


Review Questions and Final Exam

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| Course name: | Business Expenses-Tax Year 2008 |
| Course number: | 1001.08N |
| Number of questions: | Review 50 Final exam 50 |
| Prerequisite: | None |
| Course level: | Basic |
| Recommended CPE credit: | 6 CPE hours |
| Recommended study time: | 6 hours |
| Course format: | Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour) |
| Reference text: | IRS 2008 Publication 535 Business Expenses (free download) www.irs.gov 45 pages |
| |  <p>Department of the Treasury Internal Revenue Service</p> |
| Subject classification: | Taxation |
| Course updated: | May 6, 2009 |
| Learning objective: | Review deductible and non-deductible expenses such as employees' pay, retirement plans, rent expense, interest, taxes, insurance, business bad debts and miscellaneous expenses. |
| Instructions: | This copy of the exam can be used to answer questions while offline . Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password. |

1) What can I deduct?: You should capitalize (rather than expense), the full cost of an asset, such as a building, machinery, furniture and trucks, including freight and installation charges.

True
False

2) Personal versus business expenses: If you have an expense for something that is used partly for business and partly for personal purposes, you CANNOT deduct any portion of this expense.

True
False

3) How Much Can I Deduct: You cannot deduct more for a business expense than the amount you actually spend.

True
False

4) Not for profit activities: The limit on not-for profit losses applies to C corporations.

True
False

5) Jeremy raises rare parakeets in his spare time. He sells some of his birds every year, but has no intention of making a profit, and in fact has not made a profit in any of the last 12 years. Jeremy can use his parakeet business loss to offset his income from his salaried job as an engineer.

True
False

6) More than one activity: If you have several undertakings, each may be a separate activity or several undertakings may be one activity, for the purposes of calculating allowable deduction amounts.

One of the factors to consider in making this determination is the similarity of the various undertakings.

True
False

7) Tests for Deducting Pay: You must be able to prove the payment was made for services actually performed.

True
False

8) Gifts of nominal value: If, to promote employee goodwill, you distribute turkeys or hams to your employees at holidays, you can fully deduct the cost of these items as a nonwage business expense.

True

False

9) Fringe Benefits--Group term life insurance coverage: You can deduct the cost of group term life insurance coverage if you (the business owner) or one of your relatives are directly the beneficiary of the policy.

True

False

10) Property: If you transfer property (including your company's stock) to an employee as payment for services, you can generally deduct it as wages.

True

False

11) Which of the following expenses is generally fully deductible as business rent expense:

a) Above-market rent paid to your brother-in-law for your business office

b) Rent you paid for a vacation home for your family vacation

c) An amount paid to cancel a business lease

d) Rent paid for a storage unit, which stores personal items removed from the room you use as your home office

12) To be considered a leveraged lease, the three parties involved are usually a lessor (landlord), a lessee (tenant) and a(n) _____ (the third party involved).

a) Lender to the lessor

b) Real estate broker

c) Attorney

d) Real estate developer

13) Cost of Getting a Lease: Commissions paid to get a lease on property can be expensed in the initial year of the lease, provided the lease term is not longer than five years.

True

False

14) Allocation of Interest: If you use your child's champion Shetland Pony to secure a loan, you can still deduct 100% of the interest as a business expense if the loan proceeds are used in the business.

True

False

15) Interest Deductibility: You were late depositing your employment taxes. The interest charged on your late payment of employment taxes related to your business is deductible.

True

False

16) Below-Market Loan: If you wish to calculate "forgone interest" on a below-market loan, you should use a bank loan rate of your own choosing since the IRS does not publish applicable federal rates.

True

False

17) You can deduct which of the following taxes as business expenses:

- a) Legacy taxes
- b) Federal income taxes
- c) Estate taxes
- d) Real estate taxes

18) Real estate taxes: Water bills and other service charges assessed against your business property are classified as real estate taxes.

- True
- False

19) Income taxes: Cathy owns chewychocolates.com as an individual and files a Schedule C. Her state assesses a tax on gross income.

Cathy CANNOT deduct the state income tax paid on her Schedule C.

- True
- False

20) Which of the following taxes are not fully deductible as business expenses:

- a) Occupational taxes
- b) Sales taxes
- c) Excise taxes
- d) Federal income taxes

21) Deductible premiums: You generally cannot deduct premiums for the following kinds of insurance related to your business:

- a) Credit insurance on losses from unpaid debts
- b) Workers' compensation insurance
- c) State unemployment insurance
- d) All of the above are generally deductible

22) Qualified long-term care services can include pet sitting, provided such care does not exceed four weeks per year.

- True
- False

23) Capitalizing premiums: The uniform capitalization rules apply in which of the following cases:

- a) You make hinges which you sell wholesale to door manufacturers and your indirect costs of production are \$350,000 per year
- b) You are a temporary personnel placement firm
- c) You buy and sell used comic books; your average annual gross receipts have unfortunately never exceeded \$50,000
- d) You do public speaking to Fortune 500 companies

24) Research and experimental costs: Which of the following qualifies as a research and experimental cost?

- a) Advertising of the product, prior to completion of development
- b) Acquisition of a competitor's patent
- c) Consumer surveys after development
- d) Attorneys fees associated with making a patent application

25) Intangible drilling costs: You cannot deduct in one year all the intangible drilling costs paid for a productive oil well located outside the U.S.

- True
- False

26) Exploration costs: A corporation (other than an S corporation) can deduct what maximum % of its domestic exploration costs, with the balance of the costs being capitalized:

- a) 100%
- b) 70%
- c) 50%

27) Circulation costs: The costs to hire extra employees to make those pesky telephone solicitation calls to increase magazine circulation are fully deductible as a business expense.

- True
- False

28) Barrier removal costs: Architectural barrier removal costs that can be deducted include costs to modify all of the following EXCEPT:

- a) Coffee maker
- b) Drinking fountains
- c) Doors and doorways
- d) None, if you anticipate no elderly or handicapped people visiting your facility

29) Form 4562: You need to use Form 4562 for which of the following situations:

- a) You deduct amortization that begins this year
- b) You deduct amortization that began last year and you don't begin to amortize any additional items
- c) You change your business name
- d) You discontinue operations

30) Section 197 intangibles: Which of the following is NOT a Section 197 intangible:

- a) Goodwill
- b) Bad debts
- c) Trade name

31) Section 197 intangibles: Accounts receivable or other similar rights to income for goods or services provided to customers before the acquisition of a business are section 197 intangibles.

- True
- False

32) Anti-churning rules: The anti-churning rules do NOT apply if:

- a) The purchase is a dairy located in Wisconsin.
- b) You acquired the intangible asset from your deceased uncle and its basis was stepped up to its fair market value.
- c) You acquired the intangible asset from your brother who is still very much alive.
- d) The intangible asset you acquired is land only, with no buildings.

- 33) Disposition of section 197 intangibles: If you held the intangible one year or less, any gain on its disposition is an ordinary gain.
True
False
- 34) Reforestation costs: A partner individually can make the choice to amortize reforestation costs incurred by the partnership.
True
False
- 35) Reforestation costs: Property in South America could be "Qualified Timber Property."
True
False
- 36) Research and Experimental Costs: Once you elect to amortize research and experimental costs, you can still change to a write-off method without IRS approval, provided that change is made within 3 years of the original election.
True
False
- 37) Mineral property: When choosing between cost depletion and percentage depletion methods, generally you must use the method that gives you the larger deduction.
True
False
- 38) Timber: Depletion takes place annually, whether or not you cut any standing timber.
True
False
- 39) If you use the cash method of accounting, you can take a bad debt deduction for amounts owed to you that you cannot collect in the year you determine such amounts are uncollectible.
True
False
- 40) When debt is worthless: You do not have to wait until a debt is due to determine whether it is worthless.
True
False
- 41) For the second half of 2008 the standard mileage rate for a car used in business driving was \$0.585/mile. .
True
False
- 42) Per diem and car allowances: The federal government publishes "federal per diem rates" which vary by city.
True
False

43) Meals and entertainment: You host an ice cream social for your minimum wage employees. The expense for this activity is fully deductible.

- True
- False

44) Nonaccountable plans: Your wine store provides free wine tasting parties open to the public every Friday afternoon. The cost of these wine tastings (the wine and cheese) is fully deductible and not subject to the 50% limit applicable to business meals.

- True
- False

45) Charitable contribution gifts to a recognized charity are deductible as business expenses.

- True
- False

46) If you travel frequently for business, and only use the airline club on business trips, the cost of the annual membership fee in the airline club is deductible.

- True
- False

47) Club Dues: If you elect to join the newly formed FunCPE Golf Club for Online Golf, the annual dues of \$100,000 would be deductible as a business expense.

- True
- False

48) You invite Ms. Jones into the office for a second round of interviews. After a full day of intensive interviews, you suggest that she go out with the group for drinks. You reimburse her for all of her expenses. The charge for her drinks and appetizers is fully deductible by the company as a recruiting expense.

- True
- False

49) On January 1st, your company hires a person full-time whose sole responsibility is to influence legislation related to your industry. The expenses related to this person and his activities are NOT deductible. Assume your company is not in the business of lobbying.

- True
- False

50) As the building owner, you contracted to complete the build-out for a new tenant by March 31st. Unfortunately, you were unable to complete the build-out on time and had to pay \$15,000 in penalties to the tenant. These penalties are deductible.

- True
- False

Exam Name: Business Expenses-Tax Year 2008
-Final Exam

- 1) You can obtain IRS forms and other information using the Internet at www.irs.gov.
True
False
- 2) Personal Expenses: Generally you can deduct personal expenses as business expenses provided they fall into the following categories: sports equipment, clothing, haircuts or manicures.
True
False
- 3) Not-for-Profit Activities: Expenses for a part-time business you run out of your garage may be tax deductible if you conduct your activities in a business-like manner and the time and effort you put into the activity indicate you intend to make it profitable.
True
False
- 4) Presumption of Profit: An activity is presumed carried on for profit provided it breaks even in 1 out of every 2 years (i.e. 50% of the time).
True
False
- 5) Kinds of Pay: You may not owe employment taxes on the value of achievement awards provided to employees.

True
False
- 6) Educational Expenses: If you pay or reimburse education expenses for an employee, you can deduct the payments if they are part of a qualified educational assistance program.
True
False
- 7) Meals and lodging: You can deduct the full cost of meals you furnish to your employees as part of the expense of providing recreational or social activities, such as a company picnic.
True
False
- 8) Meals and lodging: You provide lunch to your employees every Friday, and include the cost of the lunch in the employees' pay. These meals are 100% deductible.
True
False
- 9) Life insurance coverage: You can deduct life insurance purchased for the owner of the business if the owner's spouse is the beneficiary of the policy.
True
False

10) Reimbursements for Business Expenses: If you make payments to employees for reimbursement of business expenses under an accountable plan, you should deduct it as wages and include it in the employee's W-2.

- True
- False

11) Vacation Pay: Vacation pay is not deductible if the employee is entitled to more than 8 weeks of vacation per year.

- True
- False

12) Rent Expense: Which of the following appear to indicate that a conditional sales contract exists:

- a) The agreement is with your brother-in-law
- b) You get title to the property after you make a stated amount of required payments
- c) The agreement designates part of the payments as interest
- d) B and C

13) Taxes on Leased Property: You may be able to deduct taxes on leased property as "additional rent" depending on the circumstances.

- True
- False

14) Improvements by Lessee: If you make permanent improvements to leased property, these improvements must be depreciated using the MACRS method and cannot be amortized over the remaining term of the lease.

- True
- False

15) Interest Deductibility: If you are liable for part of a business debt, you can deduct only your share of the total interest paid or accrued.

- True
- False

16) Interest Deductibility: Interest charged on income tax assessed on your individual income tax return is considered a business deduction provided you earned greater than 50% of your total income from your business.

- True
- False

17) Below-Market Loan: Which of the following loans are specifically exempted from the rules for below-market loans:

- a) Some loans to federal inmates for business startup costs, provided such loans are >\$100,000
- b) Some employee-relocation loans
- c) Certain loans for luxury yacht purchases
- d) Certain loans made pursuant to new multi-level marketing businesses start-up costs

- 18) Real estate taxes: You can deduct taxes assessed for new public parking facilities, if those facilities are within 100 feet of the edge of your property.
True
False
- 19) Real estate taxes: Once you elect to ratably accrue real estate taxes, you must use that method unless you file a form with the IRS to change the election.
True
False
- 20) Employment taxes: You can deduct 100% of your self-employment tax as a business expense in figuring your AGI.
True
False
- 21) Deductible premiums: The health insurance deduction for a self-employed individual with a net profit reported on schedule C is:
a) 70%
b) 80%
c) 100%
d) -0-
- 22) The premiums paid for a qualified long-term care insurance contract for your dependents are subject to what limitation?
a) Deductible premium amount may be limited by the person's age
b) The amount deducted cannot exceed 5% of your AGI
c) If you change insurance carriers in mid-year, you can only deduct payments to the first carrier
d) The long-term care insurance must provide coverage for cancer
- 23) Deductibility of premiums: You cannot deduct the premiums as a business expense if you take out life insurance on yourself or another person with a financial interest in your business to get or protect a business loan.
True
False
- 24) Carrying charges: You can choose to capitalize carrying charges separately for each project you have and for each type of carrying charge.
True
False
- 25) Intangible drilling costs: Intangible drilling costs can be:
a) Deducted currently
b) Deducted over the 60-month period beginning with the month they were paid or incurred
c) Either of the above methods is acceptable
- 26) Exploration costs: Each partner, not the partnership chooses whether to capitalize or to deduct that partner's share of exploration costs.
True
False

- 27) Development costs: You can deduct costs incurred during the tax year for developing a mine located in the U.S. as long as you discover even a very small quantity of ores or minerals.
True
False
- 28) Costs of removing barriers to the disabled and the elderly: You can deduct the costs of making a facility more accessible by those who are disabled or elderly, up to \$15,000 per year.
True
False
- 29) Amortization is a method of deducting capital costs over a fixed period of time, similar to the straight line method of depreciation.
True
False
- 30) Business start-up costs: Start-up costs can include the following items:
a) A survey of potential markets
b) Advertisements for the opening of the business
c) Wages for employees who are being trained
d) All of the above
- 31) Section 197 intangibles: Goodwill is defined as the amount you could deduct if the well-known charity Goodwill Industries were to accept 100% of the intangibles as a donation.
True
False
- 32) Section 197 intangibles: A professional sports franchise is classified as a section 197 intangible.
True
False
- 33) Anti-churning rules: For purposes of the anti-churning rules, related persons include: an individual's spouse, ancestors and lineal descendants.
True
False
- 34) Disposition of section 197 intangibles: A covenant not to compete is considered disposed of or worthless even if you sell only a percentage of the business, as long as that percentage is greater than 10%.
True
False
- 35) Reforestation costs: You can choose to amortize a limited amount of reforestation costs for qualified timber property over which of the following periods:
a) 60 months
b) 72 months
c) 84 months
d) Depends on the types of trees planted

- 36) Pollution control facilities: You can choose to amortize the cost of a certified pollution control facility over which of the following periods:
- a) 60 months
 - b) 72 months
 - c) 84 months
 - d) Depends on the type of pollution being controlled
- 37) Depletion on mineral property can be figured with which of the following methods?
- a) Cash or accrual depletion
 - b) Royalty method depletion (partnerships only)
 - c) Gross income or net income bonus depletion
 - d) Cost or percentage depletion
- 38) Mines and geothermal deposits: If you wish to include the cost of transportation of the ore or mineral of more than 50 miles in the computation of gross income from mining, you must file an application with the IRS
- True
 - False
- 39) Bad debts, whether business or non-business may be deductible on your tax return.
- True
 - False
- 40) If you make a loan to an employee and that employee does not pay back the full amount of the loan, you CANNOT treat any unpaid loan amount as a bad debt.
- True
 - False
- 41) How to Treat: Which of the following are valid ways to treat business bad debts:
- a) Nonaccrual-experience method, if you meet specific requirements
 - b) Specific charge-off method
 - c) Cash basis percentage write-off method
 - d) A and B
- 42) Accountable plans: You advance all of your employees \$100,000 at the beginning of each year for travel expenses expected during the year. The employees do not have to return any excess not spent at the end of the year, as long as that excess is less than \$500. This qualifies as an accountable plan.
- True
 - False
- 43) Meals and entertainment: Your employee Mary Jones spends \$250 to take a client out to dinner in Omaha. You reimburse her for 75% of the cost (\$187.50). You do not provide a per diem allowance. Your deduction under an accountable plan would be:
- a) \$250.00
 - b) \$187.50
 - c) \$125.00
 - d) -0-

- 44) Bribes and kickbacks: Your lawn service gives you a referral fee anytime you refer a new customer to them. This referral fee may be deductible by the lawn service company in which situation?
- a) Each referral fee does not exceed \$50.
 - b) The referral fee is paid uniformly to everyone that gives them a referral.
 - c) Any state law related to this practice is not generally enforced.
 - d) The lawn service correctly reports any referral fees on Form 1099-Misc.
- 45) Charitable contributions. Which of the following cash gifts would be deductible as a business expense?
- a) Contribution to a church
 - b) Contribution to a local public elementary school
 - c) Contribution to the American Cancer Society
 - d) None-cash payments to charitable organizations are not deductible as business expenses if the payments are charitable contributions or gifts
- 46) Club dues and membership fees. Membership dues in which of the following would be deductible as a business expense?
- a) Airline club
 - b) Golf club
 - c) AICPA (American Institute of Certified Public Accountants)
 - d) Club Med
- 47) Interview expense allowance. You interview a bright new Duke graduate for a position in the accounting department. Which of the following reimbursements are NOT 100% deductible by the company?
- a) Breakfast
 - b) Parking
 - c) Toll road charges
 - d) Mileage
- 48) Lobbying expenses. Which of the following expenses would be deductible as a business expense?
- a) Travel expenses related to your interview of a political candidate (you work for a newspaper and write a column)
 - b) Advertising on TV to influence the public about an upcoming referendum
 - c) Payroll costs related to an employee's workday time spent working on a city commissioner's campaign for re-election
 - d) Office supplies used to reprint a one-page political flyer for an upcoming presidential election.
- 49) Moving machinery: Which of the following moving costs must be capitalized?
- a) Delivery charges on a new machine.
 - b) Moving machinery from one city to another city.
 - c) Moving machinery from one plant to another plant.
 - d) Moving machinery from one area of a plant to another area of the same plant.
- 50) Penalties and fines. Which of the following is considered deductible?
- a) Fine paid for conviction of a crime
 - b) Penalty paid for late completion of a building

- c) Penalty imposed by the IRS
- d) Payment made in settlement of a potential fine in a civil suit