

**Test Bank for Principles of Taxation for
Business and Investment Planning 2025
Edition 1st Jones**

Chapter 01 Test Bank - Static

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

- 1) Payment of a tax entitles the payer to a specific good or service from the government.
☐ true
☐ false

- 2) A user fee entitles the payer to a specific good or service from the government.
☐ true
☐ false

- 3) A tax is intended to deter or punish unacceptable behavior.
☐ true
☐ false

- 4) A tax is a payment to support the cost of government.
☐ true
☐ false

- 5) Under U.S. tax law, corporations are entities separate and distinct from their shareholders.
☐ true
☐ false

- 6) The person who pays a tax directly to the government always bears the economic incidence of the tax.
☐ true
☐ false

- 7) In some cases, the payer of a tax can shift the economic incidence of the tax to a third party.
☐ true
☐ false

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- 8) The U.S. government has jurisdiction to tax individuals who are not U.S. citizens but who are permanent U.S. residents.
- ☐ true
 - ☐ false
- 9) The U.S. government has jurisdiction to tax individuals who are not U.S. citizens or permanent U.S. residents but who earn income from a source within the United States.
- ☐ true
 - ☐ false
- 10) The U.S. government does not have jurisdiction to tax U.S. citizens who are permanent residents of another country.
- ☐ true
 - ☐ false
- 11) A tax with a graduated rate structure must have at least two brackets of tax base.
- ☐ true
 - ☐ false
- 12) A sales tax is an example of a transaction-based tax.
- ☐ true
 - ☐ false
- 13) A tax on net income is an example of a transaction-based tax.
- ☐ true
 - ☐ false
- 14) A sales tax is an example of an activity-based tax.
- ☐ true
 - ☐ false

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- 15) Ad valorem property taxes are the major source of revenue for local governments.
- ☐ true
 - ☐ false
- 16) Taxes on personal property are more difficult to administer and enforce than taxes on real property.
- ☐ true
 - ☐ false
- 17) A state government may levy either a sales tax or a use tax on consumers but not both.
- ☐ true
 - ☐ false
- 18) Sellers of retail goods are responsible for collecting sales tax from their customers and remitting the tax to the state government.
- ☐ true
 - ☐ false
- 19) Purchasers of consumer goods through the mail are responsible for paying use tax on goods for which sales tax was not collected by the seller.
- ☐ true
 - ☐ false
- 20) The majority of state governments raise revenue from both personal and corporate income taxes.
- ☐ true
 - ☐ false
- 21) The federal government imposed the first income tax to raise money to fight the War of 1812.
- ☐ true
 - ☐ false

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- 22) The U.S. Constitution gives the federal government the power to impose a tax on income from whatever source derived.
- ☐ true
 - ☐ false
- 23) The federal government collects more revenue from the corporate income tax than from the individual income tax.
- ☐ true
 - ☐ false
- 24) The federal government does not levy property taxes or a general sales tax.
- ☐ true
 - ☐ false
- 25) A business that operates in more than one state is required to pay state income tax only to the state in which it is incorporated.
- ☐ true
 - ☐ false
- 26) The potential for conflict among taxing jurisdictions is greatest for businesses operating on a global scale.
- ☐ true
 - ☐ false
- 27) Fewer than half of the state governments depend on some form of gambling as a source of revenue.
- ☐ true
 - ☐ false
- 28) According to the U.S. Supreme Court, states may require businesses to collect sales tax based on the residency of the purchaser.
- ☐ true
 - ☐ false

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- 29) The Internal Revenue Code is written by the Internal Revenue Service.
- ☐ true
 - ☐ false
- 30) The U.S. Constitution requires that federal tax legislation begins in the Senate.
- ☐ true
 - ☐ false
- 31) The U. S. House Ways and Means Committee is responsible for drafting new federal tax legislation.
- ☐ true
 - ☐ false
- 32) Both the U.S. House of Representatives and the U.S. Senate must vote to approve a new federal tax bill before the bill is signed into law by the President.
- ☐ true
 - ☐ false
- 33) Treasury regulations are tax laws written by the Treasury Department.
- ☐ true
 - ☐ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

- 34) Which of the following is not characteristic of a tax?
- A) A tax is compulsory.
 - B) A tax is intended to punish unacceptable behavior.
 - C) A tax is levied by a government.
 - D) All of these choices are characteristics of a tax.

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- 35) The state of Virginia charges motorists 50 cents for every trip across a toll bridge over the James River. This charge is an example of a(n):
- A) User's fee
 - B) Transaction-based tax
 - C) Activity-based tax
 - D) Excise tax
- 36) The city of Mayfield charges individuals convicted of DWI (driving while intoxicated) \$500 for the first conviction and \$2,000 for any subsequent conviction. These charges are an example of a(n):
- A) User's fee
 - B) Transaction-based tax
 - C) Activity-based tax
 - D) Government penalty
- 37) The property tax on a rental house owned by Mr. Janey increased by \$1,200 this year. Mr. Janey increased the monthly rent charged to his tenant, Ms. Lacey, by \$45. Who bears the incidence of the property tax increase?
- A) Mr. Janey
 - B) Ms. Lacey
 - C) Both Mr. Janey and Ms. Lacey
 - D) Neither Mr. Janey nor Ms. Lacey
- 38) Acme Incorporated's federal income tax increased by \$100,000 this year. As a result, Acme reduced the annual dividend paid on its common stock by \$100,000. Who bears the incidence of the corporate tax increase?
- A) Acme Incorporated
 - B) Acme's customers
 - C) Acme's employees
 - D) Acme's shareholders

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- 39) Acme Incorporated's property taxes increased by \$65,000 this year. As a result, Acme increased the sale prices of its products to generate \$65,000 more revenue. Who bears the incidence of the corporate tax increase?
- A) Acme Incorporated
 - B) Acme's customers.
 - C) Acme's employees.
 - D) Acme's shareholders.
- 40) Acme Incorporated's property taxes increased by \$19,000 this year. As a result, Acme eliminated \$19,000 from its budget for the employee Christmas party. Who bears the incidence of the corporate tax increase?
- A) Acme Incorporated
 - B) Acme's customers.
 - C) Acme's employees.
 - D) Acme's shareholders.
- 41) Mr. Bilboa is a citizen of Portugal. Which of the following statements is **true**?
- A) The U.S. government has no jurisdiction to tax Mr. Bilboa because he is not a U.S. citizen.
 - B) The U.S. government has jurisdiction to tax Mr. Bilboa if he is a permanent resident of the United States.
 - C) The U.S. government has jurisdiction to tax Mr. Bilboa if he earns income from a business he operates in Florida.
 - D) Both the U.S. government has jurisdiction to tax Mr. Bilboa if he is a permanent resident of the United States and the U.S. government has jurisdiction to tax Mr. Bilboa if he earns income from a business he operates in Florida are true.
- 42) Mrs. King is a U.S. citizen who permanently resides in South Africa. Which of the following statements is **true**?
- A) The U.S. government has jurisdiction to tax Mrs. King.
 - B) The U.S. government has no jurisdiction to tax Mrs. King because she does not live in the United States.
 - C) The U.S. government has no jurisdiction to tax Mrs. King because she does not earn any income from a source within the United States.
 - D) Mrs. King can elect whether to pay tax to the United States or to South Africa.

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- 43) Mrs. Renfru is a Brazilian citizen who permanently resides in Houston, Texas. Which of the following statements is **true**?
- A) The U.S. government has no jurisdiction to tax Mrs. Renfru because she is not a U.S. citizen.
 - B) The U.S. government has jurisdiction to tax Mrs. Renfru only on income that she earns from a source within the United States.
 - C) The U.S. government has jurisdiction to tax Mrs. Renfru.
 - D) Mrs. Renfru can elect whether to pay tax to the United States or to Brazil.
- 44) Which of the following statements regarding tax systems is **false**?
- A) A single percentage that applies to the entire tax base is described as a flat rate.
 - B) When designing a tax, governments try to identify tax bases that taxpayers can easily avoid or conceal.
 - C) A tax base is an item, occurrence, transaction, or activity with respect to which a tax is levied.
 - D) With regard to tax systems, the term revenue refers to the total tax collected by the government.
- 45) Which of the following is an example of a transaction-based tax?
- A) A tax on net business income
 - B) An excise tax
 - C) An estate tax on the transfer of assets at death
 - D) Both an excise tax and an estate tax on the transfer of assets at death.
- 46) Which of the following is an example of an activity-based tax?
- A) A tax on business' net income
 - B) An excise tax
 - C) A gift tax on the transfer of assets by gift
 - D) Both a tax on business' net income and a gift tax on the transfer of assets by gift

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- 47) Which of the following is an earmarked tax?
- A) A tax imposed on the purchase of specific items such as liquor or cigarettes
 - B) A tax that generates revenues that the government can spend only to build more National Parks
 - C) A tax imposed only on individuals who earn more than \$1 million annually
 - D) A tax that generates revenues that the government can spend for any purpose
- 48) Which of the following characterizes a good tax base?
- A) The base can be easily expressed in monetary terms.
 - B) Taxpayers cannot easily avoid or conceal the base.
 - C) Taxpayers cannot easily move the base from one jurisdiction to another.
 - D) All of these choices characterize a good tax base.
- 49) The city of Springvale imposes a net income tax on businesses operating within its jurisdiction. The tax equals 1% of income up to \$100,000 and 1.5% of income in excess of \$100,000. The Springvale Bar and Grill generated \$782,000 net income this year. Compute its city income tax.
- A) \$10,230
 - B) \$11,230
 - C) \$11,730
 - D) None of these choices are correct
- 50) Government Q imposes a net income tax on businesses operating within its jurisdiction. The tax equals 3% of income up to \$500,000 and 5% of income in excess of \$500,000. Company K generated \$782,000 net income this year. Compute the income tax that Company K owes to Q.
- A) \$29,100
 - B) \$14,100
 - C) \$39,100
 - D) None of these choices are correct

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- 51) Which of the following taxes is not a significant source of revenue for local governments?
- A) Real property tax
 - B) Personal property tax
 - C) Employment tax
 - D) All of these choices are correct
- 52) Which of the following taxes is generally the most significant source of revenue for local governments?
- A) Real property tax
 - B) Employment tax
 - C) Income tax
 - D) None of these choices are correct
- 53) Which of the following statements concerning property taxes is **false**?
- A) Property taxes are ad valorem taxes.
 - B) Property taxes are the primary source of revenue for local governments.
 - C) Property taxes can be levied on realty or personalty.
 - D) None of these choices are false.
- 54) A sales tax can best be described as a(n):
- A) Consumption tax
 - B) Income tax
 - C) Activity tax
 - D) Ad valorem tax
- 55) Which of the following statements concerning sales taxes is **false**?
- A) Sales taxes apply to the purchase of most types of consumer goods.
 - B) Sales taxes apply to the purchase of most types of consumer services.
 - C) Sales taxes are collected by the seller when the sale is made.
 - D) Sales taxes imposed on the purchaser of retail items are consumption taxes.

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- 56) The incidence of a state sales tax levied on the purchase of retail goods is:
- A) Borne by the ultimate purchaser of the goods.
 - B) Borne by the seller who must collect and remit the tax.
 - C) Borne by the government that levies the tax.
 - D) None of these choices are correct.
- 57) Mr. Dodd resides in a state with a 6% sales and use tax. He recently traveled to another state to buy furniture and paid that state's 4% sales tax. Which of the following statements is **true**?
- A) Mr. Dodd's use tax liability to his home state equals 2% of the purchase price of the furniture.
 - B) Mr. Dodd does not owe a use tax to his home state.
 - C) Mr. Dodd's use tax liability to his home state equals 6% of the purchase price of the furniture.
 - D) None of these choices are true.
- 58) Mr. Smith resides in a state with a 6% sales and use tax. He recently traveled to another state to buy furniture and paid that state's 7% sales tax. Which of the following statements is **true**?
- A) Mr. Smith is entitled to a refund of 1% of the purchase price of the furniture.
 - B) Mr. Smith does not owe a use tax to his home state.
 - C) Mr. Smith's use tax liability to his home state equals 6% of the purchase price of the furniture.
 - D) None of these choices are true.
- 59) Which of the following statements about sales and use taxes is **true**?
- A) If an individual pays a sales tax on the purchase of an item, she will not have to pay a use tax on the purchase.
 - B) If an individual pays a sales tax on the purchase of an item, she will also have to pay a use tax on the purchase.
 - C) Many states that impose a sales tax do not impose a complementary use tax.
 - D) None of these choices are true.

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- 60) Which of the following taxes is a significant source of revenue for state governments?
- A) General sales tax
 - B) Individual income tax
 - C) Corporate income tax
 - D) All of these choices are correct
- 61) Which of the following is not characteristic of an excise tax?
- A) An excise tax is levied on the retail sale of specific goods.
 - B) Excise tax rates typically are higher than general sales tax rates.
 - C) The purchaser is responsible for paying any excise tax directly to the government.
 - D) All of these choices are characteristics of an excise tax.
- 62) What is the major difference between a sales tax and an excise tax?
- A) Sales taxes are levied by state governments, while excise taxes are levied only by the federal government.
 - B) Sales taxes are imposed on the purchase of a wide variety of items, while excise taxes are imposed on the purchase of a few specific items.
 - C) Sales taxes must be collected by the seller, while excise taxes must be paid directly by the purchaser.
 - D) Sales taxes are imposed on the purchase of tangible goods, while excise taxes are imposed on the purchase of services.
- 63) Which of the following is not an advantage of state conformity to federal corporate income tax laws?
- A) States have complete control over their corporate income tax revenues.
 - B) States do not have to enact comprehensive corporate income tax statutes.
 - C) Conformity eases the compliance burden of corporate taxpayers.
 - D) All of these choices are advantages of state conformity.
- 64) Which tax raises the most revenue for the federal government?
- A) Corporate income tax
 - B) Individual income tax
 - C) Excise taxes
 - D) Transfer taxes

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- 65) Which of the following federal taxes is earmarked for a specific purpose?
- A) Corporate income tax
 - B) Employment taxes
 - C) Unemployment taxes
 - D) Both employment taxes and unemployment taxes are earmarked taxes.
- 66) Which of the following federal taxes is not earmarked for a specific purpose?
- A) Employment taxes
 - B) Unemployment taxes
 - C) Transfer taxes
 - D) All of these choices are earmarked taxes.
- 67) What gives the federal government the right to impose a tax on individual and corporate income?
- A) Internal Revenue Code of 1986
 - B) Revenue Act of 1913
 - C) Sixteenth Amendment to the U.S. Constitution
 - D) Bill of Rights
- 68) When did the federal income tax become a permanent tax?
- A) Immediately after the Revolutionary War
 - B) During the Civil War
 - C) In 1913 when the Sixteenth Amendment to the U.S. Constitution was ratified
 - D) In 1939 when Congress enacted the first Internal Revenue Code
- 69) Which of the following does not characterize federal transfer taxes?
- A) The tax is imposed on the value of wealth transferred by an individual as a gift.
 - B) The tax is imposed on the value of wealth transferred because of the death of an individual.
 - C) The tax is imposed on the value of wealth transferred by an individual to charity.
 - D) All of these choices characterize federal transfer taxes.

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- 70) Which of the following does not characterize federal transfer taxes?
- A) The tax is imposed on individuals but not on corporations.
 - B) The tax is based on the value of property transferred by gift or at death.
 - C) The tax is a transaction tax.
 - D) All of these choices characterize federal transfer taxes.
- 71) Company D, which has its home office in Raleigh, North Carolina, conducts business in the United States, Canada, and Mexico. Which of the following statements is **true**?
- A) Because Company D must pay income tax to North Carolina, it is not required to pay tax to any other state.
 - B) Because Company D must pay income tax to North Carolina, it is not required to pay federal income tax.
 - C) Because Company D must pay income tax to the United States, it is not required to pay tax to Canada or Mexico.
 - D) None of these choices are true.
- 72) SJF Incorporated, which has its corporate offices in Boise, Idaho, conducts business in Idaho, Oregon, California, and British Columbia, Canada. Which of the following statements is **true**?
- A) SJF must pay income tax only to Idaho and the United States.
 - B) SJF may be required to pay income tax to Idaho, Oregon, California, British Columbia, the United States, and Canada.
 - C) SJF must pay income tax only to Idaho, Oregon, California, and the United States.
 - D) SJF may be required to pay income tax to either the United States or to Canada, but not to both.
- 73) Which type of tax is not levied by the federal government?
- A) Corporate income tax
 - B) Individual income tax
 - C) Employment taxes
 - D) General sales tax

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74) Company N operates a mail order business out of its headquarters in Tulsa, Oklahoma. This year, it mailed \$892,000 worth of product to customers residing in Oklahoma and \$489,300 worth of product to customers residing in Missouri. Which of the following statements is **true**?

- A) Company N must collect Oklahoma sales tax from its Oklahoma customers. Missouri may require Company N to collect Missouri sales tax from its Missouri customers.
- B) Company N must collect Oklahoma sales tax from both its Oklahoma and Missouri customers.
- C) Company N is not required to collect Oklahoma sales tax from its Oklahoma customers.
- D) Company N is not required to collect sales tax on any mail order sales.

75) Which of the following does not contribute to the dynamic nature of the tax law?

- A) The political pressure from professional lobbyists
- B) Changes in the economic and social climate
- C) Changes in revenue needs of the government
- D) All of these choices contribute to the dynamic nature of the tax law

76) Which of the following statements regarding the political process of creating tax law is **false**?

- A) The political process contributes to the dynamic nature of the tax law.
- B) Special interest groups have little effect on the tax legislative process.
- C) When taxpayers devise a new tactic for reducing their tax burdens, governments respond by enacting a new rule to render the tactic ineffective.
- D) Changes in political philosophy often reflect shifts in the public attitude about the proper role of taxes in society.

77) Which of the following is/are not a primary source of authority for the tax law?

- A) A revenue ruling published by the Internal Revenue Service
- B) Section 162 of the Internal Revenue Code
- C) Treasury Reg. §1.351-2
- D) All of these choices are primary sources of authority

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- 78) Which of the following statements about the Internal Revenue Code is **false**?
- A) The Internal Revenue Code has not been amended since 1986.
 - B) The Internal Revenue Code is part of federal statutory law.
 - C) The Internal Revenue Code consists of numerically organized sections.
 - D) Only Congress has the authority to amend the Internal Revenue Code.
- 79) How often does Congress amend the Internal Revenue Code?
- A) Rarely (the Internal Revenue Code has not been amended since 1986)
 - B) Occasionally (perhaps once every decade)
 - C) Regularly (at least once every five years)
 - D) Constantly (at least once a year)
- 80) Which of the following statements about Treasury regulations is **false**?
- A) Treasury regulations are written to interpret and explain the Internal Revenue Code.
 - B) Treasury regulations are part of the statutory law.
 - C) A federal court can invalidate a Treasury regulation if the court concludes that the regulation incorrectly interprets the Internal Revenue Code.
 - D) None of these choices are false.
- 81) Revenue rulings and revenue procedures are written by:
- A) The Internal Revenue Service
 - B) The Department of the Treasury
 - C) The United States Congress
 - D) The Supreme Court
- 82) Which of the following is not considered administrative authority?
- A) Treasury regulations
 - B) Revenue rulings
 - C) Tax Court decisions
 - D) All of these choices are administrative authorities

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83) A revenue ruling is an example of:

- A) Judicial authority
- B) Administrative authority
- C) Legislative authority
- D) Editorial authority

84) Which of the following statements concerning judicial authority is **false**?

- A) Appellate court decisions have more authority than trial court decisions.
- B) Supreme Court decisions have more authority than appellate court decisions.
- C) Supreme Court decisions are the equivalent of law.
- D) None of these statements are false.

85) Which of the following sources of tax law carries the most authority?

- A) Revenue procedure
- B) Treasury regulation
- C) Supreme Court decision
- D) The three sources of tax law have equal authority

86) Which of the following sources of tax law carries the least authority?

- A) Revenue ruling
- B) Treasury regulation
- C) Section 736 of the Internal Revenue Code
- D) The three sources of tax law have equal authority

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

87) Ms. Penser resides in the city of Lanock, Tennessee. She owns 100% of the stock of PSW Incorporated, which is incorporated under Tennessee law and conducts business in six different local jurisdictions in Tennessee.

- A. How many taxpayers are identified in the above statement of facts?
- B. Identify the governments with jurisdiction to tax each of these taxpayers.

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- 88) Forrest Township levies a tax on the assessed value of real property located within the town limits. The tax equals 1.4% of the value up to \$300,000 plus 2% of any value in excess of \$300,000. Mildred Payne owns real estate with a \$983,500 assessed value. Compute her property tax.
- 89) Richton Company operates its business solely in Jurisdiction H, which levies a 6% sales and use tax. This year, Richton paid \$1,438,000 to purchase tangible property from a dealer located in Jurisdiction W. This purchase was subject to W's 3.5% sales tax. The property was shipped to Richton's office in Jurisdiction H for use in its business. Compute Richton's sales or use tax with respect to this transaction.
- 90) Grant Wilson is an employee of Market Enterprises, a corporation operating in State A. Identify the different types of potential taxes to be paid by both Grant and Market Enterprises with respect to this employment relationship.

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Answer Key

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- 1) FALSE
- 2) TRUE
- 3) FALSE
- 4) TRUE
- 5) TRUE
- 6) FALSE
- 7) TRUE
- 8) TRUE
- 9) TRUE
- 10) FALSE
- 11) TRUE
- 12) TRUE
- 13) FALSE
- 14) FALSE
- 15) TRUE
- 16) TRUE
- 17) FALSE
- 18) TRUE
- 19) TRUE
- 20) TRUE
- 21) FALSE
- 22) TRUE
- 23) FALSE
- 24) TRUE
- 25) FALSE
- 26) TRUE
- 27) FALSE
- 28) TRUE
- 29) FALSE
- 30) FALSE
- 31) TRUE
- 32) TRUE
- 33) FALSE
- 34) B
- 35) A
- 36) D
- 37) C

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- 38) D
- 39) B
- 40) C
- 41) D
- 42) A
- 43) C
- 44) B
- 45) D
- 46) A
- 47) B
- 48) D
- 49) B
- 50) A
- 51) C
- 52) A
- 53) D
- 54) A
- 55) B
- 56) A
- 57) A
- 58) B
- 59) D
- 60) D
- 61) C
- 62) B
- 63) A
- 64) B
- 65) D
- 66) C
- 67) C
- 68) C
- 69) C
- 70) D
- 71) D
- 72) B
- 73) D
- 74) A
- 75) D
- 76) B
- 77) D

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- 78) A
- 79) D
- 80) B
- 81) A
- 82) C
- 83) B
- 84) D
- 85) C
- 86) A
- 87) Essay
- 88) Essay
- 89) Essay
- 90) Essay