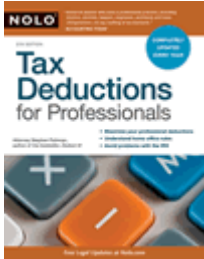


## Review Questions and Final Exam

Course name:	<b>Tax Deductions for Professionals (2009)</b>
Course number:	1023.09
Number of questions:	Review: 100 Final Exam: 100
Prerequisite:	None
Advance preparation:	None
Course level:	Basic
Recommended CPE credit:	16 CPE hours
Recommended study time:	16 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Required text:	 <p><i>Tax Deductions for Professionals</i> by Stephen Fishman, Attorney Paperback (528 pages), Publisher: NOLO ISBN: 1413310796 <b>Fifth</b> edition (January 2010)</p>
Subject classification:	Taxation
Course updated:	February 2, 2010
Learning objective:	<p>To learn how to quickly, easily &amp; legally deduct travel &amp; vehicles, entertainment &amp; meals, home office expenses and other professional expenses.</p> <p>This book shows you how to minimize your taxes and maximize your take-home income by taking advantage of every tax deduction available to you.</p>
Instructions:	<p>This copy of the exam can be used to answer questions while <b>offline</b>.</p> <p>Please note that you will still need to <b>enter your answers online</b> by logging into the course system with your User ID and Password.</p>

- 1) Expenses for the production of income are NOT tax deductible.  
True  
False
- 2) Start-up costs are deductible for business owners.  
  
True  
False
- 3) Sole proprietorship and partnership are considered the default business entities.  
  
True  
False
- 4) A limited liability partnership (LLP) is much the same as regular general partnerships except that they limit the partner's liability for malpractice claims.  
  
True  
False
- 5) A limited liability company (LLC) protects you against personal liability for your own malpractice.  
  
True  
False
- 6) An S corporation is a pass through entity.  
  
True  
False
- 7) C corporations have the same income tax rates as S corporations.  
  
True  
False
- 8) Personal service corporations pay a corporate tax at a flat rate of 35% on all their net income.  
  
True  
False
- 9) An S corporation shareholder who performs more than minor services for the corporation will be its employee for tax purposes.  
  
True

False

10) Professionals taxed as sole proprietors may deduct 100% of their health insurance premiums from their personal income tax.

True

False

11) If you want to keep earnings in your business without paying personal income tax on those earnings, you will want to choose partnership tax treatment.

True

False

12) If a sole proprietor starts to practice with one or more other professionals instead of on his own, he will automatically become a partner in a partnership.

True

False

13) One requirement for a business operating expense to be deductible is that the expense must be ordinary and necessary.

True

False

14) Generally, there is no limit on how much you can deduct, as long as the amount is reasonable and you don't deduct more than you spend.

True

False

15) A meal may be deducted only as an entertainment expense if you treat a client to a meal while you are out of town on business.

True

False

16) You usually can't claim that you discussed business during a golf game, even if your foursome consists of you and three business associates.

True

False

17) Aaron, who owns a retail real estate company, takes a valued client hunting. He rents a cabin and has a caterer provide meals for the two day hunt. During the two days they both discuss a future business deal involving building a shopping center. Aaron CAN DEDUCT the cost of renting the cabin as a business entertainment deduction.

True

False

18) You cannot deduct the cost of traveling from your home to your regular place of business.

True

False

19) If you have a home office that qualifies as your principal place of business, you can deduct the cost of any trips you make from home to another business location.

True

False

20) Joanne uses her car to deliver gift baskets for her business. If she uses the standard mileage rate deduction she does NOT have to keep track of her car repair expenses.

True

False

21) If you use your car at least 75% for business use you can depreciate the entire investment in the car.

True

False

22) Auto repairs are deductible in the year they are incurred.

True

False

23) Irene delivers legal documents for a law firm. She often gets minor parking tickets when she double parks to make a quick delivery. Her employer CAN deduct the cost of the parking tickets as an "ordinary and necessary" business expense.

True

False

24) Hank received local travel expense reimbursements for travel expenses that occurred while performing services for a client. He does not need to include these reimbursements in his income if he provides an adequate accounting of the expenses to his client and complies with all accountable plan rules.

True

False

25) If your business entity buys a car that you use, the dollar value of your business driving is a tax-free working condition fringe benefit.

True

False

26) James can deduct the cost of renting a bicycle for transportation on a local business trip.

True

False

27) Jane drives from her office in Houston to meet with a client in Austin and returns the same day. She traveled a total of 360 miles round trip. This trip qualifies as "out of town travel" so she CAN deduct both her McDonald's breakfast on her way there and her Burger King dinner on the way back.

True

False

28) To be deductible, business travel expenses must be ordinary and necessary. Therefore, if you fly first class, you can only deduct the amount for a coach ticket.

True

False

29) Earl spends 40% of his time on business during a recent ten day trip to England. He can deduct 40% of his travel expenses since he was traveling for less than 14 days.

True

False

30) The two ways to calculate your meal expense deduction are by using the daily rate set by the federal government or to keep track of your actual expenses.

True

False

31) Any day in which you work at least eight hours is considered a business day for business travel deduction purposes.

True

False

32) You can take the home office deduction for a hobby activity that you perform exclusively out of your home.

True

False

33) You can't take the home office deduction unless you use part of your home exclusively for business.

True

False

34) Arthur works primarily outside his home. However, he uses his home office regularly and exclusively for business to perform administrative activities and there is no other fixed location where he conducts substantial administrative activities.

Art's home office meets the "administrative work" requirement even though he works primarily outside his home.

True  
False

35) Karen was recently hired by an international corporation. A condition of her employment is that she must use her home office to do her work. Karen's home office is deemed to be for her employer's convenience.

True  
False

36) Using the "room method" to measure your office space is only acceptable when all of the rooms in your home are about the same size.

True  
False

37) Phillip uses the study in his home exclusively as his home office. He recently had the study painted and the carpet cleaned. These expenses are considered direct expenses and the entire amount is deductible.

True  
False

38) Jennifer's home-based success coaching business lost money this year. The "net profit limitation" may prevent her from deducting part or even all of her home office expenses in the current year.

True  
False

39) If you are a sole proprietor, you deduct your business operating expenses by listing them on IRS Schedule C, Profit or Loss From Business.

True  
False

40) This year, Shannon paid \$1,000 rent each month for the outside office she uses for her law practice. The \$12,000 she paid this year is fully deductible on her this year's tax return.

True  
False

41) Improvements to nonresidential real property (i.e., an outside office you own) are deductible as an operating expense.

True  
False

42) When you purchase your outside office space, you must deduct the value of the land from the purchase price to determine the basis for depreciation of the building.

True  
False

43) You deduct only the interest you pay on a loan to purchase or improve real property.

True  
False

44) The most you can deduct as a cost of removing barriers to the disabled and the elderly for any tax year is \$5,000.

True  
False

45) The two methods for deducting long-term business property are Section 179 and regular depreciation.

True  
False

46) The total amount of depreciation you can deduct over the life of the asset is increased when you use a Section 179 deduction.

True  
False

47) Marjorie, a sole proprietor real estate consultant, works full time in her home office that qualifies for the home office deduction. She buys a \$1,500 video camera for her office and uses it exclusively for her practice.

Because the video camera is listed property, Marjorie MUST keep records showing how and when she uses the video camera to document business use.

True  
False

48) An asset you buy from a relative does not qualify under Section 179.

True  
False

49) As long as property is available for use, you do not have to actually use the property for business during the year to take depreciation.

True  
False

50) You can select any reasonable depreciation period for business assets, as long as it does not exceed 39 years.

True  
False

51) The fastest and most commonly used form of accelerated depreciation is the 150% declining balance method.

True  
False

52) The cost of clearing, grading, landscaping, or demolishing buildings on land is NOT depreciable.

True  
False

53) If your business use of long-term property that you deducted under Section 179 falls under 51%, you will have to give back part of the Section 179 deduction you received.

True  
False

54) A "financial lease" is treated as an installment purchase by the IRS.

True  
False

55) Tiffany decided to open "Tiffany's Tacky Tiaras" and incurred \$11,000 in initial costs advertising the grand opening. This \$11,000 start up expense is fully deductible the first year she is in business.

True  
False

56) Sally decides to start a clothing embroidery business that caters to large business organizations. This business is unrelated to her CPA practice. The ordinary and necessary expenses she incurs before the business starts are start-up costs.

True  
False

57) Organizational expenses for a corporation are deducted in much the same way as start-up costs.

True  
False

58) Cindy is self employed and earned \$5,500 from her practice last year. Her health insurance premiums were \$10,000 for the year. Even though her premiums exceeded her income, Cindy may deduct all \$10,000 using the self-employed health insurance deduction.

True  
False

59) Health insurance can be provided on a discriminatory basis, as long as you do not discriminate based on health factors.

True  
False

60) Neil's consulting practice is an LLP, so Neil is not considered an employee and he cannot have a medical reimbursement plan for himself. However Neil can hire his wife Nancy as an employee and provide her with a medical reimbursement plan.

True  
False

61) One of the limitations of a medical expense reimbursement plan is that the plan does not include reimbursement for employee expenses for non prescription medicines and drugs.

True  
False

62) To participate in a Health Savings Account (HSA) program, you must obtain a health insurance policy with a high deductible.

True  
False

63) Once you reach the age of 65 or become disabled, you can withdraw your HSA funds for any reason without penalty.

True  
False

64) One of the biggest benefits that small business retirement accounts provide are tax deductions for plan contributions.

True  
False

65) If you are self-employed and have no employees working for you, you CANNOT establish a SEP-IRA.

True  
False

66) If desired, you can exclude part-time employees from the SIMPLE IRA you establish for your business.

True  
False

67) An example of a qualified retirement plan is a defined contribution plan.

True  
False

68) Supplies that do not physically become part of merchandise a business sells are not included in inventory.

True  
False

69) The IRS requires all businesses that sold or manufactured goods to take a physical inventory of the merchandise they owned at their fiscal year end.

True  
False

70) Joe, owner of a small sporting goods store, orders 10,000 Frisbees with his business name and address printed on them and gives them to his customers. Each Frisbee costs \$2. Joe may deduct the entire \$20,000 expense.

True  
False

71) You must wait until a debt is due to determine that it is worthless.

True  
False

72) You may take a deduction for casualty losses to business property if, and only to the extent that, the loss is not covered by insurance.

True  
False

73) If your clothing is deductible, you may also deduct the cost of dry cleaning.

True  
False

74) If you have a home office and your home office takes up 20% of your home, you may deduct 20% of your homeowner's insurance premium.

True  
False

75) A sole proprietor may deduct 100% of his or her self-employment taxes from their total net business income.

True  
False

76) Rental income from real property is eligible for the domestic production activities deduction.

True  
False

77) As far as the IRS is concerned, the two types of people you can hire to help in your practice are employees and independent contractors (IC).

True  
False

78) Sally, a dentist, hires Pat to work as an office manager and pays her \$4,000 per month—a typical salary for this kind of work. Sally can deduct Pat's \$4,000 monthly salary as a business operation expense.

True  
False

79) Jenny is employed by IBM as a salesperson. She likes to provide proposals to her customers in a fancy leather binder, which she purchases herself for \$225 each. If IBM doesn't reimburse her for the cost of the binders, Jenny may be able to deduct this expense on her own return.

True  
False

80) You do not get the benefits of income shifting when you employ your spouse in your business.

True  
False

81) Anne, a computer software developer, hires Fred, an attorney, to review various legal documents for the company. She pays him \$1,500, which is consistent with legal costs in her area. The \$1,500 is an ordinary and necessary business operating expense and Anne may deduct it from her business income for the year.

True  
False

82) You can be both the owner and an employee of a corporation.

True  
False

83) C corporations are subject to double taxation.

True  
False

84) Francis is the shareholder/employee of a professional corporation that is an S corporation. To maximize her tax benefits, Francis should pay herself as little in employee wages and as much in S corporation distributions as possible.

True  
False

85) To qualify for tax-free treatment for the employee, fringe benefits generally cannot be provided just to highly compensated employees.

True  
False

86) A loan to a shareholder is a deductible expense to the lending corporation.

True  
False

87) Working condition fringe benefits are property and services a business provides to its workers so that they can perform their jobs.

True  
False

88) From a tax standpoint, the best option is to have your corporation reimburse you for your expenses.

True  
False

89) Penny is the employee/shareholder of a small incorporated firm. Her corporation borrows \$5,000 from her. Repayment of the loan is taxable income to Penny.

True  
False

90) Filing an amended return makes an audit more likely.

True  
False

91) In 2009 Hank bought 1,000 imprinted coffee mugs for \$5,000, which he gave away to his best customers. He forgot to claim a deduction for the mugs on his 2009 return, which he filed April 10, 2010. Hank has until April 15, 2013 to amend his 2009 return to claim this deduction.

True  
False

92) Lack of documentation is the most common reason taxpayers lose deductions when they get audited, according to this author.

True  
False

93) The IRS often uses a discriminate function score (DIF) to decide who to audit.

True  
False

94) An investment in low-income property that provides rental income is an example of a legitimate tax shelter.

True  
False

95) The author recommends using a credit card as a good way to document business expenses paid.

True  
False

96) Failure to keep proper records is by far the most common reason taxpayers lose deductions when they are audited by the IRS.

True  
False

97) Under the sampling method for tracking your mileage, you keep track of your business mileage for a sample portion of the year.

True  
False

98) The IRS does not require that you keep receipts, canceled checks, credit card slips, or any other supporting documents for business meal expenses that are less than \$75.

True  
False

99) Frank, an attorney, works full time in his home office which he uses exclusively for his practice. He buys a \$2,500 computer for his offices and uses it exclusively for his law practice. His office qualifies for the home office deduction.

Because of the above factors, Frank does not have to keep records showing how he uses the computer.

True  
False

100) Sandy uses the cash method of accounting. She received a check on December 26, 2009 for 15 of her bestseller books, "Tax Avoidance, Not Tax Evasion." She deposited the check on January 2, 2010, because she was out of town the week after Christmas. Sandy can include the check amount in business income in EITHER 2009 or 2010.

True  
False

Exam Name: Tax Deductions for Professionals (2009)  
--Final Exam

1) Barney runs a small consulting firm organized as a sole proprietor. He spends \$5,000 for personal financial planning. This \$5,000 is deductible as a business expense.

True  
False

2) Cindy, an attorney who has recently passed the bar exam, decides to open her own practice. The start up expenses cost Cindy \$30,000. Which of the following is true?

- a) Cindy can deduct all \$30,000 the first year she is in business.
- b) Cindy can deduct \$2,000 each year over the next 15 years ( $\$30,000/15 = \$2,000$ )
- c) Start-up costs are not deductible.
- d) Cindy can deduct \$5,000 the first year she is in business and deduct the remainder over the first 180 months she is in business.

3) A sole proprietorship:

- a) Is considered the simplest and cheapest way to organize a one-owner business.
- b) Requires that a legal agreement with yourself be signed and notarized before the first day of business.
- c) Can have up to 10 co-owners.

- d) Offers limited liability.
- 4) A limited-liability company (LLC):
- a) Requires at least two partners to form.
  - b) Requires a written LLC operating agreement in all states.
  - c) Is the newest type of business form in the United States.
  - d) Is the best option for a person in solo practice, due to favorable tax treatment.
- 5) Which of the following is NOT a “limited liability entity?”
- a) Limited liability company
  - b) Sole proprietorship
  - c) Corporation
  - d) Limited liability partnership
- 6) Which of the following is NOT a tax treatment choice for a one-owner LLC?
- a) Sole proprietorship taxation
  - b) Partnership taxation
  - c) C corporation taxation
  - d) S corporation taxation
- 7) If your practice has S corporation tax treatment, you are taxed on any profits you receive from the business at your personal income tax rate.
- True  
False
- 8) Helen Goode Engineering, Inc. is a new C corporation owned by Helen Goode. The taxable income for the corporation is \$75,000. The tax rate for this corporation is:
- a) 15%
  - b) 25%
  - c) 35%
  - d) 50%
- 9) Which of the following is true if your practice is taxed as a partnership?
- a) You are considered an employee of the partnership.
  - b) The partnership should withhold income tax from your pay.
  - c) The partnership should file quarterly and annual payroll tax returns.
  - d) You should make quarterly estimated tax payments.

10) If you want to receive fringe benefits tax-free from your company, the \_\_\_\_\_ tax treatment is the best choice.

- a) Sole proprietor
- b) Partnership
- c) S Corporation
- d) C Corporation

11) The tax treatment for a \_\_\_\_\_ is the only form of taxation that allows business owners to retain earnings in the business without having to pay personal income taxes on them.

- a) Sole proprietorship
- b) Partnership
- c) S corporation
- d) C corporation

12) Which of the following is TRUE about converting a C corporation to a partnership?

- a) There are often significant tax costs associated with such a conversion.
- b) The shareholders DO NOT have to pay income tax if the amount or cash value of the property they receive on liquidation exceeds their individual basis in their shares.
- c) The corporation does NOT need to be dissolved and its assets liquidated.
- d) The new partnership must use the same legal name as the corporation did.

13) Which of the following purchases would NOT pass the ordinary and necessary test that is used to identify deductible operating expenses?

- a) A television set in a dental office waiting room.
- b) Postage for marketing mailings
- c) A handgun used for protection when working in potentially dangerous job sites.
- d) Trade publications

14) Which of the following operating expenses are deductible?

- a) Federal income taxes you pay on your business income.
- b) Athletic club dues.
- c) Parking tickets received while at a business meeting.
- d) Advertising costs.

15) Which of the following is TRUE about business entertainment?

- a) You may deduct 100% of the total amount you spend on business entertainment activities, if the expense is reasonable.
- b) A meal can be both a travel expense and an entertainment expense, but the cost can only be deducted once.
- c) Business entertainment must be for business purposes only and should be serious in nature.

d) You can invite family members or friends along and deduct the costs of entertaining them.

16) After a day of negotiations at a client's office, you take the client to a basketball game to relax. The cost of the tickets is a deductible business expense.

True

False

17) Which of the following entertainment expenses are allowable deductions?

a) Club dues and membership fees.

b) Entertainment with a client in a loud nightclub after meeting with the client in the afternoon.

c) The price of an entertainment ticket, including fees and any amount paid over face value.

d) Nonbusiness guests' expenses.

18) Which of the following is a currently deductible transportation expense?

a) The cost of local travel to investigate starting your practice before you start your practice.

b) The cost of commuting from your home to your regular place of work.

c) Local transportation costs using a limo if they are ordinary and necessary for your business.

d) The cost of travel between your home and your athletic club where you work out with business contacts.

19) Frank drives 35 miles to his office in the morning, works all day, and then drives 35 miles back home. That night he drives 25 miles to meet a client and then drives directly back home the same night. The total business miles are:

a) 0

b) 35

c) 50

d) 70

20) If you use the actual expense method the first year you use a car for business, you can switch to the standard mileage rate the second year if desired.

True

False

21) Which of the following can be classified as a passenger automobile by the IRS?

a) A van with a gross loaded weight of 7,000.

b) A car with a gross unloaded weight of 3,500.

c) A truck with a gross unloaded weight of 6,200.

d) An ambulance with a gross unloaded weight of 3,500.

22) The \$25,000 Section 179 deduction limitation for SUVs applies to which of the following vehicles places in service after October 22,2004?

- a) Passenger van with seating for 10 passengers costing \$35,000 (5,500 lbs).
- b) Small tow truck with no passenger seating behind the driver costing \$55,000 (9,000 lbs).
- c) Large delivery truck with extended cab seating for 4 costing \$62,000 (18,000 lbs).
- d) Mercedes M Class SUV costing \$47,000 (6,200 lbs).

23) Helen paid \$2,000 down and pays \$400 a month to lease a car. She uses it 25% for her business and 75% for personal purposes. Which of the following is true?

- a) Helen may deduct \$100/month as local transportation expense.
- b) Helen may deduct \$400/month as local transportation expense.
- c) Helen cannot deduct any of the down payment.
- d) Helen can deduct \$100/month plus the standard mileage rate for business miles.

24) Sally is hired by BigCo to complete a consulting engagement. She keeps a complete mileage log showing that she drove 300 miles while working on the audit. BigCo reimburses Sally \$150 for business mileage.

Sally must include this amount in her income for the year.

- True
- False

25) Miranda leased a new Honda Civic, which had a fair market value of \$20,300. Her lease term was three years. The IRS would consider this a "luxury car" lease.

- True
- False

26) A "temporary work location" for business travel can be for more than one year, in certain circumstances.

- True
- False

27) Your breakfast would be a deductible travel expense in which of the following situations?

- a) You left your home at 5 AM to get across town for a business meeting and bought breakfast at a fast food drive-through.
- b) You made a day trip to another city and bought breakfast at the airport on your way out of town.
- c) You left at 3 am in the morning and drove 250 miles each way to another city. You stopped for breakfast at 5 am. On the way back home, you stopped in a rest area and napped in your car.
- d) You drove 100 miles to another city for an afternoon business meeting and spent the night at a hotel. The next morning you bought breakfast before you drove back home.

28) Sam, a computer software specialist, flies to Aspen for a five-day seminar with a client. He spends three extra days in Aspen skiing. Which of the following is entirely deductible?

- a) The cost of his flight.
- b) The entire cost of his hotel.
- c) The cost of all of his meals.
- d) The cost of the ski equipment rental.

29) Daniel is calculating the time spent on business. Which of the following is considered a business day?

- a) Any day in which he works more than 3 hours.
- b) Any day when he must be at a particular place for his practice.
- c) Any day when he drives 250 miles for business.
- d) Any day when his travel and work time together exceeds 3 hours.

30) Ann drives on a business trip from Austin, Texas, to New Orleans, Louisiana. On the way, she spends \$150 for meals, and another \$200 while in New Orleans. Using the actual expense method, the allowable meal expense deduction will be:

- a) \$100
- b) \$150
- c) \$175
- d) \$200

31) Andy, a CPA, flies from Miami to San Francisco for a seminar that begins on a Thursday and ends the following Wednesday. The seminar does not have meetings during the weekend. Andy may count Saturday and Sunday as business days.

- True
- False

32) Which of the following is one of the three threshold requirements that everyone must meet to qualify for the home office deduction?

- a) You must show a profit.
- b) You must work full time in the business.
- c) You must use your home office for your business on a regular basis.
- d) You must own your home.

33) If you use part of your home as your business office, but you also use the same space for personal purposes 10% of the time, you could still qualify for the home office deduction.

- True
- False

34) Jonathon is a nuclear physicist who works out of a home office. In order to qualify for the home office deduction, his home office must be:

- a) A separate room building with a separate entrance.
- b) The only location where he performs his billing and administrative functions.

- c) A place where he regularly meets with clients and prospective clients.
- d) A part of his home used exclusively and regularly for business.

35) Ralph stores suntan lotion as inventory in his home. Which of the following tests must be met for him to take a home office deduction?

- a) He does not store lotion inventory in any other locations.
- b) The inventory storage space is a separate room.
- c) He has sales throughout the year (i.e. it is not a seasonal business).
- d) He sells the suntan lotion as his business.

36) To calculate your home office deduction, you need to determine what percentage of your home you use for business. Which of the following is true about calculating the percentage?

- a) The room method will always yield a larger deduction.
- b) The square footage method is the most precise method of measuring your office space.
- c) The square footage method can be used only if all of the rooms in your home are about the same size.
- d) If you have a desk in your bedroom, you can use 100% of the bedroom's square footage in your calculation of business use.

37) Which of the following is a direct home office expense?

- a) Depreciation
- b) Insurance
- c) Computer equipment
- d) The cost of painting your home office.

38) If your home office deduction exceeds your profits, you can carry over the excess to the following year and in each succeeding year until you deduct the entire amount.

- True
- False

39) Home office expenses:

- a) Must be deducted as an itemized deduction on Schedule A for sole proprietors, subject to the 2% of AGI reduction.
- b) Can be reimbursed to a partner by the partnership under an accountable plan.
- c) Are deducted in the same manner regardless of your practice's legal structure.
- d) Must be deducted on your Schedule E if your practice is organized as a multimember LLC.

40) James rents an outside office for his practice, signs a net lease, and pays a rental deposit that will be returned at the end of the lease. Which of the following is TRUE?

- a) The rental deposit is deductible in the year it is made.

b) Like the home office deduction, deductions on outside rental expenses cannot exceed profit in any given year.

c) Real estate broker commissions paid to locate the space are deductible.

d) James has to file a Form 8829 to show how he calculated the outside office deduction.

41) Improvements for an outside office that you own will:

a) Need to be capitalized and depreciated over several years.

b) Be considered the same as a repair for tax deductibility purposes.

c) Return property to more or less the state it was in before it stopped working properly.

d) Usually be considered an operating expense and deducted in a single year.

42) Which of the following expenses are NOT added to your property's basis when you purchase an outside office?

a) Legal fees.

b) Title insurance.

c) Mortgage commissions.

d) Moving costs.

43) Which of the following is TRUE about interest deductions?

a) Interest paid on seller provided financing is not deductible.

b) Mortgage interest you pay for your outside office is deductible as it is paid each year.

c) If you borrow money to improve your real property, you may deduct the principal repaid each year as an operating expense.

d) Expenses you pay to obtain a mortgage on your real property are deducted as interest expense.

44) Dr. Jones spends \$22,000 on the building he owns to install two wheelchair ramps and improve the parking lot with handicap spaces. The work is completed and paid for in March of this tax year. Dr. Jones:

a) Can deduct \$15,000 of this improvement in the current year as a disabled access tax deduction, and capitalize the \$7,000 balance.

b) Can fully deduct the \$22,000 in the current year as a disabled access tax deduction.

c) Can deduct \$15,000 this year, and \$7,000 next year, as disabled access tax deductions.

d) Must capitalize the \$22,000 and depreciate this asset cost over the remaining life of the building.

45) Some items that are expected to last for more than one year, such as a small lamp, can be treated as a current expense for tax purposes.

True

False

46) Which of the following could qualify for the Section 179 deduction?

- a) Air conditioning unit
- b) Desk
- c) Inventory
- d) Land

47) You must use the property more than \_\_\_\_ of the time for business to deduct the cost under Section 179:

- a) 99%
- b) 85%
- c) 75%
- d) 50%

48) You could be subject to depreciation recapture when you sell an asset—even if you forgot to take depreciation.

- True
- False

49) You purchased a new copy machine (retail price \$50,000) by trading in your old machine (adjusted basis of \$40,000), plus you paid \$5,000 cash. You also paid \$50 for delivery and \$100 for setup. Your basis in the new machine is:

- a) \$15,150
- b) \$45,000
- c) \$45,150
- d) \$55,150

50) Which of the following types of property has a depreciation period of five years?

- a) Computer software.
- b) Office furniture.
- c) Any property used in research and experimentation.
- d) Any tree bearing fruits or nuts.

51) Which of the following is NOT one of the three depreciation methods allowed under the Modified Accelerated Cost Recovery System (MACRS)?

- a) Double declining balance method.
- b) Modified compressed straight-line method.
- c) Straight-line method.
- d) 150% declining balance method.

52) Which of the following is TRUE about depreciating computer software?

- a) You cannot take a Section 179 deduction for computer software because it is intangible property.
- b) If you create software yourself, you may expense the development cost under Section 179.
- c) Off-the-shelf software that you purchase must be depreciated over 15 years using MACRS.
- d) Software that comes with a computer you buy and is included in the price is depreciated as part of the computer, unless you're billed separately for the software.

53) Intangible assets can be:

- a) Deducted in the year of purchase, subject to the normal Section 179 limitations.
- b) Amortized separately even if you acquire the assets of an incorporated practice by purchasing its stock.
- c) Seen and touched.
- d) Amortized in equal amounts over 15 years.

54) Installment purchase payments are considered equivalent to rent and can be deducted as a business operating expense.

True  
False

55) Expenses classified as "start-up" expenses for tax purposes include:

- a) Travel expenses related to finding a suitable business location.
- b) Organizational costs.
- c) Inventory purchases.
- d) Research and development costs.

56) Jim decided to expand his existing practice. He can deduct the costs associated with this expansion as business operating expenses in which of these cases?

- a) He purchases a similar practice down the street.
- b) He moves to a new, larger location.
- c) He expands into a new business.
- d) He creates a new corporate entity for his practice.

57) If you form a corporation, which of the following are considered capital expenses?

- a) State incorporation fees.
- b) Accounting fees for setting up the corporation.
- c) Fees associated with issuing stock of the corporation.
- d) Legal fees for drafting articles of incorporation.

58) Frank is a partner in a partnership and he decides to deduct the health insurance premiums for himself, his wife, and his children using the self-employed health insurance deduction. Because he is in a partnership, this deduction is considered a business deduction.

True  
False

59) To be deductible by the business as a business expense, health insurance MUST be:

- a) Paid or reimbursed to an employee of the company.
- b) Provided equally to all employees without discrimination.
- c) Provided to employee's spouses, if requested.
- d) Part of a written benefits plan.

60) If your practice is organized as a C corporation, you can be an employee and can qualify for a medical reimbursement plan.

True  
False

61) Which of the following medical expense reimbursement plans would meet the IRS nondiscriminatory requirements?

- a) The plan excludes employees who work less than 35 hours a week.
- b) The plan covers 50% of all employees.
- c) The plan excludes employees who have worked for the company less than six years.
- d) The plan excludes employees under 21 years old.

62) A Health Savings Account (HSA) is a tax-advantaged method of buying health insurance. With an HSA:

- a) The premiums for your high-deductible health insurance policy should be are usually higher than those for traditional comprehensive coverage policies or HMO coverage.
- b) Any health insurance plan can have an HSA attached to it.
- c) You will get a tax deduction for the money you deposit in your HSA.
- d) You must pay taxes on the interest or other money you earn on the money in your HSA.

63) HSAs are portable when an employee changes employers.

True  
False

64) Which of the following is true about retirement plans for small businesses?

- a) Sole proprietors cannot deduct retirement plan contributions.
- b) If you have incorporated your practice, the corporation can deduct contributions that it makes on your behalf as a business expense.
- c) You must pay taxes on investment earnings from retirement accounts each year.
- d) The deadline for making a tax deductible contribution to a retirement account is December 31st of the tax year.

65) Which of the following types of retirement plans is classified as a “tax qualified plan”?

- a) SIMPLE IRA
- b) Traditional IRA
- c) Roth IRA
- d) 401(k)

66) Which of the following is TRUE about SIMPLE IRAs?

- a) You must contribute to your SIMPLE IRA every year.
- b) A sole proprietor cannot establish a SIMPLE IRA in his or her own name as the employer.
- c) An early withdrawal from a SIMPLE IRA is subject to a 25% tax penalty if made within two years after the date you first contributed to your account.
- d) Companies with more than 200 employees can set up SIMPLE IRAs.

67) Which of the following describes a defined benefit plan?

- a) You decide how much you want to receive each year in retirement, and back into how much should be contributed each year prior to retirement to achieve the desired result.
- b) You base contributions to the retirement plan on the business’s profits and don’t have to be made every year.
- c) The annual contributions to the retirement plan are fixed, mandatory, and not based on your business profits.
- d) All 401(k) plans are defined benefit plans.

68) Which of the following is considered inventory?

- a) Rubber gloves used by nurses to provide medical services.
- b) Copyrights.
- c) Office furniture.
- d) Raw materials that will become part of finished merchandise produced by the company.

69) The IRS requires small businesses with gross revenues of \$500,000 to \$1 million/year to take physical inventories every two years.

True

False

70) Which of the following is NOT considered an advertising expense?

- a) Client newsletters.
- b) Billboards.
- c) Help-wanted ads.
- d) Advertisements on the Internet.

71) Which of the following could potentially be a deductible business bad debt?

- a) You loaned \$5,000 to your son to help him break his Sudoku habit.
- b) You provided some excellent tax advice to a client and they refuse to pay their \$7,000 bill.
- c) You sold a client 1,000 pet rocks from your inventory and now they refuse to pay for them because they say they are "old hat."
- d) You loan \$50,000 to your neighbor to start a new business, and in return receive a 25% equity stake.

72) Which of the following is NOT considered a casualty loss?

- a) Damage to property caused by flood.
- b) Misplaced property.
- c) Stolen property.
- d) Vandalized property.

73) Ms. Fit borrows \$750,000 to purchase 3 new sewing machines for her custom uniform business. She actually borrows the money in February, but doesn't purchase the new machines until June. She uses her porcelain doll collection as collateral for the loan. Ms. Fit should:

- a) Deduct interest incurred from the origination date of the loan.
- b) Deduct interest incurred from the purchase date of the sewing machines.
- c) Capitalize all interest charges up to purchase date and add these costs to the purchase price in order to capitalize the full cost amount.
- d) Not deduct any portion of the interest as a business expense because it is collateralized with personal property.

74) If you contribute your personal services to a charity, you may take a deduction for the value of your time or services.

True

False

75) Sandy and Sam own a partnership. Which of the following taxes that they pay in the course of their practice is NOT deductible?

- a) State property taxes on business real property.

- b) Sales taxes on purchased goods.
- c) Federal income taxes.
- d) The employer portion of employment taxes (Social Security and Medicare).

76) The domestic production activities deduction is intended to give a tax break to individuals that hire a maid service.

True  
False

77) Who is most likely to be classified as an independent contractor for your company?

- a) Bill receives instructions that he needs to work from 8 to 5.
- b) Linda receives health insurance from your company.
- c) You send Jim to a training class once a month.
- d) Maryanne brings her own laptop computer with her to perform the job duties.

78) Payments to employees for personal services are NOT deductible as business expenses.

True  
False

79) Reimbursements under an accountable plan must be:

- a) Included in W-2 income for the employee.
- b) For a work-related expense.
- c) Made in accordance with a written reimbursement plan.
- d) Made AFTER the expense is incurred.

80) Justin, a 15-year old, does various office chores for his father's medical practice, which is operated as a sole proprietorship. He is paid a total of \$4,500 for the year.

Which of the following taxes must be paid or withheld on behalf of Justin?

- a) FICA, MC and FIT
- b) FICA and MC only.
- c) No taxes need to be paid or withheld.
- d) FUTA.

81) When you hire an independent contractor, you do not have to withhold or pay any state or federal payroll taxes on the contractor's behalf.

True  
False

82) If you actively work in your business, you are considered an employee if your practice is:

- a) A corporation
- b) A partnership
- c) An LLC
- d) A sole proprietorship

83) The Section 179 deduction may be taken by your corporation, but it is limited to the business's annual profits.

True  
False

84) Which of the following is TRUE about an S corporation?

- a) Corporate distributions are deductible.
- b) An S corporation must pay corporate taxes.
- c) Employee wages are subject to employment taxes.
- d) If you are a shareholder/employee, you should pay yourself as much as possible as an employee wage to minimize corporate taxable income.

85) Which of the following examples of meals provided to employees is NOT 100% deductible?

- a) Coffee and doughnuts.
- b) Occasional meals provided to enable an employee to work overtime.
- c) Fourth of July company picnic.
- d) Weekly party to boost employee morale.

86) Which of the following benefits is tax deductible?

- a) Payment for an employee's personal vacation.
- b) De minimis transportation benefits.
- c) Payment for an employee's membership in a country club.
- d) Employee use of corporate Aspen condo during off-season.

87) Henry is an employee/shareholder of a small incorporated law firm. His firm purchases a cell phone for him which he uses 75% of the time for his work and 25% of the time for personal purposes. Henry's firm can deduct 100% of the cost for the cell phone.

True  
False

88) Gerald prepared and filed a paper return the "old fashioned way"--by hand. He made two addition mistakes on his return, which he saw right after he put it in the mail. Unfortunately, these mistakes resulted in a small tax overpayment of \$2. Gerald must file an amended return to correct these simple math errors.

- True
- False

89) Sarah failed to take a legitimate Section 179 deduction for a piece of new equipment she bought for her business. She filed her original return and paid taxes due on April 15th. She has up to three years from her April 15th original filing to file an amended return claiming the Section 179 deduction.

- True
- False

90) Helen is the employee/shareholder of a small incorporated firm. Her corporation may borrow up to \$ \_\_\_\_\_ from her interest free, so long as it is not done to avoid taxes.

- a) \$ -0-
- b) \$ 5,000
- c) \$10,000
- d) \$50,000

91) Filing an amended tax return makes an audit more likely.

- True
- False

92) Henry is a sole proprietor and he forgot to take a deduction last year. He can amend his income tax return by filing IRS form:

- a) 1040A
- b) 1120S
- c) 1040X
- d) NXS

93) Which of the following professions is a perennial IRS audit target?

- a) Cooks at restaurants
- b) Government employees
- c) Waiters and waitresses
- d) CPAs

94) IRS audit rates differ widely according to where you live.

- True
- False

95) Which of the following is suggested by the author as a way to MINIMIZE your chances of getting audited by the IRS?

- a) File early.

- b) File a paper return, not an electronic one.
  - c) Do not include explanations of items the IRS might question.
  - d) List expenses under a general expense category.
- 96) Which of the following would be considered the best supporting documentation for business expenses?
- a) Sales receipt and canceled check.
  - b) Canceled check alone
  - c) Photo of item purchased and handwritten note stating you paid cash for the item
  - d) Ledger entries showing the date, amount and payee for purchases.
- 97) Which of the following records are NOT REQUIRED to deduct auto expenses?
- a) The places you drove for business.
  - b) The dates of your business trips.
  - c) Your actual mileage
  - d) Specific sales amounts generated from your business trips.
- 98) The sampling method for tracking your mileage assumes that you drive about the same amount for business throughout the year.

True  
False

- 99) When you incur an expense for business-related entertainment, which of the following is NOT required by the IRS if the expense was less than \$75?
- a) The date the expense was incurred.
  - b) The business purpose for the expense.
  - c) The receipt.
  - d) The nature and place of the entertainment.

True  
False