**NSA Enrolled Agents Exam Review Course**

**Sample Examination – Part 2 - 2016**

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**Instructions:**

1. Using the blank answer sheet (page 23) attached, answer the 100 questions on this sample exam by inserting the correct letter answer in the blank provided. Allow exactly three hours for the exam.

2. Check your score by comparing your answers with the complete answer sheet on page 24. Count the number of correct answers, and determine your overall performance by the table on page 24.

3. To assess your performance in the three specified topic sections for Part 1, complete the “Performance by Topic Domain” sheet on page 25. The guide at the bottom of each section indicates your performance on that section.

4. Explanations for the answers to each question begin on page 26.

5. Good luck on the real exam!

**EA Practice Exam – Part 2**

1. Marlene acquired a 30% interest in a partnership by contributing property that had an adjusted basis to her of $25,000, fair market value of $50,000, and a $40,000 mortgage. The partnership assumed the liability. What is Marlene’s gain or loss on the contribution of her property to the partnership?

1. $-0-
2. $3,000 gain
3. $12,000 gain
4. $10,000 loss

2. Which of the following items are required to be separately stated to an S corporation’s shareholders?

1. net short-term capital gain or loss
2. charitable contributions
3. foreign taxes paid to the government of a foreign country
4. all of the above

3. Sally transferred a building with a FMV of $200,000 to Alta, Inc. in exchange for 100% of the stock, which had a FMV of $150,000. Her basis in the building was $100,000. Alta, Inc. also assumed Sally’s $10,000 mortgage on the building. Which of the following choices correctly reflects Sally’s taxable gain and her basis in the stock received?

1. recognized gain of $60,000 and a basis in the stock of $100,000
2. recognized gain of $-0- and a basis in the stock of $90,000
3. recognized gain of $50,000 and a basis in the stock of $100,000
4. none of the above

4. Which of the following are not organizational costs that can be amortized?

1. costs of temporary directors
2. costs of issuing and selling stock
3. state incorporation fees
4. legal fees to draft the bylaws of the corporation

5. Merlin and Nathan are equal partners in M & N Partnership. The partnership and both partners file their tax returns on a calendar year basis. For 2015, M & N had a $20,000 loss, of which Nathan’s share was $10,000. Nathan’s adjusted basis in his partnership interest was $4,000 at the beginning of 2015. For 2016, M & N showed a profit of $16,000. Nathan’s share was $8,000. If there were no other adjustments to Nathan’s basis in 2015 or 2016, what amounts would Nathan show as his income or loss from M & N Partnership in 2015 and 2016?

 ***2015 2016***

1. $(4,000) $-0-
2. $(4,000) $2,000
3. $(10,000) $8,000
4. $-0- $8,000

6. Mr. Justin, a cash-basis taxpayer, died on January 21, 2015. His estate received the following income and incurred the following expenses during 2015:

Gain on sale of asset $10,400

Dividend income 14,000

Interest income 6,000

Administration expenses 2,800

The personal representative filed a statement waiving the right to claim the administration expenses as a deduction for federal estate tax purposes. What is the estate’s taxable income for 2015?

1. $27,600
2. $27,000
3. $17,600
4. $13,000

7. Which of the following is not an example of income in respect of a decedent?

1. wages earned before death, but unpaid at the time of death
2. a dividend check that was received by the decedent, but cashed after death
3. the taxable portion of an inherited IRA
4. the taxable portion of payments received on an inherited installment obligation

8. With respect to simple trusts, all the following statements are true except:

1. the trust instrument requires that all the income must be distributed currently
2. the trust instrument provides that amounts set aside for charitable purposes are deductible only to the trust
3. the trust does not distribute amounts allocable to the corpus of the trust
4. the exemption amount for a simple trust is $300

9. New Lots Corporation began business operations as an S corporation in 2010. New Lots files its 1120S returns on a calendar-year basis. The current year is 2015. New Lots’ taxable income and capital gains and losses for the years of operation are as follows:

 ***2012 2013 2014 2015***

Capital gains $ 2,000 $ 6,000 $ 7,000 $ 4,000

Capital losses 0 0 0 (21,000)

Taxable income/loss 3,000 (12,000) 4,000 4,000

What is the amount of capital loss that is available to New Lots Corporation for carryback from 2015?

1. $17,000
2. $7,000
3. $13,000
4. none of the above

10. Which of the following is nota transaction that results in a gain or loss subject to Section 1231 treatment?

1. sales or exchanges of leaseholds
2. sales or exchanges of cattle and horses
3. the sale of a copyright, literary, musical, or artistic composition that you created
4. sales or exchanges of unharvested crops sold together with land to the same buyer

11. On June 30, 2015, Sally, who uses the cash method of accounting, borrowed $25,000 from a bank for use in her business. Sally was to repay the loan in one payment with $2,000 interest on December 30, 2015. On December 30, 2015 she renewed that loan plus the interest due. The new loan was for $27,000. What is the amount of interest expense that Sally can deduct for 2015?

1. $-0-
2. $333
3. $1,000
4. $2,000

12. During 2015, Eduardo, whose filing status is single, sold all of his Section 1244 stock in two small business companies. He was the single owner of the stock. His records reflect the following:

1,000 shares Shrimp Corp. purchased June 2, 2009 $20,000

1,000 shares Clam, Inc. purchased March 6, 2012 60,000

1,000 shares Shrimp Corp sold July 16, 2015 80,000

1,000 shares Clam, Inc. sold August 4, 2015 5,000

What is the amount of Eduardo’s recognized gain or loss for 2015?

1. $55,000 capital gain
2. $(50,000) ordinary loss; $55,000 capital gain
3. $(50,000) ordinary loss; $60,000 capital gain
4. $(55,000) ordinary loss; $60,000 capital gain

13. Kathy and Candy form an equal partnership. Kathy contributes $15,000 cash and Candy contributes depreciable office equipment with a fair market value of $15,000 and an adjusted basis of $8,000. What is the partnership’s basis in the equipment for purposes of depreciation?

1. $4,000
2. $7,500
3. $8,000
4. $15,000

14. Jeff and his brother each own a 40% interest in J & K Partnership. Jeff also owns a 70% interest in Mega Partnership. In 2014 J & K sold a building to Mega Partnership for $100,000. J & K’s adjusted basis of the building at the time of the sale was $110,000. In 2015 Mega sold the building for $115,000. How much gain or loss will Mega recognize in 2015?

1. $-0-
2. $5,000
3. $10,000
4. $15,000

15. Miss Winchester transferred land that had an adjusted basis to her of $50,000 and a fair market value of $80,000 to Corporation M in exchange for 100% of M’s only class of stock and equipment with an adjusted basis to M of $5,000. At the time of the transfer, the stock had a fair market value of $70,000 and the equipment had a fair market value of $10,000. What is Corporation M’s basis in the land?

1. $50,000
2. $60,000
3. $65,000
4. $80,000

16. If a trust has adjusted total income of $10,000, distributable net income of $11,000, and $12,000 is required to be currently distributed, what is its income distribution deduction?

1. $11,000
2. $12,000
3. $2,000
4. $10,000

17. ABC Company, a corporate taxpayer, has a fiscal year ending September 30. The due date, excluding extension, for filing its return is:

1. January 15
2. November 15
3. December 1
4. December 15

18. Buffalo Properties, Inc. owned and displayed a collection of watercolors in its main office. When the 75%‑owner retired, he was presented with his choice from the collection. He selected a painting with a fair market value of $250,000. Buffalo Properties’ basis in the painting was $150,000. Current year earnings and profits were $500,000. No other distributions were made during the year. What amount of dividend must the retiring owner report for the year that he received the painting?

1. $-0-
2. $150,000
3. $250,000
4. $100,000

19. The Smith Corporation realized a long-term capital gain of $10,000, a short-term capital gain of $15,000, and a long-term capital loss of $27,000. What is the amount and character, if any, of carryback or carryforward that the Smith Corporation could utilize?

1. $10,000 long-term gain
2. $15,000 short-term loss
3. $2,000 short-term loss
4. $25,000 long-term loss

20. Which of the following would not qualify for a depletion deduction?

1. gas well
2. timber lot
3. oil refinery
4. stone quarry

21. Farmer Bob sold a breeding cow on March 8, 2015 for $2,500. Expenses related to the sale were $250. Farmer Bob deducted $1,000 in costs of raising the cow during the years the cow was raised. What is Farmer Bob’s gain (loss) on the sale of the breeding cow, without regard to the Uniform Capitalization Rules?

1. $(350)
2. $1,150
3. $2,250
4. none of the above

22. Under the “lower of cost or market” method, what is the value of the following items that should be included in the closing inventory?

 ***Item Cost Market***

X $ 450 $ 700

Y 250 100

Z 300 250

Total $1,000 $1,050

1. $800
2. $1,000
3. $1,050
4. $1,250

23. During May 2015, Donald, a cash-basis calendar-year farmer, had his crops damaged by a flood. In May 2015, Donald received crop disaster payments of $30,000 from the federal government. Donald properly made the election for the crop disaster payments. When should Donald include the payments in income?

1. on his 2014 tax return
2. on his 2015 tax return
3. on his 2016 tax return
4. he does not have to report it

24. If otherwise qualified, a “large corporation” (defined as a corporation with at least $1 million of modified taxable income in any of the last three years) may use all of the following methods to figure all four required installments of estimated tax except:

1. the 25% of the corporation’s income tax for the current year method
2. the 25% of the corporation’s income tax for the preceding year method
3. the annualized income installment method
4. the adjusted seasonal installment method

25. The Smart Corporation distributes an office building to Collin, a shareholder of the corporation. The fair market value of the building exceeds its basis to the corporation. Which of the following statements is true with regard to this transaction?

1. Smart Corporation realizes but does not recognize gain on this distribution.
2. Smart Corporation elects not to report the gain on this distribution.
3. Smart Corporation must recognize gain on this distribution.
4. Collin must recognize the losses on this distribution on his return as a shareholder.

26. Allecia, a cash-basis taxpayer, died on July 15. Which of the following items of income are includable on her final return?

1. Dividends of $20 that were declared on July 10 but not received in the mail until July 25.
2. Interest of $500 earned on a savings account through July 15, but not posted to the account until July 31.
3. Consulting income of $300. Allecia completed the job on July 2. The client mailed the payment on July 12, and the check arrived at Allecia’s home on July 16.
4. All of the above.

27. For tax year 2015, Myers Corporation had taxable income of $60,000 before using any of the $30,000 net operating loss from 2014. Myers has never elected to forego the carryback of its losses since incorporation in 2009. Myers’ books and records reflect the following income (loss) since its incorporation:

2010 $10,000

2011 (35,000)

2012 20,000

2013 25,000

What amount of taxable income (loss) should Myers report on its 2015 tax return?

1. $30,000
2. $40,000
3. $50,000
4. $60,000

28. Which of the following would be considered a fiscal tax year?

1. 02/15/14 – 03/15/15
2. 08/01/14 – 06/31/15
3. 04/01/14 – 03/31/15
4. 01/01/14 – 12/31/15

29. In 2011, Paige signed a six-year lease for a building to use in her business. In 2015, she installed shelves and made other leasehold improvements to the building for a total of $3,200. She can:

1. deduct $3,200 as a current expense
2. depreciate the $3,200 using MACRS
3. depreciate the $3,200 using ACRS
4. amortize the $3,200 over the remaining term of the lease

30. Partnership XYZ was formed on September 15, 2015 and elected to use a fiscal year ending November 30. Partnership XYZ was required to file its return by which of the following dates?

1. December 31, 2015
2. January 15, 2016
3. March 15, 2016
4. April 15, 2016

31. With regard to accounting methods, all of the following statements are correct except:

1. you choose your accounting method when you file your first tax return
2. you may account for business and personal items under different accounting methods
3. if you operate several businesses, you must use the same accounting method for each business
4. expenses that you pay in advance can be deducted only in the year to which they apply, even under the cash method of accounting

$32. The new capitalization rules$ allow a taxpayer to choose not to capitalize (i.e., expense) up to $5,000 of material or supply costs if the taxpayer meets all of the following conditions except

1. the taxpayer has a written policy in place for such expensing decisions
2. the taxpayer has an “applicable financial statement” (e.g., audited, regulatory, or SEC)
3. the taxpayer’s average gross receipts were less than $10,000,000 in the last three years
4. the taxpayer expenses the item in a similar manner in the financial statements

33. In November 2015, Farmer Smith, a cash-basis taxpayer, sells 100 additional beef feeder cattle (raised for resale) due to severe lack of water in his area. Normally, these feeders sell in February 2016. The transaction is correctly reported:

1. in 2015 as a capital gain or loss
2. in 2016 as a capital gain or loss
3. upon election, as ordinary farm income in either 2015 or 2016
4. not taxable due to drought conditions

34. Mr. Zurn owns an apartment house for which he provides no services to his tenants. On December 1, 2015 he received a $2,400 payment for the first six months’ rent in 2015. He also received a security deposit of $400. What is the amount of gross rental income Mr. Zurn should include on his 2015 income tax return?

1. $400
2. $800
3. $2,400
4. $2,800

35. What is Sam’s (a single taxpayer) net operating loss for the current year based on the following information?

Wages from a part-time job $10,000

Interest on savings 500

Profit share from an S Corporation 5,000

Net loss from business (gross income $60,000 minus $80,000 expenses) 20,000

Net short-term capital loss on stock sale 3,000

2015 standard deduction 6,300

2015 personal exemption 4,000

1. $4,500
2. $5,000
3. $7,500
4. $14,950

36. Tuggy McTugface, a tugboat operator, recently overhauled the engine in the tugboat. Based on the recent capitalization rules, the “unit of property” to compare the expenditure to in determining whether or not the overhaul cost should be capitalized would be the cost of

1. the engine itself
2. all electrical equipment on the tugboat
3. the tugboat itself

 d. the larger of a or b

37. The adjusted basis of Stan’s partnership interest is $15,000. He receives a distribution of cash of $6,000 and property with an adjusted basis to the partnership of $11,000. (This was not a distribution in liquidation.) What is the basis of the distributed property in Stan’s hands?

1. $9,000
2. $11,000
3. $5,000
4. $17,000

38. The Acme Corporation wishes to be treated as an S corporation for the year ending December 31, 2015. The corporation must file Form 2553 by:

1. December 31, 2015
2. March 15, 2015
3. March 15, 2016
4. February 15, 2016

39. During the year Sea Corporation reported gross income operations of $100,000 and operating expenses of $150,000. Sea Corporation also received dividend income of $90,000 from a domestic corporation in which Sea is a 26% shareholder. What is the amount of Sea Corporation’s net operating loss?

1. $-0-
2. $23,000
3. $32,000
4. $40,000

40. Alex, a tennis pro, has built a tennis facility to suit his business needs. During 2014, Alex purchased five ball machines for $3,500. Depreciation deductions allowable on the ball machines were as follows:

2014 $ 600

2015 1,120

Alex sold all of the ball machines in January 2016 for $3,700. What is the amount and character of the gain from the sale?

 ***Ordinary Section 1231***

 ***Income Gain***

1. $1,920 $-0-
2. $1,720 $200
3. $200 $1,720
4. $-0- $1,920

41. Alayna is a voice and singing coach. She is a calendar-year taxpayer using the accrual method of accounting for both tax and financial accounting purposes. On November 2, 2014 she received $3,200 for a two-year contract for 64 one-hour voice and singing lessons beginning on that date. The contract provided that Alayna give eight lessons in 2014, 48 lessons in 2015, with the remaining lessons to be given in 2016. What is the amount that Alayna should report on her 2015 return?

1. $2,800
2. $-0-
3. $3,200
4. $2,400

42. Which of the following entities involves double taxation when distributions are made to owners?

1. sole proprietorship
2. S corporation
3. C corporation
4. partnership

43. During the year, Mr. Acre’s building was damaged by fire. The building was on land Mr. Acre owned. One-half of the building was used personally by Mr. Acre and the other half was used in his business. For the year, Mr. Acre’s books and records reflect the following:

Cost of building $ 650,000

Depreciation in prior years 150,000

Fair market value before fire 1,500,000

Fair market value after fire 1,000,000

Insurance reimbursement 300,000

Adjusted gross income 70,000

What is Mr. Acre’s deductible business and personal loss for the year?

 *Business Personal*

1. $17,900 $ 92,900
2. $25,000 $ 92,900
3. $25,000 $ 10,000
4. $100,000 $167,900

44. The Green Corporation owns 25% of the stock of the Cande Corporation. During the year, Green Corporation received $10,000 dividends from the Cande Corporation stock. Assuming no other limitations apply, Green Corporation’s dividends received deduction is:

1. $7,000
2. $8,000
3. $2,000
4. $-0-

45. Roberts Corporation made a charitable contribution to a qualified organization of $40,000 in cash plus a vehicle with a fair market value of $15,000. For the tax year Roberts Corporation had $400,000 in total income, $100,000 in total deductions not including the above charitable contributions, and not including a reportable dividend received deduction of $50,000. How much of the charitable contribution can Roberts Corporation deduct for the tax year?

1. $25,000
2. $30,000
3. $40,000
4. $55,000

46. Michael James purchased a travel agency on July 1 and immediately took over the business. The purchase contract included the following items as part of the purchase price:

Goodwill valued at $60,000

Workforce in place valued at $30,000

Trademark valued at $60,000

Government permit valued at $30,000

What is the proper amount of Michael’s Internal Revenue Code Section 197 amortization expense for the year, assuming Michael is a calendar-year taxpayer?

1. $90,000
2. $30,000
3. $6,000
4. $12,000

47. Between November 1 and December 1, 2015, you paid a total of $52,000 in start-up costs to create a new business. The business opened its doors on December 15, 2015. Which of the following is a permissible election for treatment of the $52,000 in start-up costs you paid?

1. amortize $52,000 over a five-year period
2. deduct $3,000 and amortize the remaining $49,000 over 180 months
3. deduct $5,000 and amortize the remaining $47,000 over 180 months
4. amortize $52,000 over 180 months

48. The L&J Auto Parts Store operated as an accrual-based partnership and filed a Form 1065. In addition to receipts from parts sales of $250,000, it had the following other items of income and expenses for the year:

Salaries $(50,000)

Insurance (5,000)

Charitable contributions (5,000)

Licenses (5,000)

Rental income 25,000

Guaranteed payments to partners (75,000)

What is the correct ordinary income or loss that L&J should report on line 22 of its Form 1065?

1. $85,000
2. $115,000
3. $100,000
4. $150,000

49. ABC Corp. leased two buildings. The first lease started January 1, 2015, and was for three years at $10,000 per year rent. ABC paid $30,000 in January for the entire three-year term. The second lease started July 1, 2015, and was for five years at $6,000 per year rent. ABC paid $30,000 in June for the entire year term. What is the total rent expense ABC Corp. may deduct in 2015?

1. $60,000
2. $13,500
3. $13,000
4. none of the above

50. Under the Affordable Care Act, “Applicable Large Employers” are subject to the shared responsibility payment (SRP) rules if their number of full-time equivalent employees exceeds

1. 50 in 2015 as a transition year, and 25 in years after 2015
2. 25 in 2015 as a transition year, and 50 in years after 2015
3. 100 in 2015 as a transition year, and 50 in years after 2015
4. 50 in 2015 as a transition year, and 100 in years after 2015

51. Zak Corporation has an alternative minimum tax credit available as a result of alternative minimum tax paid for 2015. Which of the following is correct regarding how the alternative minimum tax credit may be carried?

1. carry back 3 years, and then forward 5 years
2. carry back 3 years, and then forward 15 years
3. carry forward 15 years
4. carry forward indefinitely

52. Larkspur, a calendar-year partnership, is owned equally by Nathan, Jerry, Jon, and Marty. The partnership agreement states that Nathan will receive 25% of the profit (loss) of the partnership with a minimum of $15,000 for his services to the partnership. The other partners are each to receive 25% of the profit (loss). The net income of the partnership without regard to the $15,000 minimum is $40,000. The partnership should deduct a guaranteed payment of:

1. $15,000
2. $10,000
3. $-0-
4. $5,000

53. A corporation must file a Form 1099-DIV, Statement for Recipients of Dividends and Distributions, with the IRS for each stockholder to whom the corporation paid gross dividends of $10 or more during the calendar year. For 2015 dividends, Form 1099-DIV must be filed with the IRS on or before:

1. December 31, 2015
2. January 31, 2016
3. February 28, 2016
4. March 15, 2016

54. Davis Corporation, an accrual-method taxpayer, had accumulated earnings and profits of $75,000 as of December 31, 2014. For the 2015 tax year, Davis’s books and records reflect the following:

Taxable income per return $175,000

Tax-exempt interest received 2,000

Federal income taxes 60,000

Business meals in excess of 50% limitation 4,000

Contribution in excess of limitation 1,000

Based on the above, what is the amount of Davis Corporation’s earnings and profits as of December 31, 2015?

1. $112,000
2. $187,000
3. $250,000
4. $313,000

55. During the year, Henry started a new business and needed to pledge all his assets to borrow sufficient start-up and working capital. His IRA account was part of the pledge assets. The account was released from collateral by the end of the year. Which of the following statements is true?

1. Henry did not engage in a prohibited transaction since he did not take a loan from the account.
2. Henry did not engage in a prohibited transaction since the account was not pledged at year end.
3. Henry engaged in a prohibited transaction by pledging the account as security for a loan.
4. Henry did not engage in a prohibited transaction since he pledged the IRA account for the start-up of his own business, and did not take a direct loan or distribution from the account.

56. Which of the following organizations may request exempt status under the Internal Revenue Code as charitable organizations?

1. religious organization
2. school
3. animal welfare organization
4. all of the above

57. Lisa traveled from Philadelphia to New York on a business trip for her employer. She is not reimbursed for the travel expenses. Lisa spends two days in business meetings and one day on vacation. Lisa’s meals cost $90 ($30 per day), lodging cost $360 ($120 per day), and train fare cost $102. What is the total amount of Lisa’s business-related travel expense?

1. $366
2. $372
3. $507
4. $552

58. All of the following statements relating to entertainment facilities are incorrect except:

1. the part of the dues or fees applicable to the use of a club for quiet business is considered associated entertainment expense
2. a membership or initiation fee you pay only once to join a club is a capital expense amortizable over the useful life of the membership
3. one-half of the costs of owning and operating a company fishing lodge may be deducted as entertainment expense if company entertainment is the sole use of the facility
4. the cost of furnishing a lunch to a client on board the company yacht may qualify as an entertainment expense deduction

59. During the year, Mark had a general business credit of $45,000. His net income tax is $65,000. His tentative minimum tax figured on Form 6251 was $30,000. What is the maximum amount of general business credit Mark can claim for the year?

1. $15,000
2. $30,000
3. $33,750
4. $35,000

60. On January 1, 2014, Brian contributed $20,000 cash to Lock and Key Partnership for a 25% interest. The adjusted basis of his partnership interest at the end of 2013 was $35,000, which included his $16,000 share of partnership liabilities and the contributed cash. The partnership had no other liabilities and no unrealized receivables or substantially appreciated inventory items. On December 31, 2015 Brian sold his entire interest in Lock and Key Partnership for $19,000 cash. Brian did not take any distributions in 2015. What is the amount of Brian’s capital gain or loss?

1. $-0-
2. $(1,000)
3. $16,000
4. $19,000

61. Which of the following statements regarding grantor trusts is true?

1. A grantor of a grantor trust does not report income from the trust unless distributions are made from the trust.
2. A grantor trust is a good way to shelter income.
3. Income from a grantor trust is taxed to the grantor in the same manner as if no trust existed.
4. All of the statements are true.

62. Maxine Hartfield is an employee with Boiler Corporation. Her annual salary is $56,000. The maximum amount that Boiler may contribute to a pension plan on her behalf in 2015 is:

1. $14,000
2. $27,000
3. $53,000
4. $56,000

63. During the year, Colleen started a SIMPLE plan for all five of her employees and herself. It cost her $400 in fees to administer the plan. She never had a pension plan prior to starting this plan. Her tax credit is:

1. $200
2. $400
3. $-0-
4. $100

64. Which of the following conditions will prevent a corporation from qualifying as an S corporation?

1. the corporation has both common and preferred stock
2. the corporation has 70 shareholders
3. one shareholder is an estate
4. all of the above

65. Most unincorporated businesses can choose whether to be taxed as a partnership or a corporation. The regulations provide for a default rule if no election is made. If an election is not made and the default rules apply, which of the following is true?

1. Any new domestic eligible entity having at least two or more members is classified as a partnership.
2. Any new domestic eligible entity with a single member is disregarded as an entity separate from its owner and taxed as a sole proprietorship
3. If all members of a new foreign entity have limited liability, it is classified as an association.
4. All of the above are true.

66. Amanda Jones and Calvin Johnson form Quail Corporation by simultaneously making the following transfers:

 ***Adjusted Basis of Fair Market Percentage of***

***Shareholder Property Transferred Value of Property Stock Received***

Amanda $30,000 $60,000 50%

Calvin 70,000 60,000 50%

What is the amount of gain or loss to be reported on these transfers by Amanda and Calvin on their federal income tax returns?

1. Amanda reports a $30,000 gain and Calvin reports a $10,000 loss
2. Amanda reports a $-0- gain and Calvin reports a $-0- loss
3. Amanda reports a $30,000 gain and Calvin reports a $-0- loss
4. Amanda reports a $-0- gain and Calvin reports a $10,000 loss

67. When Paul formed his corporation five years ago, he invested $5,000 in corporate stock. In the current year, when his basis in the stock was $10,000, he liquidated his corporation, receiving $15,000 cash. How should Paul report this disposal on his current-year return?

1. no reporting required for liquidating distributions
2. report $10,000 long-term capital gain
3. report $5,000 long-term capital gain
4. report $5,000 ordinary income

68. A hurricane destroyed Frank’s tractor during the year. Frank had purchased the tractor for $8,000 and had correctly deducted $6,000 of depreciation. His adjusted basis in the tractor was $2,000. Frank’s insurance company reimbursed him $9,000 and he spent $7,500 for a new tractor later in the year. How much ordinary income should Frank report on his income tax return, assuming that a Sec. 1033 election is made to defer as much gain as possible?

1. $-0-
2. $1,500
3. $6,000
4. $7,000

69. The Barrow and Jones partnership incurred qualified rehabilitation expenses of $50,000 on a certified historic structure. What is the rehabilitation investment credit before tax limitations are applied?

1. $5,000
2. $10,000
3. $7,500
4. $6,000

70. Mr. Oak, an accrual-basis calendar-year taxpayer, sells refrigerators at the retail level. For the current year, his sales totaled $550,000, which included $50,000 from the sale of one-year service contracts for the refrigerators. From past experience, Mr. Brown knows that for the year he will have expenses of $20,000 relating to those contracts. On his current year return, Mr. Brown can:

1. deduct the $20,000 in the current year as a contingent liability
2. capitalize the $20,000 as an inventory cost
3. amortize the $20,000 cost over 12 months
4. defer any deduction until products are actually returned for repair work

71. During the year XYZ Corporation, a clothing retailer, showed the following expenses:

Clothing purchased for resale $72,000

Freight-in 3,550

Freight out to customers 1,750

Beginning inventory 55,650

Ending inventory 42,500

What is XYZ’s cost of goods sold?

1. $88,700
2. $175,450
3. $90,450
4. $86,900

72. Clyde is a limited partner in Marathon Marches Partnership. He contributed $40,000 in cash on the formation of the partnership. His current adjusted basis in the partnership is $50,000, which includes his share of the partnership liabilities of $10,000. Clyde’s share of unrealized receivables in the partnership is $12,000. Clyde sold his partnership interest for $85,000 cash. What is the amount and character of Clyde’s gain?

 ***Capital Gain Ordinary Gain***

1. $-0- $35,000
2. $45,000 $-0-
3. $33,000 $12,000
4. $23,000 $12,000

73. Phil and Don are equal partners in the Hilldale Company. Hilldale has a fiscal year ending on January 31. Phil and Don file their individual tax returns on a calendar-year basis for the tax year ending December 31, 2015. Hilldale had taxable income from the active conduct of its business of $100,000, of which $60,000 was earned in 2014. How much of their partnership taxable income should Phil and Don each include in computing their taxable income limit for the 2016 tax year?

1. $50,000
2. $20,000
3. $30,000
4. $-0-

74. Tina owns a car dealership. Her books and records reflect the following items for the year:

Reserve for anticipated expenses associated with service contracts sold during the year $10,000

Expenses paid in an attempt to influence legislation of the local city council 1,000

Expenses paid for admission to an inaugural ball for a candidate for mayor 500

Cost to demolish a building used in her business 3,000

Undepreciated basis of demolished building 5,000

What is the amount Tina can deduct on her income tax return for the year?

1. $1,000
2. $9,500
3. $18,000
4. $20,500

75. Jim operates a sole proprietorship which is on the accrual basis of accounting. Jim’s brother, Ed, a cash basis taxpayer, did some advertising work for Jim’s business in November, 2015. In December, Jim received a billing statement from Ed for $5,000. Jim paid Ed the $5,000 in January, 2016. Both Jim and Ed are calendar-year taxpayers. When may Jim deduct the $5,000?

1. 2015
2. 2016
3. either of the above dates
4. neither of the above dates since Ed is Jim’s brother

76. An S corporation will be subject to excess net passive income tax:

1. even if it has always been an S corporation
2. it has passive investment income for the year that is at least 20% of gross receipts
3. both answer a. and answer b.
4. none of the above

77. Mr. K, a dentist and calendar-year taxpayer, has consistently reported income and expenses from his business on the cash basis. All cash and checks he receives are deposited and included in income. Mr. K’s records for the year reflect the following information:

Uncollectible receivables $2,000

Patients’ uncollectible returned checks 500

Recovery of an uncollectible receivable from four years ago 1,000

Business-related loan to a supplier that became totally worthless 3,000

Mr. K has chosen not to use the nonaccrual experience method of reporting bad debts. What is the amount of Mr. K’s bad debt expense for the year?

1. $2,500
2. $3,500
3. $4,500
4. $5,500

78. In 2015, Pat, a calendar-year taxpayer, acquired and placed in service the following business assets:

February: Delivery trucks $ 70,000

July: Computer system 30,000

September: Automobile 20,000

October: Office equipment 100,000

Which convention(s) is used to figure Pat’s depreciation for 2015?

1. computer and equipment – half-year; trucks and automobile – mid-year
2. trucks, computer, automobile and equipment – half-year
3. trucks, computer and equipment – half-year; automobile – mid-quarter
4. trucks, computer, automobile and equipment – mid-quarter

79. Carla Zeigler purchased new business machinery totaling $2,200,000 in 2015. After deducting any

 allowable Sec. 179 expensing and any allowable bonus depreciation deduction, what cost basis will

 she use for the regular MACRS computations in 2015?

 a. $0

 b. $100,000

 c. $950,000

 d. $1,950,000

80. The S corporation status would terminate at the end of 2015 for which of the following?

1. Incorporated in 2004. First year of S status was 2006. Passive investment income equaled 29% of gross receipts of 2012, 27% in 2014, and 23% in 2015, C earnings and profits of $10,000.
2. Incorporated in 2007. First year of S status was 2010. Earnings and profits from C years of $10,000. In 2015, passive investments income equaled 35% of gross receipts. The corporation had no passive investment income in prior years.
3. Incorporated in 2010. First year of S election was 2011. Passive investment income equaled 27% of gross receipts in 2013, 26% in 2014, and 44% in 2015. C earnings and profits of $10,000.
4. Incorporated in 2010. First year of S election was 2015. Passive investment income equaled 19% of gross receipts in 2012, 34% in 2014, and 35% in 2015.

81. Bob and Sally, unmarried taxpayers, each owned 50% of Lostalot, Inc., an S corporation. The corporation had a $50,000 operating loss for the tax year ending December 31, 2015. As of 12-31-14, Bob’s basis in his stock was $15,000 and Sally’s was $5,000. During the 2015 tax year, Sally mortgaged her home for $25,000 and loaned the money to the corporation. Although not personally liable, Bob told her not to worry and that if anything happened, he would help pay the mortgage debt. Calculate the amount of allowable loss deduction each shareholder would be able to recognize on their individual 2015 tax returns.

1. Bob: $25,000 and Sally: $25,000
2. Bob: $15,000 and Sally: $5,000
3. Bob: $15,000 and Sally: $30,000
4. Bob: $15,000 and Sally: $25,000

82. Which of the following will not affect a shareholder’s basis in his/her S corporation stock?

1. any Section 179 depreciation deduction, which is separately stated to the shareholder
2. any tax exempt income earned by the corporation which is separately stated to the shareholder
3. any Code Section 1231 loss which is recognized by the corporation and separately stated to the shareholder
4. all of the above affect basis

83. Pitkin Theaters, Inc. distributes land to its sole shareholder. The land is valued at $30,000 and has a basis of $10,000. The land is subject to a $16,000 mortgage, which the shareholder assumes. Pitkin has $20,000 in earnings and profits. Ignoring any potential effect of any taxes on the distribution, the net effect of the transaction on earnings and profits is:

1. decrease by $10,000
2. increase by $6,000
3. increase by $20,000
4. no effect

84. Easy Corporation, a calendar-year corporation, had accumulated earnings and profits of $20,000 as of January 1, 2015 and $5,000 earnings and profits for 2015. On December 31, 2015, Easy made a $45,000 cash distribution to Mrs. B, its sole shareholder. Mrs. B’s basis in Easy was $10,000 before the distribution. What is the amount and character of the distribution received by Mrs. B?

1. $25,000 ordinary income dividend, $10,000 return of capital, $10,000 capital gain
2. $25,000 ordinary income dividend, $20,000 capital gain
3. $45,000 ordinary income dividend
4. $45,000 capital gain

85. Which of the following property exchanges does not qualify as a like-kind exchange?

1. exchange of city property for farm property
2. exchange of partnership interests
3. exchange of improved property for unimproved property
4. exchange of an ownership in real estate for a 30-year lease in real estate

86. Which of the following statements is not true?

1. A controlled group of corporations must file a consolidated return.
2. In addition to regular income tax, a corporation may be liable for accumulated earnings tax if it accumulates profits instead of distributing them to shareholders.
3. In addition to regular income tax, a corporation may be liable for personal holding company tax if a significant portion of its income is dividends, interest, rents, and royalties.
4. Generally, a personal service corporation is one that furnishes personal services performed by employee-owners.

87. Richard Crepe, M.D. owns 10% of the outstanding stock of Crepe Corporation. All of Crepe Corporation’s income and expenditures are derived from the medical services provided by Dr. Crepe. At the end of 2015, Crepe Corporation had $10,000 in reportable taxable income. How much federal income tax was Crepe Corporation required to pay for the 2016 year?

1. $1,500
2. $2,500
3. $3,400
4. $3,500

88. Which of the following corporations may be subject to the built-in capital gains tax?

1. K-corp. originally established as an S corp. on May 13, 2007
2. G-corp. established in 1994 as a C corp. elected to be an S corp. on April 15, 2015
3. J-corp. established in 1986 as an S corp. terminated S corp. election on Jan. 1, 2015
4. all of the above

89. For the year, VBN, an S corporation, has accumulated earnings and profits of $50,000, and zero balance in its accumulated adjustment account. VBN distributes $230,000 to its sole shareholder, Raymond. His basis in the stock is $140,000. How should Raymond handle the distribution?

1. $230,000 as a taxable distribution
2. $50,000 as a taxable dividend, $90,000 as return of capital, and $90,000 as capital gain
3. $50,000 as a taxable dividend, $140,000 as return of capital, and $40,000 as capital gain
4. $90,000 as dividend, $50,000 as return of capital, and $90,000 as nontaxable

90. Arlene traded her old computer that she used in her business for a new computer priced at $5,000 that she will also use in her business. In addition to her old computer, Arlene paid $4,000 cash for the new computer. Her old computer was worth $2,000 and had an adjusted basis of $500. What is Arlene’s basis for depreciation in the new computer?

1. $2,000
2. $3,000
3. $4,500
4. $1,000

91. Maple Corporation had a $30,000 net loss per its books as follows:

Gross sales $340,000

Cost of goods sold $150,000

Depreciation 60,000

Charitable contributions 10,000

Salaries 130,000

Meals and entertainment 20,000

 Net income (loss) per books *(30,000)*

 Total per books $340,000 $340,000

Maple Corporation uses an accelerated method of depreciation for tax purposes, but not for book purposes. Maple Corporation’s tax depreciation for the year will be $75,000. What is the taxable income for federal income tax purposes for Maple Corporation?

1. $(5,000)
2. $(35,000)
3. $(25,000)
4. $(20,000)

92. Peyton Company offers a defined-contribution, money-purchase pension plan for its employees. During the current year, Peyton’s aggregate compensation paid to all employees totaled $400,000. Peyton’s maximum deduction for contributions to the plan in the current year is

a. $51,000

b. $80,000

 c. $100,000

d. $400,000

93. A tax-exempt organization with a calendar tax year was required to file Form 990, Return of Organizations Exempt From Income Tax, for 2015. Disregarding any extensions, when is the return due (do not consider Saturdays, Sundays or holidays)?

1. March 15, 2016
2. April 15, 2016
3. May 15, 2016
4. June 15, 2016

94. Which of the following entities options requires a special IRS election?

1. sole proprietorship
2. S corporation
3. C corporation
4. partnership

95. Horse and Carriage Partnership distributed the following gifts to their clients: 100 clipboards with their company logo on them, valued at $3 each ($300); and 50 bottles of wine to clients who had orders over $50,000 costing $35 each ($1,750) at Christmas. The amount that Horse and Carriage Partnership can deduct for business gifts is:

1. $300
2. $1,550
3. $1,750
4. $2,050

96. Paul owns and operates a gourmet food store as a sole proprietorship out of a building he also owns. Based on the following information, compute his self-employment income (for SE tax purposes):

Gross receipts $125,000

Cost of goods sold 63,000

Utilities 7,000

Real estate taxes 1,500

Gain on sale of business truck 2,000

Depreciation expense 4,000

Section 179 deduction 1,500

Mortgage interest on building 8,000

Contributions to Keogh retirement plan 2,000

Net operating loss from 2014 15,000

1. $25,000
2. $27,000
3. $38,000
4. $40,000

97. A taxpayer wishes to qualify for the new small business health insurance tax credit. In order to do so, the taxpayer must have

1. less than 25 full-time equivalent employees or less whose average salary is $50,000 or less
2. less than 50 full-time equivalent employees or less whose average salary is $25,000 or less
3. less than 10 full-time equivalent employees or less whose average salary is $40,000 or less
4. less than 30 full-time equivalent employees or less whose average salary is $40,000 or less

98. Qualified farmers have the following choices to file their tax return without incurring any penalties:

1. file and pay 100% of the tax due by March 1 each year
2. file one estimated payment for two-thirds of the tax by January 15, and file and pay the balance by April 15
3. file and pay the tax due by April 15 each year
4. both a. and b.

99. The XYZ Partnership bought a business for $1,000,000 in January. Included in the purchase price were business assets as follows: certificate of deposit $100,000, accounts receivable of $200,000, and inventory of $300,000. Also purchased but not separately valued were an office building, land, and going concern value. The real estate tax assessment was $300,000 and the buyer estimated the building worth twice the land value. What values would you assign to the building, land, and going concern?

 ***Building Land Going Concern***

1. $200,000 $100,000 $100,000
2. $100,000 $200,000 $100,000
3. $200,000 $200,000 $-0-
4. $250,000 $150,000 $-0-

100.Corporation Y distributed $70,000 cash to shareholder Z in redemption of all his stock. Z’s basis in the stock is $20,000 and his pro rata share of Y’s earnings and profits is $30,000. Assuming all the requirements for redemption are met, how should Z treat the distribution for federal income tax purposes?

1. $-0-
2. $20,000 dividend
3. $30,000 dividend; $20,000 capital gain
4. $50,000 capital gain

**Blank Answer Sheet**

**Sample Enrolled Agents Exam – Part 2**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Question** | **Answer** | **Question** | **Answer** | **Question** | **Answer** | **Question** | **Answer** |
| **1** |   | **26** |  | **51** |  | **76** |  |
| **2** |  | **27** |  | **52** |  | **77** |  |
| **3** |  | **28** |  | **53** |  | **78** |  |
| **4** |  | **29** |  | **54** |  | **79** |  |
| **5** |  | **30** |  | **55** |  | **80** |  |
| **6** |  | **31** |  | **56** |  | **81** |  |
| **7** |  | **32** |  | **57** |  | **82** |  |
| **8** |  | **33** |  | **58** |  | **83** |  |
| **9** |  | **34** |  | **59** |  | **84** |  |
| **10** |  | **35** |  | **60** |  | **85** |  |
| **11** |  | **36** |  | **61** |  | **86** |  |
| **12** |  | **37** |  | **62** |  | **87** |  |
| **13** |  | **38** |  | **63** |  | **88** |  |
| **14** |  | **39** |  | **64** |  | **89** |  |
| **15** |  | **40** |  | **65** |  | **90** |  |
| **16** |  | **41** |  | **66** |  | **91** |  |
| **17** |  | **42** |  | **67** |  | **92** |  |
| **18** |  | **43** |  | **68** |  | **93** |  |
| **19** |  | **44** |  | **69** |  | **94** |  |
| **20** |  | **45** |  | **70** |  | **95** |  |
| **21** |  | **46** |  | **71** |  | **96** |  |
| **22** |  | **47** |  | **72** |  | **97** |  |
| **23** |  | **48** |  | **73** |  | **98** |  |
| **24** |  | **49** |  | **74** |  | **99** |  |
| **25** |  | **50** |  | **75** |  | **100** |  |

**Answer Key**

**Sample Enrolled Agents Exam – Part 2**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Question** | **Answer** | **Question** | **Answer** | **Question** | **Answer** | **Question** | **Answer** |
| **1** | b | **26** | b | **51** | d | **76** | d |
| **2** | d | **27** | c | **52** | d | **77** | b |
| **3** | b | **28** | c | **53** | c | **78** | d |
| **4** | b | **29** | b | **54** | b | **79** | c |
| **5** | b | **30** | c | **55** | c | **80** | c |
| **6** | b | **31** | c | **56** | d | **81** | d |
| **7** | b | **32** | c | **57** | b | **82** | d |
| **8** | b | **33** | c | **58** | d | **83** | b |
| **9** | d | **34** | c | **59** | d | **84** | a |
| **10** | c | **35** | b | **60** | a | **85** | b |
| **11** | a | **36** | c | **61** | c | **86** | a |
| **12** | b | **37** | a | **62** | c | **87** | d |
| **13** | c | **38** | b | **63** | a | **88** | b |
| **14** | b | **39** | c | **64** | a | **89** | c |
| **15** | b | **40** | b | **65** | d | **90** | c |
| **16** | a | **41** | a | **66** | b | **91** | c |
| **17** | d | **42** | c | **67** | c | **92** | c |
| **18** | c | **43** | b | **68** | b | **93** | c |
| **19** | c | **44** | b | **69** | b | **94** | b |
| **20** | c | **45** | b | **70** | d | **95** | b |
| **21** | c | **46** | c | **71** | a | **96** | d |
| **22** | a | **47** | b | **72** | c | **97** | a |
| **23** | c | **48** | b | **73** | a | **98** | d |
| **24** | b | **49** | c | **74** | a | **99** | a |
| **25** | c | **50** | a | **75** | b | **100** | d |

**Performance by Topic Domain**

**Sample Enrolled Agents Exam – Part 1**

**(Check if question # answered correctly, then input total # correct in shaded box for each section)**

|  |  |  |
| --- | --- | --- |
| **Section 1** | **Section 2** | **Section 3** |
| **Business Entities** | **Business Financial Information** | **Specialized Returns & Taxpayers** |
| **Question** | **√** | **Question** | **√** | **Question** | **√** | **Question** | **√** | **Question** | **√** | **Question** | **√** |
| 1 |  | 64 |  | 4 |  | 63 |  | 6 |  |  |  |
| 2 |  | 65 |  | 10 |  | 68 |  | 7 |  |  |  |
| 3 |  | 66 |  | 11 |  | 69 |  | 8 |  |  |  |
| 5 |  | 67 |  | 12 |  | 70 |  | 16 |  |  |  |
| 9 |  | 72 |  | 20 |  | 71 |  | 21 |  |  |  |
| 13 |  | 73 |  | 22 |  | 74 |  | 23 |  |  |  |
| 14 |  | 76 |  | 27 |  | 75 |  | 26 |  |  |  |
| 15 |  | 81 |  | 28 |  | 77 |  | 33 |  |  |  |
| 17 |  | 82 |  | 29 |  | 78 |  | 56 |  |  |  |
| 18 |  | 83 |  | 31 |  | 79 |  | 61 |  |  |  |
| 19 |  | 84 |  | 32 |  | 80 |  | 92 |  |  |  |
| 24 |  | 85 |  | 34 |  | 90 |  | 93 |  |  |  |
| 25 |  | 86 |  | 35 |  | 95 |  | 98 |  |  |  |
| 30 |  | 87 |  | 36 |  | 96 |  |  |  |  |  |
| 37 |  | 88 |  | 40 |  | 97 |  |  |  |  |  |
| 38 |  | 89 |  | 41 |  | 99  |  |  |  |  |  |
| 39 |  | 91 |  | 43 |  |  |  |  |  |  |  |
| 42 |  | 94 |  | 46 |  |  |  |  |  |  |  |
| 44 |  | 100 |  | 47 |  |  |  |  |  |  |  |
| 45 |  |  |  | 49 |  |  |  |  |  |  |  |
| 48 |  |  |  | 50 |  |  |  |  |  |  |  |
| 51 |  |  |  | 55 |  |  |  |  |  |  |  |
| 52 |  |  |  | 57 |  |  |  |  |  |  |  |
| 53 |  |  |  | 58 |  |  |  |  |  |  |  |
| 54 |  |  |  | 59 |  |  |  |  |  |  |  |
| 60 |  |  |  | 62 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***Summary #1*** |  | ***Summary #2*** |  | ***Summary #1*** |  |
| ***All Questions*** | ***45*** | ***All Questions*** | ***43*** | ***All Questions*** | ***13*** |
| ***# Correct*** |  | ***# Correct*** |  | ***# Correct*** |  |
|  |  |  |  |  |  |
| **HP\*** | 37 | **HP\*** | 36 | **HP\*** | 10 |
| **P\*** | 32 | **P\*** | 31 | **P\*** | 8 |
| **LP\*** | 27 | **LP\*** | 26 | **LP\*** | 7 |
| **HF\*** | 22 | **HF\*** | 21 | **HF\*** | 6 |
| **F\*** | 18 | **F\*** | 17 | **F\*** | 5 |

\* HP = high pass (great work!), P = pass (good job), LP = low pass (on the border line – review material briefly), HF = high fail (close, but need to review more closely), F = fail (more intense studying recommended to insure success)

**Answers & Explanations – Sample Enrolled Agents Exam – Part 2**

|  |  |  |
| --- | --- | --- |
| Question | Answer | Explanation |
| 1 | b | 70% of liability ($28,000) assumed by other partners; excess over basis is gain |
| 2 | d | All of the items could potentially be treated differently on each partner’s return |
| 3 | b | Liability assumed not boot for gain, but is boot received for basis computations |
| 4 | b | Costs of issuing stock never qualify as organization costs |
| 5 | b | 2015 loss limited to basis, $6,000 unused carryover reduces income share in 2016 |
| 6 | b | Taxable = 10,400 + 14,000 + 6,000 – 2,800 – 600 exemption |
| 7 | b | The dividend was constructive income when received, even though not cashed |
| 8 | b | Simple trusts cannot have charitable beneficiaries |
| 9 | d | There are no capital loss carrybacks for an S corporation; items flow through to S/H |
| 10 | c | Copyrights and other compositions are always ordinary income properties |
| 11 | a | Cash basis taxpayer may not deduct interest until both incurred and paid |
| 12 | b | Loss on Sec. 1244 stock limited to first $50,000 (other $5,000 offsets capital gain) |
| 13 | c | Partnership basis is partner’s basis ($8,000) |
| 14 | b | Mega’s gain reduced by disallowed loss (J treated as owning brother’s interest) |
| 15 | b | Corporation’s basis is S/H basis ($50,000) plus S/H gain recognized ($10,000 boot) |
| 16 | a | The distribution deduction (and amount taxable) limited to DNI of $11,000 |
| 17 | d | Corporation due date is 3½ months following close of tax year |
| 18 | c | FMV of property received is taxable income (less than share of E&P) |
| 19  | c | All carrybacks of a corporation are automatically short-term in nature |
| 20 | c | Only natural resources qualify for depletion; refinery is not a natural resource |
| 21 | c | Exp. of raising the cow have already been deducted (*Note* - breeding sale on 4797) |
| 22 | a | LCM applied on a per-item basis: X ($450) + Y ($100) + Z ($250) |
| 23 | c | Election permits deferral until the following tax year |
| 24 | b | 25% of previous year may be used for *1st quarterly estimate only* by large C |
| 25  | c | The corporation is required to report the appreciation in value as taxable gain |
| 26 | b | Allecia was in constructive receipt of the interest, even though not withdrawn |
| 27 | c | $10,000 of 2014 NOL left after using up $35,000 of ’11 loss & $20,000 of ’14 loss |
| 28  | c | Fiscal year ends on last day of month other than December |
| 29 | b | Leasehold improvements are treated as a “new” building |
| 30 | c | Partnership return due 3½ months after close of year |
| 31 | c | A taxpayer may use different accounting methods for different businesses |
| 32 | c | There is no average gross receipts requirement; all other items are required |
| 33 | c | With election, can defer until year normally sold (note: cattle are inventory) |
| 34 | c | Prepaid rent is immediately taxable under wherewithal to pay; deposit is not |
| 35 | b | NOL is $20,000 business loss less $10,000 salary and $5,000 S business share |
| 36 | c | Tugboat is appropriate unit, since the tugboat could not function without the engine |
| 37 | a | Basis is Stan’s partnership basis of $15,000 less $6,000 cash received |
| 38 | b | Election must be made within first 2½ months of beginning of the tax year |
| 39  | c | Full 80% of gross dividend allowed as DRD, since full amount creates an NOL |
| 40 | b | Sec. 1245 personalty; gain ordinary income to extent of total depreciation taken |
| 41 | a | All income attributable to 2015 and 2016 must be reported in 2015 |
| 42 | c | Only the C Corporation, a separate taxable entity, would tax the income twice |
| 43  | b | Bus=325 cost–150 depr–150 ins; Pers=250 FMV–150 ins–7,000 10% –100 |
| 44 | b | Deduction is simply 80% of gross dividend (20% or greater interest) |
| 45 | b | Deduction limited to 10% of taxable income before charitable and DRD |
| 46 | c | All costs are Sec. 197 costs; amortization is $180,000 x 1/15 x 6/12 |
| 47 | b | $3,000 deductible ($5,000 max - $2,000 total in excess of $50,000), rest amortized |
| 48 | b | Ordinary Income = 250,000 - 50,000 - 5,000 - 0 - 5,000 + 0 - 75,000 |
| 49 | c | Deduct only incurred portions of prepayments: $10,000 + ($6,000 x 6/12) |
| 50 | c | Statute requires more than 50 employees, 100 exception for 2015 only |
| 51 | d | AMT credits are always carried forward indefinitely |
| 52 | d | GP is portion guaranteed ($15,000) – actual partnership share ($40,000 x 25%) |
| 53 | c | Due date to government is 2/28 following year of distribution |
| 54 | b | E&P= 175,000 taxable + 2,000-60,000-4,000-1,000+75,000 beginning balance |
| 55 | c | Pledging a retirement account against a loan is a prohibited transaction |
| 56 | d | All of the organizations listed may qualify for exempt status |
| 57  | b | Deduction for ½ meals, all transportation: ($90 x 2/3 x .50) + ($120 x 2) + $102  |
| 58 | d | Costs of yacht are not deductible, but ½ business meals on yacht may qualify |
| 59  | d | $45,000 computed credit limited to ($65,000 RT - $30,000 TMT) |
| 60 | a | Amt. Realized ($16,000 liabilities share + $19,000 cash) - $35,000 basis  |
| 61 | c | Grantor trust income always taxed to grantor; trust ignored |
| 62 | c | 2015 Maximum is lesser of $53,000 or 100% of compensation ($56,000) |
| 63 | a | The 50% credit is limited to a $500 maximum |
| 64 | a | Only one class of stock is allowed for an S corporation |
| 65 | d | The first two are the default options for multiple owners and single owners |
| 66 | b | Transaction qualifies as Sec. 351 transfer (100% of stock combined); no gain or loss |
| 67 | c | Corporate liquidating distributions are reported as capital gain |
| 68 | b | Gain is limited to insurance not reinvested in new tractor ($9,000 - $7,500) |
| 69  | b | Rehabilitation credit on a certified historic structure is 20% of rehab. expenditures |
| 70 | d | All events test not met until items actually returned for repair work |
| 71 | a | CGS = $55,650 + $72,000 + $3,550 – 42,500 = $88,700 (ignore freight-out) |
| 72 | c | $45,000 total gain (include liabilities in A/R), unrealized receivables are ord. |
| 73 | a | Use p’ship income for p’ship year ending in partner’s year ($100,000 x .50 each) |
| 74 | a | Only $1,000 lobbying expenses are deductible (local legislation, less than $2,000) |
| 75 | b | Jim and Ed are related parties; deduct only when recognized by Ed |
| 76  | d | None are true (25% is used for passive income test, must have C year’s E&P) |
| 77 | b | Returned check was reported as income, and loan to supplier is not a receivable |
| 78 | d | Mid-qtr. Convention for all personalty, since 100/220 > 40% |
| 79 | c | $2,200,000 cost - $300,000 Sec. 179 – ($1,900,000 x .50) bonus |
| 80 | c | 25% passive income test must be failed 3 consecutive years to terminate election |
| 81  | d | Sally may recover the loan as loss, but not Bob; maximum loss is $25,000  |
| 82 | d | All affect basis, including the Sec. 1231 item |
| 83 | b | Increase = 20,000 gain - $30,000 FMV property + 16,000 liability assumption |
| 84 | a | Taxable to extent of all E&P, then cost recovery, then capital gain |
| 85 | b | Exchanges of partnership interests never qualify as like-kind exchanges |
| 86 | a | A controlled group *may* file a consolidated return, but is not required to do so |
| 87 | d | Company is a personal services corporation, subject to flat 35% tax rate |
| 88  | b | G Corporation, a former C, made the S election after 1986, still in effect |
| 89  | c | E&P amount taxed as dividend, then return of capital, remainder capital gain |
| 90 | c | Monetary boot given; no gain; basis is $500 basis of old + $4,000 boot given |
| 91  | c | Taxable = ($30,000) - 15,000 depr. +10,000 M&E + 10,000 charitable (limit) |
| 92  | c | Maximum deduction is 25% of total compensation for the year |
| 93 | c | Return is due 15th day of 5th month following the end of the tax year |
| 94  | b | All shareholders must consent to an S election |
| 95 | b | Deduction is $300 + (50 x $25 limit per done) |
| 96  | d | Include all items but $2,000 gain, $2,000 Keogh, and $15,000 NOL |
| 97  | a | Rule is 25 or less equivalent employees with average salaries of $50,000 or less |
| 98 | d | Both options are allowed (presumes an estimated tax payment on 1/15) |
| 99 | a | $300,000 allocated $200,000 building and $100,000 land; remainder going concern |
| 100 | d | Redemption is a complete termination of shareholder’s interest |