

Part 4

Section A:

Questions 1 – 40

The following statements are either true or false. Select the most appropriate answer and darken the box under A for true or under B for false.

1. Enrolled actuaries are authorized to practice before the IRS for all matters connected with a presentation to the IRS or any of its offices or employees relating to a client's rights, privileges, or liabilities under the Internal Revenue laws.
2. A person is eligible to be an enrolled agent only by demonstrating a special competence in tax matters by a written IRS examination and by refraining from engaging in any conduct that would justify suspension or disbarment.
3. Attorneys and accountants licensed to practice in a particular state who are in good standing in that state may practice before the IRS only in that state.
4. There is no right to appeal a decision of suspension or disbarment of practice before the IRS.
5. A non-signing preparer of an individual's tax return is eligible to represent the taxpayer involving an IRS examination for the taxable year covered by that return without being eligible to practice before the IRS.
6. A Circular 230 practitioner must, when requested by the Director of Practice, provide the Director with any information he may have concerning violation of Circular 230 regulations by any person. An exception to this duty is made if the practitioner believes in good faith and on reasonable grounds that such information is privileged or that the request therefor is of doubtful legality.
7. An enrolled agent can accept the client's statement in preparing a tax return without making any inquiries.
8. If an enrolled agent has knowledge that a client has filed an erroneous tax return, the client must be advised to correct the error.
9. An enrolled agent may not, in practice before the Internal Revenue Service, knowingly and directly or indirectly accept employment as associate, correspondent, or subagent from, or share fees with, any person who is under disbarment or suspension from practice before the Internal Revenue Service.

- 10.** A Circular 230 practitioner may not, under any circumstances, charge a contingent fee for preparing a tax return or claim for refund.
- 11.** An enrolled agent is permitted to charge any amount of fee to represent a client before the IRS.
- 12.** An advertisement by an enrolled agent depicting the official IRS insignia is proper as long as the enrolled agent is currently enrolled with the Director of Practice.
- 13.** An enrolled agent is permitted to publish the availability of a written schedule of fees for representation of the taxpayer before the IRS.
- 14.** A certified public accountant who is suspended from practice in Puerto Rico can continue to practice before the Internal Revenue Service in Alaska.
- 15.** A person disbarred from practice before the IRS can apply for reinstatement within 10 years following such disbarment.
- 16.** An enrolled agent, in order to avoid disbarment or suspension proceedings, may offer his consent to suspension or his resignation. The Director of Practice must accept this offer.
- 17.** The hearing for suspension or disbarment of a person authorized to practice before the IRS is before the U.S. Tax Court.
- 18.** A disbarment or suspension proceeding against an individual is begun with a complaint signed by the Director of Practice and delivered or mailed to the individual.
- 19.** A taxpayer who has been audited for the same items in either of two preceding years, had no change proposed on his or her tax liability, and receives notice that his or her return has been selected for examination may contact the Internal Revenue Service and request that the examination be discontinued under the repeat examination rule.
- 20.** A taxpayer can appeal to a court only after an unsuccessful appeal before an Internal Revenue Service Appeals Officer.
- 21.** An enrolled agent is unqualifiedly permitted to represent the partnership and all of its individual partners involving an IRS examination of the partnership return.
- 22.** Advice on non-criminal tax matters from a federally authorized practitioner has the same confidentiality protection as communication with an attorney.

- 23.** If a taxpayer agrees with proposed audit changes and signs an agreement form at the conclusion of the audit, no interest will be charged on any balance due.
- 24.** A preparer who willfully, recklessly, and/or intentionally understates the tax liability on a return he or she prepares is subject to a penalty of \$500.
- 25.** Joan is preparing Kimball's 1999 tax return. Kimball complains about the very small amount of compensation he received for serving on jury duty for all of May in 1999. Joan does not report any income from jury duty on Kimball's tax return. Joan is subject to a penalty for willful understatement.
- 26.** A position can be taken on a tax return if it has at least a one in three likelihood of being sustained on its merits.
- 27.** Joni is a tax return preparer. She's not a preparer bank. Joni prepared Judy's income tax return and then cashed Judy's refund check. Joni is subject to a penalty of \$500.
- 28.** In 1999, Stephanie contributed \$2,600 to her church (\$50 each week). Stephanie has a cancelled check for each week's contribution, but does not have a statement from her church documenting the contribution. Stephanie may not claim a deduction for her church contributions because she does not have adequate records.
- 29.** Jubilee, Inc. is a small manufacturer that employed 172 workers in 1999. Jubilee issued Forms W-2 to all of those workers. Jubilee must keep copies of those Forms W-2, the associated Form W-3, and all other employment tax records for at least five years from the due date for filing Form W-2.
- 30.** Generally, a non-working spouse may make contributions to a traditional individual retirement account (IRA) up to \$2000 even if the working spouse's earnings are less than \$4000 and the working spouse also makes a \$2000 contribution.
- 31.** An employer may establish a simplified employee pension (SEP) plan and make contributions to IRAs for qualifying employees. To qualify, an employee must be at least 21 years old. An employer may raise, but not lower, the age restriction for participation.
- 32.** The rules regarding excess accumulations in a traditional individual retirement account (IRA) state that a 50% excise tax must be paid for that year on the amount not distributed as required.
- 33.** Contributions to a Roth IRA (individual retirement account) may be deducted if they fall below certain income limits.

34. Generally, any assets remaining in an education IRA must be withdrawn or distributed within 30 days of the time when either the designated beneficiary reaches age 30 or the designated beneficiary dies.

35. Circular 230 is part of the IRS Treasury Regulations.

36. Leroy has been enrolled to practice before the IRS since 1992. His records show that he had the following hours of qualified CPE in 1999:

January	8 hours
May	12 hours
December	3 hours

Based on these records, Leroy has met his 1999 CPE requirements.

37. On March 23, 2000, Geri prepared a 1997 individual tax return for Candy. The return shows a refund of \$2,600. Geri can file Candy's return electronically.

38. An ERO may not charge one fee for clients who select RALs, and a different fee for those who select direct deposits into their own accounts.

39. Todd is an ERO. He is not participating in the IRS PIN pilot. For every return he files electronically, Todd must complete, sign, and have the client sign Form 8453. He must attach all of the client's Forms W-2 to the Form 8453 and submit these documents to the IRS. He does not need to keep a copy of Form 8453.

40. A Refund Anticipation Loan (RAL) is money borrowed by the taxpayer from a lender based on the taxpayer's anticipated refund amount. The loan is certified by the IRS.

Part 4

Section B:

Questions 41 - 80

The following questions are multiple choice. Select the most appropriate answer and darken the box under the corresponding letter on the answer sheet.

41. Identify the item below that is **not** considered practice before the IRS:
- A. Corresponding with the Internal Revenue Service on behalf of a client.
 - B. Preparing a tax return for an individual.
 - C. Representing a client at an audit.
 - D. Calling the IRS to discuss a letter received by a client.
42. Identify the individual below who is **not** eligible to practice before the IRS. None of the individuals are under suspension or disbarment.
- A. Enrolled actuary, with respect to specified statutory issues.
 - B. Attorney.
 - C. Certified public accountant.
 - D. Certified financial planner.
43. Identify the individual below who would **not** be eligible to practice before the IRS under the limited practice rules.
- A. An unenrolled tax preparer who works for a firm. The taxpayer's return was prepared by another individual who also works for the firm.
 - B. An unenrolled tax preparer who prepared and signed the tax return.
 - C. An unenrolled preparer who appears as a witness for the taxpayer.
 - D. An unenrolled tax preparer who represents taxpayers before IRS personnel who are outside of the U.S.
44. The following persons are authorized to represent a taxpayer before the IRS:
- A. An individual representing a member of his/her immediate family.
 - B. A regular full-time employee of an individual employer representing the employer.
 - C. An officer or full-time employee of a corporation representing the corporation.
 - D. All of the above.

- 45.** Identify the appropriate action that a practitioner should take when he or she becomes aware of an error or omission on a client's return.
- A.** Amend the return and provide it to the client.
 - B.** Inform the IRS of the noncompliance, error, or omission.
 - C.** Do nothing.
 - D.** Promptly advise the client of such noncompliance, error, or omission.
- 46.** Identify the individual below from whom an enrolled agent, in practice before the Internal Revenue Service, may knowingly accept assistance:
- A.** An individual who is under disbarment from practice before the Internal Revenue Service.
 - B.** An individual who is under suspension from practice before the Internal Revenue Service.
 - C.** An individual who has temporary recognition to practice before the IRS.
 - D.** A former government employee where any Federal law would be violated.
- 47.** Which of the following mailings, offering your tax preparation or representation services, would not be classified as a targeted direct mail solicitation?
- A.** A mailing with an attached gift certificate to all new home owners in a specific zip code area.
 - B.** A mailing to all taxpayers who have filed for bankruptcy in the past year.
 - C.** A mailing to all taxpayers for whom you prepared a Schedule C last year, offering to explain the advantages of establishing a Keogh account before the end of the year.
 - D.** A mailing to all dentists listed in the yellow pages for your office.
- 48.** An enrolled agent may be disbarred or suspended from IRS practice for which of the following conduct:
- A.** Criminal conviction of an offense under the Internal Revenue Code.
 - B.** Misappropriation of funds received from a client for the purpose of tax payments.
 - C.** Disbarment or suspension from the practice as an attorney, C.P.A., accountant or actuary.
 - D.** All of the above.
- 49.** The Director of Practice has documentation that an enrolled agent has violated the law or regulations governing practice before the IRS. He or She may:
- A.** Reprimand such person.
 - B.** Institute proceedings for disbarment.
 - C.** Institute proceedings for suspension.
 - D.** All of the above.

50. Under what circumstances may the examination of a tax return be transferred to another district?
- A. The taxpayer has moved and now resides in another district.
 - B. The books and records are located in another district
 - C. The taxpayer requests a transfer to another district.
 - D. All of the above.
51. At the conclusion of an audit, the taxpayer can appeal the tax decision to a local Appeals Office. Which statement regarding appeal procedures is **not** correct?
- A. If the total amount for any tax period is not more than \$25,000; a formal written protest is not required.
 - B. A taxpayer may represent himself at an appeals conference.
 - C. Written protests do not require a signature.
 - D. All partnership and S Corporation cases require formal written protests.
52. A disagreement with the Internal Revenue Service can be taken to the United States Tax Court if:
- A. It pertains to income tax.
 - B. A statutory notice of deficiency has been issued.
 - C. A petition is filed within 90 days from the date a statutory notice of deficiency is mailed (150 days if it is addressed to the taxpayer outside the United States).
 - D. All of the above.
53. Which statement is **not** correct concerning the small tax case procedure of the Tax Court?
- A. The disputed tax must be \$50,000 or less for any one year or period (\$10,000 or less for court proceedings beginning on or before July 22, 1998).
 - B. The decision is final.
 - C. No appeal is available for cases decided under this procedure.
 - D. The tax must have been assessed and paid before the Tax Court proceedings.
54. Which of the following statements is false regarding tax return preparers?
- A. Only a person who signs a return as the preparer may be considered the preparer of the return.
 - B. Unpaid preparers, such as volunteers who assist low-income individuals, are not considered to be preparers for purposes of preparer penalties.
 - C. An employee who prepares the return of his/her employer does not meet the definition of an income tax preparer.
 - D. The preparation of a substantial portion of a return for compensation is treated as the preparation of that return.

55. An enrolled agent can recommend a position on the client's tax return as long as the position is:

- A. Reasonable.
- B. Not frivolous.
- C. Adequately disclosed.
- D. All of the above.

56. Identify the **incorrect** statement below.

- A. Joachim provides tax assistance under a Volunteer Income Tax Assistance (VITA) program established by the Internal Revenue Service. Joachim is not a tax preparer.
- B. "Prep Free" is an organization sponsoring a Volunteer Income Tax Assistance (VITA) program and provides free tax preparation through VITA. Prep Free is not a tax preparer for returns that it prepares through the VITA program it sponsors.
- C. Jonathan is the paid preparer of Form 1120S for Cow Bells, Inc., a small business corporation. He does not prepare the individual return for Jaime, a Cow Bells shareholder who does not work for Cow Bells but who has pass-through income of \$600. Jaime's return also includes \$54,000 of income from other sources. Jonathan is not a tax preparer with respect to Jaime's return.
- D. Thuy is the paid preparer of Form 1065 for Winter Wiggles, a partnership. She does not prepare the individual return for Thelma, who owns a partnership interest in Winter Wiggles. Thelma's individual return includes pass-through earnings of \$26,000 from Winter Wiggles. Thelma's return also includes income from other sources consisting of \$38,000 wages and \$3,000 alimony. Thuy is not a tax preparer with respect to Thelma's return.

57. Identify the item below that is **not** accurate regarding preparer retention of records:

- A. The preparer must retain a completed copy of each return or claim for refund prepared or retain a record, by list, card file, or otherwise of information, as required by regulation, about each return prepared.
- B. The preparer must retain information about the preparer of each return presented to a taxpayer for signature. This information may be retained via retention of a copy of the return or claim for refund, maintenance of a list or card file, or otherwise.
- C. The preparer must make the copy or record of returns and claims for refund and record of the individuals required to sign available for inspection upon request by the district director.
- D. None of the above.

58. Identify the item below that does **not** describe information a preparer must maintain about every return prepared:
- A. The taxpayer's name and taxpayer identification number.
 - B. The date the return or claim for refund was prepared.
 - C. The taxable year of the taxpayer (or nontaxable entity) for whom the return was prepared.
 - D. The type of return or claim for refund prepared.
59. Davis is a tax preparer. He will have to file a 1999 Form W-2 for which of the following individuals:
- A. Jana interviewed clients for Davis during the 1999 tax season. She only worked during the tax season and was paid an hourly wage against a commission amount. Davis withheld income and FICA taxes from each paycheck.
 - B. George cleaned Davis's office. George worked for Commercial Cleaners, Inc.
 - C. Shelley lays carpet professionally. She owns her own carpet-laying company, Carpet's Company. Davis paid her \$1,800 for new carpeting in his office.
 - D. MacKenzie, Davis's attorney, is a member of the law firm MacKenzie and MacKenzie. Davis paid him \$12,000 for business legal advice in 1999.
60. When a prepared return claims the earned income credit, which of the following is **not** true?
- A. Due diligence requirements apply.
 - B. No special requirements apply to returns claiming earned income credit.
 - C. The preparer may be penalized \$100 if no attempt is made to determine eligibility for the credit.
 - D. The preparer must take additional steps to ensure that a client is eligible for earned income credit.
61. To satisfy the earned income credit due diligence requirements, a preparer must retain all of the following **except**:
- A. A copy of the completed Eligibility Checklist or Alternative Eligibility Record.
 - B. A copy of the Computation Worksheet or Alternative Computation Record.
 - C. A copy of the social security cards for the taxpayer and each qualifying child.
 - D. A record of how and when the information used to complete the Eligibility Checklist or Alternative Eligibility Record and the Computation Worksheet or Alternative Computation Record was obtained by the preparer, including the identity of any person furnishing the information.

- 62.** A properly executed power of attorney must contain all of the following **except**:
- A.** Identification number of the taxpayer (i.e., social security number or employer identification number).
 - B.** The specific year(s) and period(s) involved.
 - C.** Name of the preparer of the return for the year(s) and period(s) involved.
 - D.** Signature of the appointed representative.
- 63.** A representative who signs a Form 2848, Power of Attorney, declares under penalty of perjury that he or she is aware of which of the following:
- A.** The federal income tax regulations.
 - B.** The regulations in Treasury Department Circular No. 230.
 - C.** Recent tax law developments that relate to the tax matter(s) listed on line 3 of the Form 2848.
 - D.** All of the above.
- 64.** Regarding a Tax Information Authorization, Form 8821, which of the following statements is correct?
- A.** The appointee can advocate the taxpayer's position.
 - B.** The appointee can execute waivers.
 - C.** The appointee can represent the taxpayer by correspondence.
 - D.** None of the above.
- 65.** All of the following statements regarding changes to powers of attorney are true **except**:
- A.** A recognized representative may withdraw from representation in a matter in which a power of attorney has been filed.
 - B.** A taxpayer may revoke a power of attorney without authorizing a new representative.
 - C.** If specifically authorized on the power of attorney, a recognized representative may delegate authority to another recognized representative.
 - D.** After a substitution of a representative is made, both the newly recognized representatives will be considered the taxpayer's representative.

66. With regard to the Centralized Authorization File (CAF) number on powers of attorney, which of the following is true?

- A.** Powers of attorney that relate to specific tax periods, or to any other Federal tax matter such as application for an employee identification number, will be entered onto the CAF system.
- B.** A CAF number is an indication of authority to practice before the Internal Revenue Service.
- C.** The fact that a power of attorney cannot be entered onto the CAF system affects its validity.
- D.** A power of attorney that does not include a CAF number will not be rejected.

67. A contribution to an individual retirement plan (IRA) is deductible for tax year 1999 in which of the following situations:

- A.** The individual's employer does not have a retirement plan at any time during 1999.
- B.** The contribution is made on August 15, 2000 under a properly filed and accepted extension.
- C.** The individual is covered by a retirement plan, but does not have any compensation in 1999.
- D.** All of the above.

68. Lenny and Norma file a joint return for tax year 1999. Lenny is covered by a retirement plan but Norma is not. Norma wishes to make a contribution to a traditional IRA, and her earnings alone are \$1,500. The combined earnings on the joint return are \$150,000 (the same as the modified AGI). Which of the following is correct:

- A.** Norma may make a nondeductible contribution of \$1,500.
- B.** Norma may make a deductible contribution of \$2,000.
- C.** Norma may not make any contribution.
- D.** Norma may make a deductible contribution of \$1,500 and a nondeductible contribution of \$500.

69. Which of the following is compensation for the purpose of contributions to individual retirement accounts?

- A.** Deferred compensation received.
- B.** Foreign earned income excluded from income.
- C.** Pension or annuity income.
- D.** Taxable alimony and separate maintenance.

- 70.** Owners of traditional individual retirement accounts (IRAs) are required to begin receiving distributions no later than the following:
- A.** By April 1 of the year following the year in which the owner reaches age 70 ½.
 - B.** By April 1 of the year in which the owner reaches age 70 ½.
 - C.** By January 1 of the year in which the owner reaches age 70 ½.
 - D.** By April 1 of the year following the year in which the owner reaches age 59 ½.
- 71.** Which of the following is correct regarding contributions to a Roth IRA?
- A.** Contributions may be made regardless of age provided other requirements are met.
 - B.** Contributions may be deducted if you are within certain income limits.
 - C.** Contributions may be deducted if you are not covered under a retirement plan.
 - D.** Contributions may not be deducted, but earnings are taxable when distributed.
- 72.** Scott McTavish made a rollover contribution from his traditional IRA to a newly created Roth IRA on December 1, 1998. Also, on February 1, 2000 he made another rollover contribution from an employer IRA to the same account. Which of the following is correct?
- A.** He may not withdraw the funds tax free earlier than December 1, 2003.
 - B.** He may not withdraw funds tax free earlier than February 1, 2005.
 - C.** He must make the February 1, 2000 rollover contribution into a separate Roth IRA account to properly identify another five year holding period.
 - D.** He may not withdraw the funds tax free earlier than January 1, 2003.
- 73.** Select the organization that could **not** receive approval for tax-exempt status under Section 501(c)(3).
- A.** Salvation Army chapter.
 - B.** YMCA.
 - C.** College alumni association.
 - D.** Partnership for scientific research.
- 74.** Which return might a tax-exempt organization be required to file?
- A.** Employment tax returns.
 - B.** Annual information return, Form 990.
 - C.** Report of cash received.
 - D.** All of the above.

75. To which court may a taxpayer petition, without first paying the disputed tax, regarding a disagreement with the Internal Revenue Service?

- A.** District Court.
- B.** Court of Federal Claims.
- C.** Tax Court.
- D.** All of the above.

76. To research whether the Internal Revenue Service has announced an opinion on a Tax Court decision, refer to which of the following references for the original announcement:

- A.** Circular 230.
- B.** Federal Register.
- C.** Internal Revenue Bulletin.
- D.** Tax Court Reports.

77. Janice has been enrolled to practice before the IRS since 1985. When may she destroy records documenting her continuing professional education from 1997?

- A.** April 1, 1999
- B.** April 1, 2000
- C.** April 1, 2001
- D.** April 1, 2002

78. The period of renewal for the next enrollment cycle will be:

- A.** November 1, 2000 through January 31, 2001
- B.** February 1, 2001 through March 31, 2001
- C.** November 1, 2001 through January 31, 2002
- D.** February 1, 2002 through March 31, 2002

79. Which of the following electronic return originators (EROs) can accept returns from someone other than directly from the individual taxpayer?

- A.** Electronic return preparers.
- B.** Service bureaus.
- C.** Electronic return collectors.
- D.** Drop off collections points.

80. If a taxpayer's return is rejected by the IRS and the ERO cannot fix the problem and re-transmit the return in the time prescribed, the EOR must make reasonable attempts to notify the taxpayer of the reject. How long from the time the return is rejected does the EOR have to try to contact the taxpayer?

- A.** 12 hours
- B.** 24 hours
- C.** 48 hours
- D.** One week

End of Part 4