

SEE Sample Test Questions Part 2

Numbers and/or letters following the code section symbol are used to guide the user to the appropriate area in the Code for that reference.

1. Which of the following is correct regarding the accumulated earnings tax on a corporation?

- A. If the tax applies, interest is calculated from the date the return was filed
- B. The tax rate is 25%
- C. Interest is calculated on the tax from the date the return was originally due, without extensions
- D. Treat an accumulation of \$250,000 or less as within the reasonable needs of a business whose principal function is performing services

Key: C

References: IRC § 531; I.R.C. § 6601(b)(3); Publication 542, Corporations; IRM 4.10.13.2 (07-27-2023) Accumulated Earnings Tax (IRC 531)

2. What is the maximum number of shareholders a corporation may have to be eligible to elect to be treated as an S corporation?

- A. 25
- B. 50
- C. 75
- D. 100

Key: D

References: IRC §1361(b)(1)(A); IRS, Instructions for Form 2553

3. Which of the following is correct regarding a corporation electing S corporation status?

- A. A corporation can have no more than 75 shareholders
- B. Voting and non-voting stock in a corporation will prevent S corporation election
- C. A non-resident alien shareholder will prevent S corporation election
- D. Spouses are treated as two separate shareholders when considering the maximum number of shareholders to qualify for S corporation election

Key: C

References: IRS, Instructions for Form 2553; IRC §1361(b)(1)(C), (c)(1)(A), (c)(4); Treas. Reg. §1.1361-1(b)(1), (e)(2), (g), (l)(1).

4. An S corporation stockholder's basis is generally increased by:

- A. Distributions
- B. Taxable income
- C. Separately stated loss items
- D. Nontaxable discharge of indebtedness

Key: B

References: IRC §108 (d)(7); 26 U.S.C. §§ 1367(a) and 1366; Treasury Regulations § 1.1366-1(a)(2)(viii)

5. Cancellation of Debt (COD) income for an S Corporation:

- A. Flows to shareholder if income is excluded by the S corporation
- B. Is recognized as income to an S Corporation regardless of the extent of corporate insolvency
- C. Is not excluded from gross income to the S Corporation when granted in Chapter 11 reorganizations
- D. Gives rise to income which flows to shareholders if the income is not excluded by the S Corporation

Key: D

References: Income from Discharge of Indebtedness, IRC §§ 108(a)(1), 108(d)(7), 1366(a)(1) & 1377(a)(1)

6. Which of the following is true regarding distributions from an S corporation?

- A. Distributions do not include cash, only property
- B. Distributions of appreciated property are valued at the fair market value on original date of purchase
- C. Dividends paid to shareholders from accumulated earnings and profits are reported on Schedule K-1
- D. Property distributions (except for cash) require a statement attached to the Form 1120S reporting the date the property was acquired, the distribution date, the property's fair market value on the distribution date and the basis in the property distributed

Key: D

References: IRC §§ 1366, and 1368; Form 1120S Instructions

7. Which of the following would be included in the gross receipts of a business?

- A. Canceled debt to the extent the payment of the debt would have led to a deduction
- B. Sales taxes imposed on the buyer and collected by a business using the cash accounting method
- C. The customer's original cost of property the business received in exchange for a good or

service bartered

D. Sales made but income not collected during the tax year for a business using an accrual accounting method

Key: D

References: IRC §§ 61(a)(2); Publication 334, Tax Guide for Small Business (For Individuals Who Use Schedule C)

8. Which of the following would generally be reported as other income on a Form 1040 Schedule C?

A. Proceeds from international sales

B. Bad debts recovered

C. Sales tax collected

D. Income from bartering

Key: B

References: Reg. 1.111-1; IRS, Instructions for Schedule C (Form 1040), pages C-6 and C-9; Pub. 535, Business Expenses; Pub. 334, Tax Guide for Small Business (For Individuals Who Use Schedule C)

9. If a company is an accrual basis taxpayer, what is the amount of gross receipts reported on the taxpayer's Form 1040 Schedule C based on the information below?

Service income \$25,000

Gain on the sale of an asset \$1,500

Interest on accounts receivable \$3,000

A. \$25,000

B. \$26,500

C. \$28,000

D. \$29,500

Key: C

References: §451(b)(1)(C); Reg. §1.446-1(c)(1)(ii); §1.451-1(a); Pub 334, Tax Guide for Small Business (For Individuals Who Use Schedule C); Instructions for Schedule C (Form 1040)

10. Under the capitalization rules, amounts paid for which of the following activities is generally required to be capitalized?

A. Repair and maintenance that does not improve a unit of tangible property

B. A new heating system that costs \$8,000 and IRC 179 is elected

C. Materially enlarging a unit of property

D. Replacing a minor component or structural part of a unit of property that does not extend its life

Key: C

References: IRC § 263; Publication 535, Business Expenses; IRC § 179; Publication 946, How to Depreciate Property; Treas. Reg. § 1.263(a)-3(i) through (l); Treas. Reg. § 1.263(a)-3(n)

11. The computation of recapture amounts is not necessary when the business use percentage of Section 179 or listed property exceeds:

- A. 10%
- B. 25%
- C. 45%
- D. 50%

Key: D

References: IRC § 280F(b)(2) and (3); Treas. Reg. § 1.179-1(e)(1) and (2); Pub 946, How To Depreciate Property; Instructions for Form 4797

12. If a corporation makes a below-market loan to a shareholder, the corporation generally is deemed to make a payment to the shareholder for federal tax purposes. This deemed payment is treated as a(n):

- A. Gift
- B. Dividend
- C. Honorarium
- D. Payment of compensation

Key: B

References: IRC § 7872(c)(1)(C); Pub 550, Investment Income and Expenses

13. A corporation makes a \$100,000 term loan to a shareholder. The stated principal amount of the loan is payable in ten years. The test rate used to determine if the loan is a below-market loan is the:

- A. Short-term applicable Federal rate as of the day the loan is made
- B. Mid-term applicable Federal rate as of the day the loan is made
- C. Long-term applicable Federal rate as of the day the loan is made
- D. Adjusted applicable Federal rate as of the day the loan is made

Key: C

References: Treatment of loans with below market interest rates: IRC §§ 1274(d) and 7872(f)(2)

14. Which of the following is true regarding Income in Respect of a Decedent (IRD)?

- A. The character of the IRD changes once the decedent passes away
- B. IRD is income the decedent would have received had death not occurred and was properly included in the decedent's final return
- C. If an individual receives IRD and includes it on their return, they are not allowed a deduction for the estate tax attributable to the item of IRD as reported on Form 706
- D. IRD must be included as income by either the decedent's estate, if the estate receives it, or the beneficiary, if the right to income is passed directly to the beneficiary and the beneficiary receives it, or any person to whom the estate properly distributes the right to receive it

Key: D

References: IRC, § 691(a)(1), (3), and (c); Pub 559, Survivors, Executors, and Administrators

15. Which of the following includes income in respect of a decedent?

- A. The final Form 1040 for the decedent
- B. The decedent's estate, Form 706, if the decedent's estate receives the right to the income
- C. The Form 1040 of any person to whom the decedent's estate properly distributes the income
- D. The beneficiary's Form 709, as a gift to the beneficiary

Key: C

References: IRC §691(a)(1); Pub 559, Survivors, Executors, and Administrators

16. A paycheck issued after the date of death to a taxpayer for work performed prior to death is considered:

- A. Non-taxable income
- B. Income in respect of a decedent
- C. Excess compensation
- D. Deferred income

Key: B

References: Pub 559, Survivors, Executors, and Administrators; IRC §691(a)(1)

17. What is the tax consequence of a taxpayer receiving the wages that were due to a decedent at the time of their death?

- A. There is no tax consequence. Inheritances are not taxable
- B. The income is considered a long-term capital gain because it was inherited
- C. The income is considered ordinary income just as it would have been considered for the decedent
- D. The income is considered a short-term capital gain if it is paid out within one year of the decedent's death

Key: C

References: Pub 559, Survivors, Executors, and Administrators; IRC § 691(a)(3); Treas. Reg. § 1.691(a)-3(a)

18. An organization may qualify as an organization described under Section 501(c)(3) if it is organized and operated exclusively for which of the following purposes?

- A. Charitable
- B. Business
- C. Political action
- D. Personal

Key: A

References: IRC §501(c)(3); Treas. Reg. § 1.501(c)(3)-1(d)(1)(i)

19. Generally, if you are required to account for inventories you must include which of the following:

- A. IRS interest and penalties
- B. Raw materials
- C. Donations of items to charity
- D. Supplies that are not related to the item intended for sale

Key: B

References: IRC § 471; Treas. Reg. 1.471-1, Pub 334, Tax Guide for Small Business (For Individuals Who Use Schedule C)

20. Taxpayers must report all income that they receive as Direct Sellers on which Form or Schedule?

- A. Schedule E
- B. Schedule 1, line 21
- C. Form 1040, line 1
- D. Schedule C

Key: D

References: IRC 3508(b)(2); Pub 334, Tax Guide for Small Business (For Individuals Who Use Schedule C)