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## Pool Canvas

Add, modify, and remove questions. Select a question type from the Add Question drop-down list and click **Go** to add questions. Use Creation Settings to establish which default options, such as feedback and images, are available for question creation.

Add   [Creation Settings](#)

**Name** Chapter 1--Federal Income Taxation - An Overview

**Description**

**Instructions**

[Modify](#)

[Add Question Here](#)

Question 1 **Matching**

[Modify](#)

[Remove](#)

**Question** *Match each term with the correct statement below.*

**Answer Match Question Items**

**Answer Items**

- |   |  |
|---|--|
| <b>E</b> - 1. A tax rate that increases as the tax base increases.                                  | <b>A</b> . Average tax rate            |
| <b>G</b> - 2. A tax rate that decreases as the tax base increases.                                  | <b>B</b> . Effective tax rate          |
| <b>I</b> - 3. Fraudulent methods are used to reduce the actual tax liability.                       | <b>C</b> . Horizontal equity           |
| <b>F</b> - 4. A tax rate that remains the same at all levels of the tax base.                       | <b>D</b> . Marginal tax rate           |
| <b>H</b> - 5. Tax planning using legal methods to minimize the tax liability.                       | <b>E</b> . Progressive rate structure  |
| <b>D</b> - 6. The tax rate that will apply to the next dollar of taxable income.                    | <b>F</b> . Proportional rate structure |
| <b>A</b> - 7. The tax rate obtained by dividing total tax liability by taxable income.              | <b>G</b> . Regressive rate structure   |
| <b>B</b> - 8. The tax rate obtained by dividing total tax liability by economic income.             | <b>H</b> . Tax avoidance               |
| <b>C</b> - 9. The result when two similarly situated taxpayers are taxed the same.                  | <b>I</b> . Tax evasion                 |
| <b>J</b> - 10. The result when two differently situated taxpayers are taxed differently but fairly. | <b>J</b> . Vertical equity             |

[Add Question Here](#)

Question 2 **Matching**

[Modify](#)

[Remove](#)

**Question** *Match each term with the correct statement below.*

**Answer Match Question Items**

**Answer Items**

- |  |                           |
|--|---------------------------|
| <b>J</b> - 1. Any asset that is not real estate.                         | <b>A</b> . Ad valorem tax |
| <b>C</b> - 2. Based on a quantity of a product sold.                     | <b>B</b> . Deduction      |
| <b>A</b> - 3. Based on the value of the property being taxed.            | <b>C</b> . Excise tax     |
| <b>O</b> - 4. The value or amount that is subject to taxation.           | <b>D</b> . Exclusion      |
| <b>G</b> - 5. The excess of an asset's tax basis over its selling price. | <b>E</b> . Expense        |

- K** - 6. Land and any structures permanently attached to the land. **F**. Gain
- F** - 7. The excess of the selling price of an asset over its tax basis. **G**. Loss
- M** - 8. Used by persons who do not itemize deductions on their return. **H**. Ordinary income
- B** - 9. Subtractions from gross income specifically allowed by the tax law. **I**. Pay-as-you-go concept
- E** - 10. Current period expenditure incurred in order to earn income. **J**. Personal property
- I** - 11. The payment of tax throughout the year as income is earned. **K**. Real property
- H** - 12. The common, customary, recurring type of income earned by taxpayers. **L**. Self-assessment
- L** - 13. A taxpayer is responsible for determining his/her tax liability and timely paying the tax due. **M**. Standard deduction
- P** - 14. Direct reduction in the income tax liability often created by Congress to further a public purpose. **N**. Statute of limitations
- N** - 15. The period of time during which a taxpayer and/or the IRS can correct a taxpayer's taxable income. **O**. Tax base
- D** - 16. Increases in wealth and recoveries of capital that Congress has decided should not be subject to income tax. **P**. Tax credit

[◀ Add Question Here](#)

Question 3 **True/False**

Modify  
Remove

**Question** A tax is an enforced contribution used to finance the functions of government.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 4 **True/False**

Modify  
Remove

**Question** Adam Smith identified efficient, certainty, convenience, and economy as the four basic requirements for a good tax system.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 5 **True/False**

Modify  
Remove

**Question** Congress is required to insure that the tax law has the following characteristics: equality, certainty, convenience, and economy.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 6 **True/False**

Modify  
Remove

**Question** Horizontal equity exists when two similarly situated taxpayers are taxed the same.

**Answer**

✓ True  
False

◀ [Add Question Here](#)

Question 7 **True/False**

Modify  
Remove

**Question** The marginal tax rate is the rate of tax that will be paid on the next dollar of income or the rate of tax that will be saved by the next dollar of deduction.

**Answer**

✓ True  
False

◀ [Add Question Here](#)

Question 8 **True/False**

Modify  
Remove

**Question** A regressive tax rate structure is defined as a tax in which the average tax rate decreases as the tax base increases.

**Answer**

✓ True  
False

◀ [Add Question Here](#)

Question 9 **True/False**

Modify  
Remove

**Question** Employers are required to pay a Federal Unemployment Tax of 6.2% of the first \$10,000 in wages to each employee less a credit of up to 5.4% of state unemployment taxes paid.

**Answer**

True  
✓ False

◀ [Add Question Here](#)

Question 10 **True/False**

Modify  
Remove

**Question**

A deferral is like an exclusion in that it does not have a current tax effect, but it differs in that an exclusion is never subject to taxation, whereas a deferral will be subject to tax at some point of time in the future.

**Answer**

✓ True  
False

◀ [Add Question Here](#)

Question 11 **True/False**

Modify  
Remove

**Question**

An annual loss results from an excess of allowable deductions for a tax year over the reported income.

**Answer**

✓ True  
False

◀ [Add Question Here](#)

Question 12 **True/False**[Modify](#)  
[Remove](#)

**Question** Self-employed people are required to make quarterly payments of their estimated tax liability.

**Answer**  True  
 False

[◀ Add Question Here](#)Question 13 **True/False**[Modify](#)  
[Remove](#)

**Question**

The statute of limitations is three years, six years if the taxpayer omits gross income in excess of 25%, and there is no statute of limitations if the taxpayer willfully defrauds the government.

**Answer**  True  
 False

[◀ Add Question Here](#)Question 14 **True/False**[Modify](#)  
[Remove](#)

**Question** Gifts to qualified charitable organizations may be deducted as a contribution, but not to exceed 50% of an individual taxpayer's adjusted gross income.

**Answer**  True  
 False

[◀ Add Question Here](#)Question 15 **True/False**[Modify](#)  
[Remove](#)

**Question** Tax avoidance occurs when a taxpayer uses fraudulent methods or deceptive behavior to hide actual tax liability.

**Answer**  True  
 False

[◀ Add Question Here](#)Question 16 **True/False**[Modify](#)  
[Remove](#)

**Question**

All tax practitioners are governed by the AICPA's Code of Professional Conduct.

**Answer**  True  
 False

[◀ Add Question Here](#)Question 17 **True/False**[Modify](#)  
[Remove](#)

**Question** A CPA may prepare tax returns using estimates provided by the taxpayer if it is impracticable to obtain exact data and the estimates are reasonable.

**Answer**  True  
 False

[◀ Add Question Here](#)

Question 18 **Multiple Choice**

Modify

Remove

**Question** According to the IRS definition, which of the following is *not* a characteristic of a tax?

- Answer**
- The payment to the governmental authority is required by law.
  - ✓ The payment relates to the receipt of a specific benefit.
  - The payment is required pursuant to the legislative power to tax.
  - The purpose of requiring the payment is to provide revenue to be used for the public or governmental purposes.

[◀ Add Question Here](#)Question 19 **Multiple Choice**

Modify

Remove

**Question**

Which of the following payments would *not* be considered a tax?

- Answer**
- An assessment based on the selling price of the vehicle.
  - ✓ A local assessment for new sewers based on the amount of water used.
  - A local assessment for schools based on the value of the taxpayer's property.
  - A surcharge based upon the amount of income tax already calculated.

[◀ Add Question Here](#)Question 20 **Multiple Choice**

Modify

Remove

**Question**

Based on the definition given in Chapter 1 of the text, which of the following is a tax?

- I. A registration fee paid to the state to get a car license plate.
- II. 2% special sales tax for funding public education.
- III. A special property tax assessment for installing sidewalks in the taxpayer's neighborhood.
- IV. An income tax imposed by Chicago on persons living or working within the city limits.

- Answer**
- Only statement I is correct.
  - Only statement III is correct.
  - Only statement IV is correct.
  - Statements I and IV are correct.
  - ✓ Statements II and IV are correct.

[◀ Add Question Here](#)Question 21 **Multiple Choice**

Modify

Remove

**Question** Which of the following payments meets the IRS definition of a tax?

- Answer**
- ✓ A fee paid on the value of property transferred from one individual to another by gift.
  - A one-time additional property tax assessment to add a sidewalk to the neighborhood.
  - A fee paid on the purchase of aerosol producing products to fund ozone research.
  - A fee for a sticker purchased from a city that must be attached to garbage bags before the city garbage trucks will pick up the bags.
  - All of the above meet the definition of a tax.

[◀ Add Question Here](#)Question 22 **Multiple Choice**

Modify

Remove

**Question**

Which of the following payments is a tax?

- I. Artis paid the IRS a penalty of \$475 (above his \$11,184 income tax balance due) because he had significantly underpaid his estimated income tax.
- II. Lindsey paid \$135 to the State of Indiana to renew her CPA license.
- III. Carrie paid a \$3.50 toll to cross the Mississippi River.
- IV. Darnell paid \$950 to the County Treasurer's Office for an assessment on his business equipment.

**Answer**

- Only statement IV is correct.  
 Only statement III is correct.  
 Statements II and IV are correct.  
 Statements I, II, and III are correct.  
 Statements I, II, III, and IV are correct.

[◀ Add Question Here](#)Question 23 **Multiple Choice**

Modify

Remove

**Question** Which of the following payments meets the IRS definition of a tax?**Answer**

- Sewer fee charged added to a city trash collection bill.  
 A special assessment paid to the county to pave a street.  
 A levy on the value of a deceased taxpayer's estate.  
 Payment of \$300 to register an automobile. The \$300 consists of a \$50 registration fee and \$250 based on the weight of the auto.

[◀ Add Question Here](#)Question 24 **Multiple Choice**

Modify

Remove

**Question** Which of the following statement is/are included in Adam Smith's four requirements for a good tax system?

- I. Changes in the tax law should be made as needed to raise revenue and for proper administration.
- II. A tax should be imposed in proportion to a taxpayer's ability to pay.
- III. A taxpayer should be required to pay a tax when it is most likely to be convenient for the taxpayer to make the payment.
- IV. The government must collect taxes equal to its expenses.

**Answer**

- Statements I and II are correct.  
 Statements I and IV are correct.  
 Statements II and III are correct.  
 Statements II and IV are correct.  
 Statements III and IV are correct.

[◀ Add Question Here](#)Question 25 **Multiple Choice**

Modify

Remove

**Question**

Which of the following are included among Adam Smith's criteria for evaluating a tax?

- I. Convenience.
- II. Fairness.

- III. Neutrality.
- IV. Economy.

**Answer**

- Statements I and II are correct.
- Statements I, II, and III are correct.
- ✓ Statements I and IV are correct.
- Statements II and III are correct.
- Statements I, II, III, and IV are correct.

◀ [Add Question Here](#)

Question 26 **Multiple Choice**

Modify  
Remove

**Question** When planning for an investment that will extend over several years, the ability to predict how the results of the investment will be taxed is important. This statement is an example of

**Answer**

- ✓ Certainty.
- Transparency
- Equality.
- Neutrality.
- Fairness.

◀ [Add Question Here](#)

Question 27 **Multiple Choice**

Modify  
Remove

**Question** Which of Adam Smith's requirements for a good tax system best supports the argument that the federal income tax rate structure should be progressive?

**Answer**

- Certainty.
- Convenience.
- ✓ Equality.
- Neutrality.
- Sufficiency.

◀ [Add Question Here](#)

Question 28 **Multiple Choice**

Modify  
Remove

**Question**  
Pay-as-you-go withholding is consistent with Adam Smith's criteria of

**Answer**

- Certainty.
- ✓ Convenience.
- Economy.
- Fairness.
- Transparency.

◀ [Add Question Here](#)

Question 29 **Multiple Choice**

Modify  
Remove

**Question**  
Adam Smith's concept of vertical equity is found in a tax rate structure that is

- Answer**
- Regressive.
  - Proportional.
  - Horizontal.
  - ✓ Progressive.
  - Economical.

◀ [Add Question Here](#)

Question 30 **Multiple Choice**

Modify

Remove

**Question** Vertical equity

- I. means that those taxpayers who have the greatest ability to pay the tax should pay the greatest proportion of the tax.
- II. means that two similarly situated taxpayers are taxed the same.
- III. is reflected in the progressive nature of the federal income tax system.
- IV. exists when Avis, a single individual with 4 dependent children, and Art, a single individual with no dependents, both pay \$2,400 income tax on equal \$26,000 annual salaries.

- Answer**
- Statements III and IV are correct.
  - Statements II and III are correct.
  - ✓ Statements I and III are correct.
  - Only statement IV is correct.
  - Statements I, II, III, and IV are correct.

◀ [Add Question Here](#)

Question 31 **Multiple Choice**

Modify

Remove

**Question** Horizontal equity

- I. means that those taxpayers who have the greatest ability to pay the tax should pay the greatest proportion of the tax.
- II. means that two similarly situated taxpayers are taxed the same.
- III. is reflected in the progressive nature of the federal income tax system.
- IV. exists when Avis, a single individual with 4 dependent children, and Art, a single individual with no dependents, both pay \$2,400 income tax on equal \$26,000 annual salaries.

- Answer**
- Statements III and IV are correct.
  - ✓ Statements II and III are correct.
  - Statements I and III are correct.
  - Only statement IV is correct.
  - Statements I, II, III, and IV are correct.

◀ [Add Question Here](#)

Question 32 **Multiple Choice**

Modify

Remove

**Question** If a taxpayer has a choice of receiving income in the current year versus the following year, which of the following tax rates is important in determining the year in which he should include the income?

- Answer**
- Average.
  - Effective.
  - Composite.
  - ✓ Marginal.



[◀ Add Question Here](#)Question 33 **Multiple Choice**

Modify

Remove

**Question** Jessica is single and has a 2011 taxable income of \$199,800. She also received \$15,000 of tax-exempt income. Jessica's marginal tax rate is:

- Answer**
- 22.8%
  - 23.3%
  - 25.0%
  - 28.0%
  - ✓ 33.0%

[◀ Add Question Here](#)Question 34 **Multiple Choice**

Modify

Remove

**Question** Andrea is single and has a 2011 taxable income of \$199,800 She also received \$15,000 of tax-exempt income. Andrea's average tax rate is:

- Answer**
- 22.8%
  - 23.3%
  - ✓ 25.4%
  - 28.5%
  - 33.0%

[◀ Add Question Here](#)Question 35 **Multiple Choice**

Modify

Remove

**Question** Maria is single and has a 2011 taxable income of \$200,000. She also received \$15,000 of tax-exempt income. Maria's effective tax rate is:

- Answer**
- 22.8%
  - ✓ 23.7%
  - 25.0%
  - 28.0%
  - 33.0%

[◀ Add Question Here](#)Question 36 **Multiple Choice**

Modify

Remove

**Question** Bob and Linda are married and have a 2011 taxable income of \$280,000. They also received \$20,000 of tax-exempt income. Their marginal tax rate is:

- Answer**
- 23.5%
  - 24.9%
  - 28.0%
  - ✓ 33.0%
  - 35.0%

[◀ Add Question Here](#)Question 37 **Multiple Choice**

Modify

Remove

**Question** Frank and Fran are married and have a 2011 taxable income of \$280,000. They also received \$20,000 of tax-exempt income. Their average tax rate is:

- Answer**
- 23.2%
  - ✓ 24.9%
  - 22.3%
  - 33.0%
  - 35.0%

◀ [Add Question Here](#)

Question 38 **Multiple Choice**

Modify  
Remove

**Question** Jim and Anna are married and have a 2011 taxable income of \$280,000. They also received \$20,000 of tax-exempt income. Their effective tax rate is:

- Answer**
- 22.7%
  - ✓ 23.3%
  - 24.9%
  - 33.0%
  - 35.0%

◀ [Add Question Here](#)

Question 39 **Multiple Choice**

Modify  
Remove

**Question** Terry is a worker in the country Pretoria. His salary is \$46,000 and his taxable income is \$52,000. Pretoria imposes a Worker Tax as follows:

Employers withhold a tax of 20% of all wages and salaries. If taxable income as reported on the employee's income tax return is greater than \$50,000, an additional 10% tax is withheld on all income. Terry's marginal tax rate is:

- Answer**
- 0%
  - 10%
  - 20%
  - ✓ 30%

◀ [Add Question Here](#)

Question 40 **Multiple Choice**

Modify  
Remove

**Question** The mythical country of Januvia imposes a tax based on the number of titanium coins each taxpayer owns at the end of each year per the following schedule:

Number of titanium coins	Tax
0 – 200	\$ 500 + \$5 per titanium coin
201 – 500	\$1,000 + \$6 per titanium coin
> 500	\$4,000 + \$7 per titanium coin

Marvin, a resident of Januvia, owns 300 titanium coins at the end of the current year.

- I. Marvin's titanium coins tax is \$2,800.
- II. Marvin's marginal tax rate is \$6.
- III. Marvin's average tax rate is \$9.33.
- IV. Marvin's average tax rate is \$6.

- Answer**
- Statements II and III are correct.
  - Statements I, II, and IV are correct.
  - Statements II and IV are correct.
  - ✓ Statements I, II and III are correct.
  - Only statement II is correct.

◀ [Add Question Here](#)

Question 41 **Multiple Choice**

Modify

Remove

**Question** Jaun plans to give \$5,000 to the American Diabetes Association. Jaun's marginal tax rate is 28%. His average tax rate is 25%. Jaun's after-tax cost of the contribution is

- Answer**
- \$1,250
  - \$1,400
  - ✓ \$3,600
  - \$3,750
  - \$5,000

◀ [Add Question Here](#)

Question 42 **Multiple Choice**

Modify

Remove

**Question** Katie pays \$10,000 in tax-deductible property taxes. Katie's marginal tax rate is 25%, average tax rate is 24%, and effective tax rate is 20%. Katie's tax savings from paying the property tax is:

- Answer**
- \$ 1,600
  - \$ 2,000
  - \$ 2,400
  - ✓ \$ 2,500
  - \$10,000

◀ [Add Question Here](#)

Question 43 **Multiple Choice**

Modify

Remove

**Question** Lee's 2011 taxable income is \$88,000 before considering charitable contributions. Lee is a single individual. She makes a donation of \$10,000 to the American Heart Association in December 2011. By how much did Lee's marginal tax rate decline simply because of the donation?

- Answer**
- 0%
  - 10%
  - ✓ 3%
  - 5%
  - 8%

◀ [Add Question Here](#)

Question 44 **Multiple Choice**

Modify

Remove

**Question** Shara's 2011 taxable income is \$42,000 before considering charitable contributions. Shara is a single individual. She makes a donation of \$5,000 to the American Heart Association in December 2011. By how much did Shara's marginal tax rate decline simply because of the donation?

- Answer**
- 0%
  - 7%
  - 3%
  - 5%
  - 10%

[◀ Add Question Here](#)

Question 45 **Multiple Choice**

Modify

Remove

**Question** Sally is a single individual. In 2011, she receives \$10,000 of tax-exempt income in addition to her salary and other investment income of \$100,000. Sally's 2011 tax return showed the following information:

Gross income	\$ 100,000
Deductions for adjusted gross income	( 4,000)
Adjusted gross income	\$ 96,000
Itemized deductions	(16,200)
Personal exemption	( 3,700)
Taxable income	<u>\$ 76,100</u>
Total tax	\$ 15,150
Less: Income tax withheld from wages	(15,000)
Balance of tax due	<u>\$ 150</u>

Which of the following statements concerning Sally's tax rates is (are) correct?

- I. Sally's average tax rate is 19.9%.
- II. Sally's average tax rate is 25.0%.
- III. Sally's marginal tax rate is 25%.
- IV. Sally's marginal tax rate is 28%.

- Answer**
- Statements I and III are correct.
  - Statements I and IV are correct.
  - Statements II and III are correct.
  - Statements II and IV are correct.
  - Only statement IV is correct.

[◀ Add Question Here](#)

Question 46 **Multiple Choice**

Modify

Remove

**Question** Jered and Samantha are married. Their 2011 taxable income is \$80,000 before considering their mortgage interest deduction. If the mortgage interest totals \$10,000 for 2011, what are the tax savings attributable to their interest deduction?

- Answer**
- \$ 1,500
  - \$ 2,500
  - \$ 2,800
  - \$ 3,300
  - \$10,000

[◀ Add Question Here](#)

Question 47 **Multiple Choice**

Modify

Remove

**Question** Betty is a single individual. In 2011, she receives \$5,000 of tax-exempt income in addition to her salary and other investment income. Betty's 2011 tax return showed the following information:

Gross income	\$ 90,000
Deductions for adjusted gross income	( 4,000)
Adjusted gross income	\$ 86,000
Itemized deductions	(14,600)
Personal exemption	( 3,700)
Taxable income	\$ 67,700
Income tax	\$ 13,050
Less: Income tax withheld from wages	(12,800)
Balance of tax due	\$ 250

Which of the following statements concerning Betty's tax rates is (are) correct?

- I. Betty's average tax rate is 19.3%.
- II. Betty's average tax rate is 18.0%.
- III. Betty's effective tax rate is 19.3%.
- IV. Betty's effective tax rate is 18.0%.

**Answer**

Statements I and III are correct.

Statements I and IV are correct.

Statements II and III are correct.

Statements II and IV are correct.

[◀ Add Question Here](#)

Question 48 **Multiple Choice**

Modify

Remove

**Question** Katarina, a single taxpayer, has total income from all sources of \$100,000 for 2011. Her taxable income after taking into consideration \$25,000 in deductions and \$10,000 in exclusions is \$65,000. Katarina's tax liability is \$12,375. What are Katarina's marginal, average, and effective tax rates?

**Answer**

28% marginal; 19.0% average; 19.0% effective.

25% marginal; 16.5% average; 16.5% effective.

25% marginal; 16.5% average; 19.0% effective.

25% marginal; 19.0% average; 16.5% effective.

28% marginal; 16.5% average; 19.0% effective.

[◀ Add Question Here](#)

Question 49 **Multiple Choice**

Modify

Remove

**Question** Alan is a single taxpayer with a gross income of \$88,000, a taxable income of \$66,000, and an income tax liability of \$12,625. Josh also has \$8,000 of tax-exempt interest income. What are Alan's marginal, average, and effective tax rates?

**Answer**

25% marginal; 17.1% average; 19.1% effective.

28% marginal; 15.9% average; 21.7% effective.

28% marginal; 17.1% average; 21.7% effective.

25% marginal; 19.1% average; 17.1% effective.

[◀ Add Question Here](#)

Question 50 **Multiple Choice**

Modify

Remove

**Question** A tax provision has been discussed that would add an additional marginal tax rate of 39% to be applied to an individual's taxable income in excess of \$800,000. If this provision were to become law, what overall distributional impact would it have on our current income tax system?

- Answer**
- Proportional.
  - Regressive.
  - ✓ Progressive.
  - Disproportional.
  - None of the above.

◀ [Add Question Here](#)

Question 51 **Multiple Choice**

Modify

Remove

**Question**

The Federal income tax is a

- Answer**
- revenue neutral tax.
  - regressive tax.
  - value-added tax.
  - ✓ progressive tax.
  - form of sales tax.

◀ [Add Question Here](#)

Question 52 **Multiple Choice**

Modify

Remove

**Question**

Employment taxes are

- Answer**
- revenue neutral.
  - regressive .
  - value-added.
  - progressive.
  - ✓ proportional.

◀ [Add Question Here](#)

Question 53 **Multiple Choice**

Modify

Remove

**Question**

A state sales tax levied on all goods and services sold is an example of a

- Answer**
- progressive tax.
  - regressive tax.
  - ✓ proportional tax.
  - value added tax.

◀ [Add Question Here](#)

Question 54 **Multiple Choice**

Modify

Remove

**Question** Indicate which of the following statements concerning the following tax rate structures is/are correct.

	When Income Equals	Total Tax Equals
Structure #1	10,000	600
	100,000	5,000
Structure #2	15,000	900

	75,000	4,500
Structure #3	13,000	975
	86,000	6,600

- I. Tax Structure #1 is proportional.
- II. Tax Structure #1 is regressive
- III. Tax Structure #2 is progressive.
- IV. Tax Structure #3 is progressive

**Answer** Only statement I is correct.  
 Only statement III is correct.  
 Statements I and II are correct.  
 Statements II and IV are correct.  
 Statements I, II, and IV are correct.

[Add Question Here](#)

Question 55 **Multiple Choice**

Modify

Remove

**Question** Indicate which of the following statements concerning the following tax rate structures is/are correct.

	When Income Equals	Total Tax Equals
Structure #1	10,000	750
	100,000	6,000
Structure #2	15,000	900
	75,000	4,000
Structure #3	13,000	1,200
	86,000	9,600

- I. Tax Structure #1 is regressive.
- II. Tax Structure #1 is proportional
- III. Tax Structure #2 is progressive.
- IV. Tax Structure #3 is progressive

**Answer** Only statement I is correct.  
 Only statement III is correct.  
 Statements I and IV are correct.  
 Statements II and IV are correct.  
 Statements I, II, and IV are correct.

[Add Question Here](#)

Question 56 **Multiple Choice**

Modify

Remove

**Question** Taxpayer A pays tax of \$3,300 on taxable income of \$10,000 while taxpayer B pays tax of \$6,600 on \$20,000. The tax is a

**Answer**  proportional tax.  
 regressive tax.  
 progressive tax.  
 horizontal tax.

[Add Question Here](#)

Question 57 **Multiple Choice**

Modify

Remove

**Question** The mythical country of Traviola imposes a tax based on the number of gold Tokens each taxpayer owns at the end of each year per the following schedule:

Number of Tokens	Tax
0 – 200	\$ 100 + \$5 per Token
201 – 500	\$1,000 + \$6 per Token
> 500	\$4,000 + \$7 per Token

Traviola's Token tax is a

- Answer**
- proportional tax.
  - regressive tax.
  - ✓ progressive tax.
  - value-added tax.

◀ [Add Question Here](#)

Question 58 **Multiple Choice**

Modify

Remove

**Question** The mythical country of Woodland imposes two taxes:

**Worker tax:** Employers withhold ten percent of all wages and salaries. If taxable income as reported on the employee's income tax return is greater than \$40,000, an additional 5% tax is levied on all income.

**Business tax:** All businesses pay a tax on invested capital based on a valuation formula. The tax computed for three different amounts of invested capital is provided below:

<u>Invested Capital</u>	<u>Tax</u>
\$100,000	\$12,000
\$200,000	\$16,000
\$300,000	\$20,000

According to the definitions in the text:

- I. The worker tax is a regressive tax rate structure.
- II. The business tax is a progressive tax rate structure.
- III. The worker tax is a progressive tax rate structure.
- IV. The business tax is a regressive tax rate structure.

- Answer**
- Statements I and III are correct.
  - Statements II and III are correct.
  - Only statements III is correct.
  - Statements I and IV are correct.
  - ✓ Statements III and IV are correct.

◀ [Add Question Here](#)

Question 59 **Multiple Choice**

Modify

Remove

**Question** Oliver pays sales tax of \$7.20 on the purchase of a lamp for \$120. Michelle paid sales tax of \$9 on the purchase of a similar lamp for \$150. Oliver's taxable income for the current year is \$40,000. Michelle's taxable income is \$55,000.

- I. The structure of the sales tax is regressive if based on taxable income.
- II. The structure of the sales tax is proportional if based on sales price.
- III. The structure of the sales tax is progressive based on taxable income.



IV. The average sales tax paid on a purchase equals the marginal tax rate for this tax.

- Answer**
- Only statement I is correct.
  - Only statement II is correct.
  - Statements III and IV are correct.
  - Statements II and IV are correct.
  - ✓ Statements I, II, and IV are correct.

◀ [Add Question Here](#)

Question 60 **Multiple Choice**

Modify

Remove

**Question** Greg pays sales tax of \$7.20 on the purchase of a lamp for \$120. Michelle paid sales tax of \$9 on the purchase of a similar lamp for \$150. Greg's taxable income for the current year is \$40,000. Michelle's taxable income is \$55,000.

- I. The structure of the sales tax is progressive if based on taxable income.
- II. The structure of the sales tax is proportional if based on sales price.

- Answer**
- Only statement I is correct.
  - ✓ Only statement II is correct.
  - Both statements are correct.
  - Neither statement is correct.

◀ [Add Question Here](#)

Question 61 **Multiple Choice**

Modify

Remove

**Question** Heidi and Anastasia are residents of the mythical country of Wetland. Heidi pays \$1,500 income tax on taxable income of \$6,000. Anastasia pays income tax of \$21,000 on taxable income of \$72,000. The income tax structure is

- I. Progressive.
- II. Proportional.
- III. Regressive.
- IV. Value-added.
- V. Marginal.

- Answer**
- ✓ Only statement I is correct.
  - Only statement II is correct.
  - Only statement III is correct.
  - Only statement V is correct.
  - Statements II and IV are correct.

◀ [Add Question Here](#)

Question 62 **Multiple Choice**

Modify

Remove

**Question** Elrod is an employee of Gomez Inc. During 2011, Elrod receives a salary of \$120,000 from Gomez. What amount should Gomez withhold from Elrod's salary as payment of Elrod's social security and medicare taxes?

- Answer**
- \$7,440.00
  - \$7,803.40
  - \$8,064.00
  - ✓ \$8,361.60
  - \$9,180.00

◀ [Add Question Here](#)

Question 63 **Multiple Choice**

Modify

Remove

**Question** Marie earns \$80,000 as a sales manager for Household Books. How much Social Security and medicare tax does Marie have to pay?

- Answer**
- \$ 4,960.00
  - ✓ \$ 6,120.00
  - \$ 6,400.00
  - \$12,240.00

[◀ Add Question Here](#)Question 64 **Multiple Choice**

Modify

Remove

**Question** Samantha is a self-employed electrician. During 2011, her net self-employment income is \$120,000. What is Samantha's self-employment tax?

- Answer**
- \$15,570.00
  - \$15,606.80
  - \$16,128.00
  - ✓ \$16,723.20
  - \$18,360.00

[◀ Add Question Here](#)Question 65 **Multiple Choice**

Modify

Remove

**Question** Rayburn is the sole owner of a dance studio. During the current year, his net self-employment income from the dance studio is \$50,000. What is Rayburn's self-employment tax?

- Answer**
- \$3,825.00
  - \$5,738.00
  - \$6,200.00
  - ✓ \$7,650.00

[◀ Add Question Here](#)Question 66 **Multiple Choice**

Modify

Remove

**Question** Phyllis is an electrician employed by Bogie Company. Phil is a self-employed electrician. During the current year, Phyllis's salary is \$75,000 and Phil's net self-employment income is \$75,000. Which of the following statements about the Social Security and self-employment taxes paid is/are correct?

- I. Phil's self-employment tax is greater than the Social Security tax paid on Phyllis's income.
- II. Phil pays more self-employment tax than Phyllis pays in Social Security tax.
- III. Phil and Phyllis pay the same amount of tax.
- IV. Phil's self-employment tax is equal to the Social Security tax paid on Phyllis's income.

- Answer**
- Only statement I is correct.
  - Only statement I is correct.
  - Only statement IV is correct.
  - Statements I and III are correct.
  - ✓ Statements II and IV are correct.

[◀ Add Question Here](#)

Question 67 **Multiple Choice**

Modify

Remove

**Question** Sally is an electrician employed by Bogie Company. Sam is a self-employed electrician. During the current year, Sally's salary is \$85,000 and Sam's net self-employment income is \$85,000. Which of the following statements about the Social Security and self-employment taxes paid is/are correct?

- I. Sam's self-employment tax is greater than the Social Security tax paid on Sally's income.
- II. Sam and Sally pay the same amount of tax.

**Answer**

Only statement I is correct.  
 Only statement II is correct  
 Both statements are correct  
 Neither statement is correct

[◀ Add Question Here](#)

Question 68 **Multiple Choice**

Modify

Remove

**Question** Sally is an electrician employed by Bogie Company. Sam is a self-employed electrician. During the current year, Sally's salary is \$85,000 and Sam's net self-employment income is \$85,000. Which of the following statements about the Social Security and self-employment taxes paid is/are correct?

- I. Sam pays more self-employment tax than Sally pays in Social Security tax.
- II. Sam's self-employment tax is equal to the Social Security tax paid on Sally's income.

**Answer**

Only statement I is correct.  
 Only statement II correct.  
 Both statements are correct.  
 Neither statement is correct.

[◀ Add Question Here](#)

Question 69 **Multiple Choice**

Modify

Remove

**Question** How much additional Social Security tax does Elise pay in 2011 on her \$10,000 Christmas bonus? Her total earnings for the year (before the bonus) are \$110,000.

**Answer**

\$ 0  
 \$ 145  
 \$ 620  
 \$ 765

[◀ Add Question Here](#)

Question 70 **Multiple Choice**

Modify

Remove

**Question** How much additional Social Security tax does Betty pay in 2011 on her \$10,000 Christmas bonus? Her total earnings for the year (before the bonus) are \$100,000.

**Answer**

\$145.00  
 \$269.20  
 \$566.60  
 \$641.00  
 \$765.00

[◀ Add Question Here](#)

Question 71 **Multiple Choice**

Modify

Remove

**Question** How much additional Social Security tax does Connie pay in 2011 on her \$10,000 Christmas bonus? Her total earnings for the year (before the bonus) are \$42,000.

- Answer**
- \$ 0
  - \$145.00
  - \$620.00
  - ✓ \$765.00

[◀ Add Question Here](#)Question 72 **Multiple Choice**

Modify

Remove

**Question** Which of the following types of taxes rely solely on "income" as the tax base for determining the amount of tax liability?

- I. Sales Tax
- II. Property Tax
- III. Gift Tax
- IV. Social Security Tax
- V. Excise Tax

- Answer**
- Statements I, II, III, IV, and V are correct.
  - Statements I, III, and IV are correct.
  - Statements II and IV are correct.
  - ✓ Only statement IV is correct.
  - None of the above types of taxes relies on income for its tax base.

[◀ Add Question Here](#)Question 73 **Multiple Choice**

Modify

Remove

**Question**

A property tax

- I. is levied on the value of property.
- II. is referred to as ad valorem.
- III. on personal property is more common than a tax on real property.
- IV. is based upon assessed value rather than actual transactions.

- Answer**
- Only statement I is correct.
  - Statements II and III are correct.
  - ✓ Statements I, II, and IV are correct.
  - Statements I, II, III, and IV are correct.

[◀ Add Question Here](#)Question 74 **Multiple Choice**

Modify

Remove

**Question**

When property is transferred, gift and estate taxes are based on the

- Answer** ✓ fair market value of the assets on the date of transfer.
- replacement cost of the transferred property.
  - transferor's original cost of the transferred property.
  - transferor's adjusted basis of the transferred property.

fair market value less adjusted basis on the date of the transfer.

[◀ Add Question Here](#)

Question 75 **Multiple Choice**

Modify

Remove

**Question**

An excise tax

- I. is levied on the value of property.
- II. is levied on the quantity of the product or service.
- III. differs from a sale tax, because a sales tax is imposed on the value of property.

**Answer**

- Only statement I is correct.
- Only statement II is correct.
- Statements I and II are correct.
- ✓ Statements II and III are correct.
- Statements I, II, and III are correct.

[◀ Add Question Here](#)

Question 76 **Multiple Choice**

Modify

Remove

**Question**

Joy receives a used car worth \$13,000 from her uncle as a graduation present. As a result of the gift

- I. Joy will have \$13,000 of taxable income.
- II. Joy's uncle's gift will subject him to the gift tax.

**Answer**

- Only statement I is correct.
- Only statement II is correct.
- Both statements are correct.
- ✓ Neither statement is correct.

[◀ Add Question Here](#)

Question 77 **Multiple Choice**

Modify

Remove

**Question**

The term "tax law" as used in your textbook includes

- I. Treasury regulations.
- II. College textbooks (i.e. "Concepts in Federal Income Taxes").
- III. Internal Revenue Code of 1986.
- IV. Tax related decisions of a U.S. Circuit Court of Appeals.

**Answer**

- Only statement III is correct.
- ✓ Statements I, III, and IV are correct.
- Statements I and III are correct.
- Only statement II is correct.
- All four statements are correct

[◀ Add Question Here](#)

Question 78 **Multiple Choice**

Modify

Remove

**Question**

Ordinary income is

- I. the common type of income that individuals and businesses earn.
- II. receives no special treatment under tax laws.
- III. the character of the gain from the sales of shares of stock, held more than one year

**Answer**

- Only statement I is correct.  
 Only statement II is correct.  
 Statements I and II are correct.  
 Statements I and III are correct.  
 Statements I, II, and III are correct.

[◀ Add Question Here](#)

Modify

Remove

Question 79

**Multiple Choice****Question**

Which of the following are types of IRS examinations?

- I. Information matching program.
- II. Office examination.
- III. Field examination.
- IV. Revenue agent report.

**Answer**

- Statements II and III are correct.  
 Only statement III is correct.  
 Statements I and IV are correct.  
 Statements I, II and III are correct.  
 Only statement II is correct.

[◀ Add Question Here](#)

Modify

Remove

Question 80

**Multiple Choice****Question**

The return selection program designed to select returns with the highest probability of errors is

**Answer**

- The TCMP.  
 The DIF program.  
 The special audit program.  
 The document perfection program.  
 The information-matching program.

[◀ Add Question Here](#)

Modify

Remove

Question 81

**Multiple Choice**

**Question** How long does a taxpayer have to file a petition with the U.S. Tax Court after receiving a Statutory Notice of Deficiency?

**Answer**

- 10 days  
 30 days  
 90 days  
 120 days  
 180 days

[◀ Add Question Here](#)

Question 82 **Multiple Choice**

Modify

Remove

**Question** Christy's 2011 tax return was audited during November 2012. The auditor proposed additional tax due of \$1,500. Christy disagreed. What should Christy do next?

- I. Within 30 days, she must file a protest.
- II. She must respond with a written protest letter.
- III. She may respond with an oral protest.

**Answer**

Only statement I is correct.  
Only statement II is correct.  
Only statement III is correct.  
✓ Statements I and III are correct.  
Statements I and II are correct.

[◀ Add Question Here](#)Question 83 **Multiple Choice**

Modify

Remove

**Question** The income tax formula for individual taxpayers is unique in that deductions are broken into classes.

- I. This dichotomy of deductions results in an intermediate income number called adjusted gross income (AGI).
- II. One class of deductions is called exclusions from income.
- III. One class of deductions is called deductions for adjusted gross income.
- IV. Expenses qualifying as deductions for adjusted gross income are not limited by the income of the taxpayer.

**Answer**

Statements III and IV are correct.  
Statements II and III are correct.  
✓ Statements I, III and IV are correct.  
Only statement IV is correct.  
Statements I, II, III, and IV are correct.

[◀ Add Question Here](#)Question 84 **Multiple Choice**

Modify

Remove

**Question** The calculation of an individual's income tax includes certain deductions for adjusted gross income. The following are examples of this class of deductions:

- I. Trade or business expenses
- II. Rental expenses
- III. Interest on student loans
- IV. Investment interest

**Answer**

Statements I and II are correct.  
✓ Statements I, II, and III are correct.  
Only statement I is correct.  
Only statement III is correct.  
Statements I, II, III, and IV are correct.

[◀ Add Question Here](#)Question 85 **Multiple Choice**

Modify

Remove

**Question** Which of the following statements is/are correct?

- I. There is a minimum allowable standard deduction from adjusted gross income of individuals.

- II. Corporations are allowed deductions from adjusted gross income.
- III. Corporations are allowed a standard deduction.
- IV. Personal exemptions of individuals are deductible for adjusted gross income.

**Answer**  Only statement I is correct.  
 Only statement II is correct.  
 Statements II and IV are correct.  
 Statements I and IV are correct.  
 Statements I and III are correct.

[◀ Add Question Here](#)

Question 86 **Multiple Choice**

Modify  
Remove

**Question** Adjusted gross income (AGI)

- I. is used to provide limitations on certain deductions from AGI.
- II. is unique to the individual income tax formula.
- III. is the result before subtracting certain allowable personal expenditures from gross income.

**Answer**  Only statement I is correct.  
 Only statement II is correct.  
 Only statement III is correct.  
 Statements I and II are correct.  
 Statements I, II, and III are correct.

[◀ Add Question Here](#)

Question 87 **Multiple Choice**

Modify  
Remove

**Question** Exemption amounts and itemized deductions are two types of reductions used to calculate taxable income. Which of the following are characteristics of these types of deductions?

- I. Taxpayers deduct the larger of itemized deductions or the standard deduction.
- II. Exemption amounts are dependent on amounts of expenditures for dependents.
- III. Deductions for adjusted gross income are limited to those incurred in a trade or business, incurred in the earning of income, and certain specifically allowed personal expenses of individuals.

**Answer**  Only statement III is correct.  
 Statements I and II are correct.  
 Statements I and III are correct.  
 Statements II and III are correct.  
 Statements I, II, and III are correct.

[◀ Add Question Here](#)

Question 88 **Multiple Choice**

Modify  
Remove

**Question** Carolyn and Craig are married. They have two children (8 years old and 13 years old) living with them. How many dependency exemptions are claimed on Carolyn and Craig's 2011 tax return?

**Answer**  0  
 1  
 2  
 3



[◀ Add Question Here](#)Question 89 **Multiple Choice**

Modify

Remove

**Question** For 2011, Nigel and Lola, married taxpayers without children, calculated their total allowable itemized deductions to be \$17,100. Accordingly, Nigel and Lola file jointly and should deduct from adjusted gross income

- I. the standard deduction amount of \$11,600
- II. total itemized deductions equal to \$17,100.
- III. one personal and one dependency exemption amount.
- IV. exemption amounts totaling \$7,400.

**Answer** Only statement I is correct.  
 Statements I and IV are correct.  
 Statements I, III, and IV are correct.  
 Statements II and IV are correct.  
 Statements I, II, III, and IV are correct.

[◀ Add Question Here](#)Question 90 **Multiple Choice**

Modify

Remove

**Question** Which of the following is/are categorized as itemized deduction(s)?

- I. Trade or business expenses.
- II. Rental expenses.
- III. Property taxes on personal residence.
- IV. Investment interest expense.

**Answer** Only statement I is correct.  
 Only statement IV is correct.  
 Statements I and III are correct.  
 Statements III and IV are correct.  
 Statements I, II, and IV are correct.

[◀ Add Question Here](#)Question 91 **Multiple Choice**

Modify

Remove

**Question** Based on the following information, what is the 2011 taxable income for a married couple with two children?

Total income	\$120,000
Excludable income	2,000
Deductions for AGI	5,000
Allowable itemized deductions	8,000

**Answer** \$ 79,000  
 \$ 86,600  
 \$ 87,000  
 \$ 90,200  
 \$112,000

[◀ Add Question Here](#)Question 92 **Multiple Choice**

Modify

Remove

**Question** Sonya owes a deductible expense that she can pay either (and deduct) this year or next year. She is in the 25% marginal tax rate bracket. Which of the following statements about this payment is/are correct?

- I. Deductions should always be taken as soon as possible. Sonya should pay the expense this year.
- II. If Sonya expects to be in the 28% marginal tax rate bracket next year, she should pay the expense this year.
- III. If Sonya expects to be in the 15% marginal tax rate bracket next year, she should pay the expense this year.
- IV. If Sonya expects to be in the 25% marginal tax rate bracket next year, she should pay the expense this year.

**Answer**

- Only statement II is correct.
- Only statement IV is correct.
- Statements I and III are correct.
- Statements I and IV are correct.
- ✓ Statements III and IV are correct.

◀ [Add Question Here](#)

Question 93 **Multiple Choice**

Modify  
Remove

**Question** Sarah owes a deductible expense that she can either pay (and deduct) this year or next year. She is in the 25% marginal tax rate bracket. Which of the following statements about this payment is/are correct?

- I. Deductions should always be taken in the current year.. Sarah should pay the expense this year.
- II. If Sarah expects to be in the 28% marginal tax rate bracket next year, she should pay the expense next year.

**Answer**

- Only statement I is correct.
- ✓ Only statement II is correct.
- Both statements are correct.
- Neither statement is correct.

◀ [Add Question Here](#)

Question 94 **Multiple Choice**

Modify  
Remove

**Question** Trang is in the 15% marginal tax bracket in the current year. She owes a \$10,000 bill for business expenses. Since she reports taxable income on a cash basis, she can deduct the \$10,000 in either this year or next year, depending on when she makes the payment. She can pay the bill at any time before January 31 of next year, without incurring the normal 12% interest charge. She expects to be in the 25% marginal bracket next year. Without considering the time value of money, what are her tax savings if she pays the bill after January 1?

**Answer**

- Current year \$1,000.
- Current year \$1,500.
- ✓ Next year \$1,000.
- Next year \$2,500.
- Next year \$1,500.

◀ [Add Question Here](#)

Question 95 **Multiple Choice**

Modify  
Remove

**Question** Tax planning involves the timing of income and deductions. General rules of thumb to follow when planning include

- I. putting income into the year with the lowest marginal tax rate.
- II. deferring recognition of income.

**Answer**

- Only statement I is correct.
- Only statement II is correct.
- Both statements are correct.
- Neither statement is correct.

[◀ Add Question Here](#)

Question 96 **Multiple Choice**

Modify  
Remove

**Question** Tax planning involves the timing of income and deductions. General rules of thumb to follow when planning include

- I. putting income into the year with the lowest marginal tax rate.
- II. deferring deductions.

**Answer**

- Only statement I is correct.
- Only statement II is correct.
- Both statements are correct.
- Neither statement is correct.

[◀ Add Question Here](#)

Question 97 **Multiple Choice**

Modify  
Remove

**Question** Tax planning involves the timing of income and deductions. General rules of thumb to follow when planning include

- I. deferring recognition of income.
- II. putting deductions into the year with highest marginal tax rate.

**Answer**

- Only statement I is correct.
- Only statement II is correct.
- Both statements are correct.
- Neither statement is correct.

[◀ Add Question Here](#)

Question 98 **Multiple Choice**

Modify  
Remove

**Question** Which of the following is an example of tax evasion?

**Answer**

- Beth invests money in tax exempt municipal bonds instead of corporate bonds.
- Bryan uses the cafeteria plan offered by his employer to fund pension plan contributions for his retirement.
- Bauregard, a very wealthy 87-year-old individual, gives bonds to each of his grandchildren so that the interest income on them would be taxed at a lower tax rate.
- Bertha won \$500 cash in an amateur mud-wrestling contest but doesn't report it on her tax return.
- All of the above are examples of tax evasion.

[◀ Add Question Here](#)

Question 99 **Multiple Choice**

Modify  
Remove

**Question** Tax evasion usually involves certain elements. Which of the following are elements necessary for tax evasion to occur?

- I. Nondisclosure of the relevant facts on the taxpayer's tax return.
- II. Underpayment of tax.
- III. Avoiding detection by the IRS.
- IV. Willfulness on the part of the taxpayer.
- V. An affirmative act by the taxpayer to misrepresent.

**Answer**

Statements I, II, and III are correct.

✓ Statements I, II, IV, and V are correct.

Statements I and III are correct.

Only statement IV is correct.

All of the five listed elements are correct.

◀ [Add Question Here](#)

Question 100 **Multiple Choice**

Modify  
Remove

**Question** Glenna put money in savings accounts in 50 different banks. She knows a bank is not required to report to the IRS any interest it pays her that totals less than \$10. Because the banks do not report the payments to the IRS, Glenna does not report the interest received as taxable income. Which of the following is (are) true?

- I. Glenna's actions are tax evasion because she intentionally misrepresented facts on a tax return to avoid paying tax.
- II. Glenna's actions are tax avoidance because the IRS will never know about the interest income.
- III. Glenna's actions are tax evasion because she took steps to conceal the income.

**Answer**

Only statement I is correct.

Only statement II is correct.

✓ Statements I and III are correct.

Statements II and III are correct.

Statements I, II, and III are correct.

◀ [Add Question Here](#)

Question 101 **Multiple Choice**

Modify  
Remove

**Question** Alice is a plumber and collector of rare stamps. Instead of always receiving cash payments for her work, she occasionally has her customers send their payments to a stamp broker. The broker then makes stamp purchases on Alice's behalf and mails the stamps to her. Alice never reports the value of the stamps received as income on her tax return.

- I. Alice's actions are a form of tax evasion.
- II. Alice's actions are subject to payment of tax, interest, and penalty if detected by the IRS.

**Answer**

Only statement I is correct.

Only statement II is correct.

✓ Both statements are correct.

Neither statement is correct.

◀ [Add Question Here](#)

Question 102 **Multiple Choice**

Modify  
Remove

**Question** Betty hires Sam to prepare her federal income tax return. In preparing the return, Sam erroneously decided to exclude consulting fees because he estimated that Betty's expenses should have exceeded the income she received. If the IRS detects Betty's

underpayment of tax, what is the likely result?

- I. Betty is not subject to the negligence penalty since she relied on a professional tax preparer and reported her income in good faith.
- II. Betty is liable for payment of the tax due plus interest and a negligence penalty.
- III. Sam is liable for payment of Betty's tax due plus interest and negligence penalty.
- IV. Sam is liable for payment of Betty's negligence penalty. Betty is liable for the payment of the tax due plus interest.

**Answer**

- Only I is correct.
- ✓ Only II is correct.
- Only III is correct.
- I and III are correct.
- I and IV are correct.

[◀ Add Question Here](#)

Question 103 **Multiple Choice**

Modify  
Remove

**Question** Betty hires Sam to prepare her federal income tax return. In preparing the return, Sam erroneously decided to exclude consulting fees because he estimated that Betty's expenses should have exceeded the income she received. If the IRS detects Betty's underpayment of tax, what is the likely result?

- I. Betty is not subject to the negligence penalty since she relied on a professional tax preparer and reported her income in good faith.
- II. Sam is liable for payment of Betty's tax due plus interest and negligence penalty.

**Answer**

- Only statement I is correct.
- Only statement II is correct.
- Both statements are correct
- ✓ Neither statement is correct

[◀ Add Question Here](#)

Question 104 **Multiple Choice**

Modify  
Remove

**Question** Betty hires Sam to prepare her federal income tax return. In preparing the return, Sam erroneously decided to exclude consulting fees because he estimated that Betty's expenses should have exceeded the income she received. If the IRS detects Betty's underpayment of tax, what is the likely result?

- I. Betty is liable for payment of the tax due plus interest and a negligence penalty.
- II. Sam is liable for payment of Betty's negligence penalty. Betty is liable for the payment of the tax due plus interest.

**Answer**

- ✓ Only statement I is correct.
- Only statement II is correct.
- Both statements are correct
- Neither statement is correct

[◀ Add Question Here](#)

Question 105 **Multiple Choice**

Modify  
Remove

**Question** Which of the following taxpayers used tax evasion tactics when filing their 2011 tax return?

- I. Fern, a cash basis accountant intentionally billed clients for services on December 31, 2011, to avoid receiving cash payments from clients until 2012.
- II. Samuel made a mathematical mistake on a schedule in his tax return that resulted in a \$2,000 underpayment of tax. The IRS does not detect the mistake..

- III. Beverly accidentally underreported \$800 of income she earned providing childcare in her home.
- IV. Bo, a cattle rancher, deducted the cost of raising 7 steers that were used by his family and relatives for food during 2011.

**Answer**

Statements I and III are correct.  
 Only statement II is correct.  
 Statements II and III are correct.  
 Statement III and IV are correct.  
 ✓ Only statement IV is correct.

◀ [Add Question Here](#)

Question 106 **Multiple Choice**

Modify

Remove

**Question**

All tax practitioners who prepare tax returns for a fee are subject to which of the following?

- I. IRS Circular 230  
 II. AICPA Code of Professional Conduct  
 III. Statements on Standards for Tax Services  
 IV. American Bar Association Code of Professional Conduct

**Answer**

✓ Only statement I is correct.  
 Statements I, II, and III are correct.  
 Statements II and III are correct.  
 Statements II and IV are correct.  
 Statements I, II, III, and IV are correct.

◀ [Add Question Here](#)

Question 107 **Multiple Choice**

Modify

Remove

**Question**

The Statements on Standards for Tax Services (SSTS) have common concepts running through most of them. Which of the following statements are parts of the SSTSs?

- I. The preparer may in good faith rely upon, without verification, information furnished by the client.  
 II. There is confidentiality of the CPA-client relationship.  
 III. Taxpayer supplied estimates may be used to prepare returns if it is impractical to obtain exact data and the estimates are reasonable.  
 IV. The preparer must never disclose to the IRS any facts about the client's tax return information -- unless the client approves disclosure, or the preparer is required to do so by law.

**Answer**

Only statement II is correct.  
 Statements I, II, and IV are correct.  
 Statements II and III are correct.  
 Statements I, II, and III are correct.  
 ✓ Statements I, II, III, and IV are correct.

◀ [Add Question Here](#)

Question 108 **Essay**

Modify

Remove

**Question** What type of tax rate structure is indicated in the following example? Explain.

When income equals  
 \$ 10,000

Total tax equals  
 \$ 300

\$ 75,000	\$ 4,500
\$100,000	\$ 8,000

**Answer** The rate structure is progressive. The marginal tax rate is increasing at each tax level (3%, 6%, and 8%) and the marginal tax rate is greater than the average tax rate at each tax level.

[◀ Add Question Here](#)

Question 109 **Essay**

Modify

Remove

**Question** On January 4, 2011, Owen died and left ranch land with a value of \$300,000 to his brother, Victor. This transfer was purely donative with no expectation of anything in return. Victor transferred all of this land to his corporation, Circle C Ranch, Inc. Victor is the president and an active employee of the corporation. Victor's salary from the corporation is \$40,000 per year. The ranch land is located in Torrent County, Texas. The Torrent Appraisal District appraises the property.

From the above facts name six different types of federal, state, or local taxes that might have to be paid and name the entity that is liable to pay them.

**Answer** Name at least four of the following:

<u>Type of tax</u>	<u>Entity that pays the tax</u>
Estate (unified transfer)	Estate of Owen.
Employment	Circle C Ranch, Inc.
Property (ad valorem)	Circle C Ranch, Inc.
Federal Income	Victor, Circle C Ranch, Inc.
State income (franchise/corporate)	Circle C Ranch, Inc.
State income (individual)	Victor
Social Security and Medicare	Victor

When Victor transferred the land he retained the corporate stock. Transfers to corporations are not gifts. Transfers of property from a shareholder to a corporation controlled by the shareholder generally result in no immediate income taxes to the shareholder or the corporation. The basis in the land would be \$300,000 in any case, since it is inherited.

[◀ Add Question Here](#)

Question 110 **Essay**

Modify

Remove

**Question** On December 28, 2011, Doris and Dan are considering one last financial decision for 2011, a contribution of \$1,000 to the American Diabetes Association. If they make the \$1,000 contribution, it will be fully deductible on their 2011 income tax return. Their filing status is married filing jointly. Their 2011 taxable income before this contribution is \$150,000. If they make this contribution, what is its after-tax cost?

**Answer** The after tax cost is \$720: 2011 marginal rate is 28%

[◀ Add Question Here](#)

Question 111 **Essay**

Modify

Remove

**Question**

Nora and Nathan work for Cozener Construction Company. Nora is a foreman with an annual salary of \$110,000. Nathan is a carpenter who earned total wages of \$52,000 during the current year.

a. How much Social Security tax will Nora and Nathan have to pay?

- b. According to the definitions in Chapter 1, is the social security tax regressive, proportional, or progressive? Explain.

**Answer a.** Nathan is under the \$106,800 MHI base amount and will pay 7.65% tax on his entire \$52,000 of wages, a total of \$3,978 ( $\$52,000 \times 7.65\%$ ). Nora is over the MHI base amount and will pay 6.2% on the \$106,800 MHI base amount and 1.45% on her entire salary for a total tax of \$8,216.60 [ $(\$106,800 \times 6.2\%) + (\$110,000 \times 1.45\%)$ ].

- b. A proportional tax rate structure is defined as a tax for which the average tax rate remains constant as the tax base increases. The Social Security tax is composed of two components - a tax of 6.2% on the first \$106,800 of wages and salaries and a tax of 1.45% on all wages and salaries. When viewed as two separate taxes, the Social Security tax meets the definition of a proportional tax because a constant rate of tax is applied throughout each tax base. However, when the total tax paid is considered, the tax becomes regressive. A regressive tax is defined as a tax in which the average tax rate decreases as the tax base increases. If total wages and salaries are considered the tax base, then the use of the \$106,800 maximum tax base for the MHI portion makes the tax regressive. This is illustrated in Nathan and Nora's situation. Nathan's average tax rate is 7.65% on wages of \$52,000. Nora's average tax rate is 7.47% ( $\$8,216.60 \div \$110,000$ ). Thus, the average tax rate decreases as total wages and salaries increase past the \$106,800 MHI base.

 [Add Question Here](#)

Question 112 **Essay**

Modify

Remove

**Question** Raquel is a recent law school graduate. She is upset by an IRS Revenue Agent's Report on her income tax return that she must pay an additional \$2,000 in tax on last year's income. Raquel tells you that she "... will take her case all the way to the Supreme Court." What is the probability Raquel will be able to take her case to the Supreme Court.

**Answer** It is very unlikely that Raquel will take her case to the Supreme Court. First, the Supreme Court hears very few tax-related cases -- generally those that involve constitutional, jurisdictional, or novel issues. Second, most disputes with the IRS are settled without trial. Third, she must first file her case in Trial Court and appeal it to an appellate court before the Supreme Court would hear the case. She may win at one of the lower court levels. Even if she loses in the lower courts, litigating is costly and she may decide that the expense isn't worth the \$2,000 in tax.

 [Add Question Here](#)

Question 113 **Essay**

Modify

Remove

**Question** Winfield Corporation recently purchased equipment that qualifies for a new tax incentive. The new incentive allows Winfield to either expense \$100,000 of the cost of the equipment or claim a tax credit of 15% of the cost of the equipment. The cost of the equipment is \$200,000. If the credit is elected, the first year depreciation will be \$34,000. If Winfield chooses to expense \$100,000 of the cost, the first year depreciation will be \$20,000 on the remaining cost. Winfield's tax rate is either 34% or 39%. Under what conditions should Winfield elect to take the tax credit? Explain and show any calculations to support your answer.

**Answer** Winfield should elect to take the tax credit option when the tax savings from it are greater than the tax savings under the expense option. Tax credits are direct reductions in the tax liability and the tax savings are not dependent on the taxpayer's marginal tax rate. Deductions reduce taxable income and their value is a function of the taxpayer's marginal tax rate. Therefore, Winfield's decision depends on its marginal tax rate in the current year:



	Tax Rate	Tax Rate
<u>Expense Option:</u>	<u>39%</u>	<u>34%</u>
Deduction = \$100,000 + \$20,000 = \$120,000	<u>\$46,800</u>	<u>\$40,800</u>
 <u>Credit Option:</u>		
Value of tax credit = \$200,000 × 15%	\$30,000	\$30,000
Value of \$34,000 deduction	<u>13,260</u>	<u>11,560</u>
Total Value	<u>\$43,260</u>	<u>\$41,560</u>

The tax credit option provides the largest tax savings when the marginal tax rate is 34%. When the marginal tax rate 39%, the expense option provides a larger tax savings.

[Add Question Here](#)

Question 114 **Essay**

Modify  
Remove

**Question**

Mo is a single taxpayer reporting \$95,000 of gross income. In addition, Mo receives \$5,000 of tax-exempt interest.

Required: Compute the following:

- Mo's taxable income is \_\_\_\_\_.
- Mo's tax liability is \_\_\_\_\_.
- Mo's marginal tax rate is \_\_\_\_\_.
- Mo's average tax rate is \_\_\_\_\_.
- Mo's effective tax rate is \_\_\_\_\_.

- Answer**
- $\$85,500 = \$95,000 - \$5,800 - \$3,700$ .
  - $\$17,557 = \$17,025 + [28\% \times (\$85,500 - \$83,600)]$ .
  - 28% from table.
  - $20.5\% = \$17,557 \div \$85,500$ .
  - $19.4\% = [\$17,557 \div (\$85,500 + \$5,000)]$ .

[Add Question Here](#)

Question 115 **Essay**

Modify  
Remove

**Question** Julia is single and earns a salary of \$65,000. Her allowable deductions for adjusted gross income total \$1,200 and she has \$4,200 of allowable itemized deductions. What is Julia's taxable income and income tax liability?

**Answer** Julia's taxable income is \$54,300 and her tax liability is \$9,700  $\{ \$4,750 + [25\% \times (\$54,300 - \$34,500)] \}$ .

Salary	\$65,000
Deductions for AGI	<u>(1,200)</u>
AGI	\$63,800
Deductions from AGI (Standard deduction)	(5,800)
Personal exemption	<u>(3,700)</u>

Taxable income \$54,300

[Add Question Here](#)

Question 116 **Essay**

Modify

Remove

**Question** Harriet and Harry are married and have total gross income of \$65,000. Their allowable deductions for adjusted gross income total \$1,500 and they have \$4,400 of allowable itemized deductions. What are Harriet and Harry's taxable income and income tax liability?

**Answer** Harriet and Harry's taxable income is \$44,500. They will use the standard deduction instead of itemizing and are entitled to 2 personal exemption deductions. Their tax liability is \$5,825  $\{ \$1,700 + [15\% \times (\$44,500 - \$17,000)] \}$ .

Salary	\$65,000
Deductions for AGI	(1,500)
AGI	\$63,500
Deductions from AGI (Standard deduction)	(11,600)
Personal exemption (2 $\times$ \$3,700)	(7,400)
Taxable income	<u>\$44,500</u>

[Add Question Here](#)

Question 117 **Essay**

Modify

Remove

**Question** Barry has prepared the following 2011 income tax estimate for his sister, Sylvia. Sylvia is single, age 32, and has no children. Sylvia is an employee of General Motors and rents an apartment. Her only investment is a savings bank account.

Salary	\$ 37,200
Bank interest	<u>750</u>
Taxable income	\$ 37,950
Tax on first \$34,500	\$ 4,750
Tax on next \$3,450	518
Income tax liability	\$ 5,268
Withheld income tax	<u>4,800</u>
Balance due	\$ 468

Identify the errors, if any, in Barry's income tax estimate. Additional calculations are not required.

**Answer** Individual standard deduction amount is omitted (\$5,700). Personal exemption deduction is omitted (\$3,700). Tax is calculated incorrectly  $(\$3,450 \times 25\% = \$863)$

[Add Question Here](#)

Question 118 **Essay**

Modify

Remove

**Question** Rosemary is single and works for Big B Corporation. Her only income consists of her Big B salary and interest on a savings account. During the year, she has \$400 withheld from her salary for state income taxes and \$7,800 for federal income taxes. Her brother provides her with the following calculation of her taxable income and income tax liability:

Salary	\$ 36,000
Interest income	3,100
Less: State tax withheld	<u>(400)</u>
Equals: Gross income	\$ 38,700
Less: Deductions for adjusted gross income	
Standard deduction	<u>(5,450)</u>

Equals: Taxable income	<u>\$ 33,250</u>
Income tax liability (\$33,250 × 25%)	\$ 8,313
Less: Federal withholding	<u>(7,800)</u>
Equals: Tax due	<u>\$ 513</u>

Explain the errors that Rosemary's brother has made in calculating her taxable income and/or her income tax liability. A recalculation is not necessary, but you must adequately explain the errors that were made.

**Answer** State taxes withheld are not deductible for adjusted gross income (itemized deduction); the standard deduction is a deduction from adjusted gross income, not a deduction for adjusted gross income; used 2010 standard deduction amount; no personal exemption deducted; did not properly calculate the tax using the tax rate schedule.

[◀ Add Question Here](#)

Question 119 **Essay**

Modify

Remove

**Question** In December 2011, Arnold is considering one last financial decision for 2011. He has \$5,000 that he would like to spend before the end of the year. His options include donating the money to a qualified charity (and receiving an itemized deduction) or using the money as a down payment on the purchase of \$30,000 of equipment for his business. If he purchases the equipment, he will receive an 8% tax credit for the entire purchase price. He does not need the equipment until early next year, so the purchase at this time is not critical. Assume that Arnold is in the 35% marginal tax rate bracket in 2011 and itemizes his deductions. Which option will provide him with the greatest tax benefit? Explain and show any calculations that support your answer.

**Answer** Arnold receives the greatest tax benefit by purchasing the equipment. The charitable contribution saves \$1,750 (\$5,000 × 35%) in taxes. The tax credit will reduce his tax liability by \$2,400 (\$30,000 × 8%). Therefore, the credit results in \$650 (\$2,400 – \$1,750) less tax being paid.

[◀ Add Question Here](#)

Question 120 **Essay**

Modify

Remove

**Question** Dana is considering investing \$20,000 in one of two investments. The income from Investment A is \$2,300. The income from Investment B is \$3,000. The income from Investment A would be received at the end of the current year and would be excluded from tax. The income from Investment B would also be received at the end of the current year, but would be subject to tax in 3 years under a special deferral provision. How would you advise Dana? Discuss the factors that are necessary to determine which of the two investments provides the greater after-tax yield.

**Answer** Dana should choose the investment with the highest real after-tax return. Investment A is not subject to tax and provides a real after-tax return of \$2,300 because it is received now. The \$3,000 received from investment B is received in the same period as investment A, but must be reduced by the present value of the tax to be paid in 3 years. Therefore, you need to know Dana's expected marginal tax rate (mtr) in 3 years and her required rate of return (discount factor) to compute the present value of the tax. The comparison then becomes:

Cash received from Investment B	\$ 3,000
Less: \$3,000 × mtr × PV Factor = Real tax	<u>(XXX)</u>
Equals: Real after-tax return from Investment B	\$X,XXX
Real after-tax return from Investment A	<u>\$ 2,300</u>

[◀ Add Question Here](#)

Question 121 **Essay**

Modify  
Remove

**Question** Pedro, a cash basis taxpayer, would like to sell ordinary income property that will result in an increase in his taxable income of \$20,000. Pedro also owes \$12,000 of property taxes that are deductible. He is flexible and can properly report either or both of the items on his 2011 or 2012 tax return. Pedro expects his marginal tax rate to be 25% for 2011 and 28% for 2012. If the applicable interest rate is 9% (.917 present value factor), when should Pedro report each item? Show your calculations and explain.

**Answer** Generally, income should be recognized in the year with the lowest marginal tax rate (2011) and as late as possible (2012). Deductions should be taken in the year with the highest marginal tax rate (2012) and as soon as possible (2011). Because the general rules are in conflict, the present value of the tax payable (tax savings) for each year must be calculated. This results in recognizing the income in 2011 and the deduction in 2012

		Present Value
Gain-		
Tax on Gain in 2011 – \$20,000 × 25%		\$5,000
Tax on Gain in 2012– \$20,000 × 28%	\$5,600	
Present Value Factor	× .917	<u>5,135</u>
Real Savings from selling in 2011		<u>\$ 135</u>
Deduction-		
Tax Savings in 2011 – \$12,000 × 25%		\$3,000
Tax Savings in 2012– \$12,000 × 28%	\$3,360	
Present Value Factor	× .917	<u>3,081</u>
Real Savings from deducting in 2012		<u>\$ 81</u>

◀ [Add Question Here](#)

Question 122 **Essay**

Modify  
Remove

**Question** Ed travels from one construction site to another pursuing his work as an insulator. Because of family problems and being on the road so much, Ed overlooked filing his 2002 tax return. Ed hasn't filed any returns since 2005 because he is afraid the IRS will find the missed returns and put him in jail and he won't be able to support his family. Ed carefully makes sure that his employers withhold more income tax than is necessary. Ed knows for certain that if he filed the late returns he would get a tax refund for each of the years. Has Ed evaded the income tax? Explain.

**Answer** No. Evasion is the willful concealment of certain facts in order to receive a tax benefit. Ed has not evaded; he has just failed to file a return. He is not receiving a tax benefit. In fact, he probably has over-paid his tax liability.

◀ [Add Question Here](#)

Question 123 **Essay**

Modify  
Remove

**Question** Joe Bob operates a gas station/grocery store outside the main entrance to a state park. Joe Bob is very independent and dislikes government interference in his business. He pays all his suppliers in cash as they make deliveries. He deposits customer checks to his bank account but retains cash received in the business to pay his expenses. Inventories are material to determining income but he "estimates" his inventory. He keeps a log of daily sales, purchases, and other pay-outs. When preparing his income tax return, his tax preparer carefully compares his gross profit ratio and net profit to sales ratio to other clients operating similar businesses. The accountant then adjusts Joe Bob's income so that the ratios are greater than those reported by comparable businesses. In addition, the tax preparer "adds a guess, usually \$20,000 to \$50,000, of undisclosed cash sales" that is disclosed on the face of Joe Bob's tax return. Thus, his net profit is increased by the same

amount. Joe Bob has never objected to the amount of added income. Has Joe Bob evaded the income tax? Explain.

**Answer** No. Evasion results in an underpayment of income tax. It is not clear that an underpayment results because of Tony's misrepresentation of facts.

[◀ Add Question Here](#)

Question 124 **Essay**

Modify

Remove

**Question** Madeline operates a janitorial service. The business is organized as a corporation. She has a crew of 100 employees that clean offices and commercial buildings on a set schedule. Madeline also runs a maid service. Since persons paying for the maid services are individuals, the amounts paid to Madeline are not reported to the IRS. Madeline has developed a tax plan. She will deposit the maid service fees to her personal bank account. As a result, she can draw a smaller salary from the janitorial service. She will pay the maids for their services through the corporation. Since she is not deducting her salary from the corporation to the extent she keeps the maid fees, she does not report income from the maid fees. Has Madeline evaded the income tax? Explain.

**Answer** Yes. Madeline has willfully changed the facts concerning her transactions in order to receive a tax benefit. By not reporting the maid fees in her business, she has willfully evaded taxation, especially since she is deducting the maid salaries.

[◀ Add Question Here](#)

Question 125 **Essay**

Modify

Remove

**Question** Amy hired Carey, a CPA, to prepare her 2011 federal income tax return. Amy had prepared her own 2010 return. In reviewing her records, Carey discovered that Amy had recorded \$5,000 of consulting income she received by check in December 2010 as though it had been received in 2011. What should Carey do about this situation?

**Answer** Under SSTS No. 6, Carey should inform Amy of the error and recommend that she correct the error. In this case, Amy should file an amended return for 2010 to correct the understatement of income. If Amy will not correct the error, Casey will have to consider whether he should continue to prepare the 2011 return.

[◀ Add Question Here](#)

Question 126 **Essay**

Modify

Remove

**Question** Barrett and Betina are planning to be married on December 26, 2011. Barrett's salary for 2011 is \$42,000 and Betina's is \$40,000. Barrett pays mortgage interest of \$6,900 and property taxes of \$800; Betina has \$400 of charitable contributions. Barrett earns interest of \$1,450 on a savings account and makes a deductible for AGI contribution to his IRA of \$2,000. Betina makes a \$1,000 deductible contribution to her IRA. Amounts withheld for State taxes are \$1,900 for Barrett and \$1,800 for Betina. Based on the above information, answer the following questions to help Barrett and Betina prepare their 2011 tax return (they will file jointly and have no other dependents):

- What is their Adjusted Gross Income (AGI) for 2011?
- What is their taxable income and tax liability?
- If Barrett and Betina don't get married until January 2012, what is Barrett's taxable income and tax liability?
- If Barrett and Betina don't get married until January 2012, what is Betina's taxable income and tax liability?

- e. From a purely tax standpoint, should Barrett and Betina get married in December or January?

**Answer**

a.	
Barrett's salary	\$ 42,000
Betina's salary	40,000
Barrett's interest income	1,450
Barrett's IRA	(2,000)
Betina's IRA	<u>(1,000)</u>
Adjusted Gross Income	<u>\$ 80,450</u>

b.	
Adjusted Gross Income	\$ 80,450
Itemized Deductions:	
Barrett's mortgage interest	(6,900)
Barrett's property taxes	(800)
Betina's charitable contribution	(400)
Barrett's state taxes withheld	(1,900)
Betina's state taxes withheld	(1,800)
Exemptions:	
Barrett	(3,700)
Betina	<u>(3,700)</u>
Taxable Income	<u>\$ 61,250</u>

$$\text{Tax Liability: } \$8,338 = \$1,700 + [(15\% \times (\$61,250 - \$17,000))]$$

c.	
Salary	\$ 42,000
Interest income	1,450
IRA	<u>(2,000)</u>
AGI	\$41,450
Itemized Deductions:	
Mortgage interest	(6,900)
Property taxes	(800)
State taxes withheld	(1,900)
Exemption	<u>(3,700)</u>
Taxable Income	<u>\$ 28,150</u>

$$\text{Tax Liability: } \$3,798 = \$850 + [15\% \times (\$28,150 - \$8,500)]$$



d.	
Salary	\$ 40,000
IRA	<u>(1,000)</u>
AGI	\$39,000
Standard deduction	(5,800)
Exemption	<u>(3,700)</u>
Taxable Income	<u>\$ 29,500</u>

$$\text{Tax Liability: } \$4,000 = \$850 + [15\% \times (\$29,500 - \$8,500)]$$

- e. Their total tax liability for 2011 would be \$8,338 if they get married in December and \$7,798 (\$3,798 + \$4,000) if they get married in January. Therefore they would reduce their total tax liability by \$540 by waiting until January.

 [Add Question Here](#)

Question 127 **Essay**

**Question** Monty is a licensed Certified Public Accountant. Last year he prepared an individual income tax return for Apple Bakeries, Inc. This year Apple Bakeries switched to a different tax return preparer. This year he is preparing income tax returns for a completely separate business, Cinnamon Roll Bakery, Inc. The owner of Cinnamon Roll asked Monty to give him the tax return data from Apple Bakeries, to help estimate the tax liability of Cinnamon Roll Bakery, Inc.

Is there a professional responsibility issue for Monty to consider in satisfying Cinnamon Roll's request? If so, what is the issue?

**Answer** AICPA Code of Professional Conduct Rule 301 (confidentiality) would not allow Monty to disclose this information without Apple's consent. SSTS NO. 3 allows a CPA to use information from the tax return of another taxpayer if the information would not violate the confidentiality of the relationship and is relevant to and necessary for the preparation of the return. Monty would violate Apple's confidential relationship. In addition, the information does not appear to be relevant or necessary for the preparation of Cinnamon's return.

 [Add Question Here](#)

OK