

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 and B for false.**

- 1.** Able was requested by his client to represent him in connection with an IRS audit.
Able is therefore practicing before the IRS.

- 2.** If the Director of Practice denies an application for enrollment, the applicant has the right to appeal the decision by filing a written protest within 60 days of receipt of the notice.

- 3.** Charlie, a certified public accountant, is required in all circumstances to submit records or information upon the lawful request by an IRS representative.

- 4.** Donald, an enrolled agent, has knowledge that a client has not complied with the revenue law of the United States. Donald must advise the client of such noncompliance.

- 5.** Edward, an enrolled agent, may not, knowingly employ a person or accept employment from a person who has been disbarred or suspended by the Director of Practice.

- 6.** Harold, an enrolled agent, must at all times exercise due diligence when preparing any document involving IRS matters.

- 7.** Leonore, an enrolled agent, who prepares an income tax return, has no right to endorse an IRS refund check payable to the client, notwithstanding the fact that the check was sent directly to her.

- 8.** Diane, an enrolled agent, who is required to render an opinion on material issues involving a tax shelter investment, must determine whether it is certain that the investor will prevail on the merits of material tax issues, which may be challenged by the IRS.

- 9.** If a position on a tax return has approximately a one in three, or greater, likelihood of being sustained on its merits, then there is a realistic possibility of its being sustained on the merits.

- 10.** Harold, an enrolled agent, advises prospective clients that he is able to obtain approval of qualified retirement plans with unique vesting provisions because of his close relationship with the IRS territory manager of the Tax Exempt Government Entities operating unit in his locality. This type of employment solicitation does not constitute disreputable conduct subjecting Harold to potential disbarment or suspension from IRS practice.
- 11.** Jake, an attorney, is charged by the Director of Practice with acts of misconduct and a complaint is served upon him. Jake has 10 days from the date of service to file an answer.
- 12.** Annie Holt, an enrolled agent, was issued findings of fact, conclusions of law, and a decision ruling that she committed acts of misconduct, which were volatile under Circular 230, and, therefore, a decision as entered ruling that she should be disbarred. Annie Holt has a right to appeal the decision to the Secretary of the Treasury.
- 13.** The regulations in Circular 230 governing the practice of attorneys, certified public accountants, enrolled agents, enrolled actuaries and appraisers before the Internal Revenue Service can be found in the Code of Federal Regulations.
- 14.** The Office of Director of Practice is prohibited from maintaining for public inspection, a roster of all persons enrolled to practice, disbarred or suspended from practice, and disqualified appraisers.
- 15.** You can request your tax return examination be moved to another IRS area if your books and records are located in the other area.
- 16.** If the IRS disallows or rejects your timely filed claim for a refund or does not act on your claim within 6 months after you file it, you can only take your claim to Appeals.
- 17.** If you do not agree with the proposed changes from an examination, you must go directly to Appeals within 15 days.
- 18.** If you disagree with IRS after the Appeals conference, you can take your case to the United States Tax Court, the United States District Court, or the United States Court of Federal Claims.
- 19.** If you agree to changes made during an examination and you sign an agreement, but do not pay the taxes due, interest and penalty will generally be charged on the additional taxes from the due date of your return to the payment date..
- 20.** Before you take your case to the Tax Court, the IRS must send you a notice of deficiency. Then you have 60 days to file a petition with the Tax Court.
- 21.** In a small tax case (\$50,000 or less for any tax year or period), you can present your case to the Tax Court for a decision that is final and that you cannot appeal.

- 22.** The term “negligence” includes a failure to make a reasonable attempt to comply with the tax law or to exercise ordinary and reasonable care in preparing a return.
- 23.** A penalty assessed on a preparer under Section 6694 must be abated or refunded, if in the final judicial decision, there is no understatement of liability.
- 24.** If you work for a firm as a tax preparer, you may be assessed a penalty of \$50 per return for failure to furnish a copy of the tax return to the taxpayer.
- 25.** A preparer who is paid to review a tax return does not have to sign and fill in the other blanks in the paid preparer’s area of the return.
- 26.** An income tax preparer is required to retain a record, by retention of a copy of the return, maintenance of a list, or card file of each tax return completed.
- 27.** With the taxpayer’s approval, a tax return preparer who is an attorney, certified public accountant, enrolled agent or enrolled actuary may receive and endorse a taxpayer’s refund check and invest the proceeds in a mutual fund.
- 28.** Only an attorney, certified public accountant, or enrolled agent may use Form 2848, Power of Attorney and Declaration of Representatives.
- 29.** Any notice or other written communication required or permitted to be given to a taxpayer in any matter before the Internal Revenue Service may be given to the representative instead of the taxpayer.
- 30.** Each new power of attorney (Form 2848) revokes all prior power of attorneys regardless of the matter it pertains to.
- 31.** A tax representative may be authorized to receive a refund check for a client if that authorization is on Form 2848.
- 32.** A Centralized Authorization File (CAF) is an automated file containing information regarding the authority of an individual appointed under a power of attorney or person designated under a tax information authorization.
- 33.** The issuance of a CAF number does not indicate that a person is either recognized or authorized to practice before the IRS.
- 34.** If your clients keep their records on a computer, they do not have to keep all the receipts, checks, and other documents.
- 35.** The taxpayer should keep a copy of Form W-2 for two years.

36. 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 - Testing for Public Safety
- Religious - Fostering national or international amateur sports competition
- Educational - Prevention of cruelty to children or animals
- Scientific - Literary

37. Marie is a sole proprietor. She has no employees, but has established a 401(k) SIMPLE plan. Net profit on her Schedule C is \$8,000. Marie made an elective deferral of \$6,500 to her 401(k) SIMPLE. Marie can exclude the entire \$6,500 from her income as an elective deferral.

38. At age 50, Yolanda began taking distributions from her IRA as part of a series of substantially equal periodic payments. In 2000, at age 62, Yolanda took out a one-time additional distribution of \$20,000. Yolanda does **not** have to pay a recapture tax that would normally be assessed due to a change in distribution method.

39. Zachary owns a small business (not a partnership) for which he has established a Keogh plan. The plan participants are Zachary and his one employee, who is unrelated to Zachary. The highest total assets of the plan during the year were \$55,000. Zachary is eligible to file Form 5500-EZ.

40. Frederick changed jobs in 2000. During the year he had elective deferrals of \$7,200 for his 401(k) plan at the old job and elective deferrals of \$6,000 for his 401(k) plan at his new job. Frederick has an excess deferral.

Turn to the next 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. Which of the following individuals qualify as a practitioner under Circular 230?

- A.** Certified public accountant
- B.** Enrolled actuary
- C.** Attorney
- D.** All of the above

42. Frank, a certified public accountant, has the right to make the following solicitations of employment involving IRS matters:

- A.** Seeking new business from a former client
- B.** Communicating with a family member
- C.** Targeting mailings
- D.** All of the above

43. Maude, an attorney, has been charged by the Director of Practice with acts of misconduct. Which of the following forms of evidence is Maude not permitted to introduce at the hearing:

- A.** Depositions
- B.** Exhibits
- C.** Letters
- D.** All of the above

44. A notice of disbarment or suspension of a certified public accountant from practice before the Internal Revenue Service is issued to which of the following:

- A.** IRS employees
- B.** Interested departments and agencies of the Federal government
- C.** State authorities
- D.** All of the above

45. A claim for refund must be filed:

- A. No later than 3 years after you filed your original return
- B. No later than 2 years from the date you paid the tax
- C. Both A and B, whichever is later
- D. 4 years after making estimate payments

46. If your tax return was examined for the same items in either of the 2 previous years and no change was proposed to your tax liability:

- A. You may ignore the examination notice
- B. You should call the Taxpayer Advocate Office and file a complaint
- C. You should call the IRS as soon as possible to see if the examination should be discontinued
- D. You should write a letter to the Service Center and complain that the Revenue Agents are harassing you

47. A tax return preparer must complete the paid preparer's area of the return if:

- A. The taxpayer prepares his own return
- B. The individual volunteers to complete the return for no cost
- C. The individual was paid to prepare, assist in preparing, or review the tax return
- D. An employee prepares a tax return for his employer by whom he is regularly and continuously employed

48. A penalty may be assessed on any preparer or:

- A. Any person who prepares and signs a tax return or claim for refund
- B. Any member of a firm who gives advice (written or oral) to a taxpayer or to a preparer not associated with the same firm
- C. Both A and D
- D. The individual with overall supervisory responsibility for the advice given by the firm with respect to the return or claim

49. If you are employed as a tax preparer employee by a tax preparation firm, which of the following penalties may be assessed to you as tax preparer?

- A. \$50 per return for failure to furnish a copy of the return to the taxpayer
- B. \$50 per return for failure to furnish preparer's identifying number to the taxpayer
- C. \$50 per return for failure to maintain copies of returns prepared or maintain a listing of clients
- D. None of the above

50. A power of attorney is required when you want to authorize any individual to do the following.

- A. To represent you at a conference with the IRS
- B. To prepare and file a written response to the IRS
- C. To sign the offer or a waiver of restriction on assessment or collection of tax deficiency
- D. All of the above

51. Generally, which of the following rules apply to both traditional IRA's and Roth IRA's?

- A. Non-rollover contributions are generally limited to \$2000 each year or 100% of compensation, whichever is less.
- B. Contributions are always non-deductible.
- C. Contributions may not be made for the tax year in which you reach age 70 ½, or for years thereafter.
- D. Contribution phase out limits are the same for both traditional IRA and ROTH IRA's.

52. After many years as a bachelor, Buddy age 50, married Penny, age 63. Penny's only income was \$10,800 of social security. They filed a joint return for year 2000 with a modified adjusted gross income of \$100,000. Buddy is covered by a retirement plan at work where he receives compensation of \$85,000. He wishes to contribute to an IRA for himself and for Penny. Which of the following will provide them the greatest allowable tax benefit?

- A. He may contribute \$2000 to each IRA, but only take a deduction for the \$2000 to his IRA
- B. He may contribute \$2000 to each IRA, but take no deduction for either IRA
- C. He may contribute \$2000 to each IRA, and take a deduction of \$2000 for each IRA
- D. He may contribute \$2000 to each IRA, but only take a deduction for the \$2000 to Penny's IRA

53. Which of the following amounts may be converted directly to a Roth IRA, provided all requirements are met?

- A. Amounts in a SIMPLE IRA, and the two-year participation period have been met
- B. Amounts in a traditional IRA inherited from a person other than a spouse
- C. Hardship Distribution from a 401(k) plan
- D. Required minimum distributions from a traditional IRA

54. Joe Smith never married, and had no children. When he died, he left all of his assets, including his traditional IRA, to his nephew, David. What is David allowed to do with the inherited IRA?

- A. He could make additional direct contributions to the IRA, treating it as his own
- B. He could roll over amounts out of the inherited IRA to another IRA tax-free
- C. He could make additional contributions, which were rollovers from Roth IRA's
- D. None of the above

55. Edwin and Donna were married. He had established a traditional IRA to which he made contributions, and had taken no distributions. The total value of the IRA was \$50,000 of which \$20,000 was non-deductible contributions. As the spousal beneficiary, which of the following applies to Donna?

- A. Edwin's \$20,000 basis in the IRA may be treated as basis to Donna
- B. When Donna receives the distribution she may **not** roll it over to her own traditional IRA
- C. Donna must begin receiving periodic distributions by December 31 of the fifth year following Edwin's death
- D. Donna must pay a 10% penalty on the funds in the IRA if she receives an immediate distribution after Edwin's death

56. Celeste, who is single, worked recently for a telephone company in France, and earned \$1500 for which she claimed the foreign earned income exclusion. In addition to that she earned \$1200 as an employee of an answering service while she was in the U.S. She also received alimony of \$400 for the year. What is her maximum amount of allowable contribution to a traditional IRA for year 2000?

- A. \$1600
- B. \$2000
- C. \$1200
- D. \$1900

57. On February 20, 2001, Michael prepared his 2000 calendar year tax return, showing \$70,000 net profit from his first year in business (amount carried from Schedule C to line 12 of Form 1040). He wants to establish a money purchase qualified plan and contribute the maximum amount. He has no employees. The most Michael can contribute to his qualified plan for 2000 is:

- A. \$0
- B. \$12,986
- C. \$14,000
- D. \$17,500

58. Which of the following is **more** than the allowable contribution amount to a self-employed retirement plan?

- A. Contribution of \$10,000 to a self-employed individual's own defined contribution Keogh plan. The individual's net earnings from self-employment (on Schedule C) are \$40,000
- B. \$15,000 to the SEP-IRA of an employee who earned \$100,000 in 2000
- C. \$6,000 contribution into a SIMPLE IRA by an employee who earns \$30,000
- D. A contribution of \$10,000 to an employee's account in a defined contribution plan. The employee earned \$40,000

59. Joaquin is a small business owner who maintains a SEP for his employees:

- Jan, a 42-year-old part-timer who has worked for Joaquin in this business since 1992. She works 15 hours per week. She earned \$13,500 in 2000.
- Malik, a 72-year old seasonal worker who works from September through December. He has worked for Joaquin in this business since 1995 and earned \$6,000 in 2000.
- Monica is 21 years old and works 10 hours per week, all year. She has worked for Joaquin since June 1999 and earned \$4,800 in 2000.

Joaquin's business had net taxable income in 2000 of \$62,300. All employees and Joaquin are U.S. citizens and none of them are union members. Which of the individuals listed below can be excluded from coverage under the SEP in 2000?

- A. Jan
- B. Malik
- C. Monica
- D. Joaquin

60. Carmine is a self-employed consultant who has one employee, Devin, who earned \$48,000 in 2000. Devin contributed the maximum amount to his SIMPLE 401(k) plan under which an employee can choose to make salary contributions of up to 15% of pay. Carmine made a 3% matching contribution. Which of the following correctly represents the amount that Carmine will deduct for compensation and benefits paid to Devin in 2000?

- A. \$48,000 wages and \$6,000 retirement plan contribution
- B. \$48,000 wages
- C. \$48,000 wages and \$1,440 retirement plan contribution
- D. \$48,000 wages and \$7,440 retirement plan contribution

61. Lenore, who is 43 years old, opened a SIMPLE IRA on January 19, 1999. On September 22, 2000, she withdrew the entire \$10,000 value of the account. The distribution does not meet any early withdrawal exceptions to the additional tax on early distributions. How much additional tax (penalty) is this distribution subject to?

- A. \$600
- B. \$1,000
- C. \$1,500
- D. \$2,500

62. Which of the following is **not** a disqualified person for purposes of determining whether a prohibited transaction has been entered into under the qualified retirement plan rules?

- A. A plan fiduciary who deposits contributions into his or her own account and uses the funds to pay personal business expenses
- B. A 70-year-old individual who receives a distribution of the full value of his retirement account from a plan established by a business that he owns
- C. A fiduciary that invests the plan's assets in FGH partnership. FGH deposits 10% of the plan's assets into the fiduciaries own account
- D. An Individual who receives a loan from a plan

63. Rena is a 72-year-old single chemical engineer. She works part-time for a pharmaceutical company, and earned \$22,000 in 2000. Her modified adjusted gross income is \$35,000. She participates in her employer's pension plan and profit sharing plan. In 2000, she contributed \$2,000 to a traditional IRA. How much of her contribution can Rena deduct in 2000?

- A. \$0
- B. \$1,200
- C. \$1,400
- D. \$2,000

64. Peter and Jill are married and file a joint return. In 2000, Jill was a media relation's manager for a large firm and earned \$98,000; Peter owns a graphic design business that showed a net profit of \$500. In 2000 Jill was covered by an employer's plan, Peter was not. Their Modified Annual Gross Income was \$155,000. What is the maximum deductible amount that Peter can contribute to a traditional IRA?

- A. \$0
- B. \$500
- C. \$1,000
- D. \$2,000

65. Joe has a traditional IRA with a basis of \$8,800. In 2000, this was his only IRA. On December 31, 2000, he converted \$44,000 of the \$88,000 total value of the IRA to a Roth IRA. He files as head of household and his AGI, without the conversion, is \$62,000. What amount of income will be included on Joe's 2000 return as the result of this conversion?

- A. \$8,800
- B. \$35,200
- C. \$39,600
- D. \$44,000

66. Joseph is a single taxpayer. His modified adjusted gross income in 2000 was \$140,000, of which \$116,000 was earned income. In 2000, he made a \$2,000 contribution to his previously established Roth IRA. What is the penalty for excess contributions if he doesn't withdraw the contribution (and all attributable earnings) by the due date of the return (including extensions), or recharacterize the contribution by the due date of the return (including extensions)?

- A. \$0
- B. \$120
- C. \$150
- D. \$200

67. Maria has a traditional IRA, from which she has taken a taxable distribution of \$8,000. Under which of the following circumstances will the distribution be subject to the 10 percent penalty for premature distributions?

- A. Maria's AGI is \$30,000 and she had \$13,000 in unreimbursed deductible medical expenses which exceed 7.5% of her adjusted gross income
- B. Maria's granddaughter is a sophomore in college and Maria paid her tuition expenses of \$10,000
- C. Maria is age 57. The distribution is not part of a series of equal periodic payments. She has no qualifying expenses or condition
- D. The distribution was made pursuant to an IRS levy on Maria's IRA

68. Deb is self-employed and has no other employees. Her net earnings, after the deduction for one-half of self-employment tax but before deducting any contributions she makes to her own SIMPLE, are \$12,000. What is the most that can be contributed to Deb's SIMPLE for 2000 (employer and employee contributions)?

- A. \$2,000
- B. \$5,000
- C. \$6,000
- D. \$6,360

69. Minnie's tax return for 2000 shows the following income:

- \$800 wages
- \$6,490 unemployment compensation
- \$1,000 alimony
- \$8,000 rental income from apartment buildings she owns

What is Minnie's earned income for the purpose of determining how much she can contribute to an IRA?

- A. \$800
- B. \$7,290
- C. \$1,800
- D. \$16,290

70. Generally, the statute of limitations for the collection of income taxes is:

- A. Three years after the due date of the return
- B. Three years after the tax is assessed
- C. Ten years after the tax is assessed
- D. Ten years from the last day of the tax period (calendar or fiscal) for which the return is filed

71. A lien is a legal claim to property as security or payment for a tax debt. Select the best answer regarding the filing of a Notice of Federal Tax Lien:

- A. May be filed simultaneously with a Notice and Demand for Payment
- B. May be filed when a tax deficiency resulting from an audit is agreed to
- C. May not be filed when an installment agreement is in effect and payments are being made
- D. May be filed after a tax liability is assessed, billed and the debt is not paid within 10 days of notification

72. Which of the following best describes a levy when it relates to a tax debt?

- A. A levy is not a legal seizure of property
- B. A levy on salary or wages will end when the time expires for legally collecting the tax
- C. A levy can only be released by the filing of a lien
- D. A levy does not apply to wearing apparel and school books

73. The Internal Revenue Service may accept an Offer in Compromise to settle unpaid tax accounts for less than the full amount due. A Collection Information Statement (financial statement) is not required with the offer when the reason for the offer is:

- A. Doubt as to liability
- B. Doubt as to collectibility
- C. To promote effective tax administration
- D. Economic hardship

74. The installment agreement is one of the acceptable methods of paying off a tax debt to the United States Treasury. Financial information on a "Collection Information Statement" may be required as a condition of the installment agreement. Generally, an installment agreement will be accepted without this statement if the dollar amount is:

- A. \$20,000 or less if it is a joint return
- B. \$25,000 or more
- C. At least \$15,000 for the current year, but less than \$20,000 for all years.
- D. \$10,000 or less

75. When dealing with IRS employees, you have certain rights. Which of the following most accurately reflects those rights?

- A. A right of appeal is available for most collection actions
- B. A right of representation is only available in audit matters; it is not available for collection matters
- C. A case may not be transferred to a different IRS office, even if your authorized representative is located in an area different from your residence
- D. If you disagree with the IRS employee who handles your case, you must first have the employee's permission before requesting a meeting with the manager

76. Enrolled agents generally must complete continuing education credits for renewed enrollment. Which of the following describes the credit requirements?

- A. A minimum of 72 hours must be completed in **each year** of an enrollment cycle
- B. A minimum of 24 hours must be completed in **each year** of an enrollment cycle
- C. A minimum of 80 hours must be completed, overall, for the **entire** enrollment cycle
- D. A minimum of 16 hours must be completed in **each year** of the enrollment cycle

77. Generally, each individual who applies for renewal to practice before the Internal Revenue Service must retain the information required with regard to qualifying Continuing Professional Education hours: How long must verification of CPE taken be retained?

- A.** For a period of one year following the date of renewal of enrollment
- B.** For a period of three years following the date of renewal of enrollment
- C.** For a period of five years if it is an initial enrollment
- D.** The individual is not required to retain the information if the Continuing Professional Education sponsor has agreed to retain it

78. The Director of Practice notified Sally in February 1999 that she passed the Special Enrollment Examination. She submitted her application for enrollment, and received the initial enrollment on June 15, 1999. Her Continuing Professional Education requirements until the first full renewal cycle are:

- A.** She does not have to complete any Continuing Professional Education requirements until the first full renewal cycle
- B.** She must complete two hours of credit for each full month and each part of a month left in the current renewal cycle
- C.** She must complete a minimum of 72 hours of Continuing Professional Education unless she is within less than a year before the end of the current cycle
- D.** She must complete two hours of credit for only each full month left in the current renewal cycle

79. Which of the following statements is correct regarding electronically filed returns?

- A.** A return for a deceased taxpayer may be electronically filed
- B.** U. S. Individual Income Tax Returns may not be electronically filed after April 16, 2001
- C.** For tax year 2000, only current year tax returns may be electronically filed
- D.** For tax year 2000, all electronically filed returns require a separate signature document to be submitted to the appropriate Internal Revenue Service Center

80. Warren and Ruthmary desperately needed their tax refund, and decided to electronically file their year 2000 return. Which of the following provides the most accurate information regarding a refund anticipation loan?

- A.** IRS states that it will guarantee a refund within two weeks for an electronically filed return
- B.** Electronic Return Originators may charge a separate fee for direct deposit to a temporary account when a refund anticipation loan is involved
- C.** Electronic Return Originators must charge the same identical flat fee for all refund anticipation loan clients
- D.** Electronic Return Originators may charge a double fee because it is a joint return

End of Part 4.