquiescing (agreeing) or nonacquiescing (not agreeing) with court decisions where guidance may be helpful. This practice does not mean that a particular decision has no value if the IRS has nonacquiesced in the result. It does, however, indicate that the IRS will continue to litigate the issue involved.

POINTS: 3

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-08 - LO: 1-08

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

DATE CREATED: 11/15/2017 2:02 PM

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Chapter 01: Understanding and Working with the Federal Tax Law

93. What value is a tax citator to a tax researcher?

ANSWER: The use of manual citators or a computer citator search is invaluable to tax research. A citator provides the history of a case including the authority relied on (e.g., other judicial decisions) in reaching the result. Reviewing the references listed in the citator discloses whether the decision was appealed and, if so, with what result (e.g., affirmed, reversed, and remanded). It also reveals other cases with the same or similar issues and how they were decided. Thus, a citator reflects on the validity of a case and may lead to other relevant judicial material.

POINTS: 3

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.LO: 1-10 - LO: 1-10

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

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

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

DATE CREATED: 11/15/2017 2:02 PM

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