


Review Questions and Final Exam

Course name:	Corporate and Partnership Taxation
Course number:	101009
Number of questions:	Review 50 Final exam 50
Prerequisite:	None
Advance preparation	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 texts:	 <p>1) IRS Publication 541 Partnerships (multiyear) (15 pages)</p> <p>2) IRS Publication 542 Corporations (multiyear) (28 pages)</p> <p>3) IRS Instructions for Form 1120S (2009) (43 pages)</p>
Subject classification:	Taxation
Course updated:	February 9, 2010
Learning objective:	To understand how the income tax law applies to partnerships, partners and corporations.
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>

Section 1: IRS PUBLICATION 542 (CORPORATIONS)

If you transfer property to a corporation in exchange for stock in that corporation, and immediately afterward you are in control of the corporation, the exchange is usually taxable.

- True
- False

2) Bill transfers property with a basis of \$200,000 to a corporation in exchange for stock with a fair market value of \$500,000. This represents 79% of each class of stock of the corporation. The other 21% was already issued to someone else.

Bill recognizes a taxable gain of \$300,000 on the transaction.

- True
- False

3) "Property" used in an exchange for stock can include the value of services rendered.

- True
- False

4) If the liabilities a corporation assumes in an exchange of property for stock is more than your adjusted basis in the property you transfer, gain is recognized up to the difference.

- True
- False

5) Contributions to the capital of a corporation are paid-in-capital.

- True
- False

6) Bill is not a shareholder in ZYZ Corporation. The basis of the property he contributes to capital is the same as he had in the property, increased by any gain the shareholder recognized on the exchange.

- True
- False

7) Your corporation's tax year ends December 31. Estimated tax installment payments are due on January 15, March 15, July 15, and September 15.

- True
- False

8) If a corporation determines its tax liability for the year will be more or less than originally estimated, it should continue making the same estimated tax payments (as originally calculated) and pay any additional tax due when the return is filed.

- True
- False

- 9) If a domestic corporation distributes a U.S. real estate interest to a foreign person or firm, it may have to withhold a tax on the fair market value of the property.
True
False
- 10) Zebo Corporation receives a loan from an individual with no interest charged. This type of loan is called a "Goodwill" loan.
True
False
- 11) Jumbo Corporation owns 15% of Mini Corporation's stock. Jumbo can deduct, within certain limits, 80% of the dividends received from Mini Corporation's stock.
True
False
- 12) ABC Corporation receives dividends from preferred stock with an issue price that exceeds its stated redemption price. These dividends should be treated as ordinary dividends.
True
False
- 13) A corporation that uses an accrual method of accounting cannot deduct business expenses and interest owed to a related person.
True
False
- 14) XYZ Corporation has a carryover of excess contributions and it does not use all the excess on its return for that year. The excess in this example cannot be carried over to future years.
True
False
- 15) The carryforward period allowed for corporations is only 7 years.
True
False
- 16) A corporation figures NOL in the same way it figures taxable income.
True
False
- 17) The passive activity rule applies to S corporations.
True
False
- 18) Calculus4Kids, Inc. has net earnings of \$5 million per year, on average. They plan to accumulate \$500 million in earnings. The company does not foresee a use for these funds, however they feel it is prudent to maintain a high degree of liquidity. This corporation may be subject to an accumulated earnings tax.
True
False

19) If distributed property was depreciable or amortizable, the corporation may have to treat all or part of the gain as ordinary income from depreciation recapture.

- True
- False

20) The expenses of issuing a stock dividend must be capitalized.

- True
- False

21) Section 2: IRS INSTRUCTION FOR FORM 1120S

Form 1120S is used to report the income, deductions, gains, losses, etc., of a domestic corporation that has elected to be an S corporation by filing Form 2553.

- True
- False

22) An election to be an S corporation can only be revoked by a majority vote of the officers of the corporation.

- True
- False

23) Interest is not charged on taxes paid late if an extension of time to file the return is granted.

- True
- False

24) The maximum penalty for a late filing of a tax return is 25% of the net amount due for each month the return is not filed.

- True
- False

25) Generally, dealers in securities must use the accrual accounting method described in Section 475.

- True
- False

26) If an amended return results in a change to income, or a change in the distribution of any income or other information provided any shareholder, an amended Schedule K-1 (Form 1120S) must also be filed with the amended Form 1120S and given to that shareholder.

- True
- False

27) The passive activity rules provide that losses and credits from passive activities can generally be applied only against income and tax from passive activities.

- True
- False

28) Jim is a shareholder in a corporation that owns several apartment complexes. He works full time as a combination apartment manager/leasing agent. This type of rental real estate activity is considered a passive activity for tax purposes.

- True
- False

29) Income from significant participation passive activities is subject to recharacterization.

- True
- False

30) To allow shareholders to correctly apply the passive activity loss and credit limitation rules, any corporation that carries on more than one activity must identify the shareholder's share of the corporation's self-charged interest income or expense.

- True
- False

31) Other Income reported on line 5 of the 1120S could include incidental income received by the business such as recovered bad debts that were specifically written off in prior years.

- True
- False

32) Salaries and wages included in cost of goods sold should not be included on Line 8 (Salaries and Wages) of Form 1120S.

- True
- False

33) The interest expense on debt used to purchase rental property or debt used in rental activity should not be included on line 13 for Form 1120S.

- True
- False

34) The purpose of Schedule K-1 is to show the separate share of the corporation's income, deductions, credits, etc. for each individual shareholders of an S corporation.

- True
- False

35) S corporations with accumulated earnings and profits must maintain the accumulated adjustments account (AAA) to determine the tax effect of distributions during S years and the post-termination transition period.

- True
- False

36) Section 3: PARTNERSHIPS - PUBLICATION 541

A joint undertaking merely to share expenses is considered a partnership.

- True
- False

- 37) Members of a limited liability company (LLC), unlike a partnership, are not personally liable for its debts.
True
False
- 38) The partnership agreement and any modifications can be made orally and do not have to be a written agreement.
True
False
- 39) Certain partnerships can choose to be completely or partially excluded from being treated as partnerships for federal income tax purposes.
True
False
- 40) If any gain or loss from a partnership distribution is recognized by the partner, it must be reported on his or her return for the tax year in which the distribution is received.
True
False
- 41) If a partnership acquires a partner's debt and extinguishes the debt by distributing it to the partner, the partner will recognize capital gain or loss to the extent the fair market value of the debt differs from the basis of the debt.
True
False
- 42) The adjusted basis of Sally's partnership interest is \$15,000. She receives a distribution of property that has an adjusted basis of \$10,000 and \$2,000 in cash. Her basis for the property is \$10,000.
True
False
- 43) William is a partner with the law firm of Dim, Grimm and Associates. He receives guaranteed payments for doing the monthly accounting services. For his tax purposes, these guaranteed payments are treated as a partner's distributive share of ordinary income and are not subject to income tax withholding.
True
False
- 44) Gains are always treated as ordinary income in a sale or exchange of property directly or indirectly between a person and a partnership, or between two partnerships.
True
False
- 45) A gain is not recognized when property is contributed (in exchange for an interest in the partnership) to a partnership that would be treated as an investment company if it were incorporated.
True
False

46) A partner's basis in a partnership interest always includes the partner's share of a partnership liability.

- True
- False

47) A partner's share of nonrecourse liabilities is generally proportionate to his or her share of partnership profits.

- True
- False

48) Under certain circumstances, an exchange of partnership interests may be treated as a tax-free contribution of property to a partnership.

- True
- False

49) A partnership may be subject to a penalty of up to \$50 for each failure to file Form 8308 and a \$50 penalty for each failure to furnish a copy of Form 8308 to a transferor or transferee, unless the failure is due to reasonable cause and not willful neglect.

- True
- False

50) A partnership can adjust the basis of its property only if it files an election to make an optional adjustment to the basis of its property upon all distributions and transfers.

- True
- False

Exam Name: Corporate and Partnership Tax
--Final Exam-2009

CORPORATIONS

Which of the following could be a personal service corporation?

- a) Manufacturing company
- b) Retail store
- c) Architecture firm
- d) Insurance company

2) If you transfer property to a corporation in a bankruptcy proceeding in exchange for corporate stock used to pay creditors, the transfer is NOT taxable.

- True
- False

3) To be in control of a corporation, you must own at least ____ % of the total combined voting power of all classes of stock entitled to vote.

- a) 60
- b) 80
- c) 90
- d) 100

4) A corporation that receives property from you in exchange for its stock generally has the same basis you had in the property.

True
False

5) Any contributions to the capital of a corporation by shareholders are taxable to the corporation.

True
False

6) The basis of property contributed to capital by a person who is not a corporate shareholder is:

- a) FMV on date of contribution
- b) FMV at end of the corporation's tax year
- c) Original cost basis of contributor
- d) Zero

7) The tax year for Golden Corporation ends July 31. Golden must file its income tax return (if no extension is filed) by:

- a) September 30
- b) October 1
- c) October 15
- d) December 31

8) An immediate catchup payment should be made to reduce any penalty resulting from the underpayment of any earlier estimated tax installment payments.

True
False

9) If a domestic corporation acquires a U.S. real property interest from a foreign person or firm, the corporation does not have to withhold tax on the amount it pays for the property.

True
False

10) A corporation that uses an accrual method of accounting cannot deduct business expenses and interest owed to a related person who uses the cash method of accounting until the corporation makes the payment and the corresponding amount is includible in the related person's gross income.

Which of the following is considered a related person to Grate Spelling Books, Inc. for the purposes of this rule?

- a) Gud Tests, which supplies 100% of the companion spelling tests sold though Grate Spelling.
- b) JimBob, who owns 62% of the value of the outstanding stock of the corporation.
- c) JimBob's mom, who is a part-time employee of the company.
- d) MaryBell, the sole stockholder of an S corporation which owns 33% of the value of the outstanding stock of Grate Spelling.

11) Big Corp. owns 23% of Mega Corp.'s stock. Mega pays a \$10,000 dividend to Big during the current tax year. Subject to certain limitations, Big Corp. can deduct _____ of the dividend received from Mega. (Assume Big Corp. is not a small business investment company.)

- a) \$0
- b) \$10,000
- c) \$ 7,000
- d) \$ 8,000

12) Dividends on disqualified preferred stock are not treated as extraordinary dividends, regardless of the period of time the corporation held the stock.

- True
- False

13) The amount equal to the forgone interest on a below-market loan should always be treated as a gift.

- True
- False

14) A corporation cannot deduct charitable contributions that exceed _____ of its taxable income for the tax year.

- a) 2%
- b) 5%
- c) 10%
- d) 25%

15) Which of the following is NOT true about capital losses for a corporation?

- a) When you carry a net capital loss to another tax year, treat it as a long-term capital loss.
- b) A corporation can deduct capital losses only up to the amount of its capital gains.
- c) A corporation may not carry a capital loss from a year for which it is an S corporation.
- d) You can carry capital losses only to years that would otherwise have a net capital gain.

16) Corporations are allowed how many years of carrybacks and carryforwards for Net Operating Losses (NOLs)?

- a) No carryback and 5 years carryforward
- b) 2 years carryback and 20 years carryforward
- c) 5 years carryback and 2 years carryforward
- d) 2 years carryback and no carryforward

17) The passive activity rules apply to:

- a) Closely held corporations other than S corporations
- b) Personal service corporations
- c) Both A and B above

d) None of the above

18) Slide Rule Inc. is a corporation that performs engineering services. Accumulations of _____ are considered “within the reasonable needs” of Slide Rule Inc., for purposes of determining any accumulated earnings tax.

- a) \$350,000 or less
- b) \$250,000 or less
- c) \$200,000 or less
- d) \$150,000 or less

19) If a corporation gives a shareholder a loan on which no interest is charged, the interest not charged may be treated as:

- a) A capital loss
- b) A distribution to the shareholder
- c) Income to the corporation
- d) A passive activity

20) In which of the following cases would the corporation be required to file form 1099-Div?

- a) Paid \$2 in total dividends to Shareholder Jones
- b) Paid \$9 in total dividends to Shareholder Smith
- c) Paid \$7 dividend in April and \$5 dividend in October of the same year to shareholder Wilson
- d) All of the above--the corporation must file form 1099-Div if any dividends whatsoever are paid during the year to a shareholder

21) S CORPORATIONS (FORM 1120S)

When a C corporation files Form 2553 and the election for S corporation status is accepted by the IRS, Form 1120S should be filed for:

- a) Only the tax year that the election takes place.
- b) Only the tax year after the election takes place.
- c) The year the election takes place and any subsequent tax year, unless the election is terminated.
- d) The year after a revocation of S status is accepted

22) To revoke an S corporation election, the corporation must file a statement with the service center where it filed its election to be an S corporation.

True
False

23) An automatic 6-month extension of time to file the corporate tax return is requested by:

- a) Filing Form 1120-X
- b) Requesting an extension, in writing and signed by a corporate officer, in a letter filed with the IRS main office in Washington D.C.
- c) Filing Form 7004
- d) Attaching Schedule L to Form 1120

24) The minimum penalty for filing a return more than 60 days late is \$1,000.

True
False

25) Full Commission Inc. is an S corporation that is a dealer in securities. Generally, dealers in securities must use which one of the following accounting methods?

- a) Cash method
- b) Accrual method
- c) Mark-to-market method
- d) SEC method

26) To correct an error on a Form 1120S the corporation should

- a) File Form 1120X
- b) File an amended Form 1120S and check box H (4)
- c) Resubmit the original 1120S, with an explanation letter, to the IRS headquarters office in Washington D.C.
- d) File Form 8866 before the next tax return due date

27) If the shareholder does not materially participate in the activity, a trade or business activity of the corporation is a passive activity for the shareholder.

True
False

28) Betty Sue Trump purchased some raw land for investment. She leases the land to a horse owner. If she receives annual lease payments of less than ____ of the smaller of property's unadjusted basis or its fair market value, then this rental is considered incidental to holding the property for investment.

- a) 1%
- b) 2%
- c) 5%
- d) 10%

29) For purposes of recharacterization of passive income, a "significant participation" in a passive activity:

- a) Is determined by the corporation, not the shareholder.
- b) Pertains to ONLY to activities conducted by an officer of the corporation.
- c) Is based on what % of board meetings a corporate officer attended.
- d) Is a trade or business activity in which the shareholder participated for more than 100 hours during the tax year but did not materially participate

30) Any S corporation that carries on more than one passive activity must provide an attachment that identifies the type of activity conducted through the corporation.

True
False

31) Which one of the following IS TRUE about reporting S Corporation income?

- a) Report rental activity income on lines 1a through 6 of 1120S.
- b) The installment method should always be used for dealer dispositions of property.
- c) All tax-exempt income should be reported on lines 1a through 5 of 1120S.
- d) Rental activity income and portfolio income are reported on Schedules K and K-1.

32) If a shareholder/officer owns more than ____ % of the corporation's stock, fringe benefit expenditures made on behalf of the shareholder must be included in "Compensation of Officers" on the return.

- a) 1%
- b) 2%
- c) 5%
- d) 10%

33) Interest expense reported on line 13 of Form 1120S would include interest expense incurred:

- a) On debt required to be allocated to the production of designated property produced by an S corporation for its own use or sale.
- b) On debt proceeds allocated to distributions made to shareholders during the tax year.
- c) On debt used to purchase rental property.
- d) In the trade or business activities of the corporation that is not claimed elsewhere on the return

34) Which of the following is TRUE about Schedules K and K-1?

- a) S corporation income is considered self-employment income and is subject to self-employment tax.
- b) A corporation may be exempt from filing these schedules, if they have fewer than 10 shareholders
- c) All corporations must complete Schedule K
- d) Corporate filers cannot use a substitute Schedule K-1

35) When preparing Schedule M-2 of Form 1120S, an account of the S corporation that generally reflects the accumulated undistributed net income of the corporation is known as:

- a) UNI account
- b) Accumulated adjustments account
- c) Schedule D amounts
- d) Retained earnings overage

36) PARTNERSHIPS

Which of the following organizations formed after 1996 with two or more members is a partnership?

- a) Co-ownership of property maintained and rented or leased without services to the tenants.
- b) An insurance company.
- c) An unincorporated organization whose members carry on a business and divide its profits.
- d) A joint undertaking merely to share expenses.

37) A domestic LLC with at least two members that does not file Form 8832 is classified as a partnership for federal income tax purposes.

- True
- False

38) Bill and Judy operate the BJ Partnership, using a partnership agreement, which was put into place when the partnership was formed ten years ago. BJ is on a calendar year basis for tax purposes.

Can Bill and Judy modify the partnership agreement for the current tax year?

- a) The modification can only be made prior to the end of the tax year.
- b) The modification can be made up to the time of an extension of the filing date.
- c) The modification can be made after the close of the year but not later than the date for filing the partnership return for that year.
- d) The partnership tax year cannot be changed after the first full year of operation.

39) Which type of partnership can choose to be completely or partially excluded from being treated as a partnership for federal income tax purposes, because it does not actively conduct a business?

- a) Operating agreement partnership, if the participants meet certain requirements
- b) Investing partnership, if the participants meet certain requirements
- c) Both A and B above
- d) None of the above

40) Which of the following is TRUE about partnership distributions?

- a) A complete or partial liquidation of a partner's interest is a partnership distribution.
- b) Each partner's adjusted basis in the partnership is NOT affected by distributions
- c) The partnership recognizes a gain or loss based on the amount of distributions made to partners
- d) A distribution cannot be made to a partner prior to year-end earnings calculations.

41) When can a partner recognize a loss on a partnership distribution?

- a) The partner's entire interest in the partnership is liquidated
- b) The distribution is in money, inventory items or unrealized receivables
- c) The adjusted basis of the partner's interest in the partnership exceeds the distribution
- d) Only when all of the above requirements are met

42) Roxanne is a partner in Gulf Coast Fishing Tours, Limited. The adjusted basis of Roxanne's partnership interest is \$10,000. She receives a distribution of \$3,000 cash and some property that has an adjusted basis to the partnership of \$9,000. Her basis for the distributed property is limited to:

- a) \$12,000
- b) \$ 9,000
- c) \$ 7,000
- d) \$ 3,000

43) A partnership treats guaranteed payments to a partner or for the use of capital, as if they were made to a person who is not a partner.

- True
- False

44) When there is a sale of property at a loss, between two partnerships in which the same person directly owns a 60% interest in the capital of each partnership, the partnership that sold the property may deduct the loss.

- True
- False

45) A partnership is generally treated as an investment company if _____ of the value of its assets is held for investment and consists of readily marketable items such as stocks and other equity interests in a corporation.

- a) 100%

- b) Over 80%
- c) More than 10%
- d) 50% or more

46) A partner's basis is decreased by:

- a) The partner's distributive share of excess of the deduction for depletion over the basis of the depletable property.
- b) The partner's distributive share of the partnership losses.
- c) The partner's additional contributions to a partnership.
- d) The partner's distributive share of taxable and nontaxable partnership income.

47) A partnership liability where no partner or related person has an economic risk of loss is called:

- a) Nonrecourse liability
- b) Limited exposure liability
- c) Recourse liability
- d) Non-economic liability

48) Hank decides to sell his interest in a partnership. Since he is relieved of his partnership liabilities with this transaction, he must include the liability relief as part of the amount realized for his interest.

- True
- False

49) When a partnership is notified of an exchange of partnership interests involving unrealized receivables or inventory items, the partnership must:

- a) Send a backdated and revised K-1 to each partner
- b) File Form 1231
- c) File Form 8308
- d) File Form 1065-X

50) For income tax purposes, a retiring partner is treated as a partner until his or her interest in the partnership has been completely liquidated.

- True
- False