


Review Questions and Final Exam

Course name:	Stand Up to the IRS
Course number:	1025N.09
Number of questions:	Review: 75 Final Exam: 75
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	15 CPE hours
Recommended study time:	15 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	<p><i>Stand Up to the IRS</i> by Frederick W. Daily, attorney</p> <p><i>Paperback (378 pages)</i> <i>Publisher: NOLO</i></p> <p><i>ISBN: 1413309224</i></p> <p><i>Tenth edition (January 2009)</i></p>
	 <p>Click to order from Amazon</p>
Subject classification:	Taxation
Course updated:	June 9, 2009
Learning objective:	To understand the tactics the IRS uses during audit and collection procedures. Also learn how to avoid audits, work out a payment plan, make an Offer in Compromise, protect your assets and appeal the auditor's decision when necessary.
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>

- 1) Per the author, IRS service center employees usually respond better to forms rather than personal letters.
True
False
- 2) The Freedom of Information Act guarantees access to most of the data the IRS has in its files about you.
True
False
- 3) If a taxpayer disagrees with a court's tax decision interpreting the tax code, the taxpayer can appeal to a circuit court of appeal.
True
False
- 4) The government can only go after nonfilers and impose civil penalties within six years of the date the tax return was due.
True
False
- 5) The government policy is to NOT prosecute average citizens who haven't filed their tax returns.
True
False
- 6) You should avoid filing for an extension to file your tax return to minimize chance of audit.
True
False
- 7) A messy tax return can be the cause of an audit.
True
False
- 8) You should always file your tax return as soon as possible while an audit is in progress.
True
False
- 9) If you file a fraudulent return, there is no time limit on an audit.
True
False
- 10) Filing an amended tax return extends the time the IRS has to audit you.
True
False
- 11) The most common automated adjustment notice is the CP-2000 notice proposing additional tax, penalties, and interest.

True
False

12) A correspondence audit is used to verify such thing as stock market transactions, real estate sales and itemized deductions.

True
False

13) One way the author suggests to delay an office audit is to leave some records at home on the day of the audit.

True
False

14) The net worth method is the IRS's favorite indirect method of proving unreported income.

True
False

15) If you give a qualified representative a signed Form 2848, Power of Attorney, he can insist that an audit be at his office.

True
False

16) The IRS can tax years not covered by an initial audit.

True
False

17) Proof of your deductions must be in writing.

True
False

18) Substantial compliance means that you have enough proof that you obeyed the tax reporting law even though your evidence is less than complete.

True
False

19) The Internal Revenue Manual directs an auditor to issue an audit report within three years after the date you filed the return.

True
False

20) You MUST respond to a proposed examination report.

True
False

21) If the IRS sends an audit notice to your last known address, this qualifies as "notice" even if you never actually receive the correspondence.

True
False

- 22) If you receive a jeopardy assessment from the IRS, you should see a tax lawyer immediately.
True
False
- 23) Appealing an audit is relatively simple.
True
False
- 24) Appeals officers are trained to be flexible and are given discretion in dealing with taxpayers that auditors don't have.
True
False
- 25) An appeal is similar to a formal court, where testimony is taken under oath.
True
False
- 26) Appeal settlements are usually reached orally and then put in writing on an IRS form.
True
False
- 27) A notice of deficiency advises you of your right to go to tax court.
True
False
- 28) You can be fined for filing a petition to tax court without legal grounds.
True
False
- 29) The law requires that you actually receive a Notice of Deficiency before the 90 day period can begin.
True
False
- 30) The main purpose of a Stipulation of Fact is to save the judge's time at tax court.
True
False
- 31) Tax court judges work for the IRS.
True
False
- 32) You can appeal a "regular tax court case" to a higher court if you lose.
True
False
- 33) Bankruptcy judges have the power to decide IRS disputes.
True
False

- 34) The IRS has a legal obligation to take you to court before seizing your assets.
True
False
- 35) The statute of limitations period on the collection of a tax debt does not start until you file your return and the IRS officially assesses the tax against you.
True
False
- 36) If you are coming up on a tax return filing date, and owe a balance you can't pay, you should wait to file your tax return.
True
False
- 37) It is preferable for your case to be handled by a revenue officer rather than by an Automated Collections System (ACS) collector.
True
False
- 38) When completing IRS collection statements, you should value your assets at the maximum possible value.
True
False
- 39) You should value your personal items at thrift shop prices.
True
False
- 40) Conditional expenses are any expenses that aren't absolutely necessary for your well being.
True
False
- 41) If you owe taxes of \$25,000 or less an Installment Agreement (IA) plan is easy to get.
True
False
- 42) If you are in bankruptcy, you qualify for an Offer in Compromise (OIC).
True
False
- 43) If you have sufficient assets to pay in full but, due to an exceptional circumstance, payment would cause an economic hardship, you may qualify for OIC.
True
False
- 44) Once an OIC is accepted and you've paid the amount agreed to, the IRS must release tax liens within 10 days of the final payment date.
True
False

- 45) A lump sum OIC must be paid in a single payment within 10 days of the agreement.
True
False
- 46) Filing a petition under the bankruptcy code can often reduce or erase tax debts.
True
False
- 47) Secured taxes must be paid in full in a Chapter 13 case.
True
False
- 48) If the tax collector recommends to his supervisors that your tax account balance should be classified as “currently not collectable,” you won’t hear from the IRS again.
True
False
- 49) Bankruptcy does NOT wipe out a recorded tax lien.
True
False
- 50) IRAs are fully exempt from IRS seizure.
True
False
- 51) Upon request from the IRS, you must reveal the existence or location of your assets.
True
False
- 52) The IRS can seize assets and even padlock your door if your business gets behind in payroll tax deposits.
True
False
- 53) Before the Taxpayer Advocate Service will help you obtain your refund check, you must have made at least two inquiries into the status of your refund.
True
False
- 54) The Taxpayer Advocate Service can order the IRS to cease from any action that causes a significant hardship.
True
False
- 55) Married couples are required to file a joint tax return if only one spouse has income.
True
False
- 56) Alimony payments are tax deductible to the payer.
True

False

57) If the gross value of your estate exceeds the estate tax-exempt amount, your executor must file a federal estate tax return.

True

False

58) The single most common adjustment made by estate tax auditors is unrealistic valuation of estate assets.

True

False

59) The majority of time the IRS punishes fraud with criminal fraud penalties.

True

False

60) Not filing a tax return is the least serious tax crime.

True

False

61) The primary element of any tax crime is intent.

True

False

62) Real estate agents are tax-classified as an exempt employee.

True

False

63) IRS officers can seize assets and force you out of business if you owe back payroll taxes.

True

False

64) When a business shuts down and payroll taxes haven't been paid, the IRS can hold the company's owners, managers, and bookkeepers personally responsible for the payroll taxes due.

True

False

65) All cash and cash equivalent business transactions over \$2,000 must be reported to the IRS.

True

False

66) If you are late filing your tax return, the IRS can impose a penalty of 5% per month on the tax balance due, up to 25% of the total.

True

False

67) Abatement occurs when the IRS eliminates a tax penalty.

True

False

- 68) You cannot tell the IRS how a late payment should be applied to your tax account.
True
False
- 69) An enrolled agent (EA) is licensed to practice before the IRS.
True
False
- 70) Although the author attempts to provide the information throughout the book that you need to deal with the IRS directly, he concedes that hiring a tax professional may be a wise investment if you are being audited.
True
False
- 71) If you contest an IRS audit in tax court, notify your state's income tax department to prevent a premature state assessment.
True
False
- 72) You CANNOT sue IRS employees.
True
False
- 73) The IRS can audit you for up to six years if it suspects that you underreported your income by 25% or more.
True
False
- 74) The IRS usually doesn't go after nonfilers after six years.
True
False
- 75) In most states, property owned by one spouse before marriage remains that spouse's separate property during marriage.
True
False

Exam Name: Stand Up to the IRS
--Final Exam

- 1) The best way to communicate with the IRS is by sending a letter via U.S. mail.
True
False
- 2) Getting access to the contents of your IRS files under the Freedom of Information Act:
a) Is now available immediately with online access to files.
b) Costs \$10 per return per year (2008/9 prices).
c) Requires a court order.
d) Involves making a simple written request.

- 3) The IRS is NOT the final word on interpreting tax code.
True
False
- 4) The IRS usually does not pursue non-filers after _____ from the filing date.
a) 1 year
b) 3 years
c) 5 years
d) 6 years
- 5) The author recommends that a nonfiler of taxes during the past should simply start filing their tax returns without first contacting the IRS.
True
False
- 6) Requesting an extension to file your tax return:
a) Extends your time to pay any taxes owed.
b) Requires Form EZIOU.
c) Extends your time to file until October 15 if live inside the U.S.
d) Sets off red flags at the IRS.
- 7) Your chances of being audited are the same no matter what state you live in.
True
False
- 8) If you are self-employed, the odds of an IRS examination in your taxpaying lifetime is about:
a) 10%
b) 25%
c) 50%
d) 73%
- 9) Generally, your tax return cannot be audited after _____ years from its original filing date.
a) 10
b) 7
c) 5
d) 3
- 10) If you file an amended tax return, only the amended items may be audited.
True
False
- 11) The IRS does NOT have the authority to make changes to your tax account without an audit.
True
False
- 12) The most common type of IRS audit is the:
a) Office audit
b) Field audit

- c) Correspondence audit
- d) Virtual audit

13) The author recommends you should answer auditor's questions over the telephone prior to your appointment for an office audit to help speed up the actual audit process.

- True
- False

14) Which of the following is TRUE about IRS auditors?

- a) They receive bonuses based on the dollars produced from audits.
- b) They receive overtime pay.
- c) They typically have a light caseload.
- d) Their job performance is based on how many files they close in a month.

15) The Taxpayers' Bill of Rights gives small business owners the right to refuse an audit on their business premises if an audit would virtually shut the business down.

- True
- False

16) What does the Internal Revenue Manual state is the most important phase of an audit?

- a) The wrap-up and agreement of tax amount owed.
- b) The supervisory review of the "plan of attack."
- c) The initial interview.
- d) The preparation prior to the audit.

17) The IRS is NOT legally required to prove that you are wrong.

- True
- False

18) You can claim business deductions for travel and entertainment expenses without substantiation up to a maximum of \$_____ per item.

- a) \$75
- b) \$50
- c) \$25
- d) -0- (all deductions require substantiation)

19) If an IRS auditor asks you to extend your audit deadline by signing IRS Form 872, the author suggests that you:

- a) Sign the consent form.
- b) Sign the Form 872, making sure to sign and submit a Form 3399 at the same time.
- c) Request a different IRS auditor be assigned to your case.
- d) Do NOT sign the consent form.

20) You must pay all taxes and penalties immediately when you sign the examination report.

- True
- False

21) If you don't answer an audit letter and it is not returned to the IRS by the post office:

- a) A subpoena is issued for your pertinent tax records.

- b) You have a right to an administrative appeals hearing, if requested within 60 days of the original letter date.
 - c) Exemptions and deductions are disallowed in whatever manner the auditor wishes.
 - d) The audit will most likely be dropped.
- 22) A jeopardy assessment allows the IRS to move quickly to take your assets.
True
False
- 23) The average appeal of an audit results in a _____% decrease in taxes, penalties and interest imposed by the auditor.
a) 15%
b) 25%
c) 40%
d) 60%
- 24) The IRS is legally required to let you have an administrative appeal after an audit.
True
False
- 25) After requesting an appeals hearing, you will have at least _____ days to prepare for your hearing.
a) 15
b) 30
c) 45
d) 60
- 26) Once you sign a Form 870 settlement, you are barred from going to tax court if you find an error and change your mind.
True
False
- 27) If you don't settle an appeal:
a) The taxes, penalties, and interest become final immediately.
b) The IRS must agree to a request for an appeal review with a different auditor.
c) You have the right to go to tax court.
d) The IRS will automatically audit you for the next three years.
- 28) Tax courts are completely independent from the IRS.
True
False
- 29) The small case division of the tax court is for audits in which the IRS claims the taxes and penalties owed for any one tax year are:
a) \$ 50,000 or less
b) \$100,000 or less
c) \$150,000 or less
d) \$250,000 or less
- 30) Per the author, you should ordinarily sign a Stipulation of Facts document just to keep on the tax court judge's good side.

True

False

31) The best tax professional to bring to court with you is:

- a) An enrolled agent
- b) A CPA
- c) An ex-IRS auditor
- d) A lawyer

32) Regular tax court cases with taxes and penalties over \$50,000 always have a jury.

True

False

33) The primary disadvantage of going to federal court instead of tax court is:

- a) District courts are looser on the rules of procedure.
- b) You cannot request a jury trial in federal court.
- c) The legal expenses are greater when you go to federal court.
- d) The penalties are higher in cases settled in federal court.

34) According to the IRS, _____% of all taxpayers who have filed returns owe back taxes.

- a) 50%
- b) 30%
- c) 25%
- d) 15%

35) The statute of limitations on the collection of a tax debt by the IRS is:

- a) 2 years
- b) 5 years
- c) 10 years
- d) Unlimited

36) The initial late payment penalty for each month you carry a tax balance is:

- a) $\frac{1}{4}$ %
- b) $\frac{1}{2}$ %
- c) 1%
- d) 2%

37) One advantage of transferring your file to your local IRS office is that a revenue officer can grant longer payment plans than an IRS Automated Collection System collector.

True

False

38) When completing IRS Collection Statements, it is illegal to prepay some of your future expenses to help reduce your collectible assets.

True

False

39) Most tax debtors owing more than \$25,000 are put on a budget if they want to get an installment agreement.

True

False

- 40) Belinda has determined it will take eight years for her to pay her tax debt in full and is trying to get an installment payment agreement from the IRS. Which of the following is TRUE about her conditional expenses?
- a) Her conditional expenses are necessary living expenses.
 - b) She can claim conditional expenses as part of her budget for each of the eight years, provided they meet the local standards for reasonable expenses.
 - c) She has one year to eliminate conditional expenses from her budget.
 - d) She can maximize her conditional expenses if she submits an Offer in Compromise instead.
- 41) If IRS computers show that you haven't filed all past due tax returns, you will not get an installment agreement until you are current.
- True
 - False
- 42) An example of a condition that would qualify you for Offers in Compromise (OIC) consideration is:
- a) You are in bankruptcy currently.
 - b) Your main home was foreclosed on within the prior two years.
 - c) You were the victim of identity theft.
 - d) There is doubt as to collectibility of taxes owed.
- 43) Sandy decides to make an Offer in Compromise, but she has no assets at all. She calculates that her disposable income will be a maximum of \$200 per month. With a Cash offer, Sandy must pay a minimum of \$_____ under the future income formula.
- a) \$ 2,400
 - b) \$ 4,800
 - c) \$ 9,600
 - d) \$12,000
- 44) If your OIC is accepted, you must timely file all future tax returns and make all tax payments in full for the next 10 years or the deal is nullified.
- True
 - False
- 45) Frank agrees to a lump sum Offer in Compromise for a total offer of \$20,000. The initial payment will be:
- a) \$ 1,000
 - b) \$ 2,000
 - c) \$ 4,000
 - d) \$20,000
- 46) The moment you file for bankruptcy, you receive an automatic stay that stops all creditors, bill collectors, and the IRS from collecting.
- True
 - False
- 47) If you file for Chapter 13 bankruptcy:
- a) Interest continues to accrue.
 - b) Penalties continue to accrue.
 - c) You will be forced to liquidate your assets.

- d) A repayment plan is forced on the IRS.
- 48) It is illegal to transfer assets to defeat the IRS once it has started trying to collect a tax debt.
True
False
- 49) A recorded tax lien may effectively prevent you from selling:
a) A motor vehicle
b) A boat
c) Real estate
d) Furnishings
- 50) A court order is required for the IRS to seize your residence.
True
False
- 51) It is illegal to move your bank account whenever you owe a tax bill to the IRS.
True
False
- 52) Jeremy has a personal IRS tax debt of \$128,000. Jeremy owns 55% of Marketing Magnets, Inc. Because Jeremy is a majority stockholder of the corporation, the IRS can seize the assets of the company.
True
False
- 53) Which of the following problems will the Taxpayer Advocate pursue?
a) Your employee refuses to file a tax return, and you don't want to be held liable.
b) The IRS responded to you, but you disagree with the answer.
c) You haven't followed an IRS established administrative procedure, but you now wish to take corrective action.
d) An IRS clerk told you to expect a refund from an amended return in three weeks. You call again after five weeks and another clerk tells you to keep waiting and it will come.
- 54) The IRS cannot hold against you any past history of IRS difficulties.
True
False
- 55) Henry and Sally are married and always file their tax returns jointly. Henry owns a coffee shop which reported an operating loss on their tax return. The couple was audited and the IRS discovered that the business income was understated by \$20,000. Henry and Sally didn't pay the resulting \$8,000 bill.
a) The IRS can only file a lien on Henry since it was his business.
b) Only Henry's credit will be damaged.
c) The IRS can collect on it only from any jointly owned property.
d) The IRS can collect on it from any jointly owned or separately owned property of either Henry or Sally.
- 56) Which of the following is TRUE about alimony?
a) Payments are taxable to the payer.
b) Payments are tax deductible to the recipient.
c) If you get alimony, you can deduct any attorneys' fees paid to secure or collect it.

d) Alimony that is paid without being specifically ordered by a court must still be reported as income by the spouse receiving the alimony.

57) The overall audit rate of estate tax returns is:

- a) 5%
- b) 15%
- c) 25%
- d) 50%

58) A personal representative should not handle an estate tax audit without a top flight tax professional.

- True
- False

59) The IRS punishes fraud with a civil penalty of:

- a) 15%
- b) 25%
- c) 50%
- d) 75%

60) Failure to file a tax return is a felony.

- True
- False

61) The author recommends that you should initially plead “not guilty” to tax fraud unless you have made a plea bargain with the government before your first court appearance.

- True
- False

62) Which factor tends to show a worker is an independent contractor?

- a) Your business has a continuing relationship with the worker.
- b) You train the worker to perform services in a particular manner.
- c) The worker is free to work when and for whom he or she chooses.
- d) The worker can be fired at will.

63) Which kind of taxes does the IRS consider the most serious of all tax debts?

- a) Income taxes
- b) Estate taxes
- c) Sales taxes
- d) Payroll taxes

64) If you appeal a Trust Fund Recovery Penalty, no interest accrues during the time your appeal is being considered by the IRS.

- True
- False

65) Businesses that receive cash or cash equivalents of over \$10,000:

- a) Must file Form 8300 by the end of the calendar year.
- b) Do not have to report the customer’s name or Social Security number to the IRS.
- c) Are exempt from reporting large case transactions as of January 1, 2009.

- d) Must report the business transaction within 15 days.
- 66) Annabelle forgot to file an extension and filed her 1040 return seven months late. Since she didn't owe any taxes, there is no penalty for late filing.
True
False
- 67) Interest is often reduced or eliminated altogether through the abatement process.
True
False
- 68) When designating voluntary tax payments, it is in your best interest to specify that it is to be applied to the most recent year.
True
False
- 69) The most cost effective of all tax professionals is:
a) A lawyer
b) A CPE
c) A CFP
d) An EA
- 70) When you hire a tax preparer, you give up responsibility for the accuracy of the forms.
True
False
- 71) Which of the following is TRUE about state taxation?
a) All 50 states have computer links that share resident data with the IRS.
b) States often audit individual taxpayers.
c) State tax assessments cannot be appealed.
d) Based on IRS adjustments, the state can change your state tax bill without conducting a separate audit.
- 72) Which of the following is a feature of the Taxpayer's Bill of Rights I?
a) IRS employees are prohibited from revealing to your employees, if any, that you are being audited.
b) The IRS must allow installment plan tax payment, if paying in full would create a significant hardship.
c) You generally can't be forced to meet with an IRS auditor at an inconvenient time or place.
d) You can audio record meetings with the IRS, with or without their consent.
- 73) How long should you keep your tax papers?
a) At least two years, but five is preferable.
b) At least three years, but six is preferable.
c) At least five years, but eight is preferable.
d) Forever.
- 74) IRS files are NOT considered public records.
True
False
- 75) The reward for turning in tax cheats is 8% of the first \$100,000 it collects and 1% of the balance.

True
False