

1. MCQ-14900

According to Treasury Circular 230, which of the following rules related to the prompt disposition of pending matters before the IRS applies to CPAs?

1. Practitioners may request an extension of time of *not* more than five years related to the disposition of matters pending before the IRS to avoid any preparer penalties
2. Practitioners will be held responsible for any of the clients interest and penalties related to the unreasonable delay of matters pending before the IRS.
3. Practitioners may *not* unreasonably delay the prompt disposition of matters pending before the IRS.
4. Practitioners must ensure that matters are concluded within three years of the date of formal notification concerning any matters pending before the IRS.

**ANSWER:**

Choice "C" is correct. Treasury Circular 230 Section 10.23 provides that a practitioner may not unreasonably delay the prompt disposition of any matter before the IRS. Practitioner means any individual including attorneys, CPAs, enrolled agents, enrolled actuaries, or registered tax return preparers.

1. MCQ-14901

Which of the following situations could result in a preparer penalty assessed by the IRS?

1. Preparer does *not* sign the tax return.
2. Preparer inadvertently transposes two digits on a return, and the error results in an understatement of income by S90.
3. Preparer lakes an aggressive but realistic tax position that results in a decrease of tax.
4. Taxpayer tells the preparer that the taxpayer's income is $40,000, whereas it is actually $60,000.

**ANSWER:**

Choice "A" is correct. IRC Section 6695 provides a penalty of S50 for each failure to sign a tax return (maximum penalty of $27,000 per calendar year).

选项B：由于疏忽导致的少申报的小数额差异，不会造成penalty。

选项C：申报只要是合理且真实的，不会造成penalty。

选项D：根据taxpayer提供的信息做的申报，如果数据有误，责任人不在preparer。但是如果taxpayer明显存在错误，preparer需要去及时纠正。选项中的数额，是不易被发现的错误。

1. MCQ-14902

Under the Internal Revenue Code, a CPA who was engaged in the business of preparing tax returns could incur a penalty for disclosing taxpayer information without the taxpayer's formal consent in which of the following circumstances?

A. The information was disclosed in the client's state and local tax returns that the CPA prepared.

B. The information was disclosed in the client's electronically filed tax return.

C. The information was disclosed pursuant to an attorney's solicitation request.

D. The information was disclosed pursuant to a court order.

**ANSWER:**

Choice "C" is correct. If a tax return preparer discloses the information furnished to him, or uses any such information for purposes other than tax return preparation, then he shall pay a penalty under IRC Section 6713 of $250 for each wrongful disclosure or use (maximum annual penalty of S10,000). 关于attorney's solicitation request是需要客户同意的。Exceptions:

1. Pursuant to any the provisions of IRC or to an court order;
2. In the preparation of, or in connection with the preparation of, state and local tax returns and declarations of estimated tax of the person to whom the information relates;
3. Pursuant to the government for quality or peer reviews.

4.MCQ-14906

During the current year, an individual taxpayer completed the following stock transactions related to Alpha Corp. stock:

|  |  |  |  |
| --- | --- | --- | --- |
| *Date* | *Shares Traded* | *PncG/ShsrQ* |  |
| May 15 | 1,000 purchased | $18 |  |
| June 1 | 1.000 purchased | $12 |  |
| June 10 | 1,000 sold | $10 |  |

The 1,000 shares sold on June 10 had been purchased on May 15. What is the maximum amount, if any, that the taxpayer can deduct in the current year?

1. $0
2. $2,000
3. $3,000
4. $8,000

**ANSWER:**

Choice "A" is correct. No loss should be recognized from sale of stock if the stock was repurchased within 30 days before or after the sale. The sale on June 10 is a wash sale. $10 sales price - $18 purchase price on May 15 是一个loss，同时在June 1前三十天内，买入了同类股票。这个$8,000 loss是不被允许的。 这loss需要被加到June 1买的股票的basis上， S12.000 + $8,000 disallowed loss = S20.000 basis of repurchased stock。

5. MCQ-14909

A real estate broker reported the following business income and expenses for the current year:

|  |  |  |
| --- | --- | --- |
|  | Commission income | $100,000 |
|  | Expenses: |  |
|  | Auto rentals | 2.000 |
|  | Referral fees to other brokers (legal under state law) | 20.000 |
|  | Referral fees to non brokers (illegal under state law) | 8,000 |
|  | Parking fines | 200 |
| What amount should be reported as net profit on Schedule C, *Profit or Loss from Business?* | | |
| A. | S69.800 |  |
| B. | S70.000 |  |
| C. | S77.800 |  |
| D. | S78.000 |  |

**ANSWER:**

Choice "D" is correct. 这里的 illegal referral fees和 parking fines 是 nondeductible。

Commission Income $ 100,000

Auto rentals (2,000)

Referral fees to other brokers (20,000)

Schedule C net profit 78,000

6.MCQ-14914

A C corporation has the following capital gains and capital losses for Years 1 and 2:

|  |  |  |
| --- | --- | --- |
|  | *Capital Gains* | *Capital* Losses |
| Year 1 | $250,000 | $300,000 |
| Year 2 | 425,000 | 350,000 |

If the C corporation had *no* capital gains or losses prior to Year 1. What is the minimum net capital gain that can be reported for Year 2?

1. $25,000
2. $50,000
3. $75,000
4. $425,000

ANSWER:

Choice "A" is correct. 对于C corporate而言，capital gains只能 offset capital losses. A net capital loss can be carried back three years and forward five years.

Year 1 capital gains $250,000

Year 1 capital losses (300,000)

Year 1 net capital loss (50.000)

Year 2 capital gains 425,000

Year 2 capital losses (350,000)

Year 2 net capital gain 75,000

Year 1 capital loss carry forward (50.000)

Year 2 net capital gain 25,000

7.MCQ-14915

The following information relates to three corporations. Mauve, Teal, and Fuchsia:

|  |  |  |  |
| --- | --- | --- | --- |
| Adams | *Mauve*  10% | *Teal*  18% | *Fuchsia*  22% |
| Jefferson | 40% | 22% | 0% |
| Washington | 50% | 0% | 0% |
| Brook | 0% | 33% | 70% |
| Smith | 0% | 27% | 8% |
| Total | 100% | 100% | 100% |

None of the corporations has made a sub-chapter S election. Which of the following statements about the corporations is true?

1. All three corporations must file a consolidated return.
2. All three corporations can elect to file a consolidated return.
3. Two of the three corporations can elect to file a consolidated return.
4. None of the corporations can file *a* consolidated return

ANSWER:

Choice "D" is correct None of the corporations can file a consolidated return

The election to file a consolidated return is available only to an affiliated group. An affiliated group exists when a corporation directly owns at least 80 percent of the total voting power and stock value of another corporation. An affiliated group does not exist when an individual or group of individuals owns 80 percent or more of the stock of two or more corporations. In this case, none of the corporations qualifies to file consolidated returns because none of the corporations is 80 percent or more owned by another corporation.

8.MCQ-14918 Section III Chapter 3 Task 1

Partner A has a 40 percent interest in ABC partnership, with a basis of $40,000. ABC increased its liabilities by $125,000. What is Partner A's basis in ABC as a result of the increase in liabilities?

1. ($10,000)
2. $0
3. $40,000
4. $90,000

ANSWER:

Choice "D" is correct. A partner's basis in partnership interest is increased by the partner's share of increases in partnership liabilities.

Partner A’s basis in ABC partnership interest $40,000

Share of increase in partnership liabilities ($125,000 \* 40%) 50,000

Partner A's adjusted basis in ABC partnership interest 90,000

9.MCQ-14919 Section IV Chapter 1 Task 4

An individual taxpayer rejected the IRS examiner's findings in an audit of the taxpayer's tax return. What will the IRS do in response to the taxpayers rejection?

1. Issue a 30-day letter.
2. Begin immediate collection action.
3. Issue a statutory notice of deficiency.
4. Refer the case to the IRS Independent Office of Appeals.

ANSWER:

Choice "A" is correct. 如果在审计结束以后，taxpayer对于结果不接受的情况下，IRS会issue a 30-day letter (preliminary notice)告知taxpayer 有权利去 appeal。 Taxpayer 有30 days to request an administrative appeals conference with an appeals officer。 如果在30-day letter没有解决的情况下，IRS会issues a statutory notice of deficiency (90-day letter)。

10.MCQ-14920

Each of the following constitutes substantial authority for a taxpayer to take a tax position, *except:*

1. A determination letter conclusion in which the taxpayer is named.
2. A technical advice memorandum conclusion in which the taxpayer is named.
3. An affirmative statement in a revenue agent's report with respect to a prior year of the taxpayer.
4. A private letter ruling in which the taxpayer is named and that is inconsistent with a subsequently issued Treasury Regulation.

ANSWER:

Choice "D" is correct. Only the following are authority for purposes of determining whether there is substantial authority for the tax treatment of an item:

1 Applicable provisions of the Internal Revenue Code and other statutory provisions.

2 Proposes, temporary, and final regulations constructing such statutes.

3 Revenue rulings and revenue procedures, tax treaties and regulations thereunder, and U.S.Treasury Department and other official explanations of such treaties.

4 Court cases.

5 Congressional intent as reflected in committee reports, joint explanatory statements of managers included in conference committee reports, and floor statements made prior to enactment by one of a bill’s managers.

6 “General Explanations” of tax legislation prepared by the Joint Committee on Taxation.

7 Private letter rulings an technical advice memoranda issued after October 31, 1976.

8 Actions on decisions and general counsel memoranda issued after March 12, 1981.

9 Internal Revenue Service information or press releases and notices, announcements, and other administative pronouncements published by the Service in the Internal Revenue Bulletin.

11.MCQ-14921 Section IV Chapter 1 Task 7

Sumner is an accountant accused of negligence by a client. Which of the following defenses should Sumner argue?

1. Actual fraud was lacking.
2. The negligence was *not* the proximate cause of the client's losses.
3. Contributory negligence negates liability for a client's losses.
4. Scienter was lacking.

ANSWER:

Choice B is correct. The elements of a negligence claim are:

1. The defendant owed a duty of care to the plaintiff.
2. The defendant breached that duty of care.
3. The breach of duty caused the plaintiffs losses.
4. Damages.

根据以上四个元素，选项A，D的actual fraud 和 scienter不是必要的元素。C 选项表达上有一个错误contributory negligence不会否定liability。

12.MCQ-14922 Section IV Chapter 2 Task 3

A business entered into a contract with a construction company to remodel the office of the business. The contract called for the remodeling to be completed by October 1, Year 1. On July 1, Year 1, the construction company sent an email to the business informing the business that it will not finish the job. What recourse does the business have?

1. The business can consider the construction company to be in breach of contract on July 1, Year 1, and immediately seek remedies.
2. The business can consider the construction company to be in breach on July 1, Year 1, but *cannot* seek remedies until October 1, Year 1.
3. The business *cannot* consider the construction company to be in breach of contract until October 1, Year 1, and may *not* seek any remedies until then.
4. The business must notify the construction company on or after July 1, Year 1, of its intent to hold the contractor in breach, and the contractor has 30 days to respond before the contract is breached.

ANSWER:

Choice "A" is correct. When the contract calls for performance, a party may make it clear that the contract will not be

performed by words or conduct, before the time for performance arrives. This is referred to as an **anticipatory breach**. When an anticipatory repudiation occurs, the damaged party may have the several options as below:

i. do nothing until the approach of performance date;

ii. regard the contract as having been broken and bring a lawsuit against the repudiating party without waiting for the performance date;

iii. regard the repudiation as an offer to cancel the contract, which can be accepted or rejected. If accepted, there is a discharge/ rescission of the original contract; or

iv. demand for assurance of performance.

所以根据以上的解释，A选项是可行的，在 July 1立即索赔，所以B，C不对。D选项，没有这个必要性，因为the breach of contract is effective when the anticipatory repudiation occurs.

13.MCQ-14924

A seven-person partnership lacks a partnership agreement. Under the Revised Uniform Partnership Act, how many votes are required to approve an extraordinary transaction of partnership business?

1. Four votes
2. Five votes
3. Six votes
4. Seven votes

ANSWER:

Choice "D" is correct.

The Revised Uniform Partnership Act (RUPA) 要求 partnership 如果要从事非 ordinary course of business，需要通过全部partners的同意，除非在partnership agreement里有特殊说明。 Seven votes are required to approve an extraordinary transaction of partnership business.

14.MCQ-14926

A taxpayer's property with an adjusted basis of $75,000 and fair market value of $105,000 was condemned by the state. The taxpayer received $100,000 from the state as compensation for the property, and six months after the taxpayer purchased a replacement property for $100,000. What are the tax consequences of this transaction?

1. No gain is recognized, and the basis in the new property is $75,000.
2. No gain is recognized, and the basis in the new property is $100,000.
3. A gain of $25,000 is recognized, and the basis in the new property is $100,000.
4. A gain of $30,000 is recognized, and the basis in the new property is $100,000.

ANSWER:

Choice "A" is correct.

这里考察的是involuntary conversion (condemnation)。这种情况下，taxpayer通常会收到reimbursement，这些reimbursement会有特殊的tax treatment。当reimbursement大于adjusted basis of the property， the gain will be realized。当reinvestment大于等于reimbursement，all realized gain is deferred。对于个人资产，reinvestment一定要在gain realized发生的两年内。当reimbursement超过reinvestment，超过的部分recognized gains。任何unrecognized gain 会被deferred。The basis of the replacement property is the cost of the property reduced by the amount of any gain realized that is not recognized (deferred). No gain is recognized and the basis in the new property is $75,000.

Condemnation proceeds $100,000

Basis in condemned property (75,000)

Gain realized 25,000

Gain recognized (0)

Gain deferred 25,000

Cost of replacement property $100,000

Gain deferred (25,000)

Basis of new property 75,000

15. MCQ-14932

A C corporation incurred a $438,000 capital loss in Year 4 and has the following tax information:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | *Year 4* | *Year 3* | *Year 2* | *Year 1* |
| Capital gain (loss) | ($438,000) | $11,000 | $21,000 | $0 |
| Taxable income (loss) | 750,000 | 31,000 | 17,000 | 25,000 |

What amount of capital loss is available for carryover to future tax years?

1. $406,000
2. $410,000
3. S427.000
4. $438,000

ANSWER:

Choice "B" is correct.

Year 4 net capital loss $(438,000)

Carryback to offset year 1net capital gain 0

Carryback to offset year 2net capital gain 17,000

Carryback to offset year 3net capital gain 11,000

Net capital loss carry over $410,000

对于 C corporations, capital losses 只可以offset capital gains. A net capital loss is carried back three years and carried forward five years to offset net capital gains in other years。 如果carry back，要从最久的年份开始。同，当我们apply capital loss的时候，不可以造成当年产生NOL，所以year 2最多可以抵扣的额度就是17,000。

