

Review Questions and Final Exam

Course name:	Your Income Tax 2010-Part Two (For 2009 Tax Year)
Course number:	1024.09B
Number of questions:	Review 100 Final exam 100
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	20 CPE hours
Recommended study time:	20 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	<p>J.K.Lasser's Your Income Tax 2010 (for Tax Year 2009)</p> <p>Prepared by the J.K. Lasser Institute</p> <p>Paperback (816 pages)</p> <p>Publisher: Wiley ISBN: 978-0-470-44711-6 Seventy-third edition (November 2009)</p> <p>Click for ordering information</p>
Subject classification:	Taxation
Course updated:	November 17, 2009
Learning objectives:	To understand tax law including casualty & theft losses, deductible job costs, travel & entertainment expenses, AMT, "kiddie tax," tax credits & withholding and personal & business tax planning.
Instructions:	This copy of the exam can be used to answer questions while offline . Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password.

- 1) To be a deductible casualty loss, property must be damaged or destroyed as a result of a sudden, unexpected, or unusual event.
True
False
- 2) A casualty loss deduction may be claimed only by the owner of the property.
True
False
- 3) Damage to your car in an accident is NOT deductible as a casualty loss.
True
False
- 4) A decline in the value of a publicly traded stock due to misconduct of corporate officers is NOT a deductible theft loss.
True
False
- 5) You have an involuntary conversion when your property is destroyed by a fire.
True
False
- 6) You may deduct 100% of all qualified "miscellaneous expenses" on your Schedule A (Form 1040).
True
False
- 7) Voluntary payments to a union unemployment strike fund are not deductible.
True
False
- 8) A painter may deduct the cost of work clothing consisting of a white cap, a white shirt, white bib overalls, and standard work shoes.
True
False
- 9) You get a job with Microsoft and the company provides you with a computer in your office there. You have access to your office after hours, but you don't like to stay late. You purchase a laptop to use when you catch up on your work after hours and on weekends at home. This home computer is deductible as a miscellaneous expense.
True
False
- 10) You may deduct the cost of tax return preparation fees.
True

False

11) The cost of travel between your home and place of work is generally not deductible.

True

False

12) A temporary work location is one at which your employment is realistically expected to last, and actually does last, for one year or less.

True

False

13) Your residence is in New York City, but you work in Philadelphia. Your tax home is New York City.

True

False

14) If the primary purpose of a trip within the United States is to transact business you may deduct your lodging expenses even if you spend time vacationing.

True

False

15) To deduct meals and entertainment expenses for customers you must prove that income or other business benefit actually resulted from the expense.

True

False

16) If you make a gift to the spouse of a business associate, it is considered as made to the associate.

True

False

17) Employers may use a per diem allowance to cover meals, lodging, and incidental expenses of employees on business trips away from home.

True

False

18) Your spouse is not your dependent for tax purposes.

True

False

19) Nephews, nieces, uncles, and aunts do not have to be your blood relatives to qualify under the relationship test for a personal exemption.

True

False

20) You must list the Social Security number (SSN) of each dependent you claim on your federal tax return.

True

False

21) The two types of income tax rates are the regular rates and alternative minimum tax (AMT) rates.

True

False

22) The lowest tax bracket for 2009 is 15%.

True

False

23) If you claimed the standard deduction instead of itemizing deductions on Form 1040, you may not claim the standard deduction as an AMT deduction.

True

False

24) The “kiddie tax” applies only to income from wages

True

False

25) For 2009, a tax return must be filed for a dependent child with both investment income exceeding \$300 and gross income of more than \$850.

True

False

26) For 2009, you generally may claim a tax credit of \$1,000 for each qualifying child who is under at 17 at the end of 2009.

True

False

27) The dependent care credit is limited to your tax liability.

True

False

28) The amount you pay to a daycare or nursery school for a dependent child under age 18 is eligible for the dependent care credit.

True

False

29) The household requirement test for the earned income credit (EIC) states that the qualifying child must have lived with you in your main home in the U.S. for the entire year.

True

False

30) Only the original purchaser of a new qualifying hybrid vehicle may claim the hybrid vehicle credit.

True

False

31) Without a Form W-4, your employer must withhold tax as if you are a single person with no exemptions.

True

False

32) Tips of less than \$20 per month are taxable but not subject to withholding.

True

False

33) The backup withholding rate is 28%.

True

False

34) A married couple may NOT pay separate estimated taxes, if they plan to file jointly.

True

False

35) You can defer salary income by not cashing a paycheck at year end.

True

False

36) If the entire gain on the sale of your principal residence is excludable form income, you do not have to report the sale on your return.

True

False

37) If you and your spouse sell your jointly owned home and file separate returns, each of you must figure your own gain or loss according to your ownership interest in the home.

True

False

38) When figuring gain or loss on the sale of your home, you CANNOT include any closing costs incurred when calculating the basis of the home.

True

False

39) Even if you had a home office in your residence, when you sell your home you may be able to exclude some of the gain realized in the sale.

True

False

40) Mabel noticed her neighborhood was going downhill fast, so she decided to sell her residence for much less than she originally paid for it. She moved to an apartment and put her home up for rent while it was on the market. Her home was rented for one month (at a net loss) when it sold. Mabel can most likely deduct a loss on the sale of her residence.

True

False

41) Jimbob received some additional Caterpillar stock as a dividend on the stock he bought 20 years ago. When he sells this "dividend stock," the holding period is calculated from the original stock purchase date.

True

False

42) The wash-sale rule applies to gains from the sale of a security.

True

False

- 43) You realize no gain or loss when you convert a bond into stock if the conversion privilege was allowed by the bond.
True
False
- 44) Interest on municipal bonds is not subject to federal income tax.
True
False
- 45) You can purchase series EE bonds and cash them 36 months later with no interest penalty.
True
False
- 46) A real estate mortgage investment company (REMIC) is a taxable entity for federal income tax purposes.
True
False
- 47) You may trade real estate held for investment for other investment real estate and incur no immediate tax.
True
False
- 48) On an abandonment of business property, you may claim an ordinary loss for the property's adjusted basis.
True
False
- 49) Dividends from a bond fund that represent tax-exempt interest earned by the fund are not taxable.
True
False
- 50) The specific identification method of identifying the sold shares from a mutual fund allows you to select exactly which shares are being sold.
True
False
- 51) Free tuition for undergraduate studies provided to a faculty member or school employee is usually taxable.
True
False
- 52) You may NOT claim both the Hope credit and the lifetime learning credit for the same student for the same tax year.
True
False
- 53) Coverdell Education Savings Accounts (ESAs) were formerly known as SAR-SEPS.
True
False

54) Lindsey stopped working as a secretary for five years after her son was born. When her son enters kindergarten, she decides to go back to work, and takes a few typing courses to "brush up" on her typing skills before she starts job hunting. She CANNOT deduct the cost of these "brush-up" courses on Schedule A as a work-related education expense.

- True
- False

55) If you use your own car for transportation to school, you may use the standard business mileage rate to figure the deductible amount if your courses qualify for a deduction.

- True
- False

56) Social Security retirement benefits are paid automatically once you reach age 65.

- True
- False

57) Warren Piece turned age 65 in June of 2009, is not disabled and he loves to read. He has no tax liability. Warren will be able to claim the tax credit for the elderly on his tax year 2009 return.

- True
- False

58) If you serve in a designated combat zone during any part of a month, all of your qualifying military pay for that month is excluded from your taxable income.

- True
- False

59) Reservists who are called to active duty for over 179 days may withdraw IRA funds before age 59 ½ without penalty.

- True
- False

60) You may elect the exclusion for foreign earned income only if your tax home is in the U.S.

- True
- False

61) To meet the foreign residence test, you must be a U.S. citizen who is a bona fide resident of a foreign country for an uninterrupted period that includes one full tax year.

- True
- False

62) Foreign income reported on your federal income tax return must be stated in U.S. dollars.

- True
- False

63) Only payments of cash, checks, and money orders payable on demand qualify as taxable and deductible alimony.

- True
- False

- 64) If you hired someone to do household work and you were able to control what work he or she did and how it was done, you had a household employee.
True
False
- 65) As an employer, you must pay FUTA on wages paid to your spouse for household services.
True
False
- 66) Gifts to your spouse are completely tax free under the gift tax marital deduction if your spouse is a U.S. citizen at the time of the gift.
True
False
- 67) The federal estate tax is a tax on the act of transferring property at death.
True
False
- 68) If you do freelance work as an independent contractor, you are self-employed and should use Schedule C.
True
False
- 69) If you have more than one business, you must use the same accounting method for all the businesses.
True
False
- 70) The cost of replacing the siding on your office building is always considered a deductible expense.
True
False
- 71) A kickback includes payments for referral of a client, patient, or customer.
True
False
- 72) The home area can qualify as your principal place of business even if you spend most of your working time providing services at outside locations.
True
False
- 73) Household repairs that benefit a home office space are deductible.
True
False
- 74) A net operating loss is generally the excess of deductible business expenses over business income.
True
False
- 75) A partnership may establish a Keogh plan.
True

False

76) You must formally set up a Keogh plan in writing on or before the last day of the taxable year in which you want the plan to be effective.

True

False

77) Depreciation deductions may be claimed only from property used in your business or other income-producing activity.

True

False

78) Lisa Beans bought a \$5,000 espresso machine from Starbucks three years ago to make coffee at home. She rationalized the purchase by calculating the money she saved by not buying espressos at Starbucks every day. This year she moved the machine to her home office, and converted it to business use. Lisa cannot elect first year expensing for this property because it was purchased in a prior year.

True

False

79) If you are starting a new business in which you expect losses or low income at the start, accelerated MACRS depreciation may waste depreciation deductions that may be used in later years when your income increases.

True

False

80) Computers are NOT considered "listed property."

True

False

81) A covenant not to compete is usually a Section 197 intangible if paid for in connection with the acquisition of a business.

True

False

82) The choice of the mileage allowance must be made in the first year you place the vehicle in service for business travel.

True

False

83) If you do not claim the IRS mileage allowance, you may deduct car, truck, or van expenses such as gas, parking and tolls on business trips.

True

False

84) The minimum depreciation period for business autos, trucks, and vans is seven years.

True

False

- 85) If you use a leased vehicle for business and personal driving, you may deduct only the lease payments allocated to business travel.
True
False
- 86) Profitable sales of machinery used in your business and held for more than one year are generally treated as capital gain.
True
False
- 87) Self-employment tax provides funds for Social Security and Medicare benefits.
True
False
- 88) When you and your spouse each have self-employment income, you may choose to figure combined self-employment income on the same Schedule SE if you file jointly.
True
False
- 89) Traders in securities who buy and sell securities for their own account do not treat net gains or losses from the sales as self-employment income or loss.
True
False
- 90) The IRS generally takes the position that income earned by a consultant is subject to self-employment tax.
True
False
- 91) If you are a nonresident alien, you must pay Social Security on your self-employment income derived from a trade, business, or profession.
True
False
- 92) Your tax related records should be kept for a minimum of three years after the year to which they are applicable.
True
False
- 93) You can receive an automatic six-month extension to file your tax return by filing a simple form with the IRS.
True
False
- 94) If the IRS has not yet assessed an underpayment of income tax, you can make a cash deposit in order to suspend the running of interest on a potential underpayment.
True
False

- 95) If your tax return is filed late without reasonable cause, the IRS may impose both a late payment penalty and interest charges on the taxes due.
True
False
- 96) You may file for a refund if you wish to take advantage of a retroactive change in the law.
True
False
- 97) If your itemized deductions exceed target ranges set by the IRS the chances of being audited increases.
True
False
- 98) For self-employed individuals, most audits are field audits at their place of business.
True
False
- 99) Even if you have authorized someone to represent you at an audit, you must appear at the examination with the representative.
True
False
- 100) If you agree to audit changes regarding a proposed deficiency, you can bring the case to a close by signing the Form 870.
True
False

Exam Name: Your Income Tax 2010 (2009 Tax Year)
--Final Exam

- 1) A casualty loss includes:
a) Corrosion to your beach house.
b) Termite infestation occurring over a period of time.
c) Erosion to your property over the last 10 years.
d) Damage to your car from an earthquake.
- 2) Sam rents an apartment as his principal residence. The apartment and its contents were completely destroyed by a hurricane and the county was declared a disaster area. Sam received insurance proceeds of \$14,500 for unscheduled personal property in his apartment. The insurance proceeds are NOT taxable.
True
False
- 3) Emily was involved in a car accident while on vacation and broke her leg when her car slid on an icy road into another vehicle. Which of the following are true?
a) Damage to her car is NOT a deductible casualty loss.
b) Expenses of personal injuries are NOT a deductible casualty loss.
c) Towing costs are deductible as part of the casualty loss.

- d) She may deduct legal fees and costs of a court action for damages to the other vehicle.
- 4) You can deduct a theft loss in the year that you discover that your property was stolen.
True
False
- 5) An involuntary conversion of property for tax purposes occurs if your property is destroyed, damaged, stolen, or taken by a government authority.
True
False
- 6) A floor of _____% of AGI applies to the total of most miscellaneous deductions that are claimed on Schedule A of Form 1040.
a) 10%
b) 7.5%
c) 5%
d) 2%
- 7) Union members may deduct as “miscellaneous” itemized deductions union dues and initiation fees.
True
False
- 8) Which of the following is true about uniforms and work clothes?
a) If your job requires you to wear expensive clothing, you may deduct the cost of the clothes even if the clothing is suitable for wear off the job.
b) An allowance paid by your employer for work clothes or a uniform is reported as income.
c) Special work clothes that protect you from injury are deductible even if you are not required to wear them to keep your job.
d) You may deduct the cost of ordinary clothes used as work clothes on the grounds that they are soiled after a days work and cannot be worn socially.
- 9) Listed property requirements apply to:
a) Fax machines
b) Copiers
c) Calculators
d) Cellular phones
- 10) Even if your investment property held for income does not currently produce income, expenses incurred in managing the property are deductible.
True
False
- 11) Which of the following is a deductible business expense?
a) The cost of travel between your home and your remote workplace not serviced by public transportation.
b) Taxi fares to several business calls on a business trip out of town.
c) Travel from a union hall to an assigned job.
d) The cost of the limo service that picks you up at home and drives you to work every day, provided you work while riding in the limo.

- 12) Cindy lives in Houston, but drives 170 miles to Austin each week to work at her permanent job. She stays at a hotel in Austin and eats meals in a restaurant.
- a) Cindy can deduct transportation, meal and lodging expenses since she lives more than 100 miles from work.
 - b) Cindy cannot deduct transportation, but can deduct meals and lodging.
 - c) Cindy can deduct transportation, but not meals and lodging.
 - d) Transportation, meals, and lodging are personal, nondeductible expense for Cindy.
- 13) For travel expense purposes, your tax home is always where you maintain your family residence.
- True
 - False
- 14) Which of the following is correct about business-vacation trips within the United States?
- a) If your trip is primarily for business, and you extend your stay for a few days for nonbusiness reasons, you can deduct travel expenses to and from the business destination.
 - b) If the main purpose of the trip is personal, but you also transact some business while there, you may deduct your travel costs to and from the area.
 - c) If you spend some time vacationing at the destination before or after a business trip, you CANNOT deduct any of the costs of your transportation to and from the area.
 - d) A business trip to Hawaii is considered "offshore" and expenses related to the trip are not deductible.
- 15) Qualified meal and entertainment costs are deductible subject to a _____% limit.
- a) 10%
 - b) 25%
 - c) 50%
 - d) 75%
- 16) Deductions for gifts to business customers and clients are limited to \$_____ a person.
- a) \$ 25
 - b) \$ 50
 - c) \$100
 - d) \$500
- 17) A per diem allowance may be used instead of providing reimbursement for travel expenses of employees on business trips away from home.
- True
 - False
- 18) Bill and Sandy are married and both work full-time. Which of the following is true about claiming an exemption?
- a) Bill can claim an exemption for Sandy if he files a separate return.
 - b) Either spouse, but not both, could claim the other as an exemption if filing separately.
 - c) No exemptions are allowed because both work full-time.
 - d) On a joint return, each spouse receives an exemption as a taxpayer.
- 19) On January 2nd of this year, Ellen's mother died. Ellen contributed all support for her mother, who had no gross income for this year. Ellen may claim her mother as a full exemption for this year even though she only contributed for her support for only one day of the year.
- True

False

20) Your married daughter Amelia has earned income of \$57,000 and files a joint return with her husband. You cannot claim an exemption for Amelia, even if you provide a substantial amount of support to her.

True

False

21) Which of the following is true about figuring your regular income tax liability?

- a) All tax filers must compute their alternative minimum tax (AMT).
- b) You can still use the IRS Tax Table to calculate taxes if you have a net capital gain.
- c) The Tax Computation Worksheet must be used if taxable income is \$100,000 or more, and you do not have net capital gains or qualified dividends or claim the foreign earned income or housing exclusion.
- d) If your FIT was withheld from your paycheck, you do not have to figure your own tax liability when you file your tax return.

22) Which of the following is true about AMT?

- a) Some people benefit from AMT because it reduces their total tax liability
- b) If you are married filing jointly, and have less than \$100K AGI, you do not need to calculate AMT
- c) Children under age 18 with earned income are not subject to AMT
- d) There are no specific tests to determine whether or not you are liable for AMT.

23) The purpose of AMT is to effectively take back some of the tax breaks allowed for regular tax purposes.

True

False

24) Marybelle is aged 9 this year and heir to the Bump-It hair products fortune. She will be subject to the "kiddie tax" for 2009 if her investment income exceeds _____ .

- a) \$ 300
- b) \$ 600
- c) \$1,350
- d) \$1,900

25) The "kiddie tax" applies to income from wages and self-employment.

True

False

26) For 2009 tax returns, the kiddie tax may apply to children up to the maximum age of _____.

- a) 12
- b) 18
- c) 21
- d) 23

27) You may claim the child and dependent care credit even if you had no earnings from employment.

True

False

28) Up to \$_____ a year of outside-the-home care expenses may be taken into account in figuring the dependent care credit for one dependent.

- a) \$ 500

- b) \$1,000
- c) \$3,000
- d) \$6,000

29) Childless workers CANNOT claim the earned income credit.

- True
- False

30) Your tentative and/or actual alternative minimum tax (AMT) may affect your alternative motor vehicle tax credit.

- True
- False

31) Income tax withholding is required for all EXCEPT:

- a) Sick pay paid by your employer.
- b) Pay to members of the U.S. Armed Forces.
- c) Commission payments.
- d) Payments to household workers.

32) Failure to report tip income of \$20 or more received during the month to your employer may subject you to a penalty of _____% of the Social Security and Medicare tax due on the unreported tips.

- a) 10%
- b) 25%
- c) 30%
- d) 50%

33) If you do not give your taxpayer identification number to your bank who is paying you interest income, you may be subject to backup withholding

- True
- False

34) Megan is single and self-employed as a dog tutor. She had net earnings of \$50,000 and paid \$10,000 in taxes last year She expects to earn \$70,000 this year and have a tax liability of \$15,000. Her estimated tax payments must equal at least _____ to avoid an underpayment penalty.

- a) \$ 9,000
- b) \$10,000
- c) \$12,500
- d) \$15,000

35) Long-term capital gains are taxed at higher rates than short-term gains and regular income.

- True
- False

36) Which of the following is true about residence sales?

- a) You may deduct a loss on the sale of a personal residence.
- b) If the sales price is greater than the maximum \$250,000/\$500,000 exclusion, you must report the sale on your return.

c) If the entire gain on the sale of your principal residence is excludable from income, you do not have to report the sale on your return.

d) Vacant land adjacent to a taxpayer's residence does NOT qualify for the exclusion.

37) If you and your spouse sell your jointly owned home and file a joint return, you figure your gain or loss as one (joint) taxpayer.

True

False

38) Which of the following closing costs is NOT included in your basis?

a) Legal fees

b) Fire insurance premiums

c) Survey fees

d) Charges for installing utility services

39) If you have a home office, all of any gain on the sale of your home is taxable.

True

False

40) You may deduct a loss on the sale of a house received as an inheritance if you personally did not use it and offered it for sale or rental within 12 months of the inheritance.

True

False

41) You were smart enough to buy 1,000 shares of Amazon.com stock on April 17, 2004. This year, on September 15th, you receive 20 shares of Amazon.com stock as a tax-free stock dividend. Later the same year, on December 30th, you sell the 20 shares received as a stock dividend at a profit. Which of the following is true?

a) You should report the sale as a short-term capital gain.

b) This is considered a wash sale.

c) The sale is not reported since it was from a tax-free stock dividend.

d) The holding period of the 20 shares goes back to your original purchase date of April 17, 2004.

42) Under wash-sale rules, your loss deduction from the sale of a security is barred if within _____ days of the sale you buy substantially identical stock or securities.

a) 5

b) 15

c) 30

d) 60

43) Pete owns convertible bonds that allow the conversion of the bond to stock. When Pete converts the bond, he must recognize any gain or loss, based on the FMV of the stock, on the date of conversion.

True

False

44) You are deciding between a tax-exempt bond and a taxable bond. You want to find which will give you more income after taxes. You have a choice between a tax-exempt bond paying 3% and a taxable bond paying 4.5%.

Your tax bracket is 35%. Your tax equivalent rate is:

- a) 4.62%
- b) 4.50%
- c) 3.00%
- d) 6.92%

45) Which of the following is TRUE about Series EE and E bonds?

- a) EE bonds must be held 6 months from the issue date before they can be redeemed.
- b) You must report the interest on a Series E bond annually.
- c) After the final maturity date on a Series EE bond, interest continues to accrue.
- d) If you cash your bonds before the accrual month that applies to your bond, you will lose interest.

46) A real estate mortgage investment company (REMIC):

- a) Is a taxable entity for federal income tax purposes.
- b) Is generally treated as a corporation.
- c) Holds a fixed pool of mortgages.
- d) Receives tax treatment like open-end mutual funds.

47) You have property with a basis of \$30,000, now valued at \$55,000. You exchange the property with another property worth \$55,000. Your basis for depreciation for the new property is \$55,000.

- True
- False

48) A repossession is treated as a sale of property on which you must figure gain or loss.

- True
- False

49) When you redeem shares from a tax-exempt bond fund, you do NOT realize a taxable capital gain or deductible loss.

- True
- False

50) Which of the following is true about redemptions and exchanges of mutual fund shares?

- a) If you redeem shares that you owned for two years, your gain or loss is short term.
- b) You MUST use the specific identification method to identify the shares you are selling.
- c) Your basis includes load charges.
- d) Exchanges of shares within the same family of funds is treated as a sale

51) Scholarships for a degree candidate that include tuition, books, and supplies are taxable.

- True
- False

52) Which of the following may only be used for the first two years of post-secondary education?

- a) Section 529 Plans
- b) Lifetime Learning Credits
- c) Hope Credits
- d) Coverdell ESAs

53) Which of the following is true about Coverdell ESAs?

- a) A designated beneficiary of a Coverdell ESA is not taxed on withdrawals that do not exceed qualified education expenses.
- b) Total annual contributions per beneficiary are limited to \$4,000.
- c) A contribution cannot be made for a beneficiary after he or she reaches age 16 unless the beneficiary is a special needs beneficiary.
- d) The designated beneficiary cannot be changed, once the ESA is established.

54) If an MBA degree is required to obtain a promotion to a new position, the cost of the MBA courses is deductible.

- True
- False

55) Jim works in Houston, Texas, and after work he drives home. After a quick dinner, he drives to College Station to take classes twice a week for 16 months. The IRS does not consider the course to be temporary. Assuming the course is a valid work-related education expense, which of the following applies to Jim?

- a) He can deduct both the cost of dinner and the travel expenses.
- b) He may deduct the transportation costs between home and school, but not the return trip.
- c) He may deduct all transportation costs for travel to and from school.
- d) He cannot deduct any of the transportation costs because the costs of going between home and school are nondeductible when the course is not considered temporary.

56) If you are married and file a joint return, your net Social Security benefits are tax free in 2009 if your provisional income is \$_____ or less.

- a) \$25,000
- b) \$32,000
- c) \$37,000
- d) \$50,000

57) For the first year you claim the credit for the disabled, you need a physician's certification for your disability.

- True
- False

58) Which of the following is subject to tax for a member of the Armed Forces?

- a) Combat pay
- b) Housing and cost of living abroad
- c) Basic pay for active duty
- d) Dividends on GI insurance

59) If you are unable to pay your tax when you enter the Armed Forces, you may get an extension until six months after your initial period of service ends.

- True
- False

60) If your tax home is in a foreign country and you meet the foreign residence test, you may exclude up to \$_____ of foreign earned income earned in 2009.

- a) \$ -0-
- b) \$42,200
- c) \$64,500

- d) \$91,400
- 61) To qualify for the physical presence test, you must show you were on foreign soil _____ days during a 12-month period.
- a) 150
 - b) 225
 - c) 330
 - d) 365
- 62) If you expect to qualify under the physical presence test after the due date for your return, you may ask for an extension of time for filing your return until after you qualify.
- True
 - False
- 63) Alimony payments are deductible by the payer if they are taxable to the recipient.
- True
 - False
- 64) Sunny and Shayre hired Zelda to do household work every Tuesday. They supplied Zelda with all necessary cleaning products and were able to control what work she did and how it was being done. Which of the following are true?
- a) Income tax must be withheld from Zelda's wages.
 - b) Sunny and Shayre are required to get Zelda's name and Social Security number and enter them on Form W-2.
 - c) Social Security and Medicare does not need to be withheld from Zelda's wages.
 - d) Sunny and Shayre are not required to verify if Zelda is an alien who can legally work in the United States.
- 65) As an employer, you are liable for FUTA if you pay cash wages of \$_____ or more during any calendar quarter.
- a) \$ 250
 - b) \$ 500
 - c) \$ 750
 - d) \$1,000
- 66) Gift tax liability may be avoided in 2009 by making gifts less than the annual per-donee exclusion of \$_____.
- a) \$ 7,200
 - b) \$10,000
 - c) \$13,000
 - d) \$15,000
- 67) The federal estate tax must be paid by the beneficiary receiving the property.
- True
 - False
- 68) Ben owns a small business and reports his profit or loss on his personal tax return on a Schedule C. Ben's business is a:
- a) Corporation
 - b) Limited Liability Company (LLC) with associates

- c) Partnership
- d) Sole proprietorship

69) Using the cash basis method of accounting, you may defer reporting income by postponing the receipt of income.

- True
- False

70) Self-employed professionals can usually deduct:

- a) The cost of a professional education.
- b) Business lunches with associates.
- c) Dues to professional societies.
- d) Clothing specifically purchased for work.

71) Bribes and kickbacks are NOT deductible if they are illegal under a federal law.

- True
- False

72) Which of the following disqualifies a home office as a principal place of business for a self-employed person?

- a) You occasionally conduct minimal administrative activities at a fixed location outside of your home.
- b) You have suitable space to do the administrative work outside your home but choose to use your home office for such activities.
- c) You have a company send out your bills from its place of business
- d) You do your professional reading in your home office, but all of your administrative work at your office building.

73) Home office expenses are not deductible if you run a sideline business from an office in your home.

- True
- False

74) Net operating loss may include:

- a) Deductions for personal exemptions.
- b) An IRA deduction.
- c) Casualty and theft losses
- d) Capital losses that exceed capital gain.

75) A Keogh defined-contribution plan fixes a specific retirement benefit based on an IRS formula and actuarial assumptions.

- True
- False

76) You must stop making contributions to a SEP once you reach age 70 ½ even if you have self-employment income.

- True
- False

77) Which of the following is true about claiming depreciation deductions?

- a) If the primary purpose of property is to produce income but it fails to yield any income, the property may still be depreciated.
- b) Depreciation may be claimed on property held for personal purposes.
- c) If a car is used both for business and pleasure the car CANNOT be depreciated.
- d) Land is depreciable.

78) In 2005, you buy a computer for \$2,600 for personal use. Several years later, when it is worth \$600, you convert the computer to business use. The basis for depreciation is:

- a) \$0 since computers cannot be depreciated.
- b) \$ 600
- c) \$2,000
- d) \$2,600

79) XYZ Co. placed \$104,000 of equipment in service on the last day of this tax year. The maximum depreciation XYZ Co. can take for this year is 1/365th of the annual depreciation calculation.

- True
- False

80) Bernie buys a computer in 2009 and uses it exclusively in his regular business office. Bernie CAN claim first-year expensing for this computer purchase.

- True
- False

81) The costs of Section 197 intangibles are amortized over a _____ year period.

- a) 5
- b) 7
- c) 10
- d) 15

82) Which of the following is **NOT** true about deducting car and truck expenses for tax year 2009?

- a) You can use the standard mileage allowance for a leased car if it is used for the entire lease period.
- b) You can elect to deduct a flat IRS mileage allowance instead of deducting the actual operating expenses if you have a standard business car.
- c) You can switch back and forth between the mileage allowance and actual expenses method each year.
- d) The standard mileage rate for 2009 is 55 cents per mile.

83) Rebecca Anne does not claim the IRS mileage allowance for her car, and deducts the actual expenses for business mileage. This year

- she drove her car a total of 12,000 miles,
- including 9,000 miles for business trips and
- her actual car expenses for gas, insurance and repairs for the year were \$1,000.

Her car expense deduction is \$ _____.

- a) \$ -0-
- b) \$ 750
- c) \$ 800
- d) \$1,000

- 84) To use accelerated MACRS rates for cars, trucks, and vans, you must meet the more-than-50%-business-use test in the year the vehicle is placed in business service.
True
False
- 85) If you lease rather than purchase a car exclusively for business use, you may deduct the lease charges as a business expense deduction.
True
False
- 86) Cindy bought a house to be used as residential rental property and placed it into service in 1990. She sold the home this year. Cindy will have to recapture _____ of her depreciation as ordinary income:
a) 0%
b) 25%
c) 50%
d) 100%
- 87) Ms. Farrelly Odparrent is self-employed as a kid's toy recycling consultant. If her self-employment net earnings are _____ or more in 2009 she will be required to prepare Schedule SE.
a) \$137
b) \$300
c) \$400
d) \$535
- 88) If you have one or more self-employed operations, your net profit from all of the operations is combined.
True
False
- 89) Which of the following types of income is included as self-employment income on Schedule SE?
a) Dividends and interest.
b) Wages of a statutory employee.
c) Capital gains from sale of a property.
d) Fees you earn for freelance work as an independent contractor.
- 90) Anne is a baby sitter and performs services in a parent's home according to instructions by the parents. Anne is considered to have self-employment earnings and must file Schedule SE.
True
False
- 91) Which of the following is NOT considered self-employed?
a) An independent real estate agent paid by commission.
b) An author who receives royalties from writing books.
c) A registered nurse who is hired directly by clients for private nursing services.
d) An individual who gives occasional lectures for a fee.
- 92) The IRS generally has _____ years from the date your return is filed to audit your return.
a) 1
b) 3
c) 5

d) 7

- 93) When you apply for an extension to file request for your 2009 return, you _____.
- a) can get an automatic eleven-month extension to file your return by filing form 4868 by April 15, 2010
 - b) extend the time to pay your taxes
 - c) will owe interest on any 2009 tax not paid by April 15, 2010, even if you obtain a filing extension
 - d) get an automatic extension if you are out of the country on the filing due date
- 94) If your return is filed late without reasonable cause, the IRS may impose a penalty of 5% of the net tax due for each month the return is late, with a maximum penalty of 25%.
- True
 - False
- 95) If you file an extension and by the original due date you paid at least _____% of your total tax liability, reasonable cause is presumed and the late payment penalty does not apply for the period covered by the extension.
- a) 50%
 - b) 60%
 - c) 75%
 - d) 90%
- 96) You must file a refund claim on Form 1040X if you have overpaid your estimated tax.
- True
 - False
- 97) If your itemized deductions exceed target ranges set by the IRS, the chances of being audited increases.
- True
 - False
- 98) The IRS is NOT required to notify individuals prior to enforcing a tax lien by seizing property.
- True
 - False
- 99) You have the right to make an audio recording of any interview with an IRS official.
- True
 - False
- 100) A _____% penalty applies to the portion of any tax underpayment due to fraud.
- a) 10%
 - b) 25%
 - c) 50%
 - d) 75%