**CHAPTER 2-FILING, AUDITS, LAW, RESEARCH**

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| **Chapter 2. Tax Compliance, the IRS and Tax Authorities.****Filing requirements- Due dates and extensions (2)****Statute of Limitations (3)****Audits, Appeal in the IRS, Appeals in the Courts (4)****Tax Law: Legislative, Courts, Administrative (9)****Tax Research: Facts, Issues, Authorities, Conclusion, Communicate (17)****Professional responsibilities: Circular 230, SSTS by AICPA (23)****Taxpayer and Preparer penalties (26)** |

**Filing requirements** –Instructor will explain standard deduction rules for taxpayer who is a dependent.

**Filing requirements- Due dates and extensions (2)**

 **[Pg. 2-2]** Mr. T is age 21, single, and cannot be claimed as a dependent by
another taxpayer. He does not have any self-employment income.
For the current year, he must file a federal income tax return if he had gross income of at least:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,550 | **b.** | $3,050 | **c.** | $4,000 | **d.**  | $10,350 |  |

 **[Pg. 2-2, 5-25]** Al is single, 65 years old, and has no dependents.
Al will not be required to file a tax return in for the current year if:

|  |  |
| --- | --- |
| **I.** | his gross income does not exceed $11,900. |
| **II.** | his only income is $18,000 of social security benefits. |
| **a.** | Only statement I is correct. | **b.** | Both statements are correct. |  |
| **c.** | Only statement II is correct. | **d.** | Neither statement is correct |

**Statute of Limitations (3)**

Jackson Corp., a calendar-year corporation, mailed its 2014 tax return to the
Internal Revenue Service by certified mail on March 11, 2015.
The return, postmarked March 11, 2015, was delivered to the IRS on March 18, 2015.
The statute of limitations on Jackson's corporate tax return begins on:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | December 31, 2014 | **b.** | March 11, 2014  | **c.** | March 15, 2015 | **d.** | March 18, 2015  |  |

Keen, a calendar‑year, single taxpayer, reported a gross income of $100,000 on his 2012 income
tax return. Keen inadvertently omitted from gross income was a $40,000 commission that should
have been included in income for 2012. Keen filed his 2012 return on March 15, 2013.

To collect the tax on the $40,000 omission, the IRS must assert a notice of deficiency no later than

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | March 15, 2015. | **b.** | April 15, 2015. | **c.** | March 15, 2019 | **d.** | April 15, 2019 |  |

Susie Quick filed her 2013 income tax return on February 15, 2014.
She later discovered that she failed to take an exemption for her son on the 2013 tax return.

Otherwise, the tax return was correct.
What is the latest date by which she may file a claim for refund for 2013?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | March 15, 2014 | **b.** | April 15, 2014 | c. | February 15, 2017 |  |
| **d.** | April 15, 2017 | **e.** | April 15, 2020 |  |  |  |

Fred Wrong filed his 2012 income tax return on March 15, 2013, showing gross income
of $60,000, and deductions of $40,000. He had mistakenly overstated his deductions by $18,000.

What is the latest date by which the Internal Revenue Service may assert a notice of deficiency?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | March 15, 2016 | **b.** | April 15, 2016 | c. | March 15, 2017 |  |
| **d.** | April 15, 2017 | **e.** | April 15, 2019 |  |  |  |

Betty filed her 2012 income tax return on March 15, 2013, showing gross income of $60,000,
and deductions of $40,000. She had mistakenly understated her income by $5,000.

What is the latest date by which the Internal Revenue Service may assert a notice of deficiency?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | March 15, 2016 | **b.** | April 15, 2016 | c. | March 15, 2017 |  |
| **d.** | April 15, 2017 | **e.** | April 15, 2017 |  |  |  |

Jones, a calendar‑year individual taxpayer, reported a gross income of $100,000 on
his 2014 income tax return. Jones inadvertently omitted from gross income was
a **$50,000** commission that should have been included in income for 2014.
This was an honest mistake. Jones was not negligent, etc.
Jones filed his 2014 return on March 15, 2015.

To collect the tax on the $50,000 omission, the IRS must assert a notice of deficiency no later than:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.**  | March 15, 2016. | **b.** | April 15, 2016. | **c.** | March 15, 2021 | **d.**  | April 15, 2021 |  |

**Audits, Appeal in the IRS, Appeals in the Courts (4)**

Which of the following types of IRS audits involves the least extensive audit procedures?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Office audit | **b.** | Field audit | **c.** | Correspondence audit. |  |

After an audit is concluded, taxpayer who does not agree with the audit findings will receive a:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Letter Ruling  | **b.** | 30-day letter | **c.** | 90-day letter | **d.** | Revenue Ruling |  |

 In deciding whether to carry a case to the District Court or Tax Court,
the following advantage of the **Tax Court** should be considered:

|  |  |  |
| --- | --- | --- |
| **a.** | the IRS cannot appeal a Tax Court decision |  |
| **b.** | payment of the tax deficiency before trial is not required in the Tax Court |
| **c.** | a jury trial may be available in the Tax Court |
| **d.** | in case of inadequate accounting records of the taxpayer's income, the burden of proof will be on the IRS in the Tax Court |

A taxpayer does not agree with a proposed deficiency of additional tax resulting from an
examination of her 2013 individual income tax return. She has not been able to satisfactorily
resolve her case within the administrative processes of the Internal Revenue Service.
Which of the following courts may she obtain a trial by jury?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | United States District Court. | **b.** | United States Tax Court |  |
| **c.** | United States Court of Federal Claims | **d.** | None of the above  |

**Tax Law: Legislative, Courts, Administrative (9)**

 Which of the following is true of the Internal Revenue Code?

|  |  |  |
| --- | --- | --- |
| **a.** | It includes statutes and regulations |  |
| **b.** | It is issued by the Tax Court |
| **c.** | It contains law passed by Congress |
| **d.** | It contains pronouncements of the Treasury Department |
| **e.** | It contains pronouncements of the Internal Revenue Service |

 Which of the following is not an important committee in the tax legislation process?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Senate Finance Committee | **b.** | House Finance Committee |  |
| **c.** | House Ways and Means Committee | **d.** | Joint Conference Committee |

 What is generally the last committee that may consider a controversial tax bill before
it is passed and forwarded to the President for a signature.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | House Finance Committee. | **b.** | Senate Finance Committee |  |
| **c.** | Joint Conference Committee | **d.** | House Ways and Means Committee |
| **e.** | Subcommittee on Revenue. |  |  |

 Your client has asked for tax planning advice for a potential transaction. Congress recently
passed (and the President signed) a tax bill that may affect your recommendations. If you want
to determine the legislative intent for this recently passed tax law, you will consult.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Internal Revenue Code | **b.** | Committee Reports | **c.** | Regulations | **d.** | Letter Rulings |  |

 In referring to a specific provision of the Code (for example, deduction for property taxes),
CPAs typically refer to the \_\_\_\_\_ ?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | section | **b.** | paragraph | **c.** | chapter | **d.** | year of enactment |  |

 Which of the following statements about regulations is not true [§7805]?

|  |  |  |
| --- | --- | --- |
| **a.** | They are issued by the Treasury Department. |  |
| **b.** | Proposed regulations have more authority than temporary regulations |
| **c.** | Final regulations are issued as Treasury Decisions. |
| **d.** | Legislative regulations have more authority than interpretative regulations. |
| **e.** | A regulation’s identifying number includes the code section which it interprets |

 You are asked to help in interpreting a friend's class notes on tax research. Unfortunately, part of
the notes have been erased. For example, a citation includes only the following: Reg. 1.\_\_\_\_\_\_-2. You are able help your friend a little by disclosing that the missing part (underlined portion) of the citation is the:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Code section no. | **b.** | Page | **c.** | Paragraph | **d.** | Year | **e.** | Branch of congress |  |

 You are asked to help in interpreting a friend's class notes on tax research. Unfortunately, part of
the notes have been erased. For example, a citation includes only the following: 63 T.C. \_\_\_\_.
You can help your friend by disclosing that the missing part (underlined portion) of the citation is the:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Code section no. | **b.** | Page | **c.** | Volume | **d.** | Year | **e.** | Branch of congress |  |

Which of the following sources of tax law originates in Congress?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Statutes | **b.** | Final regulations | **c.** | Revenue Rulings | **d.** | Letter Rulings |  |

Which of the following sources of tax law focuses on the tax situation for a specific taxpayer?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Statutes | **b.** | Final regulations | **c.** | Revenue Rulings | **d.** | Letter Rulings |  |

A taxpayer does not agree with a proposed deficiency of additional tax resulting from an examination of her 2016 individual income tax return. She has not been able to satisfactorily resolve her case within the administrative processes of the Internal Revenue Service. Which of the following courts will hear the case before the taxpayer pays the additional tax sought by the IRS?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | United States Claims Court. | **b.** | United States Tax Court |  |
| **c.** | United States District Court | **d.** | Other |

A taxpayer does not agree with a proposed deficiency of additional tax resulting from
an examination of her 2016 individual income tax return.
Which of the following courts may have a jury to determine the outcome of her case?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | United States Claims Court. | **b.** | United States Tax Court |  |
| **c.** | United States District Court | **d.** | U.S. Supreme Court  |

 A taxpayer who is uncertain about how a prospective future transaction should
be reported may request guidance from the IRS in the form of a:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Letter Ruling | **b.** | Revenue Ruling | **c.** | Regulation |  |

A technical advice memorandum is requested by:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | taxpayer | **b.** | IRS auditor | **c.** | either |  |

 A Letter Ruling is usually

|  |  |  |
| --- | --- | --- |
| **a.** | Published in the Cumulative Bulletin. |  |
| **b.** | Part of a Tax Court decision. |
| **c.** | Requested by a taxpayer before entering into a taxable transaction. |
| **d.** | Requested by a taxpayer who is being audited. |
| **e.** | Issued by an IRS auditor. |

 Mr. G does not agree with the findings of the Tax Court. His case was not handled under
the "small tax case procedure." Which one of the following courts would he appeal to first?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | U. S. Court of Appeals | **b.** | U.S. Court of Appeals for the Federal Circuit |  |
| **c.** | U. S. Supreme Court | **d.** | Claims Court |

 Which of the following citations refers to a United States Tax Court case?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** |  301 US 295 | **b.** | 93-2 USTC 401 | **c.** | 93 TC 401  | **d.** | 400 F.2d 100 |  |

**Tax Research: Facts, Issues, Authorities, Conclusion, Communicate (17)**

 Which of the following sources of tax law has the least authority?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Proposed regulations | **b.** | Final regulations |  |
| **c.** | Temporary regulations | **d.** | All have the same authority |

Which of these abbreviations indicates that the IRS has announced that it will
allow other taxpayers to get the benefit obtained by the taxpayer in the court case
to which the abbreviation applies?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Aff'd  | **b.** | Acq. | **c.** | Cert. denied | **d.** | Revg |  |

You have been asked to help in interpreting a friend's class notes on tax research.
 Unfortunately some of the notes have been erased. For example, a citation includes
only the following: Reg. 1.\_\_\_\_\_\_-2. You are able help your friend a little by disclosing
that the missing part (underlined portion) of the citation is the:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Code section no. | **b.** | Page | **c.** | Paragraph | **d.** | Year | **e.** | Branch of congress |  |

Which of these abbreviations does not describe an action that adds to the strength of a case?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Aff'd | **b.** | Revg | **c.** | Cert. denied | **d.** | Acq. |  |

What code section prescribes the tax treatment of dividends received from a corporation by a shareholder?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | §1 | **b.** | §11 | **c.** | §61 | **d.** | §301 |  |

Your client is currently considering how to report a loss on a transaction incurred in the current
tax year. While conducting research for your client, you found a court case involving a company that had a loss that is similar to your client’s loss. You consider this to be a good case that supports your client’s position that the loss is currently deductible. The citation to this case is 393 U.S. 697.
That citation refers to a case decided which of these courts?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | United States Claims Court. | **b.** | United States Tax Court |  |
| **c.** | United States District Court | **d.** | U.S. Supreme Court  |

Which of these abbreviations refers to action taken by the IRS in response to a court case?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Aff'd  | **b.** | Rev'd | **c.** | Cert. denied | **d.** | Acq. |  |

 When you determine the acquiescence position regarding a Tax Court case, your answer
will deal with:

|  |  |  |
| --- | --- | --- |
| **a.** | the taxpayer's acceptance or rejection of the court's decision |  |
| **b.** | the Internal Revenue Service's action regarding the court's decision |
| **c.** | the court's acceptance or rejection of a request that the decision be reconsidered. |

 You inherit a problem that was thoroughly researched six months earlier. You believe the answers
are correct, but you wish to evaluate the reliability of the cases mentioned in the research report.
You should begin by

|  |  |  |
| --- | --- | --- |
| **a.** | Consulting a Citator |  |
| **b.** | Reading thoroughly the full text of the cases cited in the research report |
| **c.** | Consult the Cumulative Bulletin Index |
| **d.** | Refer to the Index in the most recent volume of United States Tax Cases |
| **e.** | Refer to the Index in the most recent volume of American Federal Tax Reports |

**Professional responsibilities: Circular 230, SSTS by AICPA (23)**

Which of the following statements is true regarding the
responsibilities of a CPA who is preparing a tax return for a client?

|  |  |  |
| --- | --- | --- |
| **a.** | The CPA must always verify the taxpayer-provided information. |  |
| **b.** | The CPA must always notify the IRS when the CPA discovers an error on a prior year return. |
| **c.** | The CPA may use estimated amounts when preparing a return. |
| **d.** | All of the above |

 The AICPA has issued ethical rules affecting tax practice. Those rules are referred to as:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | SSTS | **b.** | Circular 230 | **c.** | Tax regulations | **d.** | other |  |

**Taxpayer and Preparer penalties (26)**

**Penalties [Section 6651]**

 **[Section 6651]** Billy filed 2015 tax return on June 5, 2016, without
requesting an extension. His total tax was $10,000.

He had no withholding tax and he made no estimated tax payments.

He paid $10,000 with return filed on June 5, 2016?

What is the total amount of his failure to file and failure to pay penalties?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $500 | **b.** | $550 | **c.** | $1,000 | **d.** | $1,100 | **e.** | Other |  |

**Accuracy Related Penalties [Section 6662]**

 **[Section 6662]** Which of the following factors will enable a client to avoid the accuracy
related penalty, even though the IRS disallows an exclusion or deduction? (Assume the return
did not contain a disclosure of the relevant facts related to the exclusion or deduction.)

|  |  |  |
| --- | --- | --- |
| **a.** | There is a reasonable basis for the treatment of the item by the taxpayer. |  |
| **b.** | There is substantial authority for treatment of the item by the taxpayer. |
| **c.** | There is a reasonable possibility the treatment of the item will be sustained. |
| **d.** | None of these |

 **[Section 6662]** Your client reported salary income of $300,000. He paid $100,000 to his
former spouse as required by the divorce decree. You had substantial doubt about whether
the payment to the former spouse qualifies as alimony.

You prepared a draft of the return without deducting the alimony.
Your draft return showed income tax before credits of $77,000.
After discussing the issue with your client, and after conducting additional
research, you modified the return to show a deduction of $100,000 for alimony paid.

The revised tax return showed income tax before credits of $44,000.

The revised return was filed on time, and the balance due was paid when the return
was filed.

IRS has audited the return. The IRS proposed a disallowance of the alimony deduction, a
deficiency of $33,000, and an accuracy related penalty.

How much penalty will the IRS propose under section 6662?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $3,300 | **b.** | $6,600 | **c.** | $10,000 | **d.** | $20,000 | **e.** | Other |  |

 **[Section 6694]** Continue preceding question. You prepared the tax return and charged a fee
of $7,000. What is the amount of penalty under Section 6694 that the IRS may impose on you?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $3,500 | **b.** | $7,000 | **c.** | $1,750 | **d.** | $3,300 | **e.** | Other |  |

**An example of a CPA Exam question in the form of a tax-citation type simulation.**  **Example:**
Amber Company is considering using the simplified dollar-value method of pricing with the LIFO
method for small businesses. **Question:** What Code Section provides the relevant authority for
using this method? The candidate must identify the proper code section. (**Answer** Section 474).

The following two questions give you some practice finding the proper code section.

You can find the code at:

<https://www.law.cornell.edu/uscode/text>

Choose title 25 and Section 1015 (read it), then 102, etc.

Client received a gift of real estate from a relative. The relative paid $30,000 for the real estate.
The FMV of the real estate was $40,000 on the date of the gift to your client. What Code section
should be consulted to determine if the client should include the value of the real estate in gross income?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 1015 | **b.** | 102 | **c.** | 1016 | **d.** | 1231 |  |

 Client paid alimony of $1,000 per month to her former husband.
What Code section should be consulted to determine if Client may claim a deduction for these payments?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 358 | **b.** | 351 | **c.** | 71 | **d.** | 215 |  |

**Extra Questions**

In your research, you found a court case in which the court approved a particular method of
accounting for a transaction. Your client would like to adopt this method of accounting, if you are
able to find adequate support for that position. Which of the following publications would
assist you in determining if the court case has been affirmed or reversed on appeal?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | SSTS | **b.** | Circular 230 | **c.** | Cumulative Bulletin | **d.** | Citator |  |

Continue preceding question. Which of these abbreviations refers to an action (related to
your case under consideration) that would cause you to place less reliance on this case?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Aff'd | **b.** | Rev'd | **c.** | Cert. denied | **d.** | Acq. |  |

The IRS must follow the decision of which of the following court(s)?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Tax Court | **b.** | District Courts | **c.** | Circuit Court of Appeals | **d.** | Supreme Court |  |

Which of the following citations is for a Tax Court regular decision?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | 85 AFTR 2d 2000-879 | **b.** | 84 TCM 710 (2002) | **c.** | 121 TC 290 (2003) |  |