

Review Questions & Final Exam

Course name: **Individual Retirement Arrangements (IRAs)-2009**

Course number: 100809

Number of questions: Review 40
Final Exam 40

Prerequisite: None

Advance preparation: None

Course level: Basic

Recommended CPE credit: 7 CPE hours

Recommended study time: 7 hours

Course format: Interactive self study
CPE credit calculated as 100% of total study time (i.e. 50 minute hour)

Reference text: [IRS 2009 Publication 590 Individual Retirement Accounts \(free download\)](#)



<http://www.irs.gov>

110 pages

Subject classification: Taxation

Course updated: February 8, 2010

Learning objective: To review information about the tax advantages of an IRA, as well as how to set up, contribute to, transfer money or property to and from, make withdrawals, receive a distribution from and how to take credit for contributions to an IRA.

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.

Exam Name: Individual Retirement Arrangements-
Review Questions-2009

- 1) Jennifer Jamison is 79 and retired from her job as an aerobics instructor last year. She took a part-time job as a barrista at Starbucks, making \$15K/year. She CAN set up and make contributions to a Roth IRA this year.
True
False
- 2) For the purpose of a deemed IRA, a "qualified employer plan" does NOT include:
 - a) A qualified pension, profit-sharing, or stock bonus plan (section 401(a) plan)
 - b) A pre-tax preferred insurance plan (section 402(e) plan)
 - c) A tax-sheltered annuity plan (section 403(b) plan)
- 3) You should report interest earned from your IRA on your return as tax-exempt interest.
True
False
- 4) If you are NOT covered by an employer retirement plan and you file a joint return, you may be able to deduct all of your contributions to a traditional IRA even if your spouse is covered by a plan.
True
False
- 5) If you participate in an eligible deferred compensation plan of a state or local government (section 457 plan), you may be able to roll over part or all of your account tax free into a traditional IRA.
True
False
- 6) Advantages of a traditional IRA include all except:
 - a) You may be able to deduct some or all of your contributions to a traditional IRA, depending on your circumstances
 - b) Generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed
 - c) IRAs receive guaranteed interest of at least 2% APR when deposited with an FDIC institution
- 7) You can set up and make contributions to a traditional IRA if you are age 75 or older and received taxable compensation during the year.
True
False
- 8) Money in your individual retirement account cannot be used to buy a life insurance policy.
True
False
- 9) If you have more than one IRA, the limit applies to the total contributions made on your behalf to all your traditional IRAs for the year.
True
False
- 10) If contributions to your traditional IRA for a year were less than the limit, you can contribute more in a later year to make up the difference.
True
False
- 11) Contributions can be made to your traditional IRA for a year at any time during the year or by the due date for filing your return for that year including extensions.
True
False

- 12) If you were divorced or legally separated (and did not remarry) before the end of the year, you cannot deduct any contributions to your spouse's IRA.
True
False
- 13) Defined benefit plans can include all except:
a) Cafeteria plans
b) Pension plans
c) Annuity plans
- 14) Your modified Adjusted Gross Income may include income in addition to your compensation.
True
False
- 15) The difference between your total permitted contributions and your IRA deduction, if any, is your nondeductible contribution.
True
False
- 16) If you receive a distribution from your deceased spouse's IRA, you can roll that distribution over into your own IRA within the 60-day time limit, as long as the distribution is not a required distribution, even if you are not the sole beneficiary of your deceased spouse's IRA.
True
False
- 17) A rollover is a tax-free distribution to you of cash or other assets from one retirement plan that you contribute to another retirement plan.
True
False
- 18) You generally must make the rollover contribution by the 30th day after the day you receive the distribution from your traditional IRA or your employer's plan.
True
False
- 19) The payor does NOT have to withhold taxes from an eligible rollover distribution paid directly to you in which of the following situations:
a) The distribution consists solely of employer securities, plus cash of \$200 or less in lieu of fractional shares.
b) You agree in writing to deposit the full amount of the distribution into a qualified IRA account within 59 days.
c) You make a formal written request to the payor to not withhold any tax from the distribution.
d) The eligible rollover distribution is paid to you 100% in cash.
- 20) You can use a traditional IRA as a holding account (conduit) for assets you receive in an eligible rollover distribution from one employer's plan that you later roll over into a new employer's plan.
True
False
- 21) Generally, if you are under age 59 ½ you must pay a 15% additional tax on the distribution of any assets (money or other property) from your traditional IRA.
True
False
- 22) Treating a contribution made to one type of IRA as having been made to a different type of IRA is called recharacterizing the contribution.
True
False
- 23) If you made IRA contributions in the current year, you can withdraw them tax free by the due date of your return.
True

False

24) Figure your required minimum distribution for each year by dividing the IRA account balance as of the close of business on December 31 of the preceding year by the applicable distribution period or life expectancy.

True
False

25) The IRA account balance is the amount in the IRA at the end of the year preceding the year for which the required minimum distribution is being figured.

True
False

26) Although there is a required MINIMUM distribution for IRAs once you have attained age 70 1/2, there is no MAXIMUM distribution limit, and the entire balance can be distributed without penalty after age 59 1/2.

True
False

27) If your traditional IRA includes nondeductible contributions and you received a distribution from it this year, you must use Form 8606 to figure how much of this year's IRA distribution is tax free.

True
False

28) If you receive a distribution from your traditional IRA, you should receive a W-5.

True
False

29) Which of the following investments made with your IRA funds would NOT result in additional taxes and/or penalties?

- a) Investing in old master paintings
- b) Investing in certificates of deposit
- c) Taking early distributions
- d) Failing to take minimum distributions after age 70 1/2

30) Collectibles as defined in Publication 590 include:

- a) Penny stocks
- b) One ounce U.S. gold coins
- c) Real estate
- d) Antiques

31) Even if you receive a distribution before you are age 59 1/2, you may not have to pay the 10% additional tax if you are in one of the following situations:

- a) You are disabled
- b) You are the beneficiary of a deceased IRA owner
- c) The distributions are not more than your qualified higher education expenses
- d) Any of the above

32) You may be able to apply an excess contribution to a later year if the contributions for that later year are less than the maximum allowed for that year.

True
False

33) Roth IRA contributions must be reported on your tax return.

True
False

34) If, within the 5-year period starting with the year in which you made a conversion contribution of an amount from a traditional IRA to a Roth IRA, you take a distribution from a Roth IRA of an amount attributable to the portion of the conversion contribution that you had to include in income, you generally must pay the 10% additional tax on early distributions.

- True
- False

35) You are required to take distributions from your Roth IRA by April 1 of the year following the year in which you reach age:

- a) 59 ½
- b) 65
- c) 70 ½
- d) You are not required to take distributions from your Roth IRA at any age.

36) Ms. Smith is an 82 year old widow. This year, she took a distribution of \$5,000 from her Roth IRA, but she did not take any distributions from her traditional IRA. She can use this \$5,000 distribution to satisfy minimum distribution requirements for her traditional IRA.

- True
- False

37) The amount contributed under a salary reduction arrangement is called an elective deferral.

- True
- False

38) Employees whose retirement benefits are covered by a collective bargaining agreement (union contract) can be excluded by the employer from participating in the SIMPLE plan.

- True
- False

39) Generally, your employer must make matching contributions to your SIMPLE IRA in an amount equal to your salary reduction contributions (up to a maximum of 3% of your calendar year compensation).

Assume the employer does not make nonelective contributions.

- True
- False

40) If you anticipate that the IRS will question some items on your tax return, you can contact a Taxpayer Advocate prior to filing your tax return, to "get the ball rolling."

- True
- False

Exam Name: Individual Retirement Arrangements
--Final Exam-2009

1) Edith Edwards is 67 and had \$4,000 in taxable compensation for 2009. The maximum Roth IRA contribution she can make is _____ .

- a) -0-
- b) \$4,000
- c) \$5,000
- d) \$6,000

- 2) Jim and Jill are married filing jointly. Jim was covered by a retirement plan at work, but Jill was not. Neither one received social security benefits. Their AGI is \$165,350 for 2009. Jill's contribution to a traditional IRA:
- a) CANNOT be deducted.
 - b) Can be PARTIALLY deducted.
 - c) Can be FULLY deducted.
- 3) If a minimum distribution is required from your IRA, the trustee, custodian, or issuer that held the IRA at the end of the preceding year must either report the amount of the required minimum distribution to you, or offer to calculate it for you.
- True
 - False
- 4) If you make nondeductible contributions to a traditional IRA and you do not file Form 8606, Nondeductible IRAs, with your tax return, you may have to pay a standard \$75 penalty.
- True
 - False
- 5) You can take distributions from your traditional or Roth IRA without having to pay the 10% additional tax on early distributions for the following purpose(s):
- a) To purchase your teenager's first car
 - b) For qualified higher education expenses
 - c) To buy, build, or rebuild a first home (up to \$10,000)
 - d) All of the above
 - e) B and C
- 6) For distributions after 2001, you can roll over, tax free, a distribution from your traditional IRA into a qualified plan, including a deferred compensation plan of a state or local government (section 457 plan), and a tax-sheltered annuity (section 403(b) plan).
- True
 - False
- 7) The term "traditional IRA" includes both Roth and SIMPLE IRAs.
- True
 - False
- 8) Compensation includes:
- a) Wages, salaries, tips, professional fees, and bonuses
 - b) Commissions
 - c) Self-employment income
 - d) Alimony and separate maintenance
 - e) All of the above
- 9) Contributions on your behalf to a traditional IRA do not reduce your limit for contributions to a Roth IRA.
- True
 - False
- 10) Olivia and Henry have been married for 40 years and are both 56 years old at the end of 2009. They • have earned income totaling \$73,000 for 2009, • have never participated in a 401(k) plan maintained by an employer

who went into bankruptcy, • are not covered by an employer plan and • file jointly. The maximum total combined contributions Olivia and Henry can make to a traditional IRA for 2009 is:

- a) \$ 8,000
- b) \$10,000
- c) \$12,000
- d) \$14,000

11) If contributions to your IRA for a year were more than the limit, you can apply the excess contribution in one year to a later year if the contributions for that later year are less than the maximum allowed for that year.

- True
- False

12) The following expenses are part of your IRA contribution and, as such, are deductible subject to the limits:

- a) Trustees' administrative fees that are billed separately and paid in connection with your traditional IRA
- b) Brokers' commissions
- c) Meals eaten together with your broker while you discuss investment options for your traditional IRA
- d) All of the above

13) Types of defined contribution plans include:

- a) Profit-sharing plans
- b) Stock bonus plans
- c) Money purchase pension plans
- d) All of the above

14) Members of a reserve unit of the armed forces and volunteer firefighters that participate in a plan are always covered by the plan.

- True
- False

15) If you received distributions in the current year from one or more traditional IRAs and your traditional IRAs include only deductible contributions, the distributions are not taxable.

- True
- False

16) Your cost basis in your IRA is the sum of the nondeductible contributions to your IRA minus any withdrawals or distributions of nondeductible contributions.

- True
- False

17) Traditional IRA rules permit you to make the following tax free transfers from other retirement programs to a traditional IRA:

- a) Transfers from one trustee to another
- b) Rollovers
- c) Transfers incident to a divorce
- d) All of the above

18) You can roll over amounts from the following plans into a traditional IRA:

- a) A traditional IRA
- b) An employer's life insurance policy of which you are the beneficiary

- c) A real estate investment set up as a "tax shelter"
d) None of the above
- 19) A frozen deposit is any deposit that cannot be withdrawn from a financial institution because the financial institution is bankrupt or insolvent or the state where the institution is located restricts withdrawals because one or more financial institutions in the state are (or are about to be) bankrupt or insolvent.
True
False
- 20) You can avoid the 20% withholding by choosing the direct rollover option instead of having eligible rollover distributions paid directly to you.
True
False
- 21) A commonly-used method of transferring IRA assets to a spouse or former spouse is:
a) Changing the name on the IRA
b) Having the spouse forge your name and withdraw all assets
c) Making an indirect transfer of IRA assets
d) None of the above
- 22) You can receive distributions from a traditional IRA without penalty after you reach age 59 ½.
True
False
- 23) Early distributions for qualified higher education expenses may NOT be subject to the 10% additional tax if the education is for which of the following?
a) Your niece or nephew
b) Your mother or father
c) Your grandchildren
d) Your mother-in-law
- 24) If you are the owner of a traditional IRA, you must start receiving distributions from your IRA by April 1 of the year following the year in which you reach age:
a) 59 ½
b) 65
c) 70 ½
d) 75
- 25) Your distant relative died BEFORE his required beginning date for distributions from his IRA. As the designated beneficiary, you must base required minimum distributions for years after the year of the IRA owner's death on:
a) Your single life expectancy
b) The IRA owner's life expectancy
c) The "Five Year" rule
d) The average of you and your spouse's average life expectancy
- 26) In using the tables for lifetime distributions, marital status is determined as of January 1 each year.
True
False

- 27) The beneficiaries of a trust will be treated as having been designated as beneficiaries if certain conditions are met.
True
False
- 28) If you have a loss on your traditional IRA investment, you can recognize the loss on your income tax return:
a) When all the amounts in all your traditional IRA accounts have been distributed to you
b) When the total distributions are less than your unrecovered basis, if any
c) In the first year that the loss occurs
d) A & B
- 29) In general, if you are a U.S. citizen or resident alien and your home address is outside the United States or its possessions, you cannot choose exemption from withholding on distributions from your traditional IRA.
True
False
- 30) Which of the following is an example of a prohibited transaction with a traditional IRA:
a) Borrowing money from it
b) Investing in bank Certificates of Deposit
c) Placing all assets in a money market fund
d) Investing in common stock
- 31) In general, if the excess contributions for a year are not withdrawn by the date your return for the year is due (including extensions), you are subject to a 10% tax.
True
False
- 32) If distributions are less than the required minimum distribution for the year, you may have to pay a 50% excise tax for that year on the amount not distributed as required.
True
False
- 33) You may not contribute to your Roth IRA past the year in which you turn 70.
True
False
- 34) You can convert and reconvert an amount during the same taxable year, or if later, during the 30-day period following a recharacterization.
True
False
- 35) In the order of distributions from a Roth IRA, regular contributions come before earnings on contributions.
True
False
- 36) In certain circumstances, you may be able to deduct a loss on Roth IRA investments.
True
False

37) Mr. Simpson's great-uncle died and left his Roth IRA to Mr. Simpson. Mr. Simpson cannot combine this inherited IRA account with his own pre-existing account.

True

False

38) A SIMPLE plan is a tax-favored retirement plan used mostly by large corporations.

True

False

39) If Luther made only deductible contributions to his IRA, any distributions are fully taxable when he receives them.

True

False

40) A full-time student can not claim the tax credit for his or her eligible contributions to a qualified retirement plan.

True

False