

2002

**SPECIAL ENROLLMENT**  
E X A M I N A T I O N



Department of the Treasury  
Internal Revenue Service

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**PART 4**

**SPECIAL ENROLLMENT  
EXAMINATION BOOKLET**

**SEPTEMBER 26, 2002  
1:30 P.M. TO 3:30 P.M.**

**Ethics, Recordkeeping  
Procedures, Appeal  
Procedures, Exempt  
Organizations, Retirement  
Plans, Practitioner Penalty  
Provisions, Research  
Materials and Collection  
Procedures**

*Official Use Only  
(Declassified After September 26, 2002)*



# Special Enrollment Examination

## Part 4

### Ethics, Recordkeeping Procedures, Appeal Procedures, Exempt Organizations, Retirement Plans, Practitioner Penalty Provisions, Research Materials and Collection Procedures

#### Instructions:

The time allotted for this part of the examination is 2 hours. No additional time will be granted. On your answer sheet in the spaces provided you should enter the following:

1. Print your name (First, M.I., Last).
2. Sign your name (First, M.I., Last).
3. Place of examination (City and State).
4. Date of this examination.
5. Print your name (Last, F.I., M.I.) in the boxes provided. Immediately below the boxes darken the oval corresponding to the letter you have printed, as in the sample Name Grid. Darken only one oval in each column below a box in which you have printed a letter. Make no marks in the columns below boxes you have left blank.
6. Enter your candidate number and immediately below, darken the oval corresponding to each number you have entered.
7. Enter your Social Security Number and immediately below, darken the oval corresponding to each number you have entered.

#### Important:

The answer sheet should not be folded or torn since it will be machine graded.

**Read the examination questions carefully. All references are to the Internal Revenue Code as amended through December 31, 2001. Unless otherwise stated, all questions relate to the calendar year 2001.**

You will be given a No. 2 pencil by the monitor. Darken completely only one oval under the corresponding letter on the answer sheet. In making corrections, erase errors completely. You will be allowed to keep your

examination question books after completion of the examination. Scratch paper will be provided, but you may make necessary computations in the question books. Raise your hand to attract the monitor's attention when you need extra supplies or for permission to leave the room.

When you finish the examination, your answer sheet must be turned in to the monitor before leaving the room. You must turn in your answer sheet at the end of each test session or your test will not be graded and no credit received. **Answers noted in examination booklets will not be graded.** The examination will be graded in Washington, D.C., by the Office of Professional Responsibility, Internal Revenue Service. You will receive formal notification of your examination results on or about January 31, 2003.

#### General Grading Information:

The questions in this examination have been assigned values of 1 to 2 points. All true or false questions have a value of 1 point each and the multiple choice questions in Section B have a value of 2 points each.

The examination is graded on the basis of correct answers. If more than one oval is darkened in answering a question, the answer will be considered incorrect.

The Service will include the answers with your formal notification of examination results. Therefore, you may want to mark your answers in this examination question book and retain it for purposes of your future comparison.

## Part 4

### Section A:

#### Questions 1 - 40

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

1. John prepares tax returns. John is **not** an enrolled agent, enrolled actuary, CPA, or attorney. In 2000, new clients, Mr. and Mrs. Black, engage John to prepare their 1999 joint income tax return. John prepares the Black's 1999 joint income tax return and signs it as the preparer. This is the only return John has prepared for the Blacks. In March of 2001, Mr. and Mrs. Black received a notice from the IRS with regard to their 1998 joint income tax return. Mr. and Mrs. Black ask John to contact the IRS to resolve the matter with regard to their 1998 joint income tax return, but do not provide John with a power of attorney. John is **not** permitted to represent or advocate a position before the IRS on behalf of Mr. and Mrs. Black concerning their 1998 return.
2. Under Circular 230, an applicant who wishes to challenge the Director of Practice's denial of his or her application for enrollment is required to file a written appeal with the Secretary of the Treasury.
3. Ms. Smith hired Tom, an enrolled agent, to prepare her Federal income tax return for 2001. While gathering information to prepare the return, Tom discovered that although Ms. Smith was required to file Federal income tax returns for the 1999 tax year and the 2000 tax year under the Federal tax laws, she did not file these returns. Circular 230 requires that Tom promptly advise Ms. Smith that she did not comply with the Internal Revenue laws by failing to file her Federal income tax returns for the 1999 tax year and the 2000 tax year.
4. The Circular 230 requirement that a practitioner exercise due diligence in preparing, approving, and filing returns does **not** apply if the practitioner is merely assisting in preparing, approving, or filing returns.
5. A practitioner is subject to sanction under Circular 230 if he or she does not receive proper consent to represent conflicting interests before the IRS.
6. Circular 230 permits an enrolled agent to cash a taxpayer's refund check if the amount of the check is less than the amount of the total fee outstanding on the date the check is cashed.
7. Circular 230 does **not** contain separate rules for the preparation of tax shelter opinions.
8. Circular 230 never permits a practitioner to sign a return as a preparer if the return contains a frivolous position.
9. A criminal conviction under State law for embezzlement is **not** disreputable conduct under Circular 230 because the crime of embezzlement, although a crime involving dishonesty, is **not** a crime under the Federal revenue laws.
10. Circular 230 permits an individual charged with violating the regulations under Circular 230 to appear in person or to be represented by counsel or other representative.
11. To be timely, the respondent has 30 days from the date of the decision to appeal an initial decision ordering disbarment.
12. The Director of Practice is permitted to notify appropriate officers and employees of the IRS, interested departments and agencies of the Federal government and the State where a practitioner is licensed, that a practitioner has been disbarred or suspended from practice before the IRS.
13. During February 2001, Arnold's tax return for 1999 was selected for an IRS examination in Los Angeles, California. This is where Arnold lived, maintained his business in 1999 and had his accountant prepare his tax return. Late in 2000, Arnold moved to Biloxi, Mississippi and took his books and records with him. Arnold can request to have his case transferred to Biloxi, Mississippi.
14. The IRS has selected Frances' 2000 tax return for examination. The only item of inquiry in the IRS contact letter was for verification of charitable contributions. Frances' tax return for 1998 was also examined to verify her charitable contributions, and no change was proposed to her tax liability. If Frances advises the IRS representative that no change resulted in her tax return for 1998, the examination of her tax return for 2000 might be discontinued.

15. Holly filed a suit against her brother in a probate matter. Holly's attorney has issued a subpoena to the IRS Area Director where Holly resides to produce her brother's most recently-filed Federal income tax return. The Area Director must comply with the summons by producing the tax return of Holly's brother.
16. Karl had his 1999 income tax return examined resulting in adjustments. Karl has administratively appealed the adjustments. Some of them were sustained, resulting in an income tax deficiency in the amount of \$45,000. Karl now wants to appeal his case to the U.S. Tax Court. He will handle the case himself since he cannot afford a lawyer. Karl is entitled to invoke the Small Tax Case procedure.
17. Ned's individual income tax return was under IRS examination. Five months before the expiration of the statute of limitations, the Revenue Agent wanted Ned to agree to extend the statute of limitations. Generally, the Revenue Agent must advise Ned that he has a right to refuse to extend the statute of limitations and if he does agree to an extension, the agreement can be restricted as to particular issues on the tax return.
18. Paul is a barber who prepares Federal tax returns during the tax-filing season. Paul charges \$25.00 for each return. Paul qualifies as a return preparer.
19. Barbara is an enrolled agent who only prepares tax returns. One of her clients was audited by the IRS and a substantial income tax deficiency resulted. Barbara was determined by the IRS to be an income tax return preparer and a preparer penalty was assessed. Barbara can contest the validity of the penalty in Tax Court without making any payment of the penalty.
20. Donna is a secretary who prepares income tax returns during the tax filing season. Donna does not keep a copy of the returns she prepares but she does keep a record of her clients' names, identification numbers, tax year and type of return prepared. Donna is subject to a civil penalty in the amount of \$50 for each copy of a tax return she does **not** retain up to a maximum of \$25,000 for each year.
21. A power of attorney may be filed with the IRS by a facsimile transmission (FAX).
22. A power of attorney may **not** be used to authorize a recognized representative to receive the original of notices sent to the taxpayer by the IRS.
23. A checkbook can be used to keep records of both income and expenses. Taxpayers should also keep documents such as sales slips and expense receipts to support claimed income and deductions.
24. You should keep copy C of your W-2 for at least 7 years after you have filed your return.
25. ABC Partnership has several common law employees. The partnership contributes to their employee's retirement accounts. ABC will take the deduction for their contributions on their 1065 Partnership Income Tax Return.
26. Using your traditional IRA as security for a loan is a prohibited transaction.
27. A qualified plan can include a 401(k) plan only if the plan is both a profit-sharing plan and a money purchase plan in existence on June 27, 1974, with employee contributions.
28. Generally, if the excess contribution to a traditional IRA and any earnings on it are **not** withdrawn by the date the taxpayer's return is due (excluding extension), the taxpayer is subject to a 6% excise tax.
29. Alimony and separate maintenance is **not** treated as compensation for purposes of figuring an IRA contribution deduction.
30. Dorian owed income taxes, penalties and interest on his Federal income tax return for 1990. Since Dorian had no assets, he was not required to enter into any IRS installment agreement. However, during 1995, the IRS requested that Dorian enter into a waiver of the collection statute of limitations by extending it to December 31, 2015. Dorian signed the waiver. Dorian will be relieved of any remaining balance of tax obligation on December 31, 2002.
31. Lorie owed the IRS \$150,000. Lorie owned a money market account with a major stock brokerage firm that had a value of \$200,000. The IRS can force the brokerage firm to pay \$150,000 from the account by serving a notice of lien on it.
32. Mr. Jones is filing his 1999 return in the year 2001. Mr. Jones can file his return electronically with the IRS.
33. While EFTPS-Direct and EFTPS-Through a Financial Institution are the primary payment methods for EFTPS, taxpayers may use the Same Day Payment method.
34. Taxpayers can make a tax payment using EFTPS without enrolling in the system.

35. Gail files her return electronically. Her Electronic Return Originator (ERO) must notify her if her return is rejected and results in a change of more than \$25 total tax.
36. An Electronic Return Originator (ERO) does **not** have to advise their clients of the option to receive their return by direct deposit or paper check.
37. Taxpayers using EFTPS receive an immediate EFTPS acknowledgement number.
38. Individual taxpayers can schedule a year's worth of payments in advance using EFTPS.
39. Form 941, Employer's Quarterly Federal Tax Return, can be filed electronically, online or by telephone.
40. The 941 TeleFile program is available to any business taxpayer using a touch-tone telephone.

**Turn to the next page for Part 4, Section B.**

## Part 4

### Section B:

#### Questions 41 - 80

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

41. Who is authorized to practice before the IRS if they hold power of attorney?
- A. Any person considered an enrolled agent under Circular 230, who is not currently under suspension or disbarment from practice before the IRS who files a written declaration that he or she is currently qualified as an enrolled agent and is authorized to represent the particular party on whose behalf he or she acts.
  - B. Any attorney who is **not** currently under suspension or disbarment from practice before the IRS who files a written declaration that he or she is currently qualified as an attorney and is authorized to represent the particular party on whose behalf he or she acts.
  - C. Both A and B.
  - D. Neither A or B.
42. Janet is not an enrolled agent, CPA, attorney, or enrolled actuary. In 1999, the president of Widgets-R-Us engaged Janet to prepare the company's 1998 Form 1120-S. Janet prepared the 1998 income tax return for Widgets-R-Us and signed it as the preparer. This is the only return Janet prepared for Widgets-R-Us. In December 2000, the IRS began an examination of Widgets-R-Us' 1997 and 1998 Federal income tax returns. Janet has a power of attorney to represent Widgets-R-Us for 1997 and 1998. Under Circular 230, Janet is permitted to represent Widgets-R-Us during the examination with regard to its:
- A. 1997 Form 1120-S only.
  - B. 1998 Form 1120-S only.
  - C. 1997 and 1998 Forms 1120-S.
  - D. None of the above.
43. The IRS began an examination of Mr. Jones' 2000 income tax return. Mr. Jones hired Tyler, an enrolled agent and former IRS employee, to represent him before the IRS. Tyler wrote a memorandum to Mr. Jones outlining the issues that might be raised by the IRS and how to address these issues. Tyler correctly marked this memorandum as confidential and privileged under Section 7525 of the Internal Revenue Code. During the examination, the Revenue Officer assigned to the case asked Tyler for a copy of the memorandum. Mr. Jones, invoking the Section 7525 privilege, told Tyler not to disclose it to the Revenue Officer. Tyler is **not** required to provide the Revenue Officer with a copy of the memorandum because:
- A. The Revenue Officer did not issue a summons requesting it.
  - B. Section 7525 extends the attorney client privilege to Federally authorized tax practitioners.
  - C. Circular 230 does not authorize officers or employees of the IRS to request any documents other than a tax return.
  - D. The IRS cannot request documents during an examination.
44. Ms. Smith hired Tom, an enrolled agent, to prepare her Federal income tax return for 2001. While gathering information to prepare the return, Tom discovered that Ms. Smith failed to file Federal income tax returns for the 1999 and 2000 tax years. Circular 230 requires that Tom do the following:
- A. Promptly advise Ms. Smith that she did not comply with the Internal Revenue laws by failing to file Federal income tax returns for the 1999 and the 2000 tax years.
  - B. Refuse to prepare Ms. Smith's 2000 Federal income tax return unless she files her 1999 and 2000 Federal income tax returns.
  - C. Inform the IRS that Ms. Smith did not file Federal income tax returns for the 1999 and 2000 tax years.
  - D. Both B and C.

45. Failure to file an answer to a complaint instituting a proceeding for disbarment by the original or extended deadline constitutes:
- A. An admission of the allegations in the complaint and a waiver of a hearing.
  - B. An error that can be corrected by filing the answer with the Administrative Law Judge within one year of the original (or extended) deadline.
  - C. Grounds for criminal sanctions.
  - D. Equitable estoppel against the practitioner.
46. How is a proceeding for violation of the regulations in Circular 230 instituted against an attorney, certified public accountant, enrolled agent, or enrolled actuary?
- A. An aggrieved taxpayer files a petition with the United States Tax Court stating a claim against the attorney, certified public accountant, enrolled agent, or enrolled actuary.
  - B. The Commissioner of the IRS files a complaint against the attorney, certified public accountant, enrolled agent, or enrolled actuary with the United States Tax Court.
  - C. The Director of Practice signs a complaint naming the attorney, certified public accountant, enrolled agent, or enrolled actuary and files the complaint in the Director's office.
  - D. The Secretary of the Treasury files a complaint against the attorney, certified public accountant, enrolled agent, or enrolled actuary in the United States District Court for the District of Columbia.
47. Who presides over a hearing on a complaint for disbarment based on a violation of the laws or regulations governing practice before the IRS?
- A. The Commissioner of IRS.
  - B. An Administrative Law Judge.
  - C. A United States Tax Court Judge.
  - D. The Secretary of the Treasury.
48. An appeal from the initial decision ordering disbarment is made to which of the following:
- A. The Secretary of the Treasury.
  - B. The Administrative Law Judge.
  - C. The United States District Court for the District of Columbia.
  - D. The United States Tax Court.
49. Treasury Circular 230:
- A. Contains rules of conduct applicable to enrolled agents and enrolled actuaries, but not attorneys or certified public accountants.
  - B. Contains rules regarding disciplinary actions for tax return preparers who are not enrolled agents, CPA's or attorneys
  - C. Contains the rules regarding eligibility to become an enrolled agent and renewal of enrollment.
  - D. All of the above.
50. Barry's individual income tax return for 1997 was examined by the IRS, which resulted in a tax assessment in the amount of \$10,000. Thereafter, Barry discovered papers which he believed would show that the IRS determination was erroneous. Barry can claim a refund of income taxes as follows:
- A. Take a credit for the amount on his 1998 return.
  - B. File Form 1045 Application for Tentative Refund.
  - C. File an amended return within three years from the date he filed his original return for 1997, or two years from the date he paid the tax, whichever is later.
  - D. Immediately sue for a refund in court.
51. Charlie had income tax withheld from his wages during 1998 in the amount of \$5,000. Charlie filed an automatic extension of time to file his tax return for that year to August 16, 1999, together with making an additional payment in the amount of \$2,000 with the extension. Charlie filed his tax return on November 15, 1999, and paid the balance shown to be due on the return of \$1,000 on that date. Charlie discovered an error in his return on November 1, 2002. On that same date he filed a claim for refund in the amount of \$6,000. Assuming the grounds set forth in the claim are proper, what refund can Charlie recover for 1998?
- A. \$6,000
  - B. \$2,000
  - C. \$1,000
  - D. \$0
52. The examination of Greta's' tax return for 2000 resulted in adjustments creating a tax liability in the amount of \$30,000. Greta does not believe she owes anything. A Notice of Proposed Income Tax Deficiency is issued to Greta, who wants to appeal the Revenue Agent's adjustments to the IRS Office of Appeals. Greta must file a written protest letter no later than which of the following periods?
- A. 10 days.
  - B. 30 days.
  - C. 90 days.
  - D. None of the above.



- 53.** Harry claimed gambling losses on his income tax return. The return was examined by the IRS and the losses were disallowed. Harry pursued an appeal before the IRS Appeals Office, which sustained the Revenue Agent's adjustment. Harry now wants to take his case to a judge. In which of the following courts can Harry file a tax action?
- A.** United States Court of Federal Claims.
  - B.** United States District Court.
  - C.** United States Tax Court.
  - D.** All of the above.
- 54.** Isaac's income tax return for 1999 was examined. This resulted in an income tax deficiency in the amount of \$50,000 from two \$25,000 adjustments. The Revenue Agent determined that Isaac was negligent involving the first adjustment and proposed an accuracy-related penalty. The second adjustment was discovered by the Revenue Agent based upon a disclosure statement in the tax return and did not relate to a tax shelter. What is the amount of penalty that the Revenue Agent can propose?
- A.** \$2,500
  - B.** \$5,000
  - C.** \$10,000
  - D.** None of the above.
- 55.** Julie, who lives in Washington, D.C., operated a business without books and records. Her business income and expenses were reported on Schedule C. Julie's tax return for 2000 was examined and substantial adjustments were proposed. Julie disagreed with the adjustments and wants to take her case directly to Tax Court. A Statutory Notice of Deficiency was issued to Julie by the IRS Area Director. Julie can file a petition for a Small Tax case before the U.S. Tax Court during which of the following periods beginning from the date of the issuance of the notice?
- A.** 30 days.
  - B.** 90 days.
  - C.** 150 days.
  - D.** None of the above.
- 56.** Louie is the sole shareholder of a perfume manufacturing corporation. The corporation's tax return was examined, resulting in unagreed adjustments which were appealed and sustained at the IRS Appeals Office. Louie still believes that the adjustments are erroneous and wants a judge to hear his reasons. The corporation timely files a petition in the U.S. Tax Court contesting the adjustments. At the beginning of the trial, the attorney for the corporation files a motion requesting the judge to order that the IRS has the burden to prove that its adjustments are not erroneous. Which of the following criteria must be satisfied before the burden of proof shifts to the IRS?
- A.** The corporation must have maintained all records required and complied with all substantiation requirements under the Internal Revenue Code.
  - B.** The corporation must have cooperated with all reasonable requests by the revenue agent for information regarding the items being questioned on its return.
  - C.** The corporation had a net worth of \$7,000,000 or less at the time the petition was filed in the Tax Court.
  - D.** All of the above.
- 57.** Marty timely filed his Federal income tax return for 1997. It was selected for examination. During the course of the examination, the Revenue Agent first assigned to the case retired. A second Revenue Agent proposed adjustments to the tax return which Marty believed were erroneous. The second Revenue Agent was assigned to an extended training assignment. Before going on training, Marty and the second Revenue Agent orally agreed that the statute of limitations could be extended to December 31, 2001. Which of the following statements is applicable in order for the IRS to protect its rights?
- A.** An assessment of income taxes must be made before December 31, 2001.
  - B.** A Statutory Notice of Deficiency must be mailed on or before December 31, 2001.
  - C.** A Statutory Notice of Deficiency must be mailed on or before April 15, 2001.
  - D.** The assessment of tax can be made at any time.

58. During the course of examining Ollie's income tax return, the Revenue Agent required information from third party sources. Which of the following provisions does **not** apply to the Revenue Agent giving Ollie reasonable notice before contacting third parties?
- A. Pending criminal investigation.
  - B. Providing notice might result in reprisal against the contact.
  - C. Ollie authorizes the contact.
  - D. All of the above.
59. Ron's tax returns were examined for 1997, 1998, and 1999, all of which resulted in adjustments increasing income reported on Schedule C of the returns. The Revenue Agent determined that the failure to report the income was intentional. The Revenue Agent proposed a fraud penalty. The adjustment for each year was in the amount of \$100,000. The fraud penalty for each year should be in which of the following amounts?
- A. \$50,000
  - B. \$75,000
  - C. \$18,800
  - D. \$28,200
60. Jane is a Certified Public Accountant who specializes in preparing Federal tax returns. Which of the following returns would qualify Jane as an income tax return preparer?
- A. Estate or gift tax returns.
  - B. Excise tax returns.
  - C. Withholding tax returns.
  - D. None of the above.
61. Willie is the owner of an accounting firm. One of Willie's employees prepares an income tax return for a client and opines that a deduction can be claimed for a bad debt. If the return is examined and the deduction is disallowed, Willie will **not** be subject to a preparer penalty under which of the following circumstances?
- A. The position on the return had a realistic possibility of being sustained on the merits.
  - B. The position on the return had at least a one-in-three chance of being sustained on its merits.
  - C. There is substantial authority to sustain the position taken on the return.
  - D. All of the above.
62. Arnie is a Certified Public Accountant who prepares income tax returns for his clients. One of his clients submitted a list of expenses to be claimed on Schedule C of the tax return. Arnie qualifies as a return preparer and, as such, is required to comply with which one of the following conditions?
- A. Arnie is required to independently verify the client's information.
  - B. Arnie can ignore implications of information known by him.
  - C. Inquiry is not required if the information appears to be incorrect or incomplete.
  - D. Appropriate inquiries are required to determine whether the client has substantiation for travel and entertainment expenses.
63. Ernie is a principal of an international CPA firm. One of the firm's clients owns seven businesses and is a member of over 100 flow-through entities. Several members of Ernie's firm assist in the preparation of the client's individual income tax return. Which one of the following must be met involving the member of the firm who qualifies as the return preparer?
- A. The signatory is the individual preparer who has the primary responsibility for the overall substantive accuracy of the reporting positions on the return.
  - B. A photocopy of a manually signed copy of the return satisfies the manual signature requirement.
  - C. If the individual preparer is physically unable to sign the return due to a disability, he/she can indicate "unable to sign" as the signature.
  - D. All of the above.
64. Frankie is a truck driver who is also a licensed return preparer and specializes in preparing income tax returns claiming the Earned Income Credit (EIC). Frankie will not be subject to a preparer penalty for an erroneously claimed EIC if he complies with which one of the following?
- A. Completion of an eligibility checklist based upon information provided by the client.
  - B. Completion of the computation worksheet for the EIC based upon information provided by the client.
  - C. Knowledge or reason to know that the information used to determine eligibility for an amount of the EIC is correct.
  - D. All of the above.

65. A taxpayer must use a power of attorney to do which of the following?
- A. Authorize an individual to prepare the taxpayer's return
  - B. Authorize an individual to represent a taxpayer at a conference with the IRS.
  - C. Authorize the IRS to disclose tax information to an individual.
  - D. Authorize an individual to provide information to the IRS.
66. What is the purpose of the Centralized Authorization File (CAF) number?
- A. Before the PTIN, this was the number a preparer would use to sign an electronically filed return.
  - B. The CAF number is another means of tracking enrolled agents.
  - C. Use of the CAF number allows IRS to verify an individual's authority to represent the taxpayer before the IRS.
  - D. None of the above.
67. How long should you keep your tax records?
- A. 3 years if you owe additional tax.
  - B. 7 years if you file a claim for a loss from worthless securities.
  - C. No limit if you do not file a return.
  - D. All of the above.
68. Amy, a self-employed consultant, contributes more to her profit-sharing plan than she can deduct for the year. Amy can carry over and deduct the excess in later years combined with her normal contributions. Her contribution in later years is limited to which of the following?
- A. 15% of the participating employee compensation.
  - B. 10% of the participating employee compensation.
  - C. 25% of the participating employee compensation.
  - D. None of the above.
69. In December 2000, Gail worked for ABC Co. and participated in their retirement plan. On February 1, 2001, Gail was employed by XYZ Corp. which has a qualified retirement plan. On March 1, 2001, the ABC Co. plan administrator distributed to Gail her vested share of the plan. Gail was 42-years old at the time of distribution. What must Gail do in order to avoid paying taxes and penalties on her withdrawal?
- A. Deposit the plan funds in a local bank.
  - B. Contribute the distribution to the XYZ Corp. plan within 60 days.
  - C. Donate the plan funds to a charity.
  - D. None of the above.
70. Which of the following are examples of prohibited transactions with a traditional IRA?
- A. Selling property to it.
  - B. Using it as security for a loan.
  - C. Buying property for personal use with your IRA funds.
  - D. All of the above.
71. Your qualified 401(k) plan can include what type of contribution arrangement?
- A. Cash.
  - B. Elective deferral.
  - C. All the above.
  - D. None of the above.
72. Joyce was recently divorced. Per a court order she must transfer her IRA to her ex-spouse. To avoid paying taxes on the withdrawal Joyce must do which of the following?
- A. Direct rollover.
  - B. Change the name on the current account.
  - C. Withdraw funds and deposit them into another qualified plan.
  - D. All of the above.
73. George, a single taxpayer, has W-2 income of \$31,000. During the 2000 tax year he contributed \$2,500 to his traditional IRA. George has excess contributions of how much?
- A. \$2,500
  - B. \$2,000
  - C. \$500
  - D. None of the above.
74. Charles, a sole proprietor, contributes to his self-employed pension plan. Where will he take his deduction on his income tax return?
- A. Form 1040, Schedule C.
  - B. Form 1040, Page 1.
  - C. Form 1040, Schedule A.
  - D. None of the above.
75. Which of the following is **not** considered earned compensation for IRA contribution purposes?
- A. Deferred compensation.
  - B. Wages and salaries.
  - C. Self-employment income.
  - D. Commissions.

- 76.** If distributions from your traditional IRA are less than the minimum required distribution for the year, you may have to pay an excise tax for that year on the amount not distributed as required. The excise tax is how much?
- A.** 10%
  - B.** 40%
  - C.** 50%
  - D.** None of the above.
- 77.** Winston turned 70 1/2 on June 1, 2000. What date must he receive his minimum distribution by?
- A.** April 15, 2001.
  - B.** December 31, 2000.
  - C.** June 30, 2000.
  - D.** None of the above.
- 78.** Sam timely filed his U.S. individual income tax return for calendar year 1993 without any extensions. The return showed a balance of income taxes due in the amount of \$75,000. Sam has not paid his IRS liability nor has he entered into any installment agreement extending the statute of limitations or submitted any offer in compromise. The statute of limitations for collection of Sam's tax liability expires on which of the following dates?
- A.** April 15, 1997.
  - B.** April 15, 2003.
  - C.** December 31, 2003.
  - D.** April 15, 2004.
- 79.** Which fee arrangement described below is permissible for an electronic return originator (ERO)?
- A.** Fees based on AGI from the tax return.
  - B.** Fees based on % of refund.
  - C.** Separate fees for direct deposits.
  - D.** None of the above.
- 80.** A Form 1065 U.S. Partnership Return must be filed electronically or on magnetic media if the number of partners exceeds:
- A.** 50
  - B.** 75
  - C.** 100
  - D.** 250

**End of Part 4.**