

Chapter 1 Homework

True/False

Indicate whether the statement is true or false.

- ___ 1. Many states have balanced budgets because laws or constitutional amendments preclude deficit spending.
- ___ 2. The U.S. Federal government has a provision in the Constitution which precludes deficit spending.
- ___ 3. Revenue-neutral tax laws reduce deficits.
- ___ 4. Longer class lives for depreciable property and the required use of straight-line method of depreciation should dampen the tax incentive for purchasing capital assets.
- ___ 5. The Internal Revenue Code is a compilation of Federal tax legislation that appears in Title 28 of the Internal Revenue Code.
- ___ 6. Income from patents can qualify for capital gain treatment.
- ___ 7. Saving leads to capital formation and thus makes funds available to finance home construction and industrial expansion.
- ___ 8. The corporate tax rate of 34 percent applies only to taxable income in excess of \$75,000.
- ___ 9. The earned income tax credit is refundable.
- ___ 10. The deduction for charitable contributions can be explained by social considerations.
- ___ 11. The Hope scholarship credit can be explained by economic considerations.
- ___ 12. The adoption tax credit can be explained by social considerations.
- ___ 13. Allowing a taxpayer to choose either a credit or a deduction for foreign taxes paid can be explained by equity considerations.
- ___ 14. Neither the 1939 nor the 1954 Code substantially changed all the tax law existing on the date of its enactment.
- ___ 15. Federal tax legislation generally originates in the Senate Finance Committee.
- ___ 16. Subchapter K refers to the “Partners and Partnerships” section of the Code.
- ___ 17. Subchapter C refers to the “Corporate Distributions and Adjustments” section of the Code.
- ___ 18. Some Regulations are arranged in different sequence than the Code.
- ___ 19. Proposed Regulations have the force and effect of law.

Name: _____

ID: A

- ___ 20. Temporary Regulations have the same authoritative value as Finalized Regulations.
- ___ 21. Proposed Regulations are not published in the *Federal Register*.
- ___ 22. Regulations are issued by the Treasury Department.
- ___ 23. Revenue Rulings carry the same legal force and effect as Regulations.
- ___ 24. A Revenue Ruling is a legislative source of Federal tax law.
- ___ 25. Revenue Procedures deal with the internal management practices and procedures of the IRS.
- ___ 26. Treasury Decisions are issued by the Treasury Department to promulgate new Regulations.
- ___ 27. Determination letters usually involve proposed transactions.
- ___ 28. Unlike determination letters, letter rulings are issued by the National Office of the IRS.
- ___ 29. A taxpayer must pay any tax deficiency assessed by the IRS and sue for a refund to bring suit in the U.S. District Court.
- ___ 30. In a U.S. District Court, a jury can decide both questions of fact and questions of law.
- ___ 31. A district court must abide by the precedents set by the court of appeals of jurisdiction.
- ___ 32. The Supreme Court must hear all cases appealed from the U.S. Court of Appeals for the Federal Circuit.
- ___ 33. A cite such as 372 U.S. 39 indicates a memorandum decision of the Court of Federal Claims.
- ___ 34. Generally, neither a tax law nor a tax treaty takes general precedence over the other.
- ___ 35. In a courtroom challenge, the burden of proof is on the IRS to show that a Regulation is right.
- ___ 36. Letter rulings may *not* be substantial authority for purposes of the accuracy-related penalty in § 6662.
- ___ 37. The CPA examination is now computer-based with increased emphasis on information technology.

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- ___ 1. Which provision could best be justified as a means of controlling the economy?
 - a. Write-off of research and development expenditures.
 - b. Accelerated depreciation method for depreciable capital expenditures.
 - c. Amortization of pollution control facilities.
 - d. The rehabilitation tax credit.
 - e. None of the above.

- _____ 2. Which provision could best be justified as encouraging small business?
- S corporation election.
 - Percentage depletion.
 - Domestic production activities deduction.
 - Interest deduction on home mortgage.
 - None of the above.
- _____ 3. Which provision is not justified by social considerations?
- Refundable earned income credit.
 - Adoption tax credit.
 - Like-kind exchange treatment.
 - Disallowance of illegal kickbacks.
 - None of the above.
- _____ 4. Which state is a common law property state?
- Arizona.
 - Louisiana.
 - New Mexico.
 - New York.
 - None of the above.
- _____ 5. Doug and Heather, related parties, are landlord and tenant as to certain business property. If the IRS questions the amount of rent Heather is paying to Doug, this is an illustration of the:
- Arm's length concept.
 - Continuity of interest concept.
 - Tax benefit rule.
 - Substance over form concept.
 - None of the above.
- _____ 6. Federal tax legislation generally originates in what body?
- Internal Revenue Service.
 - Senate Finance Committee.
 - House Ways and Means Committee.
 - House Taxation Committee.
 - None of the above.
- _____ 7. Regulations may first be found in:
- Federal Register*.
 - Cumulative Bulletin*.
 - Internal Revenue Bulletin*.
 - I.R.S. Digest*.
 - All of the above.
- _____ 8. Which citation is considered to be a legislative citation?
- Ltr. Rul. 199952058.
 - Ann. 94-5, 1994-2 I.R.B. 39.
 - Reg. § 1.1014-1(c)(1).
 - § 351.
 - None of the above.

- _____ 9. A technical advice memorandum is issued by:
- Treasury Department.
 - National Office of the IRS.
 - Office of Chief Council.
 - Area Director.
 - None of the above.
- _____ 10. Revenue Rulings are published semiannually in the:
- Cumulative Bulletin*.
 - Federal Revenue Bulletin*.
 - Internal Revenue Bulletin*.
 - I.R.S. Digest*.
 - None of the above.
- _____ 11. Determine the incorrect citation:
- Ltr. Rul. 20012305.
 - George W. Guill*, 112 T.C. ___, No. 22 (1999).
 - Ltr. Rul. 200108052.
 - Rev. Rul, 98-32, I.R.B. No. 25, 4.
 - None of the above.
- _____ 12. Regarding technical advice memoranda, which statement is *incorrect*?
- Issued by the National Office of IRS.
 - Most often deal with a completed transaction.
 - May be cited and used as precedent.
 - Issued with multi-digit file numbers.
 - None are incorrect.
- _____ 13. Which of the following sources has the *highest* tax validity?
- Treasury Regulation.
 - Revenue Ruling.
 - Internal Revenue Code.
 - Proposed Regulation.
 - All of the above have same weight.
- _____ 14. Which of the following is an administrative source of tax law?
- Rev. Proc. 2010-3.
 - Joint Conference Committee Report.
 - Section 12(a) of the *Internal Revenue Code*.
 - All of the above.
 - None of the above.
- _____ 15. Which of these citations does *not* refer to an administrative release?
- Notice 90-20, 1980-1 C.B. 328.
 - Ltr. Rul. 9333032 (May 24, 1993).
 - TAM 9510001 (March 6, 1995).
 - T.C. Summary Opinion, 2005-111.
 - All of the above.

- _____ 16. Which of the following indicates that a decision has precedential value for future cases?
- Stare decicis.*
 - Golsen* doctrine.
 - En banc.*
 - Reenactment doctrine.
 - None of the above.
- _____ 17. A taxpayer who loses in a U.S. District Court may appeal directly to the:
- Supreme Court.
 - U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - U.S. Circuit Court of Appeals.
 - All of the above.
- _____ 18. Identify the number of the Court(s) of Federal Claims.
- 1.
 - 3.
 - 16.
 - 19.
 - None of the above is correct.
- _____ 19. Which trial court hears only tax disputes?
- U.S. District Court.
 - U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - U.S. Court of Appeals.
 - None of the above.
- _____ 20. The *Golsen* doctrine applies to which court?
- U.S. Tax Court.
 - U.S. District Court.
 - U.S. Court of Federal Claims.
 - U.S. Supreme Court.
 - Some other court.
- _____ 21. Which state is located in the jurisdiction of the Ninth Circuit of Appeals?
- Louisiana.
 - California.
 - New York.
 - South Carolina.
 - None of the above.
- _____ 22. Interpret the following citation: 64-1 USTC ¶ 9618, *aff'd* in 344 F. 2d 966.
- A U.S. Tax Court Small Cases Division decision that was affirmed on appeal.
 - A U.S. Tax Court decision that was affirmed on appeal.
 - A U.S. District Court decision that was affirmed on appeal.
 - A U.S. Circuit Court of Appeals decision that was affirmed on appeal.
 - None of the above.

- _____ 23. Which citation refers to a Third Circuit Court of Appeals decision?
- 40 T.C. 1018.
 - 159 F. 2d 848 (CA-2, 1947).
 - 354 F. Supp. 1003 (D. Ct. Ga, 1972).
 - 914 F. 2d 396 (CA-3, 1990).
 - None of the above.
- _____ 24. Which citation refers to a U.S. Tax Court decision?
- Appollo Computer, Inc. v. U.S.*, 95-1 USTC ¶ 50,015 (Fed. Cl., 1994).
 - Westreco, Inc.*, T.C. Memo. 1992-561 (1992).
 - Bausch & Lomb, Inc. v. Comm.*, 933 F. 2d 1084 (CA-2, 1991).
 - Portland Manufacturing Co. v. Comm.*, 35 AFTR 2d 1439 (CA-9, 1975).
 - None of the above.
- _____ 25. If these citations appeared after a trial court decision, which one means that the decision was viewed favorably?
- Aff'd 633 F. 2d 512 (CA-7, 1980).
 - Rem'd 399 F. 2d 800 (CA-5, 1968).
 - Rev'd 914 F. 2d 396 (CA-3, 1990).
 - Rev'd 935 F. 2d 203 (CA-5, 1991).
 - None of the above.
- _____ 26. Which trial court has 19 judges?
- U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - U.S. Supreme Court.
 - U.S. Court of Appeals.
 - None of the above.
- _____ 27. Which trial court's jurisdiction depends on the geographical location of the taxpayer?
- U.S. Tax Court.
 - U.S. District Court.
 - U.S. Court of Federal Claims.
 - Small Cases Division of the Tax Court.
 - None of the above.
- _____ 28. Which trial court decision is generally less authoritative?
- U.S. District Court.
 - U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - Small Cases Division of the Tax Court.
 - All of the above are the same.
- _____ 29. A Memorandum decision of the U.S. Tax Court could be cited as:
- T.C. Memo. 1990-650.
 - 68-1 USTC ¶ 9200.
 - 37 AFTR 2d 456.
 - All of the above.
 - None of the above.

- _____ 30. Which court decision is generally more authoritative?
- A U.S. Tax Court decision.
 - Court of Federal Claims decision.
 - District Court decision.
 - U.S. Court of Appeals decision.
 - U.S. Tax Court Memorandum decision.
- _____ 31. Which of the following statements about an acquiescence is correct?
- An acquiescence is issued in the *Federal Register*.
 - Acquiescences are published only for certain regular decisions of the U.S. Tax Court.
 - An acquiescence is published in the *Internal Revenue Bulletin*.
 - The IRS does not issue acquiescences to adverse decisions that are not appealed.
 - All of the above are correct.
- _____ 32. Which is a primary source of tax law?
- J.W. Yarbo v. Comm.*, 737 F. 2d 479 (CA-5, 1984).
 - Article by a Federal judge in *Yale Law Review*.
 - Determination letter.
 - Letter ruling.
 - All of the above are primary sources.

Essay

1. What is the wherewithal to pay concept? Give an example.
2. Explain the function of Temporary Regulations.
3. Explain the *Golsen* doctrine.
4. What are the key components of tax planning?
5. Explain simulations on the CPA examination.