


Review Questions and Final Exam

Course name:	Innocent Spouse Relief-2008
Course number:	1014N.08
Number of questions:	Review: 27 Final Exam: 28
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	5 CPE hours
Recommended study time:	5 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference texts:	<p>1) IRS 2008 Publication 971 Innocent Spouse Relief (free download) 23 pages</p> <p>2) IRS 2007 Publication 555 Community Property (free download) 14 pages</p>
	
Subject classification:	Taxation
Course updated:	October 24, 2008
Learning objective:	To understand the different types of tax relief available to married taxpayers filing jointly. To also be able to assess who may qualify for relief and how to obtain such relief. To understand how community property is determined and how it affects your federal income tax liability.
Instructions:	<p>This copy of the exam can be used to answer questions while offline.</p> <p>Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password.</p>

Exam Name: Innocent Spouse Relief--Review Questions

- 1) When a joint tax return is filed, each spouse is individually responsible for the tax and any interest or penalty due on the joint return, even if they later divorce.
True
False
- 2) Publication 971 covers Innocent Spouse Relief and Injured Spouse Claims.
True
False
- 3) If you are requesting relief for two different tax years, you will need to file a Form 8857 Request for Innocent Spouse Relief for each tax year for which you are requesting relief.
True
False
- 4) John and Marlene receive a deficiency notice from the IRS for \$600,000. The liability arises from income from Marlene's illegal business activities. John believes that only Marlene should be held liable for the tax deficiency. No attempt has been made yet by the IRS to collect the tax due. John must file a Form 8857 Request for Innocent Spouse Relief within one year of receipt of the deficiency notice to obtain relief.
True
False
- 5) Bill and Betty Ann were assessed with a tax deficiency of \$399,000 related to their 2005 joint tax return. In 2007, they entered into an offer in compromise with the IRS. In 2008, Bill discovered that the deficiency related to an investment of Betty Ann's which he knew nothing about.

Because he entered into an offer in compromise with the IRS, it is too late for him to request innocent spouse relief.

True
False
- 6) When you are granted innocent spouse relief, you are relieved of liability for the unpaid tax, interest and penalties under state transferee liability.
True
False
- 7) If you file a Form 8857 requesting Innocent Spouse Relief, the IRS will notify your spouse.
True
False
- 8) If your request for Innocent Spouse relief is denied by the IRS, you may be able to petition the United States Tax Court to review your request.
True
False

9) If you live in a community property state, community property laws are not taken into account when filing a tax return, but are taken into account in determining whether an item belongs to you or to your spouse for purposes of requesting any relief from liability.

- True
- False

10) If you reside in a community property state and file a joint tax return, you can be relieved of the tax, interest and penalties under relief arising from Community Property Laws.

- True
- False

11) Carla and her husband file separate tax returns. Carla knew that her husband was not reporting all of the income from their family business but she had no idea of the dollar amount involved. Because Carla lives in a community property state and she did not know the amount of the income understatement, she can qualify for relief from liability arising from community property law.

- True
- False

12) When requesting relief from liability arising from community property law, the filing deadline for Form 8857 is two years from the date the IRS first attempted to collect the tax from you.

- True
- False

13) An "erroneous item" is an item of gross income that is not reported or an incorrect deduction, credit or basis.

- True
- False

14) For the past five years, Joni and LeRoy had reported income from the rental of a property they own. When Janet prepared the 2007 tax return, no rental income was reported. LeRoy knew that they still owned the property in 2007, but never asked Joni about the rental income when he signed their joint return. Given this situation, the IRS may determine that LeRoy knew or had reason to know that there was an understatement of tax due to an erroneous item and deny a request by him for innocent spouse relief.

- True
- False

15) You may qualify for partial relief if you knew of only a portion of the understated income on your joint tax return.

- True
- False

16) Travis and Mary filed a joint return for 2006. They divorced in 2007 and have now been assessed with an understatement of tax for \$250,000 related to tax year 2006.

Since they are now divorced and no longer members of the same household, Mary will definitely be granted relief by separation of liability and will only be responsible for \$125,000 of the liability.

- True
- False

- 17) Throughout their marriage, Margaret physically abused Gary. When they filed their most recent joint tax return, Gary knew that Margaret was reporting their two dogs as dependents. Even though Gary knew of the improper deduction, he may be entitled to innocent spouse relief.
- True
False
- 18) You can only be granted a relief from underpayment of tax by way of Equitable Relief.
- True
False
- 19) The IRS will consider several factors to determine whether to grant Equitable Relief. Which of the following factors would NOT be considered relevant?
- a) Mary will not be able to make the payments on her Lexus if she is held responsible for the tax liability.
 - b) Under their divorce decree, John is obligated to pay all tax liabilities.
 - c) During their marriage, Mary was never involved in John's business activities or their financial matters and believed John when he lied and told her that he had paid their taxes.
 - d) Mary has complied fully with all federal income tax laws in the years following the year in question.
- 20) If you are granted relief for an underpayment of tax, you may be eligible for a refund of joint payments.
- True
False
- 21) One of the rules for qualifying for innocent spouse relief, is that it would be unfair to hold you liable for an understatement of tax when taking into account all of the facts and circumstances.
- True
False
- 22) “Injured spouse relief” and “innocent spouse relief” are interchangeable terms that provide the same type of relief for taxpayers.
- True
False
- 23) * * * Community Property * * *
- You spend most of the summer every year at a rented cottage at the beach in another state. The rest of the year you spend at your home in the city where you work, and where you are registered to vote. You could choose to use either of these locations as your domicile.
- True
False
- 24) Assume you are domiciled a community property state. During your first year of marriage, your spouse purchased a big-screen TV, using a check from your joint checking account.
- Because your spouse purchased this TV alone, the TV is considered separate property.
- True
False

- 25) Community income that is exempt from federal taxes generally keeps its exempt status for both spouses.
True
False
- 26) If you receive an annulment of your marriage, you and your former partner could still have community property that might need to be divided between the two of you.
True
False
- 27) If you and your spouse file separate returns, you cannot claim the standard deduction if your spouse itemizes deductions.
True
False

Exam Name: Innocent Spouse Relief--Final Exam

- 1) A former spouse who filed a joint return can be relieved of the tax, interest and penalties under all EXCEPT which one of the following:
a) Relief by Separation of Liabilities
b) Innocent Spouse Relief
c) Equitable Relief
d) Relief Arising from Community Property Laws
- 2) Emma plans to request innocent spouse relief for taxes, interest and penalties on the joint returns she filed with her husband in 2006 and 2007. Emma, who is still married, should:
a) File a SEPARATE Form 8857 Request for Innocent Spouse Relief for each year
b) File a SINGLE Form 8857 Request for Innocent Spouse Relief covering both 2006 and 2007
c) Wait until her divorce is finalized and all her paperwork is in order to file a Form 8857
d) File her 2008 tax return as married, filing separately and take a casualty loss deduction for the taxes, interest and penalties
- 3) Bill and Bonnie are married taxpayers who have filed joint returns in the past and do NOT live in a community property state. • August 1, 2007 Bill and Bonnie receive a notice of deficiency from the IRS for \$3,300 related to their 2006 return • February 1, 2008 the IRS garnishes \$1,000 from Bill's paycheck • March 1, 2008 Bill finds out the tax deficiency is related to Bonnie's gambling winnings which she had kept secret from him. Bill must file his Form 8857 no later than _____.
a) August 1, 2009
b) February 1, 2010
c) March 1, 2010
d) August 1, 2010
- 4) Marlene filed a Form 8857 requesting Innocent Spouse Relief related to the 2007 joint tax return she filed with her ex-husband, George. The IRS denied Marlene's request and did not grant her request for relief.

Because the request was denied, George will not be notified of Marlene's request.

True

False

5) Will and Wanda were assessed \$99,000 for an understatement of tax on their return. After lengthy negotiations, they entered into a closing agreement with the IRS, settling the liability. One year after the settlement date, Will filed a Form 8857 requesting innocent spouse relief for the understatement, as the amount related entirely to Wanda's cricket breeding operation. Given these circumstances, Will may be entitled to innocent spouse relief.

True

False

6) August 1, 2008 Jim filed Form 8857 requesting innocent spouse relief for items on the 2007 joint tax return he filed with his wife Jerreanne. Jim received a final determination notice postmarked October 1, 2008 from the IRS denying his request for relief. Jim intends to request a review by the U.S. Tax Court. The deadline for Jim to file his petition for review is _____.

a) November 1, 2008

b) December 29, 2008

c) October 1, 2009

d) August 1, 2010

7) If you are liable for unpaid tax, interest and penalties under federal transfer liability laws, you may remain liable for those amounts even if you are granted relief from those liabilities under the innocent spouse relief provisions.

True

False

8) Scott and Laurie live in Texas, a community property state, and file separate tax returns.

Because it is a community property state, 50% of Scott's income will be allocated to Laurie when Laurie requests relief from liability.

True

False

9) Individuals who live in community property states can only qualify for relief from liability arising from community property law if they did NOT file a joint tax return with their spouse.

True

False

10) The IRS will take into account the following facts and circumstances in determining whether a spouse had "reason to know of an item of community income" EXCEPT for:

a) The person's educational background.

b) The person's prison record, if any, and the nature of the related crime.

c) The nature of the item of community income and the amount of the item relative to other income items.

d) The financial situation of the person or their spouse

11) Maggie and Michael lived in Texas, a community property state. During their marriage they always filed separate tax returns. In 2008, Maggie won \$500,000 from a scratch off lottery ticket and ran off two weeks later, leaving Michael and filed for a legal separation.

Even though lottery winnings are considered community property income in Texas, Maggie never told Michael about the winnings, so Michael never reported any amount on his tax return.

Maggie never shared any of the money with Michael, but because she felt guilty, she purchased a \$100,000 motorcycle for Michael in 2009.

The IRS has assessed Michael with an underpayment of taxes for not reporting his share of the lottery winnings. Because Michael did not actually receive any of the lottery winnings, he has a good chance of having his request for relief from liability arising from community property law granted.

True
False

12) For purposes of claiming innocent spouse relief, which of the following would be considered an erroneous item?

- a) Your spouse incorrectly reported his social security number.
- b) Your spouse failed to file a change of address with the IRS when you relocated.
- c) Your spouse did not correctly total the income items reported on your joint tax return.
- d) Your spouse claimed a business expense deduction for his Gucci loafers, which he classified as "Uniform Expense."

13) When an item of income which has been regularly reported on prior years' returns is omitted, the IRS may determine that you had "reason to know" of this erroneous item when your return was filed and deny your request for innocent spouse relief even if you did not actually know that the item was erroneous.

True
False

14) Rhonda knew that her husband Tom's dry cleaning business was doing well and generating a profit. Rhonda knew that when some customers paid in cash, Tom would not issue a receipt and would pocket \$10,000 each year to pay for their annual vacation. Under audit, the IRS determined that Tom had, in fact, pocketed and failed to report and pay taxes on \$50,000 of cash sales. Rhonda is requesting innocent spouse relief since she had no idea that Tom had failed to report \$50,000 of income instead of the \$10,000 she knew of.

Assuming that Rhonda meets other conditions necessary for granting relief, could she be eligible?

- a) Yes, but only on the \$40,000 that she did not know of.
- b) Yes, on the full \$50,000 since she was unknowingly deceived by Tom.
- c) No, Rhonda knew that Tom was not fully reporting income and therefore fails the "actual knowledge." test.
- d) No, Rhonda and Tom would need to be legally separated or divorced for Rhonda to be eligible.

15) Paul and Stacy are estranged and no longer speak with each other. Because they cannot afford to divorce, they share the house but sleep in separate bedrooms. Even though they are still living together, Paul can qualify for relief by separation of liability because they are estranged.

True
False

16) Even if you had actual knowledge related to an understatement of tax, you MAY still qualify for relief if:

- a) The understatement is less than 10% of your total tax due.
- b) You did not challenge the treatment of any items on the return because you were afraid your spouse would retaliate against you.
- c) You were legally separated when the understatement occurred.
- d) You forgot to sign the return.

17) Frank and Lisa filed a joint return and reported the \$150,000 that Lisa won at the horse track. They owed \$30,000 with the return, but when it was filed, Lisa did not include the check and instead, spent the money on a trip to visit her family in Alaska. The IRS has assessed Frank and Lisa with a \$30,000 underpayment of tax plus interest and penalties.

Frank may be able to qualify for relief from this underpayment under which of the following provisions:

- a) Innocent spouse relief
- b) Relief by separation of liability
- c) Equitable relief
- d) Innocent separation relief

18) Brad and Jill made estimated tax payments of \$80,000 throughout the year and filed a joint return that reflected a refund of \$25,000 owed to them. The return was audited and it was determined that there was an understatement of tax in the amount of \$32,000 because Brad had not reported \$123,000 of gambling winnings.

Jill was granted relief for the underpayment of tax on the tax return she filed with Brad. Jill is eligible for a refund of what amount?

- a) \$40,000
- b) \$25,000
- c) \$12,500
- d) -0-

19) Which one of the following factors is considered relevant in determining whether to grant equitable relief?

- a) Your spouse had a legal obligation under your divorce decree to pay the tax liability.
- b) You were convicted of financial securities fraud 10 years ago.
- c) Your spouse earned a greater proportion of the income in the tax years related to the tax liability.
- d) You have requested innocent spouse relief in the prior 3 years.

20) Don & Juanita claimed a credit for child care expenses of \$500 on their joint tax return. Under audit, the credit was reduced to \$100. In other words, they now owe \$400 more in taxes.

If the couple had filed separate returns, no credit would have been available.

If Juanita files for innocent spouse relief, what is the understated tax amount that must be allocated between them?

- a) \$500 because neither of them would have been entitled to the credit had they filed separate returns.
- b) \$400, the difference between the claimed credit and the credit allowable on their audited joint return.

- c) \$100 because that is the corrected amount of the credit
- d) \$0 because no credit would have been allowed had they filed separate returns, no adjustments or allocations will be required when they allocate the understatement of tax under separation of liability.

- 21) Which of the following is NOT a condition that must be met in order to qualify for innocent spouse relief?
- a) You must have filed a joint return which has an understatement of tax.
 - b) The understatement of tax must be due to your spouse's erroneous items.
 - c) You must be legally separated or divorced from the person with whom you filed the joint return.
 - d) Taking into account the facts and circumstances, it would be unfair to hold you liable for the understatement of tax.

- 22) If the overpayment on a joint tax return you have filed was garnished to pay your spouse's past-due child support, you should consider requesting which of the following types of relief?
- a) Innocent spouse relief
 - b) Equitable relief
 - c) Relief arising from community property laws
 - d) Injured spouse relief

- 23) Publication 971 does NOT cover which type of relief?
- a) Injured spouse relief
 - b) Innocent spouse relief
 - c) Separation of liability
 - d) Equitable relief

- 24) * * * Community Property * * *

Which of the following would be considered community property?

- a) A grand piano that your wife inherited from her aunt, after you were married
 - b) A car you bought with cash from your joint savings account, after you were married
 - c) A coin collection that your husband inherited from his great-uncle, before you were married
 - d) A rental home that your wife purchased, before you were married
- 25) Which of the following is NOT considered in determining domicile?
- a) Where you are registered to vote
 - b) How long you have lived in a home
 - c) Where you attended college
 - d) Where you pay your state income tax
- 26) The marital community can end in several ways. Which of the following does NOT cause the marital community to end?
- a) A spouse dies
 - b) One spouse files for bankruptcy
 - c) The marriage is annulled
 - d) There is an absolute decree of divorce
- 27) If your filing status is married filing separately, you can still take the earned income credit.
- True
 - False

- 28) Assume you are married filing separately in a community property state. Which of the following items can be prorated so that part of the amount is reported on each person's separate return?
- a) Earned income credit
 - b) Amount allowed as an exemption for a dependent
 - c) Credit for federal income tax withheld on community wages
 - d) Any credit or exemption amount can be prorated to the separate returns