

2004

**SPECIAL ENROLLMENT
EXAMINATION**



IRS

Department of the Treasury
Internal Revenue Service

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Part 4
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Part 4

SPECIAL ENROLLMENT EXAMINATION BOOKLET

September 23, 2004
1:30 p.m. TO 3:30 p.m.

**Ethics, Recordkeeping
Procedures, Appeal
Procedures, Exempt
Organizations, Retirement
Plans, Practitioner Penalty
Provisions, Research
Materials and Collection
Procedures**

Official Use Only
(Declassified after September 23, 2004)

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Special Enrollment Examination

Part 4

Ethics, Recordkeeping Procedures, Appeal Procedures, Exempt Organizations, Retirement Plans, Practitioner Penalty Provisions, Research Materials and Collection Procedures

Instructions:

The time allotted for this part of the examination is 2 hours. No additional time will be granted. On your answer sheet in the spaces provided you should enter the following:

1. Print your name (First, M.I., Last).
2. Sign your name (First, M.I., Last).
3. Place of examination (City and State).
4. Date of this examination.
5. Print your name (Last, F.I., M.I.) in the boxes provided. Immediately below the boxes, darken the oval corresponding to the letter you have printed, as in the sample Name Grid. Darken only one oval in each column below a box in which you have printed a letter. Make no marks in the columns below boxes you have left blank.
6. Enter your candidate number and immediately below, darken the oval corresponding to each number you have entered.
7. Enter your Social Security Number and immediately below, darken the oval corresponding to each number you have entered.

Important:

The answer sheet should not be folded or torn since it will be machine graded.

Read the examination questions carefully. All references are to the Internal Revenue Code as amended through December 31, 2003. Unless otherwise stated, all questions relate to the calendar year 2003.

You will be given a No. 2 pencil by the monitor. Darken completely only one oval under the corresponding letter on the answer sheet. In making corrections, erase errors completely.

Scratch paper will be provided, but you may make necessary computations in the questions books. Raise your hand to attract the monitor's attention when you need extra supplies or for permission to leave the room.

!! New procedures!!

All materials must be turned in to the monitor before leaving the room:

Answer sheet: When you finish the examination, your answer sheet must be turned in to the monitor before leaving the room. You must turn in your answer sheet at the end of each test session or your test will not be graded and no credit received. **Answers noted in examination booklets will not be graded.** The examination will be graded in Washington, D.C., by the Office of Professional Responsibility, Internal Revenue Service. You will receive formal notification of your examination results on or about January 31, 2005.

Examination booklets, scratch paper: You must also turn in your examination booklet and scratch paper (used and unused). These materials will be mailed to you after the examination has been administered at all sites.

Challenges must be received by the Office of Professional Responsibility on or before **October 22, 2004**. Challenges must be on the form or in the format as prescribed on **www.irs.gov**

General Grading Information:

The questions in this examination have been assigned values of 1 to 2 points. All true or false questions have a value of 1 point each and the multiple choice questions in Section B have a value of 2 points each.

The examination is graded on the basis of correct answers. If more than one oval is darkened in answering a questions, the answer will be considered incorrect.

The Service will include the answers with your formal notification of examination results. Therefore, you may want to mark your answers in this examination questions book and retain it for future comparison.

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Part 4
Section A:
Questions 1 – 40

The following statements are either true or false.
Select the most appropriate answer and darken the oval under A for True or B for False.

1. Practice before the Internal Revenue Service comprehends all matters connected with a presentation to the Internal Revenue Service or any of its officers or employees relating to a taxpayer's rights, privileges, or liabilities under laws or regulations administered by the Internal Revenue Service. Such presentations include, but are not limited to, preparing and filing documents, corresponding and communicating with the Internal Revenue Service, and representing a client at conferences, hearings, and meetings.
2. Except as provided in other sections of Circular 230, a practitioner will be presumed to have exercised due diligence if the practitioner relies on the work product of another person and the practitioner used reasonable care in engaging, supervising, training, and evaluating the person, taking proper account of the nature of the relationship between the practitioner and the person.
3. A conflict of interest exists if the representation of one client will be directly adverse to another client, or there is a significant risk that the representation of one or more clients will be materially limited by the practitioner's responsibilities to another client, a former client, or a third person or by a personal interest of the practitioner.
4. A Form 2848, "Power of Attorney and Declaration of Representative," has a provision that will allow the taxpayer to authorize an Attorney, CPA, and Enrolled Agent to receive and endorse a refund check on behalf of the taxpayer.
5. Whenever the Office of Professional Responsibility determines that a practitioner violated any provision of the laws or regulations in Circular 230, the Office of Professional Responsibility may reprimand the practitioner or institute a proceeding for censure, suspension, or disbarment of the practitioner. A proceeding for censure, suspension, or disbarment of a practitioner is instituted by the filing of a complaint. Except in unusual circumstances, a proceeding will **not** be instituted unless the proposed respondent previously has been advised in writing of the law, facts, and conduct warranting such action and has been accorded an opportunity to dispute facts, assert additional facts, and make arguments.
6. The Office of Professional Responsibility will make available for public inspection at the Office of Professional Responsibility, the roster of all persons enrolled to practice. The roster of all persons censured, suspended, or disbarred from practice before the Internal Revenue Service, and the roster of all disqualified appraisers will be kept confidential.
7. Richard's 1999 and 2001 returns were examined for charitable contributions and employee business expenses. Both examinations resulted in no change to the return as filed. Richard has been notified that his 2002 return has been selected for examination for claimed business bad debts. Since Richard has two prior no change audits, upon notifying the Internal Revenue Service, the examination should be discontinued.
8. A representative qualified to practice before the Internal Revenue Service can prepare and sign a formal written protest on behalf of a client to request an appeals conference.
9. Joseph received a bill from the Internal Revenue Service for additional tax due of \$1,000 plus accrued interest of \$150. If Joseph pays the \$1,000 tax in full, this will stop the accrual of any additional interest.
10. A Statutory Notice of Deficiency is also known as a 90-day letter because the taxpayer generally has 90 days from the date of the letter to file a petition with the United States Tax Court.
11. In the process of examining or collecting your tax liability, the Internal Revenue Service may contact third parties. The Internal Revenue Service must give the taxpayer reasonable notice **before** making any inquiries of third parties such as neighbors, banks, employers, and other employees. This notification must include the specific names of those it intends to contact.
12. The penalty, if you understate your income tax because you show negligence or disregard of the rules or regulations, is 20% of the underpayment. Negligence includes the failure to keep adequate books and records.
13. Form 8821, "Tax Information Authorization," is used to allow disclosure of tax return information to third parties and limited representation by an unenrolled preparer.
14. The filing of Form 8821 will revoke any Form 2848 that is in effect.
15. Generally, the Tax Court hears cases before any tax has been assessed and paid; however, if you pay the tax after the notice of deficiency has been issued, you **cannot** petition the Tax Court for review.
16. Entry onto the Centralized Authorization File (CAF) system enables Internal Revenue Service employees who do not have access to the actual power of attorney or tax information authorization to do **all** of the following: 1) Determine whether a recognized representative or appointee is authorized to discuss specific confidential tax information; 2) Determine the extent to which a recognized representative or appointee has been authorized to represent a taxpayer; and 3) Send copies of notices and other Internal Revenue Service communications to the person (individual or other entity) designated on the form.
17. If a taxpayer uses a computerized system for record keeping, they must be able to produce legible records of the information needed to determine their correct tax liability. In addition to the computerized records, they must keep proof of payment, receipts, and other documents to prove the amounts shown on their tax return.

18. For 2003, your maximum allowable deduction for contributions to a Roth IRA, if neither you nor your spouse was covered for any part of the year by an employer retirement plan, is \$3,000 (\$3,500, if you are 50 or older).
19. Donovan established a Roth IRA in 2000 at age 57 and has contributed \$3,000 each year up through 2002. In 2003, at age 60, Donovan received a distribution of his entire account balance from the Roth IRA. None of the distribution would be included in his gross income.
20. Adam, a single taxpayer, converted \$40,000 from his traditional IRA into a Roth IRA in 2003. His AGI for 2003, including the conversion income was \$120,000. There were no additions to be taken into account to arrive at his modified AGI. This would be a failed conversion.
21. If you inherited a traditional IRA from someone other than your spouse, you cannot convert it to a Roth IRA.
22. If you have started taking equal periodic distributions from a traditional IRA, you can convert the amounts in the traditional IRA to a Roth IRA and then continue the periodic payments.
23. A self-employed individual can participate in a Simplified Employee Pension (SEP) Plan.
24. If you have fewer than 100 employees who received at least \$5,000 in compensation from you for the preceding year, you may be entitled to a tax credit for part of the costs of starting a SEP, SIMPLE, or qualified pension plan of up to \$500 for the first 3 years of the plan.
25. The balance of a Coverdell Education Savings Account generally must be distributed within 30 days after the beneficiary reaches age 30, unless the beneficiary is a special needs beneficiary.
26. Elizabeth received an appointment to the U.S. Naval Academy at Annapolis. As such, she did not incur any Qualified Higher Education Expenses. All of the distributions from her Coverdell Education Savings Account while she was attending the academy would be free.
27. An organization may qualify for exemption from federal income tax if it is organized and operated exclusively for one or more of the following purposes: Charitable; Religious; Educational; Scientific; Literary; or Testing for public safety.
28. Form 990-EZ is a shortened version of Form 990. It is designed for use by small exempt organizations and nonexempt charitable trusts. An organization may file Form 990-EZ instead of Form 990, if it meets **both** of the following requirements.
 1. Its gross receipts during the year were less than \$50,000.
 2. Its total assets at the end of the year were less than \$250,000.
29. Generally, the Internal Revenue Service has the authority to collect outstanding federal taxes for not more than three years from the date of assessment.
30. A Notice of Federal Tax Lien does not attach to property acquired after the lien filing date.
31. Bankruptcy proceedings will always result in the discharge of federal tax liabilities.
32. A levy is a legal claim against your property used as a security for the tax debt; whereas, a lien is a legal seizure of your property to satisfy a tax debt.
33. If, after a Collection Due Process hearing with the Office of Appeals to discuss an Internal Revenue Service levy or lien, you do not agree with the Appeals determination, you have 30 days from the date of the determination to bring suit to contest the determination.
34. Jim and Tammy, husband and wife, were both employed and filed a joint return which showed they were entitled to a refund of \$1,000. Rather than receiving the refund of \$1,000, they received a notice advising them that the entire refund was applied to an amount due that Jim owed from a prior year, which was before they were married. Tammy could be considered an innocent spouse and should file Form 8857 to obtain her portion of the refund.
35. An ERO (Electronic Return Originator) may originate the electronic submission of income tax returns they prepared, but cannot electronically submit returns collected from taxpayers.
36. Authorized electronic filing providers may **not** base their fees on a percentage of the refund amount or compute their fees using any figure from tax returns. Separate fees may **not** be charged for direct deposits.
37. If the Internal Revenue Service rejects the electronic portion of a taxpayer's return for processing and the reason for the rejection cannot be rectified with the information already provided to the ERO, the ERO must take reasonable steps to inform the taxpayer of the rejection within 24 hours, and provide the taxpayer with the reject code(s) accompanied by an explanation.
38. If an authorized Internal Revenue Service electronic filing provider uses radio, television, Internet, signage, or other methods of communication to advertise Internal Revenue Service electronic filing, the Provider must keep a copy and provide the text to the Internal Revenue Service upon request, or if prerecorded, the recorded advertisement. Copies must be maintained until the end of the calendar year following the last transmission or use.
39. Taxpayers who have their returns filed electronically have several choices when paying any taxes owed on their tax returns, as well as any estimated taxes.
 1. Direct Debit
 2. Credit Card Payments
 3. Pay by check
 4. Installment Agreement Requests
40. If providing the signature on a paper declaration, Form 8453, U. S. Individual Income Tax Declaration for an Internal Revenue Service electronically filed return, must be signed **after** the electronic data portion of the return is submitted.

Turn the page for Part 4, Section B

Part 4
Section B:
Questions 41 - 80

The following questions are multiple choice. Select the most appropriate answer and darken the oval under the corresponding letter on the answer sheet.

41. Larry Smith passed all parts of the Special Enrollment Examination in October of 2003. Larry submitted the required forms to become an Enrolled Agent. Larry failed the suitability test performed by the Internal Revenue Service and the Office of Professional Responsibility informed Larry that he was denied participation and provided him with the reasons for the denial. Larry received the notice on January 20, 2004. What action should Larry take to appeal the denial received from the Office of Professional Responsibility?
- A. Larry must file a written appeal no later than the 19th of February with the Commissioner of Internal Revenue Service or his delegate.
 - B. Larry must file a petition no later than the 30th of January with the District Court.
 - C. Larry must file a written appeal no later than the 30th of January with the Secretary of the Treasury or his delegate.
 - D. Larry must file a written appeal no later than the 19th of February with the Secretary of the Treasury or his delegate.
42. Which of the following statements is **correct** with respect to the limited practice of an unenrolled return preparer:
- A. An unenrolled return preparer may represent the taxpayer for any year the taxpayer provides authorization, whether or not the unenrolled preparer prepared the return in question.
 - B. An unenrolled return preparer is only permitted to represent taxpayers before the examination and collection functions of the Internal Revenue Service.
 - C. If authorized by the taxpayer, an unenrolled return preparer can sign consents to extend the statutory period for assessment or collection of tax.
 - D. An unenrolled preparer cannot receive refund checks.
43. Sam, an Enrolled Agent, is representing Fred before the Examination Division of the Internal Revenue Service. The Internal Revenue Service is questioning Fred on his Schedule C gross income that is listed on the 2002 tax return. While reviewing the documentation Fred provided, Sam discovers income that was omitted from the tax return. What is the appropriate action for Sam to take?
- A. Sam must immediately advise the Internal Revenue Service examiner of the omitted income.
 - B. Sam must notify the Internal Revenue Service that he is no longer representing Fred by withdrawing his Form 2848.
 - C. Sam must advise Fred promptly of the omission and the consequences provided by the Internal Revenue Code and regulations for such omission.
 - D. Sam must advise Fred on how to keep the omission from being discovered by the Internal Revenue Service.
44. John Bright recently passed the Special Enrollment Examination and is advertising for his business. Which of the following presentations will violate the Circular 230 rules for advertising?
- A. John Bright, enrolled to practice before the Internal Revenue Service
 - B. John Bright, Certified Enrolled Agent
 - C. John Bright, enrolled to represent taxpayers before the Internal Revenue Service
 - D. John Bright, admitted to practice before the Internal Revenue Service
45. Circular 230, §10.34 discusses standards for advising clients with respect to tax return positions and for preparing or signing returns. Which of the statements below is **true**?
- A. A practitioner may not sign a tax return as a preparer if the practitioner determines that the tax return contains a position that does not have a realistic possibility of being sustained on its merits (the realistic possibility standard) unless the position is not frivolous and is adequately disclosed to the Internal Revenue Service.
 - B. A practitioner advising a client to take a position on a tax return, or preparing or signing a tax return as a preparer, must inform the client of the penalties reasonably likely to apply to the client with respect to the position advised, prepared, or reported.
 - C. A practitioner advising a client to take a position on a tax return, or preparing or signing a tax return as a preparer, generally may rely in good faith without verification upon information furnished by the client. The practitioner may not, however, ignore the implications of information furnished to, or actually known by, the practitioner, and must make reasonable inquiries if the information as furnished appears to be incorrect, inconsistent with an important fact or another factual assumption, or incomplete.
 - D. All of the above.
46. The Office of Professional Responsibility can censure, suspend, or disbar a practitioner from practice before the Internal Revenue Service for incompetence and/or disreputable conduct. Which one of the following is considered disreputable conduct?
- A. Being indicted for any criminal offense under the revenue laws of the United States
 - B. Having your motor vehicle license suspended as a result of numerous traffic violations
 - C. Being indicted of any felony under federal or state law for which the conduct involved renders the practitioner unfit to practice before the Internal Revenue Service
 - D. Giving false or misleading information, or participating in any way in the giving of false or misleading information to the Department of the Treasury or any officer or employee thereof

47. Select the statement below that is **correct** with respect to the contents of an answer that is filed in rebuttal to a complaint filed by the Office of Professional Responsibility.
- A. The answer must be written and general denials are permitted.
 - B. The respondent does not have to admit or deny all of the allegations set forth in the complaint and can state they are without sufficient information to admit or deny a specific allegation.
 - C. The respondent may not deny a material allegation in the complaint that the respondent knows to be true, or state that the respondent is without sufficient information to form a belief, when the respondent possesses the required information.
 - D. The respondent does not have to state affirmatively any special matters of defense on which he or she relies.
48. John Jones prepared a return for a client that contained a frivolous position that could not be defended under any circumstances. The examiner who conducted the examination referred Mr. Jones to the Office of Professional Responsibility. After all procedural requirements had been met, the Office of Professional Responsibility filed a complaint against John Jones. Which statement below is **correct** with respect to the hearing that will take place for the complaint filed against Mr. Jones?
- A. An Administrative Law Judge will preside at the hearing on a complaint filed for the censure, suspension, or disbarment of a practitioner or disqualification of an appraiser.
 - B. A request by a practitioner or appraiser that a hearing in a disciplinary proceeding concerning him or her be public, and that the record of such disciplinary proceeding be made available for inspection by interested persons may be granted by a United States District Court judge.
 - C. The United States District Court judge assigned to the case will determine the location of the hearing.
 - D. If either party to the proceeding fails to appear at the hearing, after notice of the proceeding has been sent to him or her, the party will be deemed to have waived the right to a hearing and the United States District Court judge may make his or her decision against the absent party by default.
49. After a decision has been made on a complaint filed by the Office of Professional Responsibility, the practitioner or Office of Professional Responsibility may appeal the decision. Which statement is **correct** with respect to filing an appeal of the decision?
- A. Within 30 days from the date of the District Court Judge's decision, either party may appeal to the Secretary of the Treasury, or his or her delegate.
 - B. Within 30 days from the date of the District Court Judge's decision, either party may appeal to the Supreme Court.
 - C. Within 30 days from the date of the Administrative Law Judge's decision, either party may appeal to the Secretary of the Treasury, or his or her delegate.
 - D. Within 45 days from the date of the Administrative Law Judge's decision, either party may appeal to the Secretary of the Treasury, or his or her delegate.
50. Each individual applying for renewal as an Enrolled Agent must complete CPE credits during each year of enrollment. How long must each practitioner maintain records of their completed CPE credits?
- A. CPE credits do not have to be retained by the Enrolled Agent since the qualifying organization provides the Office of Professional Responsibility a list of each participant that completed CPE credits.
 - B. The Enrolled Agent does not have to retain any proof of CPE credits because they must be submitted to the Office of Professional Responsibility as they are completed.
 - C. The Enrolled Agent must retain for a period of 1 year, from the date they completed the CPE credit, information required (as listed in Circular 230) that documents successful completion of qualified CPE credits.
 - D. The Enrolled Agent applying for renewal must retain the information required (as listed in Circular 230) which documents successful completion of qualified CPE credits, for a period of 3 years following the date of renewal of enrollment.
51. Wesley timely filed his tax year 2000 Form 1040 tax return on April 15, 2001 and paid the \$2,000 tax as shown on the return at the time of filing. The return was subsequently examined and Wesley signed an agreement form for the proposed changes on October 31, 2002. He paid the additional tax due of \$10,000 on December 31, 2002. In 2003, Wesley located missing records which he believes would make \$5,000 of the additional assessment erroneous. Which of the following statements accurately states the date by which Wesley must file a claim for refund?
- A. October 31, 2004, two years from signing the agreement form.
 - B. April 15, 2004, three years from the due date of the original return.
 - C. December 31, 2004, two years from when the additional tax was paid.
 - D. No claim for refund can be filed since an examination agreement form was signed.
52. In the process of preparing Purple Corporation's 2001 return, John, an enrolled agent, provided to Purple Corporation, calculations he had prepared computing basis of property which was sold and reported on the Form 4797 filed with Form 1120. Later, when Purple Corporation's 2001 return was examined by the Internal Revenue Service, Purple Corporation refused to provide the Internal Revenue Service with the calculations, claiming that this was a privileged communication between Purple and its federally authorized practitioner. Which of the following statements is **correct**?
- A. Purple Corporation does not have to provide the calculations to the Internal Revenue Service because it is privileged under the Federal Tax Practitioner privilege rules.
 - B. Purple Corporation must provide the calculations to the Internal Revenue Service because privilege does not apply to a determination with respect to an item that will be presented to the government on an original return.
 - C. Purple Corporation must provide the calculations to the Internal Revenue Service because the Federal Tax Practitioner privilege does not apply to documents written by John as he is not a CPA.
 - D. Purple Corporation does not have to provide the calculations to the Internal Revenue Service if they believe this transaction might be construed as a tax shelter.

53. Disputes involving which areas of taxation may **not** be resolved in a deficiency determination proceeding in United States Tax Court?
- Income tax
 - Gift tax
 - Employment tax
 - Estate tax
54. Which of the following would **not** allow the Internal Revenue Service to disclose the results of an examination of your 2001 1040 to the return preparer of the 2001 return?
- You submit a power of attorney, Form 2848, with the Internal Revenue Service authorizing representation by your return preparer for income tax matters for tax years 1999, 2000, 2001.
 - You submit a tax information authorization, Form 8821, with the Internal Revenue Service for your return preparer for income tax matters for the tax year 2001.
 - You checked the Yes box in the third party designee area of the 2001 tax return and entered "Preparer" after the return preparer's name in the designee space.
 - Your return preparer is also your legal guardian and submits a Form 56, Notice Concerning Fiduciary Relationship.
55. Caroline received an audit notification letter scheduling an appointment for July 1, 2002 for the examination of her tax year 2000 Form 1040 return. The week before the scheduled appointment, she received a telephone call from the Internal Revenue Service office cancelling the appointment. She was told that she would be contacted at a later date to reschedule the appointment. She was not contacted until July 1, 2003, when she was advised of a new appointment date. Errors identified in the examination resulted in her owing additional tax of \$4,000 plus accrued interest of \$600. Caroline does not believe that she should have to pay interest for the period that she was waiting for her appointment to be rescheduled. How should she proceed?
- Pay the tax and interest and deduct the interest on her 2003 return, the year paid
 - Immediately request an Appeals conference to contest the interest
 - Request an abatement of the interest by filing a Form 843 with the Internal Revenue Service service center where she filed her 2000 return
 - Immediately petition the Tax Court to contest the interest
56. After the issuance of a Statutory Notice of Deficiency, failure to timely file a petition with Tax Court will result in which of the following?
- The Internal Revenue Service will issue a 30-day letter.
 - The Internal Revenue Service will assess the tax it says the taxpayer owes.
 - The Internal Revenue Service will issue a 90-day letter.
 - You will be required to post a deposit before being allowed to request an extension for time to file a petition.
57. If there is an underpayment of tax on your return due to fraud, how much is the penalty added to your tax?
- 20 % of the underpayment due to fraud
 - 20% of the underpayment, reduced for those items for which there was adequate disclosure
 - \$500 added to any other penalty provided by law
 - 75% of the underpayment due to fraud
58. You must keep your records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out. The period of limitations is the period of time in which you can amend your return to claim a credit or refund, or the Internal Revenue Service can assess additional tax. Which statement listed below is **incorrect**?
- If no other provisions apply, the statute of limitations is 3 years after the return was filed.
 - If more than 25% of gross income has been omitted from the tax return, the statute of limitations is 6 years after the return was filed, unless the omitted amount was disclosed in the return or in a statement attached to the return, in a manner adequate to apprise the Internal Revenue Service of the nature and amount of the omission.
 - If a fraudulent return is filed, the statute of limitations is 7 years.
 - If a tax return is not filed at all, there is no statute of limitations.
59. George, single and age 40, is covered by a pension plan at work. For 2002, George could have contributed and deducted \$3,000 to his individual retirement account, but could only afford to contribute \$1,000, which he did on April 14, 2003. After April 15, 2003, George contributed \$3,000. Since his modified AGI for 2003 was over \$40,000, George computed that his reduced IRA deduction for 2003 was \$600. Which of the following is **not** an option available for George?
- He can deduct \$2,600 in 2003 since he had a carryover from the immediately preceding tax year.
 - He can withdraw the non-deductible \$2,400 contribution by April 15, 2004.
 - He can leave the entire contribution in the IRA and elect to treat the entire \$3,000 as a non-deductible contribution.
 - He can leave the entire contribution in the IRA as a \$600 deductible contribution and a \$2,400 non-deductible contribution.
60. Ricky, age 35, and Lucy, age 51, are married and file a joint return. Ricky is covered by an employer plan. In 2003, Ricky had compensation of \$50,000 and Lucy had compensation of \$2,000. Their Modified AGI was \$200,000. What is the amount of the **deductible** contribution that can be made for Lucy to her traditional IRA for 2003?
- \$2,000
 - \$3,000
 - \$3,500
 - \$0
61. Which of the following is a **true** statement regarding a rollover distribution from a qualified plan to a traditional IRA?
- To be an eligible rollover, you must rollover the entire distribution from the qualified plan.
 - You can deduct the distribution rolled over, up to the amount of the allowable deductible contribution limit for the year.
 - If you chose the direct rollover option, the payer must generally withhold 20% of it for income tax.
 - A hardship distribution from a qualified plan is not an eligible rollover distribution.

62. Vernon, age 71, had compensation of \$2,500 in 2003. He made a \$3,000 contribution to his traditional IRA during 2003. The balance of the IRA account at the end of the 2003 was \$10,000. Vernon did not withdraw any amount of the contribution by the due date of the 2003 return. What would be the tax as a result of an excess contribution for 2003?
- \$0
 - \$50
 - \$180
 - \$150
63. Martin, age 35, made an excess contribution to his traditional IRA in 2003 of \$1,000, which he withdrew by April 15, 2004. At the same time, he withdrew the \$50 income that was earned on the \$1,000. Which of the following statements are true?
- Martin must include the \$50 in his gross income in 2003.
 - Martin would have to pay the 6% excise tax on the \$1,050.
 - Martin would have to pay the 10% additional tax on the \$50 as an early distribution.
 - Both A and C.
64. Antonio is an ordained minister. As a minister, Antonio is a common-law employee of the church where he works, but his earnings and parsonage allowance are treated as self-employment income on which he pays self-employment tax. If the church had no retirement plan under which Antonio was covered, which of the following would **Antonio** be permitted to establish for himself?
- Traditional IRA
 - Savings Incentive Match Plan for Employees (SIMPLE) IRA
 - Simplified Employee Pension (SEP)
 - Both A and B
65. Which of the following would be an allowable investment for a traditional IRA?
- Stamps which have been issued by the United States Postal Service
 - An oil painting certified by an art expert as being an authentic original by a Dutch master artist.
 - One-ounce silver coins minted by the U. S. Treasury Department
 - All of the above.
66. Which of the following correctly states the maximum allowable catch up contribution for a participant age 50 or over for the year 2004?
- \$3,000 for a 401(k) plan
 - \$1,000 for a SIMPLE plan
 - \$1,000 for a traditional IRA
 - \$3,500 for a Roth IRA
67. For 2003, what is the maximum amount that can be contributed on your behalf, assuming other requirements are met, to a SIMPLE plan, if you are over 50 years old?
- \$8,000
 - \$9,000
 - \$17,000
 - \$18,000
68. Ira, your only employee earned \$250,000 in 2003. What is the maximum contribution that you can make to his SEP IRA for the year?
- \$65,000
 - \$50,000
 - \$40,000
 - \$7,500
69. When figuring compensation for a self-employed individual for purposes of determining the amount of an allowable contribution to a traditional IRA, which of the following statements is **not** true?
- Self-employment income must be reduced by the deduction allowed for one-half of your self-employment taxes.
 - When you have both self-employment income, and salary and wages, your compensation includes both amounts.
 - If you have a net loss from self-employment, you must subtract the loss from any salary or wages received when figuring total compensation.
 - In order to include net earnings from a trade or business as compensation, your personal services must be a material income-producing factor.
70. Diane, single and age 49, made a \$3,000 contribution to her traditional IRA in 2003. Her compensation for 2003 was \$2,000. She filed a Form 4868 for an extension until August 15, 2004 to file her 2003 return. In order to avoid the 6% additional tax on excess contributions, Diane must do which of the following:
- Withdraw the \$1,000 excess contribution and all interest earned on the \$1,000 by December 31, 2003
 - Withdraw the \$1,000 excess contribution and all interest earned on the \$1,000 by April 15, 2004
 - Withdraw the \$1,000 excess contribution and all interest earned on the \$1,000 by August 15, 2004
 - File an election to deduct the \$1,000 on her 2004 return by attaching a statement to her 2003 return
71. In 2003, Ivan was over age 70 ½. The balance at the beginning of 2003 of his traditional IRA was \$41,000. All of his IRA contributions had been tax deductible. The required minimum distribution for 2003 was \$3,000. If Ivan only took a distribution of \$1,000, what is the amount of excise tax that Ivan would have to pay on the excess accumulation?
- \$120
 - \$200
 - \$1,000
 - \$2,400
72. Which of the following may the Internal Revenue Service settle by accepting an Offer in Compromise for less than the full amount of the balance due?
- A tax deficiency, but not penalties and accrued interest
 - A tax deficiency plus penalties, but not accrued interest
 - A tax deficiency plus accrued interest, but not penalties
 - A tax deficiency plus penalties and accrued interest

73. Madonna received a Notice of Tax Due and Demand for Payment in the amount of \$30,000 as a result of an examination of her 2001 Form 1040. She is not able to pay the entire amount at this time and would like to set up an installment agreement. Which of the following statements are **not** true regarding setting up an installment agreement?
- Madonna must wait for a Notice of Federal Tax Lien to be filed before she can request an installment agreement.
 - Madonna may have to fill out a Collection Information Statement.
 - Madonna will be charged a user fee to set up an installment agreement.
 - Madonna must file all of her returns that are due to be eligible for an installment agreement.
74. Some returns are not eligible for the Internal Revenue Service electronic filing program. Which item listed below is generally eligible to be filed through the Internal Revenue Service electronic filing program?
- Form 1040 returns
 - Tax returns for prior years
 - Fiscal year tax periods
 - Amended tax returns
75. John Jones, an Enrolled Agent, prepared the 2003 tax return for Mr. William Smith. The return of Mr. Smith contained a schedule "C", wages (Form W-2) and retirement income (Form 1099-R). Mr. Smith signed a Form 8453, U.S. Individual Income Tax Declaration for an Internal Revenue Service electronically filed return, which allowed John Jones to electronically file Mr. Smith's tax return. Based upon the information in the 2003 tax return of Mr. Smith, which statement below describes the documents that Mr. Jones is required to maintain for Mr. Smith's 2003 electronically filed tax return?
- Mr. Jones must only maintain a paper copy of the tax return and W-2.
 - Mr. Jones must only retain one of the signed Forms 8453.
 - Mr. Jones must retain a copy of the signed Form 8453 and paper copies of Forms W-2 and 1099-R, as well as any supporting documents that are not included in the electronic return data.
 - Mr. Jones does not have to retain any of the documents used in the preparation of Mr. Smith's return. Mr. Jones should secure a signed statement from Mr. Smith that lists all the documents used in the preparation of the return, and that they were all returned to Mr. Smith.
76. A Refund Anticipation Loan (RAL) is money borrowed by a taxpayer from a lender based on the taxpayer's anticipated income tax refund. Which of the statements below is **not** correct?
- All parties to Refund Anticipation Loan agreements, including Electronic Return Originators (ERO's), must ensure that taxpayers understand that Refund Anticipation Loans are interest bearing loans and not substitutes for a faster way of receiving a refund.
 - The Internal Revenue Service has minimal involvement and responsibility for Refund Anticipation Loans.
 - The Electronic Return Originator should advise the taxpayer that if a Direct Deposit is not received within the expected time frame, the Internal Revenue Service may be liable to the lender for additional interest on the Refund Anticipation Loan.
 - The Internal Revenue Service is responsible for ensuring that Refund Anticipation Loan indicators are included in the electronic return data that is transmitted to the Internal Revenue Service.
77. Taxpayers often elect the direct deposit option because it is the fastest way of receiving refunds. Electronic Return Originator should advise the taxpayer of the option to receive his/her refund by direct deposit or paper check. Select the statement below that is **correct** with respect to direct deposit.
- The Electronic Return Originator does not have to accept a direct deposit election to a financial institution designated by the taxpayer.
 - Refunds may be direct deposited to credit card accounts.
 - The Electronic Return Originator may make a separate charge of only \$15, or less, as a processing fee if the taxpayer elects direct deposit.
 - The Electronic Return Originator should caution taxpayers that some financial institutions do not permit the deposit of joint refunds into individual accounts.
78. The electronic filing program is governed by a Revenue Procedure entitled "Requirements of Participants in the Internal Revenue Service Electronic Filing Program for Individual Income Tax Returns." Of the Revenue Procedures listed below, which one is the current Revenue Procedure for "Requirements of Participants in the Internal Revenue Service Electronic Filing Program for Individual Income Tax Returns."
- Revenue Procedure 2000-31
 - Revenue Procedure 98-54
 - Revenue Procedure 2001-13
 - Revenue Procedure 2002-31
79. Authorized electronic filing providers must notify the Internal Revenue Service of all changes to the information they originally submitted on Form 8633, Application to Participate in the Internal Revenue Service Electronic Filing Program. All revisions may be made using Form 8633, but you may update certain information by letter, using the firm's official letterhead. Which of the following revisions listed below may be submitted by letter and does **not** require a Form 8633.
- Adding an additional principal of a firm, such as a partner or a corporate officer
 - Making a change to the Responsible Official listed on Form 8633
 - Adding federal/state electronic filing to your list of services
 - Deleting a principal that is listed on Form 8633
80. The Internal Revenue Service monitors and performs annual suitability checks on authorized Internal Revenue Service electronic filing providers for compliance with the revenue procedure and program requirements. Violations may result in a variety of sanctions. Which statement is **correct** with respect to sanctions the Internal Revenue Service may impose on an electronic filing provider?
- The Internal Revenue Service may issue a letter of reprimand or a 1-year suspension as a sanction for a level one infraction in the electronic filing program.
 - The Internal Revenue Service may impose a period of suspension that includes the remainder of the calendar year in which the suspension occurs, plus the next 2 calendar years, for a level two infraction in the electronic filing program.
 - The Internal Revenue Service may suspend or expel an authorized Internal Revenue Service electronic filing provider prior to administrative review for a level three infraction in the electronic filing program.
 - The Internal Revenue Service may not impose a sanction that is greater than a 1-year suspension from the electronic filing program.

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