Test Bank for South Western Federal Taxation 2023 Essentials of Taxation Individuals and Business Entities 26th Nellen

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True / False

1. Rules of tax law do *not* include Revenue Rulings and Revenue Procedures.
   a. True
   b. False

ANSWER: False

2. A tax professional need not worry about the relative weight of authority within the various tax law sources.
   a. True
   b. False

ANSWER: False

3. In recent years, Congress has been relatively successful in simplifying the Internal Revenue Code.
   a. True
   b. False

ANSWER: False

4. A taxpayer should always minimize their tax liability.
   a. True
   b. False

ANSWER: False

5. The first codification of the tax law occurred in 1954.
   a. True
   b. False

ANSWER: False

6. This Internal Revenue Code section citation is correct: § 212(1).
   a. True
   b. False

ANSWER: True

7. Subchapter D refers to the "Corporate Distributions and Adjustments" section of the Internal Revenue Code.
   a. True
   b. False

ANSWER: False

8. In general, Regulations are issued immediately after a statute is enacted.
   a. True
   b. False

ANSWER: False

9. Temporary Regulations are only published in the *Internal Revenue Bulletin*.
   a. True
   b. False

ANSWER: False

10. Revenue Rulings issued by the National Office of the IRS carry the same legal force and effect as Regulations.
    a. True
    b. False

ANSWER: False

11. A Revenue Ruling is an administrative source of Federal tax law.
    a. True
    b. False

ANSWER: True

12. The following citation could be a correct citation: Rev. Rul. 2021-42,1995-64 I.R.B. 982.
    a. True
    b. False

ANSWER: False

13. Revenue Procedures deal with the internal management practices and procedures of the IRS.
    a. True
    b. False

ANSWER: True

14. Post-1984 letter rulings may be substantial authority for purposes of the accuracy-related penalty in § 6662.
    a. True
    b. False

ANSWER: True

15. A letter ruling applies only to the taxpayer who asks for and obtains a letter ruling.
    a. True
    b. False

ANSWER: True

16. The IRS is *not* required to make a letter ruling public.
    a. True
    b. False

ANSWER: False

17. Determination letters usually involve completed transactions.
    a. True
    b. False

ANSWER: True

18. Technical Advice Memoranda deal with completed transactions.
    a. True
    b. False

ANSWER: True

19. Technical Advice Memoranda may *not* be cited as precedents by taxpayers.
    a. True
    b. False

ANSWER: True

20. A taxpayer must pay any tax deficiency assessed by the IRS and sue for a refund to bring suit in the U.S. Court of Federal Claims. Only in the Tax Court can jurisdiction be obtained without first paying the assessed tax deficiency.
    a. True
    b. False

ANSWER: True

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

ANSWER: False

22. Three judges will normally hear each U.S. Tax Court case.
    a. True
    b. False

ANSWER: False

23. A taxpayer can obtain a jury trial in the U.S. Tax Court.
    a. True
    b. False

ANSWER: False

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

ANSWER: True

25. Arizona is in the jurisdiction of the Eighth Circuit Court of Appeals.
    a. True
    b. False

ANSWER: False

26. Texas is in the jurisdiction of the Second Circuit Court of Appeals.
    a. True
    b. False

ANSWER: False

27. The *Golsen* rule has been overturned by the U.S. Supreme Court.

a. True

b. False

ANSWER: False

28. The granting of a Writ of Certiorari indicates that at least four members of the Supreme Court believe that an issue is of sufficient importance to be heard by the full court.

a. True

b. False

ANSWER: True

29. The *petitioner* refers to the party against whom a suit is brought.

a. True

b. False

ANSWER: False

30. The term *petitioner* is a synonym for *defendant*.

a. True

b. False

ANSWER: False

31. The U.S. Tax Court meets most often in Washington, D.C.

a. True

b. False

ANSWER: False

32. There are 11 geographic U.S. Circuit Court of Appeals.

a. True

b. False

ANSWER: True

33. The following citation is correct: *Larry G. Mitchell*, 131 T.C. 215 (2008).

a. True

b. False

ANSWER: True

34. The IRS issues an acquiescence or nonacquiescence only for regular Tax Court decisions.

a. True

b. False

ANSWER: False

35. There is a direct conflict between an Internal Revenue Code section adopted in 2017 and a treaty with France (signed in 2016). The Internal Revenue Code section controls.

a. True

b. False

ANSWER: True

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36. The *Index to Federal Tax Articles* (published by Thomson Reuters) is available electronically.
   a. True
   b. False

ANSWER: False

37. A U.S. District Court is considered the lowest trial court.
   a. True
   b. False

ANSWER: True

38. The research process should *always* begin with a tax service.
   a. True
   b. False

ANSWER: False

39. Electronic (online) databases are most frequently searched by the keyword approach.
   a. True
   b. False

ANSWER: True

40. A treasure trove is taxable when sold or exchanged.
   a. True
   b. False

ANSWER: False

41. A Bluebook is substantial authority for purposes of the accuracy related penalty.
   a. True
   b. False

ANSWER: True

42. The primary purpose of effective tax planning is to reduce or defer the tax in the current tax year.
   a. True
   b. False

ANSWER: False

43. Deferring income to a subsequent year is considered to be tax avoidance.
   a. True
   b. False

ANSWER: True

44. Tax planning usually involves a completed transaction.
   a. True
   b. False

ANSWER: False

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45. The Regulation section of the CPA exam is approximately 80% Taxation and 20% Law & Professional Responsibilities.

a. True

b. False

ANSWER: True

46. Tax changes passed as part of the American Rescue Plan Act of 2021 became part of the Internal Revenue Code of 1986.

a. True

b. False

ANSWER: True

47. Revenue tax measures typically originate in the Senate Finance Committee of the U.S. Congress.

a. True

b. False

ANSWER: False

48. Currently, the Internal Revenue Code of 1986 does not contain §§ 308, 309, and 310. This absence means these sections were repealed by Congress.

a. True

b. False

ANSWER: False

49. Before a tax bill can become law, it must be approved (signed) by the President of the United States.

a. True

b. False

ANSWER: False

50. Normally, when the Senate version of a tax bill differs from that passed by the House, a Joint Conference Committee drafts a compromise tax bill.

a. True

b. False

ANSWER: True

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

a. True

b. False

ANSWER: False

52. Revenue Rulings issued by the National Office of the IRS carry the same legal force and effect as Regulations.

a. True

b. False

ANSWER: False

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53. Revenue Rulings are first published in the Internal Revenue Bulletin.
    a. True
    b. False

ANSWER: True

54. A Temporary Regulation under § 303 of the Code would be cited as follows: Temp. Reg. § 303.
    a. True
    b. False

ANSWER: False

Multiple Choice

55. The Internal Revenue Code was first codified in what year?
    a. 1913
    b. 1923
    c. 1939
    d. 1954

ANSWER: c

56. Tax bills are handled by which committee in the U.S. House of Representatives?
    a. Taxation Committee
    b. Ways and Means Committee
    c. Finance Committee
    d. Budget Committee

ANSWER: b

57. Federal tax legislation generally originates in which of the following?
    a. Internal Revenue Service
    b. Senate Finance Committee
    c. House Ways and Means Committee
    d. Senate Floor

ANSWER: c

58. Subtitle A of the Internal Revenue Code covers which of the following taxes?
    a. Income taxes
    b. Estate and gift taxes
    c. Excise taxes
    d. Employment taxes

ANSWER: a

59. In § 212(1), the number (1) stands for the:
    a. Section number.
    b. Subsection number.
    c. Paragraph designation.

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d. Subparagraph designation.

ANSWER: c

60. Which of these is *not* a correct citation to the Internal Revenue Code?

a. Section 211

b. Section 1222(1)

c. Section 2(a)(1)(A)

d. All of these are correct cites.

ANSWER: d

61. Which of the following is *not* an administrative source of tax law?

a. Chief Counsel Advice (CCA)

b. Notice

c. Code § 199A

d. General Counsel Memorandum

ANSWER: c

62. Which of the following sources has the *highest* tax validity?

a. Revenue Ruling

b. Revenue Procedure

c. Regulations

d. Internal Revenue Code section

ANSWER: d

63. Which of the following types of Regulations has the *highest* tax validity?

a. Temporary

b. Legislative

c. Interpretive

d. Proposed

ANSWER: b

64. Which statement is *not* true with respect to a Regulation that interprets the tax law?

a. Issued by the U.S. Congress.

b. Issued by the U.S. Treasury Department.

c. Designed to provide an interpretation of the tax law.

d. Carries more legal force than a Revenue Ruling.

ANSWER: a

65. In addressing the importance of a Regulation, an IRS agent must:

a. Give equal weight to the Internal Revenue Code and the Regulations.

b. Give more weight to the Internal Revenue Code rather than to a Regulation.

c. Give more weight to the Regulation rather than to the Internal Revenue Code.

d. Give less weight to the Internal Revenue Code rather than to a Regulation.

ANSWER: a

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66. Which item may *not* be cited as a precedent?
    a. Regulations
    b. Temporary Regulations
    c. Technical Advice Memoranda
    d. U.S. District Court decision

ANSWER: c

67. What statement is *not* true with respect to Temporary Regulations?
    a. May not be cited as precedent.
    b. Issued with Proposed Regulations.
    c. Automatically expire within three years after the date of issuance.
    d. Found in the *Federal Register*.

ANSWER: a

68. What administrative release deals with a proposed transaction rather than a completed transaction?
    a. Letter Ruling
    b. Technical Advice Memorandum
    c. Determination Letter
    d. Field Service Advice

ANSWER: a

69. Which of the following indicates that a decision has precedential value for future cases?
    a. *Stare decisis*
    b. *Golsen* doctrine
    c. *En banc*
    d. Reenactment doctrine

ANSWER: a

70. A taxpayer who loses in a U.S. District Court may appeal to the:
    a. U.S. Supreme Court.
    b. U.S. Tax Court.
    c. U.S. Court of Federal Claims.
    d. Appropriate U.S. Circuit Court of Appeals.

ANSWER: d

71. A taxpayer who decides not to pay a tax deficiency, must litigate in which court?
    a. Appropriate U.S. Circuit Court of Appeals
    b. U.S. District Court
    c. U.S. Tax Court
    d. U.S. Court of Federal Claims

ANSWER: c

72. A jury trial is available in the following trial court:

a. U.S. Tax Court.

b. U.S. Court of Federal Claims.

c. U.S. District Court.

d. U.S. Circuit Court of Appeals.

ANSWER: c

73. A taxpayer may *not* appeal a case from which court:

a. U.S. District Court.

b. U.S. Circuit Court of Appeals.

c. U.S. Court of Federal Claims.

d. Small Case Division of the U.S. Tax Court.

ANSWER: d

74. The IRS will *not* acquiesce to the following tax decisions:

a. U.S. District Court.

b. U.S. Tax Court.

c. U.S. Court of Federal Claims.

d. Small Case Division of the U.S. Tax Court.

ANSWER: d

75. Which publisher offers the *Standard Federal Tax Reporter*?

a. Thomson Reuters Checkpoint (Research Institute of America)

b. Wolters Kluwer (Commerce Clearing House)

c. Thomson Reuters

d. LexisNexis

ANSWER: b

76. Which is presently *not* a major tax service?

a. *Standard Federal Tax Reporter*

b. *Federal Taxes*

c. *United States Tax Reporter*

d. *Tax Management Portfolios*

ANSWER: b

77. Which publisher offers the *United States Tax Reporter?*

a. Thomson Reuters Checkpoint (Research Institute of America)

b. Wolters Kluwer (Commerce Clearing House)

c. LexisNexis

d. Tax Analysts

ANSWER: a

78. When searching on an electronic (online) tax service, which approach is more frequently used?

a. Internal Revenue Code section approach

b. Keyword approach

c. Table of contents approach

d. Index

ANSWER: b

79. Which is not a judicial citation?

a. CCA 200909002.

b. T.C. Memo 2008-289.

c. 39 TCM 32 (1979).

d. 592 F.Supp.18.

ANSWER: a

80. Which of the following is the lowest authority in the Federal tax law system?

a. Revenue Ruling.

b. Proposed Regulation.

c. Interpretive Regulation.

d. Revenue Procedure.

ANSWER: b

81. Which tax-related website probably gives the best policy-orientation results?

a. taxalmanac.org

b. irs.gov

c. EY.com

d. taxanalysts.com

ANSWER: d

82. Which court decision would probably carry more weight?

a. Regular U.S. Tax Court decision

b. Reviewed U.S. Tax Court decision

c. U.S. District Court decision

d. Tax Court Memorandum decision

ANSWER: b

83. Which Regulations have the force and effect of law?

a. Procedural Regulations

b. Finalized Regulations

c. Legislative Regulations

d. Interpretive Regulations

ANSWER: c

84. Which items tell taxpayers the IRS's reaction to certain court decisions?

a. Notices

b. Revenue Procedures

c. Revenue Rulings

d. Actions on Decisions

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ANSWER: d

85. Which is *not* a primary source of tax law?
  a. Notice 89-99, 1989-2 C.B. 422.
  b. *Estate of Harry Holmes v. Comm.*, 326 U.S. 480 (1946).
  c. Rev. Rul. 79-353, 1979-2 C.B. 325.
  d. Prop. Reg. § 1.752-4T(f).

ANSWER: d

86. Which statement is *incorrect* with respect to taxation on the CPA exam?
  a. The CPA exam now has only four parts.
  b. There are no longer task-based simulations on the exam.
  c. A candidate may not go back after exiting a testlet.
  d. Simulations include a four-function pop-up calculator.

ANSWER: b

87. Which of the following court decisions carries more weight?
  a. Federal District Court
  b. Second Circuit Court of Appeals
  c. U.S. Tax Court decision
  d. Small Cases Division of U.S. Tax Court

ANSWER: b

88. Which company does *not* publish citators for tax purposes?
  a. John Wiley & Sons
  b. Wolters Kluwer (Commerce Clearing House)
  c. Thomson Reuters (RIA)
  d. Westlaw

ANSWER: a

89. Interpret the following citation: 64-1 USTC ¶9618, aff'd in 344 F.2d 966.
  a. A U.S. Tax Court Small Cases Division decision that was affirmed on appeal.
  b. A U.S. Tax Court decision that was affirmed on appeal.
  c. A U.S. District Court decision that was affirmed on appeal.
  d. A U.S. Circuit Court of Appeals decision that was affirmed on appeal.

ANSWER: c

90. Which citation refers to a Second Circuit Court of Appeals decision?
  a. 40 T.C. 1018.
  b. 159 F.2d 848 (CA-2, 1947).
  c. 354 F. Supp. 1003 (D.Ct. GA. 1972).
  d. 914 F.2d 396 (CA-3, 1990).

ANSWER: b

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91. Which citation refers to a U.S. Tax Court decision?
   a. Apollo Computer, Inc. v. U.S., 95-1 (USTC ¶50,015 (Fed.Cl., 1994)
   b. Westreco, Inc., T.C. Memo. 1992-561 (1992).
   c. Bausch & Lomb, Inc. v. Comm., 933 F.2d 1084 (CA-2, 1991).
   d. Portland Manufacturing Co. v. Comm., 35 AFTR2d 1439 (CA-9, 1975).

ANSWER: b

92. If these citations appeared after a trial court decision, which one means that the decision was overruled?
   a. Aff’d 633 F.2d 512 (CA-7, 1980).
   b. Rem’d 399 F.2d 800 (CA-5, 1968).
   c. Aff’d 914 F.2d 396 (CA-3, 1990).
   d. Rev’d 935 F.2d 203 (CA-5, 1991).

ANSWER: d

93. Memorandum decision of the U.S. Tax Court could be cited as:
   a. T.C. Memo. 1990-650.
   b. 68-1 USTC ¶9200.
   c. 37 AFTR.2d 456.
   d. All of the above.

ANSWER: a

94. Which is a primary source of tax law?
   a. Serverino R. Nico, Jr., 67 T.C. 647 (1977).
   b. Article by a Federal judge in Tax Notes.
   c. An IRS publication.
   d. Written determination letter.

ANSWER: a

95. Which of the following statements about a nonacquiescence is correct?
   a. A nonacquiescence is issued in the Federal Registrar.
   b. Nonacquiescences are published only for certain regular decisions of the U.S. Tax Court.
   c. A nonacquiescence in published in the Internal Revenue Bulletin.
   d. The IRS does not issue nonacquiescences to adverse decisions that are not appealed.

ANSWER: c

Essay

96. What are Treasury Department Regulations?

ANSWER: Regulations are issued by the U.S. Treasury Department under authority granted by Congress. Interpretive by nature, they provide taxpayers with considerable guidance on the meaning and application of the Internal Revenue Code. Regulations may be issued in *proposed*, *temporary*, or *final* form. Regulations carry considerable authority as the official interpretation of tax statutes. They are an important factor to consider in complying with the tax law. Courts generally ignore Proposed Regulations.

97. Compare Revenue Rulings with Revenue Procedures.

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ANSWER: Revenue Rulings are official pronouncements of the National Office of the IRS. They typically provide one or more examples of how the IRS would apply a law to specific fact situations. Like Regulations, Revenue Rulings are designed to provide interpretation of the tax law. However, they do not carry the same legal force and effect as Regulations and usually deal with more restricted problems. Regulations are approved by the Secretary of the Treasury, whereas Revenue Rulings generally are not.

Revenue Procedures are issued in the same manner as Revenue Rulings, but deal with the internal management practices and procedures of the IRS. Familiarity with these procedures can increase taxpayer compliance and help the IRS administer the tax laws more efficiently. A taxpayer's failure to follow a Revenue Procedure can result in unnecessary delay or, in a discretionary situation, can cause the IRS to decline to act on behalf of the taxpayer.

98. How can Congressional Committee Reports be used by a tax researcher?

ANSWER: Congressional Committee Reports often explain the provisions of proposed legislation and are a valuable source of ascertaining the intent of Congress. The intent of Congress is the key to interpreting new legislation by taxpayers, especially before Regulations are published.

99. What is a Technical Advice Memorandum?

ANSWER: The National Office of the IRS releases Technical Advice Memoranda (TAMs) weekly. TAMs resemble letter rulings in that they give the IRS's determination of an issue. However, they differ in several respects. Letter rulings deal with proposed transactions and are issued to taxpayers at their request. In contrast, TAMs deal with completed transactions. Furthermore, TAMs arise from questions raised by IRS personnel during audits and are issued by the National Office of the IRS to its field personnel. TAMs are often requested for questions relating to exempt organizations and employee plans. TAMs are not officially published and may not be cited or used as precedent.

100. Discuss the advantages and disadvantages of the Small Cases Division of the U.S. Tax Court.

ANSWER: There is no appeal from the Small Cases Division. The jurisdiction of the Small Cases Division is limited to cases involving amounts of $50,000 or less. The proceedings of the Small Cases Division are informal (e.g., no necessity for the taxpayer to be represented by a lawyer or other tax adviser). Often, special trial judges rather than Tax Court judges preside over these proceedings. The decisions of the Small Cases Division are not precedents for any other court decision and are not reviewable by any higher court. Proceedings can be more timely and less expensive in the Small Cases Division. Some of these cases can now be found on the U.S. Tax Court Internet Website.

101. Distinguish between the jurisdiction of the U.S. Tax Court and a U.S. District Court.

ANSWER: The U.S. Tax Court hears only tax cases and is the most popular tax forum. The U.S. District Court hears a wide variety of nontax cases, including drug crimes and other Federal violations, as well as tax cases. Some Tax Court justices have been appointed from IRS or Treasury Department positions. For these reasons, some people suggest that the U.S. Tax Court has more expertise in tax matters.

102. How do treaties fit within tax sources?

ANSWER: The U.S signs certain tax treaties (sometimes called tax conventions) with foreign countries to render mutual assistance in tax enforcement and to avoid double taxation. Tax legislation enacted in 1988 provided that neither a tax law nor a tax treaty takes general precedence. Thus, when there is a direct conflict with the Internal Revenue Code and a treaty, the most recent item will take precedence. A taxpayer must disclose on the tax return any position where a treaty overrides a tax law. There is a $1,000 penalty per failure to disclose for individuals and a $10,000 per failure to disclose penalty for corporations.

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