

SEE 2. Sample Test Questions

Terminology KEY for SEE Sample Test Questions

Abbreviation/Term/Symbol:

IRC or Code Section
 Instructions
 Form
 Pub or Publication
 IRB
 31 U.S.C.
 C.F.R.
 Treas. Reg. or Regulations
 DOL
 Cir. 230
 IRM
 T.C. Memo
 §

Refers to:

Internal Revenue Code
 IRS Form Instructions
 IRS Tax Form
 IRS Publication
 Internal Revenue Bulletin
 Title 31 of United States Code
 Code of Federal Regulations
 Treasury Regulations
 Department of Labor
 Treasury Department Circular 230
 Internal Revenue Manual
 Tax Court Memo
 Symbol for Code Section

Numbers and/or letters following the code section symbol are used to guide the user to the appropriate area in the Code for that reference.

1. If a corporation allows earnings to accumulate beyond the reasonable needs of the business, it may be subject to an accumulated earnings tax of:
 - (A) 10%
 - (B) 15%
 - (C) 20%
 - (D) 25%

Key: C

References: IRC § 531; IRS Pub 542, Pg. 17

2. What is the maximum number of shareholders a corporation may have to be eligible to elect to be treated as an S corporation?
 - (A) 25
 - (B) 50
 - (C) 100
 - (D) 200

Key: C

References: IRC §1361(b)(1)(A); IRS, Instructions for Form 2553, Pg. 1

3. Which of the following will disqualify a corporation from electing S corporation status?
 - (A) 75 shareholders
 - (B) Voting and non-voting stock
 - (C) A non-resident alien stockholder
 - (D) An employee stock option plan shareholder

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Key: C

References: IRS, Instructions for Form 2553, Pg. 1; IRC §1361(b)(1)(C); Treas. Reg. 1.1361-1(l)(1) & 1.1361-1(l)(4)(iii)(B)(2).

4. An S corporation stockholders' basis is generally increased by:

- (A) Distributions
- (B) Nontaxable discharge of indebtedness
- (C) Separately stated loss items
- (D) Taxable income

Key: D

References: IRC §108 (d)(7), 26 U.S.C. §§ 1367(a) and 1366; Treasury Regulations § 1.1366-1(a)(2)(viii)

5. Cancellation of Debt (COD) income for an S Corporation:

- (A) Flows to shareholder if income is excluded by the S corporation
- (B) Is recognized as income to an S Corporation regardless of the extent of corporate insolvency
- (C) Is not excluded from gross income to the S Corporation when granted in Chapter 11 reorganizations
- (D) Gives rise to income which flows to shareholders if the income is not excluded by the S Corporation

Key: D

References: Income from Discharge of Indebtedness, IRC §§ 108(a)(1), 108(d)(7), 1366(a)(1) & 1377(a)(1).

6. All of the following are true regarding cancellation of debt income for S corporations EXCEPT:

- (A) The canceled amount is considered gross income on Form 1120S
- (B) The amount of canceled debt excluded from income will increase the basis of the shareholders' stock
- (C) The pro rata share of the canceled debt income will pass through to the shareholders
- (D) Canceled debt income may be excluded to the amount of insolvency of the S corporation

Key: B

References: IRC §§ 108(d)(7)(A), 61(a)(12), 1366(a), and 1367(a)(1); Reg. 1.108-7(d); Form 1120S Instructions, pg. 13

7. All of the following would be included in the gross receipts of a business for a tax year EXCEPT:

- (A) Sales made but income not collected during the tax year for a business using an accrual accounting method
- (B) Sales taxes imposed on the buyer and collected by a business using the cash accounting method
- (C) The fair market value of property the business received in exchange for a good or service bartered
- (D) Lease bonus and lease cancellation payments received from a lessee renting personal property or real estate from the taxpayer

Key: B

References: Treas. Reg. 1.448-2(c)(iv); Publication 334, Chap 5, pgs. 20-27

8. Which of the following would generally be reported as other income on a Form 1040 Schedule C?

- (A) Proceeds from international sales
- (B) Bad debts recovered
- (C) Sales tax collected
- (D) Income from bartering activities

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Key: B

References: IRS, Instructions for Schedule C (Form 1040), Pg. C-6; Pub. 535, pgs. 40-42 (2019)

9. If a company is an accrual basis taxpayer, what is the amount of gross receipts reported on the taxpayer's Form 1040 Schedule C based on the information below?

Service income \$25,000

Gain on the sale of an asset \$1,500

Interest on accounts receivable 3,000

- (A) \$25,000
- (B) \$26,500
- (C) \$28,000
- (D) \$29,500

Key: C

References: IRS, Tax Guide for Small Business Publication 334, Chap 5, pgs. 20-27; Instructions for Schedule C (Form 1040), Pg. C-5

10. Under the capitalization and repair rules, amounts paid for which of the following activities generally are not required to be capitalized unless an election is made to treat them as capital expenditures?

- (A) Repair and maintenance that does not improve a unit of tangible property
- (B) Adapting a unit of property to a new or different use
- (C) Materially enlarging a unit of property
- (D) Replacing a major component or substantial structural part of a unit of property

Key: A

References: IRC § 263; Treas. Reg. § 1.263(a)-3(i) through (l); Treas. Reg. § 1.263(a)-3(n)

11. The computation of recapture amounts is not necessary when the business use percentage of Section 179 or listed property exceeds:

- (A) 10%
- (B) 25%
- (C) 45%
- (D) 50%

Key: D

References: IRC § 280F(b)(2) and (3); Treas. Reg. § 1.179-1(e)(1) and (2); Publication 946, pgs. 22-23, and 55; Instructions for Form 4797, Part IV

12. If a corporation makes a below-market loan to a shareholder, the corporation generally is deemed to make a payment to the shareholder for federal tax purposes. This deemed payment is treated as a(n):

- (A) Gift
- (B) Dividend
- (C) A payment of compensation
- (D) Honorarium

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Key: B

References: IRC § 7872(c)(1)(C); Publication 535, pg. 17 (treatment of gift and demand loans)

13. A corporation makes a \$100,000 term loan to a shareholder. The stated principal amount of the loan is payable in ten years. The test rate used to determine if the loan is a below-market loan is the:

- (A) Short-term applicable Federal rate as of the day the loan is made
- (B) Mid-term applicable Federal rate as of the day the loan is made
- (C) Long-term applicable Federal rate as of the day the loan is made
- (D) Adjusted applicable Federal rate as of the day the loan is made

Key: C

References: Treatment of loans with below market interest rates: IRC §§ 1274(d) and 7872(f); Publication 535, pg. 17.

14. All of the following are true regarding Income in Respect of a Decedent (IRD) EXCEPT:

- (A) IRD is income the decedent would have received had death not occurred that wasn't properly included in the decedent's final return
- (B) The character of the IRD remains the same as it would have been to the decedent had they not passed
- (C) If an individual receives IRD and includes it on their return, they are not allowed a deduction for the estate tax attributable to the item of IRD as reported on Form 706
- (D) IRD must be included as income on either the decedent's estate return, if the estate receives it, or the beneficiary, if the right to income is passed directly to the beneficiary and the beneficiary receives it, or any person to whom the estate properly distributes the right to receive it

Key: C

References: IRC, § 691(a)(1), (3), and (c); IRS, Survivors, Executors and Administrators, Publication 559 Pgs. 9-10, 12

15. All of the following returns would include income in respect of a decedent EXCEPT:

- (A) The final Form 1040 for the decedent
- (B) The decedent's estate, Form 1041, if the decedent's estate receives right to the income
- (C) The Form 1040 of any person to whom the decedent's estate properly distributes the income
- (D) The beneficiary's Form 1040, if the right to income arising out of the decedent's death is passed directly to the beneficiary and is never acquired by the decedent's estate

Key: A

References: IRC §691(a)(1); Publication 559; Survivors, Executors and Administrators, pgs. 4, 15.

16. A paycheck issued after the date of death to a taxpayer for work performed prior to death is considered:

- (A) Non-taxable income
- (B) Income in respect of a decedent
- (C) Excess compensation
- (D) Deferred income

Key: B

References: Pub 559, Survivors, Executors, and Administrators Pg. 10; IRC §691(a)(1)

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17. What is the tax consequence of a taxpayer receiving the wages that were due to a decedent at the time of their death?

- (A) There is no tax consequence - Inheritances are not taxable
- (B) The income is considered a long-term capital gain because it was inherited
- (C) The income is considered ordinary income just as it would have been considered for the decedent
- (D) The income is considered a short-term capital gain if it is paid out within one year of the decedent's death

Key: C

References: IRS, Publication 559 Survivors, Executors, and Administrators Pg. 10; IRC § 691(a)(3); Treas. Reg. § 1.691(a)-3(a)

18. An organization may qualify under Section 501(c)(3) if it is organized exclusively for which of the following purposes?

- (A) Charitable
- (B) Business
- (C) Political action
- (D) Personal

Key: A

References: IRC §501(c)(3); Treas. Reg. § 1.501(c)(3)-1(d)(1)(i).

19. Generally, if you are required to account for inventories you must include which of the following:

- (A) IRS interest and penalties
- (B) Raw materials
- (C) Donations of items to charity
- (D) Supplies that are not physically part of the item intended for sale

Key: B

References: Treas. Reg. 1.471-1, Pub. 334 pg. 15 (Jan. 20, 2020)

20. Taxpayers must report all income that they receive as Direct Sellers on which Form or Schedule?

- (A) Schedule E
- (B) Schedule 1 line 21
- (C) Form 1040 line 1
- (D) Schedule C

Key: D

References: Pub. 334, pg.25