Printed in the United States of America

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Introduction

The Phoenix Tax Group Guarantee

We have been successfully preparing tax practitioners to pass the Special Enrollment Exam for over 20 years. Practitioners who have used our study materials, study strategies and have put in the time and effort have had over a 90% passing rate.

30 Day Money-Back Guarantee

If you are not satisfied with any of our products, you can return them for a full refund, excluding shipping and handling charges. A refund must be requested within 30 days of purchase, and all hardcopy materials must be returned in the original box. No credit will be given for any materials marked on, missing or damaged in any way. To request a refund, fill out the Refund Request form below.

Pass Guarantee

1. The Pass Guarantee applies only to products designated as "Packages."
2. To receive a refund, you must have taken and failed a test/exam twice.
3. You must provide your failed scores for both failed exams by filling out the Refund Request form below. This must be done within 30 days of the second failed exam.
4. Hard copy materials must be returned within 30 days of the second failed exam.
5. If you purchased Enrolled Agent study materials together in a three part package, refunds will be pro-rated for the part being returned.
6. The refund will only apply to the person who purchased the study materials from The Phoenix Tax Group. The refund policy does not apply to companies purchasing study materials for employees.

Instructions

To ensure proper credit, please fill out our online refund request form.

http://www.phoenixtax.com/about/refunds

Course Objectives

These study materials are designed to prepare students to pass the IRS Special Enrollment Examination the first time they take the exam. After completing your study, you should have the tax knowledge needed to pass the exam.

The material is covered at an intermediate level. It is helpful if the student has had some beginning level courses relating to tax law and at least a year of income tax preparation experience.

You will be learning tax law from the study cards, and exercising your understanding with test questions from previous years' exams, in addition to our own questions that are similar to questions on the exam. The questions are all multiple choice (no true/false). All of the questions and study material have been updated to 2022 tax law. The 2023 exam (May 2, 2023 - February 28, 2024) will cover the federal tax law as of December 31, 2022.

Note: All references on the examination are to the Internal Revenue Code, forms and publications, as amended through December 31, 2022. Also, unless otherwise stated, all questions relate to the calendar year 2022. Questions that contain the term 'current tax year' refer to the calendar year 2022.

The material is broken down into three parts similar to the parts on the exam. Part 1 discusses individual income tax law, Part 2 discusses sole proprietorship and partnership, corporation (including S corporation), fiduciary, estate, and trust tax law and tax-exempt organizations, and Part 3 discusses practitioner ethics, recordkeeping, IRS tax examination, appeals, and collection procedures, practitioner rules and penalties, and research materials. Because we categorize the questions and study cards, all questions and content pertaining to a specific tax law are grouped together, even though they might be asked in more than one part of the exam.

We feel we have the best and most comprehensive enrolled agent exam preparatory materials available. However, we are always looking for ways to improve. We would appreciate it if you would take a moment to complete our online evaluation at http:// www.phoenixtax.com/ea_survey.

If you have any questions regarding any of the questions in this book, please email us at **support@phoenixtax.com**. Do not call our 800 number.

Good luck on the exam.

How to Prepare for the Exam

The following is a set of guidelines for preparing for the exam:

1. We recommend that you study a minimum of 100 to 120 hours total for all three parts of the exam. For Part 1, we recommend 35-45 hours of study. For Part 2, we recommend 45-60 hours of study. For Part 3, we recommend 20-25 hours of study. Break up your study time. Do not try to study 3 or 4 hours at a time. Most people's comprehension level starts to fade after an hour. Unlike other exam prep courses, we have designed our materials to take with you wherever you go. Use your spare time during the day to study the cards. You will be surprised how much you can absorb by studying in intervals of 15 to 30 minutes. Read the study cards before proceeding to the questions in the book.
2. DO NOT rely on your tax experience to pass this exam. It has been our experience that people with limited tax experience (one year or less) have a far better success rate on this exam than people with many years of tax experience. The reason is that preparers with years of experience tend to rely on their practical knowledge of taxes. This exam tests on theory, not practical experience. The IRS is primarily interested in your ability to understand the tax law and to properly and accurately determine taxable income (i.e., figuring basis in an asset to determine gain, what income is taxable, what deductions are allowed, etc.).
3. You can now use a calculator to do the computational questions. Prometric will provide you with a hand-held calculator. You cannot bring your own calculator.
4. Be familiar with the tax forms and the filing dates for those forms. There are quick reference cards for tax forms at the bottom of each card deck. Also, be familiar with the different penalties that can be assessed against a taxpayer and a tax preparer.
5. The exam will test on a specific tax law in more than one part. For example, questions pertaining to property basis or retirement plans will be tested in both Part 1 and Part 2; questions pertaining to recordkeeping in Part 1 and Part 2 could be tested in Part 3; taxpayer penalties could be tested in all three parts. Therefore, we strongly recommend you to take the exam in the following order. Take Part 1 first, Part 2 second and Part 3 last. You should also take all three parts of the exam as close together as possible.
6. You must have a positive attitude toward this exam. If you do not think you can pass this exam, you won't. Fifty percent of preparing for this exam is being mentally prepared.

About the Computer Based SEE Exam

The Internal Revenue Service has contracted with Prometric to conduct its examination program. Prometric provides computerized testing at test centers throughout the world. The IRS and Prometric are working together closely to ensure that examinations meet federal requirements as well as professional examination development standards.

Testing Dates

The 2023 SEE examination begins May 2, 2023 and examinations will be offered continuously through February 28, 2024. The exam is in three parts. The three parts **DO NOT** have to be taken at once. You can take one part at a time. Once you have taken and passed one part, you have two years from the date of passing that part to take and pass the other two parts.

Testing Fees

The exam costs $206 per part.

Exam Questions

Each part of the exam has 100 questions. All questions are weighted equally.

Time Limited for the Exam

You are given 3.5 hours to complete each part of the exam. The actual seat time is 4 hours to allow for a tutorial at the beginning and a survey at the end.

Examination Results

The exam is graded on a scale of 40 - 130 with 40 being the lowest score and 130 being the highest score possible. You must have a score of 105 or better for each part of the exam to pass. You will receive your scores immediately after taking the exam.

Passing Score

If you pass, the score will only show a passing designation. It will not show a score.

Failing Score

If you fail, your score report will show a scaled score between 40 and 104. You will also receive diagnostic information to assist you with future examination preparation. Diagnostic information will show an indicator of 1, 2, or 3 meaning:

1. Considerably below the minimally acceptable score. It is important for you to approach how you study this topic as you prepare to take the test again. You may want to consider taking a course or participating actively in a study group on this topic.
2. Marginally below the minimally acceptable score. You should study this topic in detail as you prepare to take the test again.
3. At or above the minimally acceptable score. Be sure to review this topic as you prepare to take the test again.

Experimental Questions

The examination may include some experimental questions that will not be scored. If present, they are distributed throughout the exam and will not be identified as such. These are used to gather statistical information on the questions before they are added to the exam as scored items. These experimental questions will not be counted for or against your final score.

Obtain a PTIN

You must have a PTIN to sign up for the Enrolled Agent Exam. Chances are you already have your PTIN, but if you do not, you will have to get one. The IRS Tax Professional PTIN Sign-up System is available at www.irs.gov/ptin. Once online, you will need to:

Create Your Account. Provide your name, email address, and security question information. The system will then email your temporary password, which you will change when you go back to enter your information in the PTIN application.

Apply for Your PTIN. Complete the online application by providing personal information, information about your previous year's tax return, professional credentials, and more.

Get Your PTIN. Your PTIN will be provided online.

It takes about 15 minutes to sign up online and receive your PTIN. If you opt to use the paper application, Form W-12 IRS Paid Preparer Tax Identification Number (PTIN) Application, it will take 4-6 weeks to process.

PTIN renewal.PTINs must be renewed annually by December 31 for the following year. Renewal Open Season usually begins each year in mid-October.

Registering and Scheduling an Examination Appointment

Registration Process

You can register and schedule the exam using one of the three following options:

A. Online—www.prometric.com/see

B. By phone

1. Call Prometric at 800.306.3926

C. By mail

1. Mail your completed Form 2587 to:

   Prometric
   Attn: IRS Special Enrollment Examination
   7941 Corporate Drive
   Nottingham, MD 21236

2. Wait 6 to 10 calendar days for delivery and processing before scheduling an examination appointment.

Scheduling an Examination

Candidates can take each part of the examination at their convenience. Consequently, parts do not have to be taken on the same day, or on consecutive days. All parts do not have to be taken or scheduled during an examination window.

Candidates can take examination parts up to four times each during the testing period (May 2, 2023 to February 28, 2024). Once your registration has been processed, you can schedule an examination appointment at any time online at www.prometric.com/see or by calling 800-306-3926 between 8 a.m. and 9 p.m. (Eastern Time), Monday through Friday. You will be provided a number confirming your appointment. Record and keep this confirmation number for your records—you will need it to reschedule, cancel or change your appointment in any way.

Examination Locations

Examinations are administered by computer at a Prometric Testing Center. Currently, the Special Enrollment Examination is given at nearly 300 Prometric testing centers located across the United States and internationally. Test centers are located in most major metropolitan areas. A complete list of these testing centers, addresses and driving directions is located at www.prometric.com/irs. In the box titled Do More, click on "Continue" and select your preferred test location. Most locations are open on Saturdays and some locations are open on Sundays and evenings.

Testing Fees

The testing fee is $206 for each part of the examination. This fee is paid at the time you schedule your examination. Accepted forms of payment include: MasterCard, Visa, American Express, Discover, Diner's Club cards bearing the MasterCard symbol and JCB. Electronic checks are also accepted when scheduling by phone. Money orders, paper checks and cash are not accepted. Examination testing fees are not refundable or transferable.

Rescheduling Your Appointment

If you need to reschedule an examination for another date, time or location, you must contact Prometric. Rescheduling fees will apply as follows:

- No fee if you reschedule at least 30 calendar days prior to your appointment.
- $35 fee if you reschedule five to 29 calendar days before your appointment.
- Another $206 full examination fee if you reschedule less than five calendar days before your appointment date.

Chapter 1. Tax Practices and Procedures

Tax Preparer Rules

1. Which of the following must obtain a Preparer Tax Identification Number (PTIN)?

A. Enrolled Agent
B. Attorney
C. CPA
D. All of the above

ANSWER: A

A PTIN must be obtained by all enrolled agents, as well as all tax return preparers who are compensated for preparing, or assisting in the preparation of, all or substantially all of any U.S. federal tax return, claim for refund, or other tax form submitted to the IRS. Attorneys and certified public accountants do not need to obtain a PTIN unless they prepare for compensation all or substantially all of a federal tax return or claim for refund.

2. Which of the following persons must obtain a Preparer Tax Identification Number (PTIN)?

A. A retired tax professional volunteering at a VITA site, where he prepares individual tax returns for lower-income individuals for no compensation.
B. A retirement plan administrator who prepares Forms 5500 and the accompanying schedules for clients.
C. An employee of a tax firm who prepares tax returns but the returns are reviewed and signed by someone else.
D. An administrative assistant in the office who also performs data entry during tax filing season. At times, clients call and provide him with information, which he records in the system.

ANSWER: C

A PTIN must be obtained by all tax return preparers who are compensated for preparing, or assisting in the preparation of, all or substantially all of any U.S. federal tax return, claim for refund, or other tax form submitted to the IRS. Anyone hired to prepare tax returns needs a PTIN regardless of whether that person reviews and/or signs the returns. Anyone who prepares Form 5500 series are exempt from obtaining a PTIN.

3. A tax return preparer must complete the paid preparer's area of the return if

A. The taxpayer prepares his own return.
B. The individual volunteers to complete the return for no cost.
C. The individual was paid to prepare, assist in preparing, or review the tax return.
D. An employee prepares a tax return for his employer by whom he is regularly and continuously employed.

ANSWER: C

An individual who was paid to prepare, assist in preparing, or review a taxpayer’s tax return must sign it and fill in the other blanks in the paid preparer’s area of the return.

4. A tax preparer's client submitted a list of expenses to be claimed on Schedule C of the tax return. The preparer is required to comply with which one of the following conditions?

A. The preparer is required to independently verify the client's information.
B. The preparer 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.

ANSWER: D

In preparing a return, the preparer may in good faith rely, without verification, upon information furnished by the taxpayer. The preparer is not required to examine or review documents or other evidence in order to verify independently the taxpayer's information. However, the preparer may not ignore the implications of information furnished.

5. While gathering information to prepare a return for a client, a preparer discovers that his client failed to file Federal income tax returns for the previous two tax years. Circular 230 requires that the preparer do the following:

A. Promptly advise the client that she did not comply with the Internal Revenue laws by failing to file Federal income tax returns for the previous two years.
B. Refuse to prepare the client's Federal income tax return unless she files her Federal income tax returns for the previous two years.
C. Inform the IRS that the client did not file Federal income tax returns for the previous two years.
D. Both B and C.

ANSWER: A

If a tax practitioner is aware a client has not complied with revenue laws, he or she is only required to advise the client promptly of the noncompliance.

6. Identify the appropriate action that a tax 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.

ANSWER: D

If a tax practitioner is aware a client has not complied with revenue laws, he or she is only required to advise the client promptly of the noncompliance.

7. A tax preparer prepares a taxpayer's income tax return. The taxpayer gives the preparer power of attorney, including the authorization to receive his federal income tax refund check. Accordingly, the IRS sends the taxpayer's $100 refund check to the preparer's office. The taxpayer is very slow in paying his bills and owes the preparer $500 for tax services. The prepare should

A. Use the check as collateral for a $100 loan until the taxpayer pays the preparer.
B. Refuse to give the taxpayer the check until the taxpayer pays the $500.
C. Get the taxpayer's written authorization to endorse the check, cash the check, and reduce the amount the taxpayer owes to $400.
D. Turn the check directly over to the taxpayer.

ANSWER: D

Income tax preparers cannot endorse or otherwise negotiate (cash) any refund check issued to the taxpayer.

8. Which of the following statements is CORRECT with respect to a client's request for records of the client that are necessary for the client to comply with his or her Federal tax obligations?

A. The practitioner may never return records of the client to the client even if the client requests prompt return of the records.
B. The existence of a dispute over fees always relieves the practitioner of his or her responsibility to return records of the client to the client.
C. The practitioner must, at the request of the client, promptly return the records of the client to the client unless applicable state law provides otherwise.
D. The practitioner must, at the request of the client, return the records of the client to the client within three months of receiving the request.

ANSWER: C

In general, a practitioner must, at the request of a client, promptly return any and all records of the client that are necessary for the client to comply with his or her Federal tax obligations. The practitioner may retain copies of the records returned to the client. The existence of a dispute over fees generally does not relieve the practitioner of his or her responsibility under Circular 230 Section 10.28.

Nevertheless, if applicable state law allows or permits the retention of a client's records by the practitioner in the case of dispute over fees for services rendered, the practitioner need only return those records that must be attached to the taxpayer's return. The practitioner, however, must provide the client with reasonable access to review and copy any additional records of the client retained by the practitioner under state law that are necessary for the client to comply with his or her Federal tax obligations.

Due Diligence

9. When a prepared return claims the Earned Income Tax Credit (EITC), the child tax credit (CTC), the additional child tax credit (ACTC), the credit for other dependents (ODC), the American opportunity tax credit (AOTC), and/or the head of household (HOH) filing status, which of the following is NOT true?

A. Due diligence requirements apply.
B. No special requirements apply to returns claiming the credits and HOH filing status.
C. The preparer may be penalized $545 if no attempt is made to determine eligibility for the credits and HOH filing status.
D. The preparer must take additional steps to ensure that a client is eligible for the credits and HOH filing status.

ANSWER: B

Preparers who prepare tax returns claiming the Earned Income Tax Credit (EITC), the child tax credit (CTC), the additional child tax credit (ACTC), the credit for other dependents (ODC), the American opportunity tax credit (AOTC), and head of household (HOH) filing status must meet four due diligence requirements.

1. **Compute the Credits Based on the Facts**. Compute the credits and complete the applicable worksheet (s) or a preparer's own worksheet(s) for any EITC, CTC/ACTC/ ODC or AOTC claimed on the return or claim for refund. Most professional tax return preparation software includes the worksheets.
2. **Complete and Submit Form 8867**. Complete Form 8867, Paid Preparer's Due Diligence Checklist, and submit this completed form to the IRS with every electronic or paper return or claim for refund prepared that claims the EITC, CTC/ACTC/ODC, AOTC, or HOH filing status.
   - Make sure that the software used includes Form 8867 and file the completed form with every electronic return or provide the completed form with every paper return or claim for refund prepared that claims the EITC, CTC/ACTC/ODC, AOTC, or HOH filing status.
   - Answer each question on the form based on information from the client and information the preparer knows is true.
   - The preparer must also personally complete Part VI, Eligibility Certification.
3. **Keep records**. Keep copies of the following records either electronically or on paper:
   - Form 8867.
   - The applicable worksheet(s) or the preparer's own worksheet(s) for the EITC, CTC/ACTC/ODC, or AOTC claimed on the return or claim for refund.
   - Any taxpayer documents that the preparer may have relied on to determine eligibility for the credit(s) and/or HOH filing status or to compute the amount of the credit(s).
   - A record of how, when, and from whom the information used to prepare Form 8867 and the applicable worksheet(s) was obtained.

- Keep these documents for 3 years from the latest of:
    - The due date of the tax return.
    - The date the tax return was electronically filed.
    - For a paper return, the date the return or claim for refund was presented to the client for signature.
    - If the preparer is a non-signing tax return preparer, the date the non-signing prepaer submitted to the signing tax return preparer the part of the return for which the non-signing preparer was responsible.

4. ***Ask all the right questions***. The preparer, in interviewing the taxpayer, should ask adequate questions and document the taxpayer's responses to determine eligibility to claim the credit(s) and/or HOH filing status.

If a tax preparer fails to comply with EITC due diligence requirements, the IRS can assess a $545 penalty against the preparer and the preparer's employer for each failure (IRC § 6695(g)).

10. A tax preparer will not be subject to a preparer penalty for an erroneously claimed Earned Income Tax Credit (EITC), the child tax credit (CTC), the additional child tax credit (ACTC), the credit for other dependents (ODC), the American opportunity tax credit (AOTC), and/or the head of household (HOH) filing status if he or she complies with which one of the following?

A. Completes and Submits Form 8867.
B. Completion of the computation worksheet for the credits 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 credit(s) is correct.
D. All of the above.

ANSWER: D

Refer to the analysis on the previous question. A preparer can meet the knowledge requirement by interviewing the taxpayer, asking adequate questions, contemporaneously documenting the questions and the taxpayer's responses on the return or in the preparer's notes, reviewing adequate information to determine if the taxpayer is eligible to claim the credits and/or HOH filing status, and to determine the amount(s) of the credit(s) claimed.

11. To satisfy the claim for the earned income tax credit (EITC), the child tax credit (CTC), the additional child tax credit (ACTC), the credit for other dependents (ODC), the American opportunity tax credit (AOTC), and/or the head of household (HOH) filing status 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.

ANSWER: C

Refer to the analysis on the question previous questions.

12. For five years, a tax preparer has been preparing tax returns for the same client that included a Schedule K-1 from a partnership showing significant income. This year, the preparer did not see a Schedule K-1 from the partnership among the information provided to him by the client. What does due diligence require the preparer to do?

A. Without talking to the client, the preparer should estimate the amount that would be reported as income on the Schedule K-1 based on last year's Schedule K-1 and include that amount on the client's return.
B. Call the client's financial advisor and ask him about the investments.
C. Nothing, because the preparer is required to rely only on the information provided by his client, even if he has a reason to know the information is not accurate.
D. Ask the client about the fact that she did not provide him with a Schedule K-1.

ANSWER: D

The IRS (in Circular 230 and the regulations found at 31 CFR §10.22) requires a practitioner to exercise due diligence "... in determining the correctness" of a tax return. In order to follow these standards, the IRS expects that a return preparer will test the validity of the information provided by the client.

Tax Preparer Penalties

13. An enrolled agent could be subject to preparer penalties under section 6694(a) and section 6694(b) for preparing which of the following returns?

A. Estate or gift tax returns.
B. Excise tax returns.
C. Employment tax returns.
D. All of the above.

ANSWER: D

A tax return preparer is any person who prepares for compensation, or who employs one or more persons to prepare for compensation, all or a substantial portion of a tax return or claim for refund of tax imposed by the Internal Revenue Code. Only one individual associated with a firm is a preparer with respect to the same tax return or refund claim.

Section 8246 of The Small Business and Work Opportunity Act of 2007 amends several provisions of the Code to extend the application of the income tax return preparer penalties to all tax return preparers, alter the standards of conduct that must be met to avoid imposition of the penalties for preparing a return which reflects an understatement of liability, and increase applicable penalties. The Act has expanded the preparer penalties to preparers of all returns, amended returns and claims for refund, including estate and gift tax returns, generation-skipping transfer tax returns, employment tax returns, and excise tax returns.

14. An enrolled agent 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, the enrolled agent will not be subject to a preparer penalty under which of the following circumstances?

A. The position on the return would more likely than not be sustained on the merits.
B. There was a reasonable basis for the position.
C. The position was disclosed on the tax return.
D. All of the above.

ANSWER: D

Penalty for Understatement Due to an Unrealistic Position (Section 6694(a)). A penalty of the greater of $1,000 or 50% of the preparer's fee for preparation of a return will apply if:

1. The preparer knew (or reasonably should have known) of the unrealistic position,
2. There was not a reasonable belief that the position would be sustained on its merits, and
3. The position was not disclosed, or there was no reasonable basis for the position.

15. A tax preparer prepares a client's income tax return. The client sold some stock in a corporation and believes the proceeds of the stock are all a return to capital, and therefore, not included in her gross income. After research, the preparer determines that there is reasonable basis for the client's position, but does not believe there is a realistic possibility of success on the merits. Under what circumstances can the preparer sign the return if the proceeds are not included in income reported on the return?

A. If the preparer has a reasonable belief that the position would more likely than not be sustained and is adequately disclosed on the return.
B. If the preparer documents her disagreement with the client's position and keeps it in her file.
C. If the client agrees in writing not to dispute any IRS challenge to the position.
D. Under no circumstances.

ANSWER: A

Refer to the analysis on the previous question. To avoid a penalty, the preparer must have a reasonable belief that the tax treatment of each position on the return would be sustained on its merits, or there is a reasonable basis for each position and each position is adequately disclosed on the return.

16. A penalty may be assessed on any preparer or

A. Any person who prepares and signs a tax return or claim for refund.
B. Any member of a firm who gives advice (written or oral) to a taxpayer or to a preparer not associated with the same firm.
C. The individual with overall supervisory responsibility for the advice given by the firm with respect to the return or claim.
D. Both A and C.

ANSWER: D

A penalty may be assessed on the preparer who prepares and signs the return or the individual with overall supervisory responsibility for the advice given by the firm with respect to the return or claim.

17. If an individual is employed as a tax preparer employee by a tax preparation firm, which of the following penalties may be assessed to the tax preparer?

A. $50 per return for failure to furnish a copy of the return to the taxpayer.
B. $50 per return for failure to furnish preparer's identifying number to the taxpayer.
C. $50 per return for failure to maintain copies of returns prepared or maintain a listing of clients.
D. None of the above.

ANSWER: D

The penalties for failure to furnish a copy of the return, failure to furnish preparer's identifying number to the taxpayer and failure to maintain copies of returns prepared or maintain a listing of clients will not be imposed upon the following.

1. A preparer who is employed by a person who is also a preparer of the return, or
2. A preparer who is a partner in a partnership which is also a preparer of the return.

18. Which of the following situations describes a disclosure of tax information by an income tax preparer which would subject the preparer to a penalty?

A. Mr. R dies after furnishing tax return information to his tax return preparer. Mr. R's tax return preparer discloses the information to Mr. J, R's nephew, who is NOT the fiduciary of R's estate.
B. In the course of preparing a return for D Company, Ms. J obtained information indicating the existence of illegal kickbacks. Ms. J gave the information to Mr. B, an auditor in her firm, who was performing a financial audit of the company. Mr. B confirmed illegal kickbacks were occurring and brought the information to the attention of D Company officers.
C. An individual informed the proper Federal officials of actions he mistakenly believed to be illegal.
D. A return preparer obtained information from a client while selling the client life insurance. The information was identical to tax return information that had been furnished to him previously. The preparer discussed this information with his wife who was NOT an employee of any of his businesses.

ANSWER: A

Any tax return preparer who discloses tax return information without formal consent of the taxpayer shall be guilty of a misdemeanor and, upon conviction, could be fined not more than $1,000. The following are exceptions under the penalty for disclosure:

1. Disclosure of tax information to a related taxpayer. A related taxpayer is related to another taxpayer if they have any one of the following relationships: husband and wife, child and parent, grandchild and grandparent, partner and partnership, trust or estate and beneficiary, trust or estate and fiduciary, and corporation and shareholder. A nephew is not considered a related taxpayer.
2. Disclosure of tax information to another employee of the firm who may use it to render other legal or accounting services to or for the taxpayer.
3. Disclosure of tax information to the proper federal, state or local official, to inform the official of activities which may have constituted a violation of any criminal law even if the preparer is mistake about the activities.
4. Disclosure of identical information obtained from other sources (while selling life insurance).

19. If a penalty is proposed against a preparer that the preparer does not agree with, what actions are available to the preparer?

A. Request a conference with the agent and present additional information and explanations showing that the penalty is not warranted.
B. Wait for the penalty to be assessed and a notice and demand statement to be issued, then pay the penalty within 30 days and file a claim for refund.
C. Wait for the penalty to be assessed and a notice and demand statement to be issued, then pay at least 15% of the penalty within 30 days and file a claim for refund.
D. Any of the above.

ANSWER: D

Before the assessment of penalty, the IRS will send a 30-day letter to the preparer notifying him or her of the proposed penalty and offer an opportunity to the preparer to request further administration consideration and a final determination by the IRS concerning the assessment. If the preparer makes a timely request, assessment may not be made until the IRS makes a final determination. If the IRS assesses a penalty, it will send the preparer a notice and demand for payment of the amount assessed. Within 30 days after the date of the notice and demand, the preparer can pay the entire amount of the assessment and then file a claim for refund within 3 years after payment or pay an amount equal to at least 15 percent of the assessment and file a claim for refund.

20. If a tax preparer fails to furnish a copy of the tax return prepared to the taxpayer, the practitioner can be subject to a penalty of

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

ANSWER: B

The penalty is $50 for each failure to comply with IRC § 6695(a) regarding furnishing a copy of a return or claim to a taxpayer. The maximum penalty imposed on any tax return preparer shall not exceed $27,000 in a calendar year.

21. What is the maximum penalty imposed in a calendar year on tax preparer who fails to sign the tax return he or she prepares?

A. $10,000
B. $20,000
C. $27,000
D. $50,000

ANSWER: C

The penalty is $50 for each failure to sign a return. The maximum penalty imposed on any tax preparer in a calendar year is $27,000.

22. What is the tax preparer penalty for understatement of taxpayer's liability due to unreasonable position?

A. The greater of $500 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
B. The greater of $1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
C. The greater of $1,000 or 100% of the income derived by the tax return preparer with respect to the return or claim for refund.
D. The greater of $5,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.

ANSWER: B

The penalty for understatement of taxpayer's liability due to unreasonable position is the greater of $1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.

23. What is the tax preparer penalty for understatement of taxpayer's liability due to willful or reckless conduct?

A. The greater of $1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
B. The greater of $2,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
C. The greater of $5,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
D. The greater of $5,000 or 75% of the income derived by the tax return preparer with respect to the return or claim for refund.

ANSWER: C

A penalty of the greater of $5,000 or 50% of the preparer's fee will apply if any part of an understatement was due to:

1. A willful attempt in any manner by an income tax return preparer to understate the liability for tax, or
2. Any reckless or intentional disregard of rules or regulations by an income tax return preparer.

24. What is the preparer penalty for failure to comply with due diligence requirements in determining eligibility for claiming the earned income tax credit (EITC), the child tax credit (CTC), the additional child tax credit (ACTC), the credit for other dependents (ODC), the American opportunity tax credit (AOTC), and/or the head of household (HOH) filing status?

A. $50 per return
B. $100 per return
C. $545 per return
D. $1,000 per return

ANSWER: C

If a tax preparer fails to comply with EITC due diligence requirements, the IRS can assess a $545 penalty against the preparer and the preparer's employer for each failure (IRC § 6695(g)).

Practice Before the IRS

25. 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.

ANSWER: D

The following individuals may practice before the IRS:

1. Attorneys
2. Certified Public Accountants (CPAs)
3. Enrolled agents
4. Enrolled actuaries (limited practice)
5. Unenrolled tax return preparers (limited practice)
6. Enrolled retirement plan agents
7. Other unenrolled individuals (limited practice)

26. All of the following 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 EXCEPT:

A. Enrolled Agents
B. Enrolled actuaries
C. CPAs
D. Attorneys

ANSWER: B

The practice of enrolled actuaries is limited to certain Internal Revenue Code sections that relate to their expertise, principally those sections governing employee retirement plans.

27. Which of the following has the most limited powers to practice before the IRS?

A. Attorneys
B. Enrolled agents
C. CPAs
D. Enrolled actuaries

ANSWER: D

The practice of enrolled actuaries is limited to certain Internal Revenue Code sections that relate to their area of expertise, principally those sections governing employee retirement plans.

28. Of the following statements below, which one is NOT considered practice before the IRS?

A. Communicating with the IRS for a taxpayer regarding the taxpayer's rights, privileges, or liabilities under laws and regulation administered by the IRS.
B. Representing a taxpayer at conferences, hearings, or meetings with the IRS.
C. Preparing a tax return or furnishing information at the request of the IRS.
D. Preparing and filing necessary documents at the request of the IRS for a taxpayer and discussing issues.

ANSWER: C

Practice before the IRS covers all matters relating to any of the following:

1. Communicating with the IRS for a taxpayer regarding the taxpayer's rights, privileges, or liabilities under laws and regulations administered by the IRS.
2. Representing a taxpayer at conferences, hearings, or meetings with the IRS.
3. Preparing and filing documents, including tax returns, with the IRS for a taxpayer.
4. Providing a client with written advice which has a potential for tax avoidance or evasion.

Just preparing a tax return, furnishing information at the request of the IRS, or appearing as a witness for the taxpayer is not practice before the IRS.

29. Identify the individual below from whom an enrolled agent, in practice before the IRS, may knowingly accept assistance:

A. An individual who is under disbarment from practice before the IRS.
B. An individual who is under suspension from practice before the IRS.
C. An individual who has temporary recognition to practice before the IRS.
D. A former government employee where any Federal law would be violated.

ANSWER: C

No enrolled agent shall, in practice before the IRS, knowingly and directly or indirectly:

1. Employ or accept assistance from any person who is under disbarment or suspension from practice before the IRS.
2. Accept employment as associate, correspondent, or subagent from, or share fees with, any such person.
3. Accept assistance from any former government employee where any Federal law would be violated.

30. When can a practitioner state to clients that he or she is an enrolled agent?

A. After passing the IRS Special Enrollment Exam.
B. After applying for enrollment with the IRS.
C. After receiving an enrollment card.
D. All of the above.

ANSWER: C

Practitioners must wait until they receive their enrollment card before they can state to clients that they are enrolled agents.

31. An enrolled agent can do all the following EXCEPT:

A. Communicate with the IRS for a taxpayer regarding the taxpayer's rights, privileges, or liabilities under laws and regulations administered by the IRS.
B. Represent a taxpayer at conferences, hearings, or meetings with the IRS.
C. Prepare and filing documents, including tax returns, with the IRS for a taxpayer.
D. Represent a taxpayer before the Tax Court.

ANSWER: D

Practice before the IRS does not include representing a taxpayer before any courts including the Tax Court.

32. An unenrolled tax return preparer can

A. Represent a taxpayer at conference, hearings, or meetings with the IRS.
B. Provide a client with written advice which has a potential for tax avoidance or evasion.
C. Represent taxpayers before revenue agents during an examination of the taxable year covered by the tax return they prepared and signed.
D. Execute closing agreements.

ANSWER: C

Unenrolled return preparers may only represent taxpayers before revenue agents, customer service representatives, or similar officers and employees of the IRS (including the Taxpayer Advocate Service) during an examination of the taxable year or period covered by the tax return they prepared and signed. Unenrolled return preparers cannot represent taxpayers, regardless of the circumstances requiring representation, before appeals officers, revenue officers, counsel or similar officers or employees of the IRS or the Department of Treasury. Unenrolled return preparers cannot execute closing agreements, extend the statutory period for tax assessments or collection of tax, execute waivers, execute claims for refund, or sign any document on behalf of a taxpayer. Unenrolled return preparers cannot provide tax advice to a client or another person except as necessary to prepare a tax return, claim of refund, or other document intended to be submitted to the IRS.

33. A Third Party Designee can do all of the following EXCEPT:

A. Call the IRS for information about the processing of the return or the status of the refund or payments.
B. Receive copies of notices or transcripts related to the return, upon request.
C. Represent a taxpayer at conference with the IRS.
D. Respond to certain IRS notices about math errors, offsets, and return preparation.

ANSWER: C

Taxpayers can authorize the IRS to discuss their return with their preparer, a friend, family member, or any other person they choose. If the taxpayer checks the "Yes" box in the Third Party Designee area of the return and provides the information required, the taxpayer is authorizing:

1. The IRS to call the designee to answer any questions that arise during the processing of the return, and
2. The designee to:
   a. Give information that is missing from the return to the IRS,
   b. Call the IRS for information about the processing of the return or the status of the refund or payments,
   c. Receive copies of notices or transcripts related to the return, upon request, and
   d. Respond to certain IRS notices about math errors, offsets, and return preparation.

Becoming an Enrolled Agent

34. An individual passed all parts of the Special Enrollment Examination and submitted the required forms to become an Enrolled Agent. The applicant failed the suitability test performed by the IRS was informed that he was denied participation and provided him with the reasons for the denial. What action should the applicant take to appeal the denial?

A. The applicant must file a written appeal within 30 days after the receipt of the notice of denial with the Commissioner of IRS or his delegate.
B. The applicant must file a written appeal within 30 days after the receipt of the notice of denial with the District Court.
C. The applicant must file a written appeal within 15 days after the receipt of the notice of denial with the Secretary of the Treasury or his delegate.
D. The applicant must file a written appeal within 30 days after the receipt of the notice of denial with the Secretary of the Treasury or his delegate.

ANSWER: D

If the IRS denies an application for enrollment, the Director is required to tell the applicant why the application was denied. The applicant has 30 days, after receipt of the notice of denial, to file a written appeal with supporting statements to the Secretary of the Treasury. The Secretary of Treasury is then responsible for making the final determination.

35. Under Circular 230, an applicant who wishes to challenge the IRS' denial of his or her application for enrollment is required to do which of the following?

A. File a written appeal with the Secretary of the Treasury.
B. File a written appeal with the Director of the Office of Professional Responsibility.
C. File a written appeal with the Commissioner of the IRS.
D. Resubmit another application.

ANSWER: A

If the IRS denies an application for enrollment, the Director is required to tell the applicant why the application was denied. The applicant has 30 days, after receipt of the notice of denial, to file a written appeal with supporting statements to the Secretary of the Treasury. The Secretary of Treasury is then responsible for making the final determination.

Requirements for Enrolled Agents

36. 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. B & C.

ANSWER: D

Circular 230 contains the regulations governing the practice before the IRS for attorneys, CPAs, enrolled agents, enrolled actuaries, appraisers.

37. Which of the following statement(s) in Circular 230 are accurate?

A. A practitioner may NOT charge a contingent fee for preparing an original return.
B. A practitioner may, in certain circumstances, charge a contingent fee for preparing an amended return.
C. A practitioner may, in certain circumstances, charge a contingent fee for preparing a claim for refund.
D. All of the above.

ANSWER: D

A practitioner may not charge a contingent fee for preparing an original return. A practitioner may not charge a contingent fee for services rendered in connection with any matter before the IRS except for the following circumstance. A practitioner may charge a contingent fee for services rendered in connection with the Service's examination of, or challenge to:

1. An original tax return; or
2. An amended return or claim for refund or credit where the amended return or claim for refund or credit was filed within 120 days of the taxpayer receiving a written notice of the examination of, or a written challenge to the original tax return.
3. For services rendered in connection with a claim for credit or refund filed solely in connection with the determination of statutory interest or penalties assessed by the IRS.
4. For services rendered in connection with any judicial proceeding arising under the Internal Revenue Code.

38. A practitioner became an Enrolled Agent and ordered business cards and advertising for her accounting and tax practice. Of the following presentations listed below, which one will violate the Circular 230 rules for advertising?

A. Enrolled Agent, Certified to practice before the IRS.
B. Enrolled Agent, representing taxpayers before the IRS.
C. Enrolled to represent taxpayers before the IRS.
D. EA, admitted to practice before the IRS.

ANSWER: A

Enrolled agents, in describing their professional designation, may not utilize the term of art "certified" or indicate an employer/employee relationship with the IRS. Examples of acceptable descriptions are "enrolled to represent taxpayers before the IRS," "enrolled to practice before the IRS," and "admitted to practice before the IRS."

39. A tax practitioner must promptly return all records of the client, even if a fee dispute exists UNLESS:

A. State law permits retention of the records and the records are not required to be attached to the return.
B. The client refuses to pay the practitioner for work completed.
C. The documents are for any return, claim for refund, schedule, affidavit, appraisal or any other document prepared by the practitioner if the practitioner is withholding such document pending the client's performance of its contractual obligation to pay fees with respect to such documents.
D. Both A & C

ANSWER: D

A practitioner must, at the request of a client, promptly return any and all records of the client that are necessary for the client to comply with his or her Federal tax obligations. If applicable state law allows or permits the retention of a client's records by a practitioner in the case of a dispute over fees for services rendered, the practitioner need only return those records that must be attached to the taxpayer's return. Records to return to a client does not include any return, claim for refund, schedule, affidavit, appraisal or any other document prepared by the practitioner or the practitioner's firm, employees or agents if the practitioner is withholding such document pending the client's performance of its contractual obligation to pay fees with respect to such document.

40. An enrolled agent cannot represent a client in his or her practice before the IRS if the representation involves a conflict of interest. The enrolled agent can avoid conflict of interest if the following are met EXCEPT:

A. The enrolled agent reasonably believes that he or she will be able to provide competent and diligent representation to each affected client.
B. The representation is not prohibited by law.
C. Each affected client gives informed consent, confirmed in writing within 60 days after the conflict of interest is known by the enrolled agent.
D. Copies of the written consents must be retained by the enrolled agent for at least 36 months.

ANSWER: C

Each affected client must give informed consent, confirmed in writing within 30 days after the conflict of interest is known by the practitioner.

41. An enrolled agent is preparing a brochure to hand to prospective clients and would like to explain the designation "enrolled agent." Which of the following language is prohibited?

A. "I am permitted to practice before the IRS."
B. "I am enrolled to represent taxpayers before the IRS."
C. "I am certified by the IRS."
D. "I am admitted to practice before the IRS."

ANSWER: C

Refer to the analysis on the previous question.

42. 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 an IRA account before the end of the year.
D. A mailing to all dentists listed in the yellow pages for your office.

ANSWER: C

A direct mail solicitation is a mailing to individuals whose unique circumstances are the basis for the solicitation (mailing). Seeking new business from an existing or former client in a related matter would not be classified as a targeted direct mail solicitation.

43. A practitioner has the right to make the following solicitations of employment involving IRS matters EXCEPT:

A. Seeking new business from a former client.
B. Communicating with a family member.
C. Targeting mailings.
D. Uninvited solicitation of employment in matters related to the IRS.

ANSWER: D

A practitioner cannot make, directly or indirectly, an uninvited solicitation of employment in matters related to the IRS. This includes in-person contacts, telephone communications, and personal mailings directed to the specific circumstances unique to the recipient. This restriction does not apply to:

1. Seeking new business from an existing or former client in a related matter,
2. Communications with family members,
3. Making the availability of professional services known to other practitioners, so long as the person or firm contacted is not a potential client,
4. Solicitation by mailings, or
5. Non-coercive in-person solicitation by those to practice before the IRS while acting as an employee, member, or officer of an exempt organization listed in sections 501(c)(3) or (4) of the IRC.

44. 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.

ANSWER: D

An enrolled agent cannot advise a client to take a position on a return, or prepare the portion of a return on which a position is taken, unless the EA determines that the position is reasonable, not frivolous, and is adequately disclosed on the return.

45. The IRS began an examination of taxpayer's tax return. The taxpayer hired an enrolled agent to represent him before the IRS. The EA wrote a memorandum to the taxpayer outlining the issues that might be raised by the IRS and how to address these issues. The EA 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 the EA for a copy of the memorandum. The taxpayer invoking the Section 7525 privilege, told the EA not to disclose it to the Revenue Officer. The EA 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.

ANSWER: B

The confidentiality protection for certain communications between a taxpayer and an attorney (privileged communications) applies to similar communications between a taxpayer and any federally authorized tax practitioner. Federally authorized tax practitioners include attorneys, certified public accountants, enrolled agents, enrolled actuaries, and certain other individuals allowed to practice before the IRS.

This confidentiality privilege cannot be used in any administrative proceeding with an agency other than the IRS. The protection of this privilege applies only to tax advice given to the taxpayer by any individual who is a federally authorized tax practitioner. Tax advice is advice in regard to a matter that is within the scope of the practitioner's authority to practice. The confidentiality protection applies to communications that would be considered privileged if they were between the taxpayer and an attorney and that relate to:

1. Noncriminal tax matters before the IRS, or
2. Noncriminal tax proceedings brought in federal court by or against the United States.

46. An enrolled agent may give written advice to a client concerning one or more Federal tax matters as long as the advice follows the following requirements EXCEPT:

A. The written advice is based on reasonable factual and legal assumptions.
B. The enrolled agent uses reasonable efforts to identify and ascertain the facts relevant to written advice on each Federal tax matter.
C. The enrolled agent does not rely upon representations, statements, findings, or agreements (including projections, financial forecasts, or appraisals) of the taxpayer or any other person if reliance on them would be unreasonable.
D. The enrolled agent, in evaluating a Federal tax matter, takes into account the possibility that a tax return will not be audited or that a matter will not be raised on audit.

ANSWER: D

A practitioner may give written advice (including by means of electronic communication) concerning one or more Federal tax matters subject to the requirements listed below. Government submissions on matters of general policy are not considered written advice on a Federal tax matter for purposes of this section. Continuing education presentations provided to an audience solely for the purpose of enhancing practitioners' professional knowledge on Federal tax matters are not considered written advice on a Federal tax matter for purposes of this section.

The practitioner must:

- Base the written advice on reasonable factual and legal assumptions (including assumptions as to future events),
- Reasonably consider all relevant facts and circumstances that the practitioner knows or reasonably should know,
- Use reasonable efforts to identify and ascertain the facts relevant to written advice on each Federal tax matter,
- Not rely upon representations, statements, findings, or agreements (including projections, financial forecasts, or appraisals) of the taxpayer or any other person if reliance on them would be unreasonable,
- Relate applicable law and authorities to facts, and
- Not, in evaluating a Federal tax matter, take into account the possibility that a tax return will not be audited or that a matter will not be raised on audit.

47. An enrolled agent, provided tax advice to XYZ Corporation on a federal tax matter. The Securities and Exchange Commission is reviewing a required filing of the XYZ Corporation and asks to see a copy of the EA's tax advice. The tax advice is not protected by the federally authorized tax practitioner privilege under IRC section 7525 from disclosure to the SEC because

A. The EA is not a lawyer.
B. The EA is not a CPA.
C. The federally authorized tax practitioner privilege protects advice only against disclosure to the IRS, not other government agencies.
D. The federally authorized tax practitioner privilege protects only advice to individuals.

ANSWER: C

Refer to the analysis on the previous question. The confidentiality privilege cannot be used in any administrative proceeding with an agency other than the IRS.

48. In the process of preparing a corporation's return, an enrolled agent provided the corporation calculations he had prepared computing basis of property that was sold and reported on the 1120 Form 4797. Later, when the corporation's return was examined by the IRS, the corporation refuses to provide the IRS with the calculations, claiming that this was a privileged communication between the corporation and its federally authorized practitioner. Which of the following statements is true?

A. The corporation does not have to provide the calculations to the IRS because they are privileged under the Federal Tax Practitioner privilege rules.
B. The corporation must provide the calculations to the IRS because privilege does not apply to a determination with respect to an item that will be presented to the government on an original return.
C. The corporation must provide the calculations to the IRS because the Federal Tax Practitioner privilege does not apply to documents written by an enrolled agent.
D. The corporation does not have to provide the calculations to the IRS if they believe this transaction might be construed as a tax shelter.

ANSWER: B

The confidentiality privilege does not apply to a determination with respect to an item that will be presented to the government on an original return.

49. An enrolled agent represents his brother and his brother's business partner who are equal shareholders in a corporation. The IRS examined the corporation and determined that one of the shareholders committed fraud, but could not determine which shareholder it was. The EA has made an appointment with the IRS to determine which partner was guilty. Which of the following statements reflects what the EA should do in accordance with Circular 230?

A. Meet with the IRS and try to convince the examiner that each shareholder is equally guilty.
B. Advise both shareholders that they should dissolve the corporation thereby making it difficult for the IRS to pursue the issue.
C. Advise both shareholders that he cannot represent them because there is a conflict of interest.
D. Advise both shareholders on creating documents that will convince the IRS that neither shareholder is guilty of fraud.

ANSWER: C

In accordance with Circular 230, a practitioner cannot represent a client before the IRS if the representation involves a conflict of interest. A conflict of interest exists if:

1. The representation of one client will be directly adverse to another client, or
2. There is a significant risk that the representation of one or more clients will be materially limited by the practitioner's responsibilities to another client, a former client or a third person or by a personal interest of the practitioner.

50. An enrolled agent is currently representing a client before the IRS. The client's former business partner asks the EA to represent him before the IRS. Notwithstanding the existence of a conflict of interest between the two taxpayers, the EA may still represent the client's former partner if certain requirements are met. Which of the following statements is NOT a requirement?

A. Both taxpayers must each give informed consent, confirmed in writing, to the EA.
B. The EA must reasonably believe that he will be able to provide competent and diligent representation to both taxpayers.
C. The EA must immediately notify the Office of Professional Responsibility in writing that he is representing both taxpayers.
D. The representation of the former partner must not be prohibited by law.

ANSWER: C

Notwithstanding the existence of a conflict of interest, the practitioner may represent a client if:

1. The practitioner reasonably believes that the practitioner will be able to provide competent and diligent representation to each affected client,
2. The representation is not prohibited by law, and
3. Each affected client gives informed consent, confirmed in writing to the practitioner within 30 days.

Copies of the written consents must be retained by the practitioner for at least 36 months from the date of the conclusion of the representation of the affected clients and the written consents must be provided to any officer or employee of the IRS on request.

51. An enrolled agent must, at all times, exercise due diligence when doing which of the following?

A. In preparing or assisting in the preparation of, approving, and filing returns, documents, affidavits, and other papers relating to IRS matters.
B. In determining the correctness of oral or written representations made by the enrolled agent to the Department of the Treasury.
C. In determining the correctness of oral or written representations made by the enrolled agent to clients with reference to any matter administered by the IRS.
D. All of the above.

ANSWER: D

A tax practitioner must exercise due diligence:

1. In preparing or assisting in the preparation of, approving of, and filing of returns, documents, affidavits, and other papers relating to IRS matters,
2. In determining the correctness of oral or written representations made by the enrolled agent to the Department of the Treasury, and
3. In determining the correctness of oral or written representations made by the enrolled agent to clients with reference to any matter administered by the IRS.

Except as provided in §§10.33 and 10.34 of Circular 230, a practitioner will be presumed to have exercised due diligence for purposes of this section if the practitioner relies on the work product of another person and the practitioner used reasonable care in engaging, supervising, training, and evaluating the person, taking proper account of the nature of the relationship between the practitioner and the person.

Renewal of Enrollment

52. The enrollment cycle for an enrolled agent is:

A. 2 years
B. 3 years
C. 4 year
D. 5 years

ANSWER: B

The enrollment cycle for an enrolled agent is usually 3 years and based on the EAs the last digit of the EA's social security number. An EA whose social security number ends with digit 0, 1, 2, or 3 must renew between November 1, 2018 and January 31, 2019. The renewal is effective April 1, 2019. An EA whose social security number ends with digit 4, 5, or 6 must renew between November 1, 2019 and January 31, 2020. The renewal is effective April 1, 2020. An EA whose social security number ends with digit 7, 8, or 9 must renew between November 1, 2020 and January 31, 2021. The renewal is effective April 1, 2021.

53. To maintain active enrollment to practice before the IRS, each individual enrolled is required to have his or her enrollment renewed. Which of the following statements about renewal of enrollment is correct?

A. A reasonable refundable fee may be charged for each application for renewal of enrollment.
B. Failure by an individual to receive notification from the IRS of the renewal requirement will not be justification for the failure to timely renew enrollment.
C. Forms required for renewal may only be obtained from the National Association of Enrolled Agents.
D. The enrollment cycle is a 3 year period and all Enrolled Agents must renew at the same time, no matter when they first became Enrolled Agents.

ANSWER: B

A reasonable nonrefundable fee may be charged for each application for renewal of enrollment. Forms required for renewal may be obtained from the IRS. The renewal period for enrolled agents has changed under the revisions to Circular 230, effective July 26, 2002. Enrolled agents now renew on a staggered schedule, based on the last digit of the enrolled agent's social security number.

An EA whose social security number ends with digit 0, 1, 2, or 3 must renew between November 1, 2018 and January 31, 2019. The renewal is effective April 1, 2019.

An EA whose social security number ends with digit 4, 5, or 6 must renew between November 1, 2019 and January 31, 2020. The renewal is effective April 1, 2020.

An EA whose social security number ends with digit 7, 8, or 9 must renew between November 1, 2020 and January 31, 2021. The renewal is effective April 1, 2021.

54. Enrolled Agents applying for renewal must retain the information regarding continuing education credit hours for

A. 2 years following the date of renewal
B. 3 years following the date of renewal
C. 4 years following the date of renewal
D. 5 years following the date of renewal

ANSWER: C

Enrolled agents applying for renewal must retain the information regarding continuing education credit hours for **4 years** following the date of renewal.

Sanctions against Enrolled Agents

55. 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.

ANSWER: D

Disreputable conduct (as described in section 10.51 of Circular 230) for which an enrolled agent may be suspended or disbarred from practice before the IRS includes, but is not limited to, the following.

1. Conviction of any criminal offense under the revenue laws of the U.S., or of any offense involving dishonesty, or breach of trust.
2. Giving false or misleading information, or participating in any way in the giving of false or misleading information to the Department of the Treasury or any officer or employee thereof.
3. Solicitation of employment as prohibited under section 10.30, the use of false or misleading representation with intent to deceive a client in order to procure employment.
4. Willfully failing to make a Federal tax return in violation of the revenue laws.
5. Willfully assisting, counseling, encouraging a client or prospective client in violating, or suggesting to a client or prospective client to violate, any Federal tax law, or knowingly counseling or suggesting to a client or prospective client an illegal plan to evade Federal taxes or payment.
6. Misappropriation of funds received from clients for the purpose of payment of taxes or other obligations due the U.S.
7. Directly or indirectly attempting to influence an officer or employee of the IRS by use of threats, false accusations, duress or coercion, or by the offering gifts, favors, or any special inducements.
8. Disbarment or suspension from practice by any State, possession, territory, Commonwealth, the District of Columbia or any body or board of any Federal agency.
9. Knowingly aiding and abetting another person to practice before the IRS during a period of suspension, disbarment, or ineligibility.
10. Using abusive language, making false accusations and statements knowing them to be false, circulating or publishing malicious or libelous matter, or engaging in any contemptuous conduct in connection with practice before the IRS.
11. Giving a false opinion knowingly, recklessly, or through gross incompetence; or following a pattern of providing incompetent opinions in questions arising under the federal tax laws.

56. The Secretary of the Treasury, or delegate, may censure, suspend, or disbar an enrolled agent from practice before the IRS for incompetence and/or disreputable conduct. Which one of the following is considered disreputable conduct?

A. Being indicted for any criminal offense under the revenue laws of the United States.
B. Having your motor vehicle license suspended as a result of numerous traffic violations.
C. Being indicted of any felony under federal or state law for which the conduct involved renders the EA unfit to practice before the IRS.
D. Giving false or misleading information, or participating in any way in the giving of false or misleading information to the Department of the Treasury or any officer or employee thereof.

ANSWER: D

Refer to the analysis on the previous question.

57. The Secretary of the Treasury, or delegate, may censure, suspend, or disbar an enrolled agent from practice before the IRS for incompetence and/or disreputable conduct. All one of the following are considered disreputable conduct EXCEPT:

A. Conviction of any criminal offense under the revenue laws of the United States.
B. Conviction of any criminal offense involving dishonesty or breach of trust.
C. Giving false or misleading information or participating in any way in the giving of false or misleading information to the Department of the Treasury or any officer or employee thereof.
D. Filing for bankruptcy.

ANSWER: D

Refer to the analysis on question #55.

58. A public reprimand is:

A. A censure
B. A disbarment
C. A disqualification
D. A suspension

ANSWER: A

Censure is a public reprimand.

59. Which of the following acts performed by an attorney, CPA or enrolled agent is NOT prohibited by section 10.24 (Assistance from disbarred or suspended persons and former IRS employees) of Circular 230?

A. Accepting employment as an associate of a person disbarred from practice before the IRS.
B. Preparing the tax return of an individual suspended or disbarred from practice before the IRS.
C. Accepting assistance from a former government employee where the provisions of section 10.26 (Practice by former Government employees, their partners and their associates) of Circular 230 would be violated.
D. Employing a person disbarred from practice before the IRS.

ANSWER: B

Section 10.24 of Circular 230 states no attorney, CPA, or enrolled agent should directly or indirectly:

1. Employ or accept assistance from any person who is under disbarment or suspension from practice before the IRS.
2. Accept employment as associate, correspondent, or subagent from, or share fees with, any such person.
3. Accept assistance from any former government employee where the provisions of section 10.26 (Practice by former Government employees, their partners and their associates) of Circular 230 would be violated.

60. The IRS has documentation that an enrolled agent has violated the law or regulations governing practice before the IRS. The Secretary of the Treasury, or delegate, after notice and an opportunity for a proceeding, may

A. Censure the enrolled agent.
B. Institute proceedings for disbarment.
C. Institute proceedings for suspension.
D. Any of the above.

ANSWER: D

Whenever the IRS has reason to believe that an enrolled agent has violated the law or regulations governing practice before the IRS, the Secretary of the Treasury or delegate can censure, suspend, or disbar the EA.

61. 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. An authorized representative of the IRS signs a complaint naming the attorney, certified public accountant, enrolled agent, or enrolled actuary.
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.

ANSWER: C

The proceeding for violation of the regulations in Circular 230 instituted against a practitioner is instituted by a complaint which names the respondent, provides a clear and concise description of the facts and law that constitute the basis for the proceeding and is signed by an authorized representative of the IRS.

62. A complaint against an enrolled agent can be served upon the EA in the following ways EXCEPT:

A. By certified mail.
B. By email.
C. By a private delivery service.
D. Served in person.

ANSWER: B

The complaint or a copy of the complaint must be served on the respondent by any of the following manner.

1. **Service by certified or first class mail**. Service of the complaint may be made on the respondent by mailing the complaint by certified mail to the last known address (as determined under section 6212 of the Internal Revenue Code and the regulations thereunder) of the respondent. Where service is by certified mail, the returned post office receipt duly signed by the respondent will be proof of service. If the certified mail is not claimed or accepted by the respondent, or is returned undelivered, service may be made on the respondent, by mailing the complaint to the respondent by first class mail.
2. **Service by a private delivery service**. Service of the complaint may be made on the respondent by delivery by a private delivery service designated pursuant to section 7502(f) of the Internal Revenue Code to the last known address (as determined under section 6212 of the Internal Revenue Code and the regulations there under) of the respondent.
3. **Service in person**. Service of the complaint may be made in person on, or by leaving the complaint at the office or place of business of, the respondent.

63. An enrolled agent received a complaint from the IRS for disreputable conduct. Which one of the following items was NOT required to be listed in the complaint?

A. A demand for an answer to the charges.
B. The unit and employee of the IRS that recommended the action against the EA.
C. The specific sanctions that are recommended against the EA.
D. The charges against EA.

ANSWER: B

A complaint from the IRS for disreputable conduct contains the following items:

1. **Charges**. A complaint must name the respondent, provide a clear and concise description of the facts and law that constitute the basis for the proceeding, and be signed by an authorized representative of the IRS. A complaint is sufficient if it fairly informs the respondent of the charges brought so that he or she is able to prepare a defense.
2. **Specification of sanction**. The complaint must specify the sanction sought against the practitioner or appraiser. If the sanction sought is a suspension, the duration of the suspension sought must be specified.
3. **Demand for answer**. The respondent must be notified in the complaint or in a separate paper attached to the complaint of the time for answering the complaint, which may not be less than 30 days from the date of service of the complaint, the name and address of the Administrative Law Judge with whom the answer must be filed, the name and address of the person representing the IRS to whom a copy of the answer must be served, and that a decision by default may be rendered against the respondent in the event an answer is not filed as required.

64. Select the statement below that is correct with respect to the contents of an answer that is filed in rebuttal to a complaint filed by the IRS.

A. The answer must be written and general denials are permitted.
B. The respondent does not have to admit or deny all of the allegations set forth in the complaint and can state they are without sufficient information to admit or deny a specific allegation.
C. The respondent may not deny a material allegation in the complaint that the respondent knows to be true, or state that the respondent is without sufficient information to form a belief, when the respondent possesses the required information.
D. The respondent does not have to state affirmatively any special matters of defense on which he or she relies.

ANSWER: C

The answer must be written and contain a statement of facts that constitute the respondent's grounds of defense. General denials are not permitted. The respondent must specifically admit or deny each allegation set forth in the complaint, except that the respondent may state that the respondent is without sufficient information to admit or deny a specific allegation. The respondent, nevertheless, may not deny a material allegation in the complaint that the respondent knows to be true, or state that the respondent is without sufficient information to form a belief, when the respondent possesses the required information. The respondent also must state affirmatively any special matters of defense on which he or she relies.

65. An enrolled agent received a complaint from the IRS. Select the statement below that is correct with respect to the contents of the answer that the EA will file in rebuttal to the complaint.

A. The EA may only state a general denial of the allegations.
B. The EA must specifically admit or deny each allegation set forth in the complaint, and may not state that she is without sufficient information to admit or deny a specific allegation.
C. The EA may deny a material allegation in the complaint even though she knows it to be true.
D. The EA must specifically admit or deny each allegation set forth in the complaint, except that she may state that she is without sufficient information to admit or deny a specific allegation.

ANSWER: D

Refer to the analysis on the previous question.

66. 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.

ANSWER: B

An administrative Law Judge presides over a hearing on a complaint for the disbarment or suspension of a practitioner.

67. An enrolled agent prepared a return for a client that contained a frivolous position that could not be defended under any circumstances. The examiner who conducted the examination referred the EA to the Office of Professional Responsibility. After all procedural requirements had been met, the Office of Professional Responsibility filed a complaint against the EA. Which statement below is correct with respect to the hearing that will take place for the complaint filed against the EA?

A. An Administrative Law Judge will preside at the hearing on a complaint filed for the censure, suspension, or disbarment of a practitioner or disqualification of an appraiser.
B. A request by a practitioner or appraiser that a hearing in a disciplinary proceeding concerning him or her be public, and that the record of such disciplinary proceeding be made available for inspection by interested persons may be granted by a United States District Court judge.
C. The United States District Court judge assigned to the case will determine the location of the hearing.
D. If either party to the proceeding fails to appear at the hearing, after notice of the proceeding has been sent to him or her, the party will be deemed to have waived the right to a hearing and the United States District Court judge may make his or her decision against the absent party by default.

ANSWER: A

A request by a practitioner or appraiser that a hearing in a disciplinary proceeding concerning him or her be public, and that the record of such disciplinary proceeding be made available for inspection by interested persons may be granted by the Administrative Law Judge where the parties stipulate in advance to protect from disclosure confidential tax information in accordance with all applicable statutes and regulations.

The location of the hearing will be determined by the agreement of the parties with the approval of the Administrative Law Judge, but, in the absence of such agreement and approval, the hearing will be held in Washington, D.C.

If either party to the proceeding fails to appear at the hearing after notice of the proceeding has been sent to him or her, the party will be deemed to have waived the right to a hearing and the Administrative Law Judge may make his or her decision against the absent party by default.

68. 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.

ANSWER: A

Failure to file an answer to a complaint instituting a proceeding for disbarment or suspension by the original or extended deadline constitutes an admission of the allegations in the complaint and a waiver of a hearing.

69. A notice of disbarment or suspension of a certified public accountant from practice before the IRS is issued to which of the following?

A. IRS employees.
B. Interested departments and agencies of the Federal government.
C. State authorities.
D. All of the above.

ANSWER: D

A notice of disbarment or suspension of a CPA, EA, or attorney from practice before the IRS is issued to IRS employees, interested departments and agencies of the Federal government, and proper authorities of the state.

70. 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.

ANSWER: A

A practitioner may appeal a decision of suspension or disbarment of practice before the IRS. The appeal may be filed to the Secretary of the Treasury within 30 days from the date of the Administrative Judge's decision.

71. After a decision has been made on a complaint filed by the IRS, the practitioner or the IRS may appeal the decision. Which statement is correct with respect to filing an appeal of the decision?

A. Within 30 days from the date of the District Court Judge's decision, either party may appeal to the Secretary of the Treasury, or his or her delegate.
B. Within 30 days from the date of the District Court Judge's decision, either party may appeal to the Supreme Court.
C. Within 30 days from the date of the Administrative Law Judge's decision, either party may appeal to the Secretary of the Treasury, or his or her delegate.
D. Within 45 days from the date of the Administrative Law Judge's decision, either party may appeal to the Secretary of the Treasury, or his or her delegate.

ANSWER: C

A practitioner or the IRS may appeal a decision of suspension or disbarment of practice before the IRS. The appeal may be filed to the Secretary of the Treasury within 30 days from the date of the Administrative Judge's decision.

72. An enrolled agent is a partner in a tax firm. One of the EA's former partners is under investigation by the Office of Professional Responsibility for disreputable conduct. The EA has been asked by the Office of Professional Responsibility to provide information regarding his former partner. The EA must provide all the information requested unless

A. He has credible evidence that he is not guilty of the disreputable conduct.
B. He believes in good faith and on reasonable grounds that the information requested is privileged or that the request is of doubtful legality.
C. The partnership agreement prohibits him from providing the information. The conduct in question relates to one of his clients.
D. The conduct in question relates to one of his clients.

ANSWER: B

Practitioners must promptly submit records or information requested by officers or employees of the IRS. When the Office of Professional Responsibility requests information concerning possible violations of the regulations by other parties, the practitioner must provide the information and be prepared to testify in disbarment or suspension proceedings. A practitioner can be exempted from these rules if he or she believes in good faith and on reasonable grounds that the information requested is privileged or that the request is of doubtful legality.

73. A disbarred enrolled agent can petition reinstatement before the IRS after how many years after the disbarment.

A. 3 years
B. 4 years
C. 5 years
D. 6 years

ANSWER: C

A disbarred practitioner may petition for reinstatement before the IRS after the expiration of **5 years** following such disbarment or disqualification.

Continuing Professional Education (CPE)

74. An individual who received initial enrollment during an enrollment cycle must complete continuing education credits for renewed enrollment. Which of the following describes the credit requirements?

A. A minimum of 72 hours must be completed in each year of an enrollment cycle.
B. A minimum of 24 hours must be completed in each year of an enrollment cycle.
C. A minimum of 80 hours must be completed, overall, for the entire enrollment cycle.
D. A minimum of 16 hours of continuing education credits, including 2 hours of ethics or professional conduct, must be completed in each year of the enrollment cycle.

ANSWER: D

An enrolled agent must complete:

1. A minimum of 72 hours of continuing education credit must be completed during each three year period. Each such three year period is known as an enrollment cycle.
2. A minimum of 16 hours of continuing education credit, including 2 hours of ethics or professional conduct, must be completed in each year of an enrollment cycle.
3. An individual who receives initial enrollment during an enrollment cycle must complete two (2) hours of qualifying continuing education credit for each month enrolled during the enrollment cycle. Enrollment for any part of a month is considered enrollment for the entire month.

75. An enrolled agent is required to complete at least 16 hours of continuing education a year including:

A. 2 hours of ethics
B. 3 hours of ethics
C. 2 hours of tax updates
D. 3 hours of tax updates

ANSWER: A

An enrolled agent is required to complete at least 16 hours of continuing education a year, including 2 hours of ethics.

76. An individual passed the Special Enrollment Examination. She submitted her application for enrollment, and received the initial enrollment on June 15. What are her Continuing Professional Education requirements until the first full renewal cycle?

A. She does not have to complete any Continuing Professional Education requirements until the first full renewal cycle.
B. She must complete two hours of credit for each full month and each part of a month left in the current renewal cycle.
C. She must complete a minimum of 72 hours of Continuing Professional Education unless she is within less than a year before the end of the current cycle.
D. She must complete two hours of credit for only each full month left in the current renewal cycle.

ANSWER: B

An individual who receives initial enrollment during an enrollment cycle must complete two hours of continuing education credits for each part of a month left in the current enrollment cycle.

77. With regard to continuing professional education (CPE) for enrolled agents, all of the following statements are correct EXCEPT:

A. An enrolled agent may obtain CPE credits ONLY from an organization that has filed a sponsor agreement with the IRS to obtain approval of its program as a qualified CPE program
B. An enrolled agent must complete a minimum of 72 hours of CPE credit if enrolled for an entire enrollment cycle.
C. An individual who receives initial enrollment during an enrollment cycle must complete 2 hours of CPE credit for each month enrolled during the cycle, beginning with the month the individual is enrolled.
D. An enrolled agent must complete a minimum of 16 hours of CPE credit in each year of an enrollment cycle if enrolled for the entire cycle.

ANSWER: A

To qualify as a sponsor, a program presenter must:

1. Be an accredited educational institution,
2. Be recognized for continuing education purposes by the licensing body of any state, possession, territory, commonwealth, or the District of Columbia responsible for the issuance of a license in the field of accounting or law,
3. Be recognized and approved by a qualifying organization as a provider of continuing education on subject matters within §10.6(f), or
4. Be recognized by the IRS as a professional organization, society, or business whose programs include offering continuing professional education opportunities in subject matters within §10.6(f).

78. Which of the following is the enrollment cycle for completing the continuing education requirements?

A. January 1 through December 31.
B. July 1 through June 30 of the next year.
C. February 1 through January 31 of the next year.
D. October 1 through September 31 of the next year.

ANSWER: A

Continuing education period runs on a calendar year.

79. An enrolled agent can substitute the time spent instructing and preparing for the tax related courses as CPE credit. The maximum credit for instruction and preparation cannot exceed

A. 4 hours annually
B. 6 hours annually
C. 8 hours annually
D. 12 hours annually

ANSWER: B

An enrolled agent can receive continuing education credits serving as an instructor, discussion leader or speaker. One hour of continuing education credit will be awarded for each contact hour completed as an instructor, discussion leader, or a speaker. Two hours of continuing education credits will be awarded for actual subject preparation time for each contact hour. The maximum credit for instruction and preparation may not exceed **6 hours** annually of continuing education requirement for an enrollment cycle.

80. What is the shortest recognized unit of time a program can be to qualify for continuing education credits?

A. 30 minutes
B. 50 continuous minutes
C. One contact hour
D. Both B & C

ANSWER: D

All continuing education programs are measured in terms of contact hours. The shortest recognized program will be one contact hour. A contact hour is 50 minutes of continuous participation in a program.

81. A university or college semester course on taxation would qualify for how many continuing education credits?

A. 10 contact hours
B. 15 contact hours
C. 20 contact hours
D. 30 contact hours

ANSWER: B

University or college semester courses qualify for 15 contact hours of continuing education credits. University or college quarter courses qualify for 10 contact hours of continuing education credits.

82. Each individual applying for renewal as an Enrolled Agent must complete CPE credits during each year of enrollment. How long must each practitioner maintain records of their completed CPE credits?

A. CPE credits do not have to be retained by the Enrolled Agent since the qualifying organization provides the Office of Professional Responsibility a list of each participant that completed CPE credits.
B. The Enrolled Agent does not have to retain any proof of CPE credits because they must be submitted to the Office of Professional Responsibility as they are completed.
C. The Enrolled Agent must retain for a period of 1 year, from the date they completed the CPE credit, information required (as listed in Circular 230) that documents successful completion of qualified CPE credits.
D. The Enrolled Agent applying for renewal must retain the information required (as listed in Circular 230) which documents successful completion of qualified CPE credits, for a period of 3 years following the date of renewal of enrollment.

ANSWER: D

Each individual applying for renewal shall retain for a period of three years following the date of renewal the information regarding continuing education credit hours.

83. How long must each practitioner maintain records of their completed CPE credits?

A. CPE credit information does not have to be retained by the Enrolled Agent since the qualifying organization provides the Office of Professional Responsibility a list of each participant that completed CPE credits.
B. CPE credit information must be maintained for a period of four (4) years from the date they are completed.
C. CPE credit information must be retained for a period of four (4) years following the date of renewal of enrollment
D. CPE credit information must be retained for a period of one (1) year following the year they are completed.

ANSWER: C

Each individual applying for renewal shall retain for a period of 4 years following the date of renewal the information regarding continuing education credit hours.

Practice by Unenrolled Persons

84. Which of the following statements is correct with respect to the limited practice of an unenrolled return preparer?

A. An unenrolled return preparer may represent the taxpayer for any year the taxpayer provides authorization, whether or not the unenrolled preparer prepared the return in question.
B. An unenrolled return preparer is only permitted to represent taxpayers before the examination and collection functions of the IRS.
C. If authorized by the taxpayer, an unenrolled return preparer can sign consents to extend the statutory period for assessment or collection of tax.
D. An unenrolled preparer cannot receive refund checks.

ANSWER: D

An unenrolled return preparer is an individual other than an attorney, CPA, enrolled agent, or enrolled actuary who prepares and signs a taxpayer's return as the preparer, or who prepares a return but is not required (by the instructions to the return or regulations) to sign the return.

An unenrolled return preparer is permitted to appear as a taxpayer's representative only before customer service representatives, revenue agents, and examination officers, with respect to an examination regarding the return he or she prepared.

An unenrolled return preparer cannot:

1. Represent a taxpayer before other offices of the IRS, such as Collection or Appeals. This includes the Automated Collection System (ACS) unit.
2. Execute closing agreements.
3. Extend the statutory period for tax assessments or collection of tax.
4. Execute waivers.
5. Execute claims for refund.
6. Receive refund checks.

85. With respect to unenrolled return preparers, which of the following statements is correct?

A. An unenrolled return preparer is an individual other than an attorney, CPA, enrolled agent, or enrolled actuary who prepares and signs a taxpayer’s return as the preparer, or who prepares a return but is not required (by the instructions to the return or regulations) to sign the return.
B. An unenrolled return preparer is only permitted to appear as a taxpayers’ representative before a Customer Service Representative of the IRS.
C. An unenrolled preparer may receive refund checks on behalf of the taxpayer if Form 8821 has been executed.
D. An unenrolled preparer is permitted to represent a taxpayer over the telephone with the Automated Collection System unit.

ANSWER: A

Refer to the analysis on the previous question.

86. Which of the following statements is correct with respect to the limited practice of an unenrolled return preparer?

A. An unenrolled return preparer may represent the taxpayer, before certain types of IRS personnel, with respect to an examination regarding the return that he or she prepared.

B. An unenrolled return preparer is permitted to appear as a taxpayers' representative before any function of the IRS as long as he or she prepared the return.

C. If authorized by the taxpayer, an unenrolled return preparer can sign consents to extend the statutory period for assessment or collection of tax.

D. An unenrolled preparer may receive a refund check on behalf of the taxpayer if permission has been granted to the unenrolled preparer with a Form 8821.

ANSWER: A

An unenrolled return preparer is an individual other than an attorney, CPA, enrolled agent, or enrolled actuary who prepares and signs a taxpayer's return as the preparer, or who prepares a return but is not required (by the instructions to the return or regulations) to sign the return.

An unenrolled return preparer is permitted to appear as your representative only before customer service representatives, revenue agents, and examination officers, with respect to an examination regarding the return he or she prepared.

An unenrolled return preparer cannot:

1. Represent a taxpayer before other offices of the IRS, such as Collection or Appeals. This includes the Automated Collection System (ACS) unit.
2. Execute closing agreements.
3. Extend the statutory period for tax assessments or collection of tax.
4. Execute waivers.
5. Execute claims for refund.
6. Receive refund checks.

87. Which of the following persons are authorized to represent a taxpayer before the IRS?

A. An individual representing a member of his or 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.

ANSWER: D

Because of their special relationship with a taxpayer, the following unenrolled individuals can represent the specific taxpayers before the IRS.

1. **An individual**. An individual can represent himself or herself before the IRS.
2. **A family member**. An individual family member can represent members of his or her immediate family. Family members include a spouse, child, parent, brother, sister of the individual.
3. **An officer**. A bona fide officer of a corporation (including parents, subsidiaries, or affiliated corporations), associations, organized groups, or in the course of his or her official duties, an officer of a governmental unit, agency, or authority can represent the organization he or she is an officer of before the IRS.
4. **A general partner**. A general partner can represent the partnership before the IRS. A limited partner cannot.
5. **An employee**. A regular full-time employee can represent his or her employer. An employer can be an individual, partnership, corporation, association, trust, receivership, guardianship, estate, organized group, governmental unit, or authority.
6. **A fiduciary**. A trustee, receiver, guardian, personal representative, administrator or executor can represent the trust, receivership, guardianship, or estate.

88. All of the following individuals are eligible to practice (on a limited basis) before the IRS EXCEPT:

A. A regular full-time employee of an individual may represent the employer.
B. A bona fide officer of a corporation may represent the corporation.
C. A limited partner in a partnership may represent the partnership.
D. A trustee of a trust may represent the trust.

ANSWER: C

A general partner can represent the partnership before the IRS but a limited partner cannot.

Chapter 2. Representation before the IRS

Power of Attorney

1. A power of attorney is required when you want to authorize any individual to do the following:

A. To represent you at a conference with the IRS
B. To prepare and file a written response to the IRS
C. To sign the offer or a waiver of restriction on assessment or collection of tax deficiency
D. All of the above

ANSWER: D

A taxpayer's representative who is enrolled to practice before the IRS and has the taxpayer's power of attorney can perform all of the following acts.

1. Represent taxpayer before any office of the IRS.
2. Record the interview.
3. Sign a waiver agreeing to a tax adjustment or an offer of waiver of restriction on assessment or collection of a tax deficiency, or a waiver of notice of disallowance of claim for credit or refund.
4. Sign a consent to extend the statutory time period for assessment or collection of a tax.
5. Sign a closing agreement.
6. Receive, **but not endorse or cash**, a check drawn on the U.S. Treasury.

2. A power of attorney is required to authorize another individual to perform the following acts EXCEPT:

A. Representing a taxpayer before any office of the IRS.
B. Signing a consent to extend the statutory time period for assessment or collection of tax.
C. Authorizing the disclosure of tax return information.
D. Signing a closing agreement.

ANSWER: C

A power of attorney is most often required to authorize another individual to perform at least one of the following acts on the behalf of the taxpayer:

1. Representing a taxpayer before any office of the IRS.
2. Signing an offer or a waiver of restriction on assessment or collection of a tax deficiency, or a waiver of notice of disallowance of claim for credit or refund.
3. Signing a consent to extend the statutory time period for assessment or collection of tax.
4. Signing a closing agreement.

The following situations do not require a power of attorney.

1. Providing information to the IRS.
2. Authorizing the disclosure of tax return information through Form 8821.
3. Allowing the IRS to discuss return information with a third party designee.
4. Allowing a tax matters partner or person (TMP) to perform acts for the partnership.
5. Allowing the IRS to discuss return information with a fiduciary.

3. A taxpayer must use a power of attorney to do which of the following?

A. Authorizing an individual to prepare the taxpayer's return.
B. Authorizing an individual to represent a taxpayer at a conference with the IRS.
C. Authorizing the IRS to disclose tax information to an individual.
D. Authorizing an individual to provide information to the IRS.

ANSWER: B

A power of attorney is used to authorize an individual to represent a taxpayer at a conference with the IRS.

4. A power of attorney is generally terminated if one the following happens EXCEPT:

A. The taxpayer becomes incapacitated.
B. The taxpayer leaves the United States.
C. The taxpayer dies.
D. The taxpayer becomes incompetent.

ANSWER: B

A power of attorney is generally terminated if the taxpayer dies or becomes incapacitated or incompetent. The power of attorney can continue, however, in the case of incapacity or incompetency if the taxpayer authorizes this on line 5 "Other" of the Form 2848 and if the non-IRS durable power of attorney meets all the requirements for acceptance by the IRS.

5. 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.

ANSWER: C

A power of attorney must contain all of the following information.

1. Taxpayer's name and mailing address.
2. Taxpayer's social security number or employer identification number (EIN).
3. Taxpayer's employee plan number, if applicable.
4. The name and address of taxpayer's representative.
5. The type of tax involved.
6. The federal tax form number.
7. The specific year(s) or period(s) involved.
8. For estate tax matter, the decedent's date of death.
9. A clear expression of the taxpayer's intention concerning the scope of authority granted to the representative.
10. Taxpayer's signature and date.

The name of the preparer of the return does not have to be included on a power of attorney.

6. 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. The appointee can inspect and/or receive a taxpayer's confidential tax information about specified tax matters.

ANSWER: D

Form 8821, Tax Information Authorization, is used to allow the IRS to disclose information concerning the taxpayer's tax account. A power of attorney (Form 2848) is used to authorize another individual to advocate the taxpayer's position, execute waivers, and represent the taxpayer by correspondence.

7. 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.

ANSWER: B

A representative who signs a Form 2848, Power of Attorney, declares under penalty of perjury that he or she is aware of the regulations contained in Treasury Department Circular No. 230.

8. A declaration of representative which accompanies a power of attorney includes the following statements EXCEPT:

A. I am authorized to represent the taxpayer(s) identified in the power of attorney.
B. I am subject to regulations contained in Circular 230.
C. I am a (naming the capacity in which representation is undertaken, as set forth in the list of eligible representatives at Part II of Form 2848.)
D. I have never been sanctioned (e.g., reprimand, suspension or disbarment by the Office of Professional Responsibility.

ANSWER: D

If a representative chooses to use a non-IRS power of attorney, he or she must attach a signed and dated statement, referred to as the "Declaration of Representative" that should read:

1. I am not currently under suspension or disbarment from practice before the IRS or other practice of my profession by any other authority,
2. I am subject to regulations contained in Circular 230 (31 C.F.R., Subtitle A, Part 10) as amended, governing practice before the Internal Revenue Service,
3. I am authorized to represent the taxpayer(s) identified in the power of attorney, and
4. I am a (naming the capacity in which representation is undertaken, as set forth in the list of eligible representatives at Part II of Form 2848.)

9. With regard to the declaration of the representative on a power of attorney, all of the following statements are true EXCEPT:

A. A fiduciary is required to show his or her relationship.
B. An attorney must indicate the state in which he or she is admitted to practice.
C. A CPA must include the state in which he or she is licensed to practice.
D. A full time employee must show his or her title.

ANSWER: A

A fiduciary (trustee, executor, administrator, receiver, or guardian) stands in the position of the taxpayer and acts as the taxpayer. Therefore, a fiduciary does not act as a representative and should not file a power of attorney. However, a fiduciary should file Form 56, Notice Concerning Fiduciary Relationship, to notify the IRS of the fiduciary relationship.

10. 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.

ANSWER: D

The appointed representative can substitute a representative or delegate authority to a new representative only if the act is specifically authorized under the power of attorney. The new representative must be recognized to practice before the IRS and file a written declaration of representation.

11. 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 IRS.
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.

ANSWER: D

The IRS has a centralized computer database called the Centralized Authorization File (CAF) that contains information on the authority of taxpayer representative. Generally, when a power of attorney is submitted to the IRS, it is processed for inclusion in the CAF. If the power of attorney cannot be entered onto the CAF system, it does not affect its validity. The CAF enables IRS personal, who do not have a copy of the power of attorney, to verify the authority of the representative by accessing the CAF. It also enables the IRS to automatically send copies of notices and other communications to the representative. If the representative named on the power of attorney does not have a CAF number, the IRS will issue the representative a CAF number after the power of attorney is filed.

12. 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.

ANSWER: C

The IRS assigns a CAF number to individuals appointed under powers of attorney or designated under the tax information authorization system. The CAF enables IRS personnel, who do not have a copy of a representative's power of attorney or an individual's Tax Information Authorization to verify that the representative or individual has authority to IRS information about a taxpayer.

13. Which of the following is correct regarding a refund check?

A. Form 2848, Power of Attorney, may be used to authorize cashing of a refund check.
B. Form 2848, Power of Attorney, may be used to authorize receipt of a refund check.
C. Form 8821, Tax Information Authorization must be signed before a refund check may be applied to a fee for electronic filing.
D. Both Form 2848 and Form 8821 must be used to authorize cashing a refund check.

ANSWER: B

Form 2848, Power of Attorney, may be used to authorize receipt of a refund check but not to endorse or cash the check.

14. A taxpayer wants to revoke a power of attorney that she previously executed and does not want to name a new representative. In order to do this, what is the most appropriate action?

A. Call the IRS toll free number and inform them she wants to revoke the current power of attorney that is on file.
B. Send a letter to her nearest IRS Center informing them that she wants to revoke the current power of attorney that is on file.
C. Send a copy of the previously executed power of attorney to the IRS (with an original signature) and write "REVOKE" across the top of the power of attorney.
D. Send a new power of attorney to the IRS office(s) where the prior power was originally filed and name herself as the representative.

ANSWER: C

If a taxpayer wants to revoke an existing power of attorney and does not want to name a new representative, the taxpayer sends a copy of the previously executed power of attorney with the original signature to the IRS and writes "REVOKE" across the top of the power of attorney.

15. A durable power of attorney ends when the taxpayer

A. Becomes incapacitated.
B. Becomes incompetent.
C. Dies.
D. All of the above.

ANSWER: C

A durable power of attorney continues when the taxpayer becomes incapacitated or incompetent. The durable power of attorney ends when the taxpayer dies.

Legal Authority and References

16. The current Internal Revenue Code is referred to as

A. The Internal Revenue Code of 1939.
B. The Internal Revenue Code of 1954.
C. The Internal Revenue Code of 1986.
D. The Internal Revenue Code of 2008.

ANSWER: C

The tax statutes were brought together by an Act of Congress on February 10, 1939 as the Internal Revenue Code later known as the Internal Revenue Code of 1939. The 1939 Code lasted 15 years. It was replaced by the Internal Revenue Code of 1954. The Tax Reform Act of 1986 represented the most extensive overhaul of the tax code in over 30 years. The scope and magnitude of the amendments were so great Congress decided to redesignate the 1954 Code as the Internal Revenue Code of 1986.

17. The Internal Revenue Code (IRC) was enacted by Congress under which Title of the United States Code?

A. Title 7
B. Title 15
C. Title 26
D. Title 31

ANSWER: C

Federal tax law begins with the Internal Revenue Code (IRC), enacted by Congress in Title 26 of the United States Code (26 U.S.C.).

18. Which of the following statements best describes the applicability of a constitutionally valid Internal Revenue Code section on the various courts?

A. Only the Supreme Court is NOT bound to follow the code section. All other courts are bound to the Code section.
B. Only the Tax Court is bound to the Code section, all other courts may waiver from the Code section.
C. Only District, Claims and Appellate Courts are bound by the Code section, the Supreme and Tax Courts may waiver from it.
D. ALL courts are bound by the Code section.

ANSWER: D

The Internal Revenue Code is binding by all courts except when held to violate the constitution.

19. All of the following statements with respect to classes of regulations are correct EXCEPT:

A. All regulations are written by the Office of the Chief Counsel, IRS, and approved by the Secretary of the Treasury.
B. Public hearings are NOT held on temporary regulations.
C. Although IRS employees are bound by the regulations, the courts are NOT.
D. Public hearings are NOT held on proposed regulations.

ANSWER: D

The three classes of regulations are:

1. **Temporary regulations** - Issued to provide guidance for the public and IRS employees until final regulations are issued. Public hearings are not held on temporary regulations.
2. **Proposed regulations** - Issued to solicit public written comments. Public hearings are held if written requests are made.
3. **Final regulations** - Issued after public comments on the proposed regulations are evaluated. They supersede the temporary regulations.

All regulations are written by the Office of the Chief Counsel, IRS, and approved by the Secretary of the Treasury.

20. All of the following statements with respect to revenue rulings and revenue procedures are correct EXCEPT:

A. Revenue procedures are official statements of procedures that either affect the rights or duties of taxpayers or other members of the public, or should be a matter of public knowledge.
B. The purpose of revenue rulings is to promote uniform application of the tax laws.
C. Taxpayers CANNOT appeal adverse return examination decisions based on revenue rulings and revenue procedures to the courts.
D. IRS employees must follow revenue rulings and revenue procedures.

ANSWER: C

Revenue rulings are the published conclusions of the IRS concerning the application of tax law to an entire set of facts.

Revenue procedures are official statements of procedures that either affect the rights or duties of taxpayers or other members of the Public, or should be a matter of Public knowledge.

The purpose of revenue rulings is to promote a uniform application of the tax laws, and therefore IRS employees must follow the rulings. While taxpayers can rely on the rulings, they can also appeal adverse return examination decisions based on those rulings to the Tax court or other Federal courts.

21. Revenue rulings are published in:

A. Internal Revenue Bulletin
B. Cumulative Bulletin
C. IRS publications
D. Code of Federal Regulations

ANSWER: A

Revenue rulings are official interpretation by the IRS of the Internal Revenue Code, related statutes, tax treaties and regulations. It is the conclusion of the IRS on how the law is applied to a specific set of facts. Revenue rulings are published in the Internal Revenue Bulletin for the information of and guidance to taxpayers, IRS personnel and tax professionals.

22. With regard to revenue rulings and revenue procedures, all of the following statements are correct EXCEPT:

A. A revenue ruling is a published official interpretation of tax law by the IRS that sets forth the conclusion of the IRS on how the tax law is applied to an entire set of facts.
B. Revenue rulings have the force and effect of Treasury Regulations.
C. A revenue procedure is a published official statement of procedure that either affects the rights or duties of taxpayers or other members of the public under the Internal Revenue Code and related statutes and regulations or, if not necessarily affecting the rights and duties of the public, should be a matter of public knowledge.
D. Revenue procedures are directive and NOT mandatory so that a taxpayer has no vested right to the benefit of the procedures when the IRS deviates from its internal rules.

ANSWER: B

Treasury regulations provide explanations, definitions, examples, and rules which explain the language of the Code. Revenue rulings are the published conclusions of the IRS concerning the application of the tax law to a specific set of facts. The purpose of revenue rulings is to promote a uniform application of the tax laws, and therefore IRS employees must follow the rulings. While taxpayers can rely on the rulings, they can also appeal adverse return examination decisions based on those rulings to the Tax court or other Federal courts.

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

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

ANSWER: C

Decisions of the courts other than the Supreme Court are binding on the IRS only for the particular taxpayer and for the years litigated. Thus, decisions of the lower courts do not require the IRS to alter its position for all other taxpayers. The IRS may decide to acquiesce (follow) or nonacquiesce (not follow) an adverse Tax Court decision. Decisions by the IRS on Tax Court decisions are published in the Internal Revenue Bulletin which later becomes part of the Cumulative Bulletin.

24. Through which of the following can an individual request records through the Freedom of Information Act?

A. IRS
B. Congress
C. U.S. Supreme Court
D. A state agency.

ANSWER: A

The Freedom of Information Act (FOIA), which can be found in Title 5 of the United States Code, section 552(1), was enacted in 1966 and generally provides that any person has the right to request access to federal agency records or information. All agencies of the Executive Branch of the United States Government are required to disclose records upon receiving a written request for them, except for those records (or portions of them) that are protected from disclosure by the nine exemptions and three exclusions of the FOIA. FOIA requests can only be made for federal executive agency files. Congress, the U.S. Supreme Court, and state or local agencies are not subject to FOIA.

The following are the nine exemptions of the FOIA:

1. Items specifically required by an Executive Order to be kept secret in the interest of the national defense or foreign policy.
2. Items related solely to the internal rules and practices of an agency.
3. Items specifically exempted from disclosure by a statute.
4. Trade secrets and commercial or financial information obtained from a person and privileged or confidential.
5. Interagency or Intraagency memoranda or letters which would not be available by law to a party other than an agency.
6. Personal and medical files and similar files the disclosure of which would constitute a clearly unwarranted invasion of personal privacy.
7. Investigatory files compiled for law enforcement purposes except to the extent available by law to a party other than an agency.
8. Items contained in or related to examination, operating, or condition reports prepared by, on behalf of, or for the use of an agency responsible for the regulation or supervision of financial institutions.
9. Geological and geophysical information and data, including maps, concerning wells.

The following are the three exclusions of the FOIA:

1. Records relating to ongoing or undisclosed criminal investigations when disclosure could reasonably be expected to interfere with enforcement proceedings.
2. Informant records maintained by a criminal law enforcement agency under the informant's name or personal identifier. The agency is not required to confirm the existence of these records unless the informant's status has been officially confirmed.
3. Records maintained by the Federal Bureau of Investigation which pertain to foreign intelligence, counterintelligence, or international terrorism. When the existence of these types of records is classified, the FBI may treat the records as not subject to the requirements of FOIA.

Examination of Returns

25. By checking the "Yes" box in the "Third Party Designee" area of the return, a taxpayer can authorize the IRS to discuss his or her return with another person. It authorizes the designee to do the following EXCEPT:

A. Give the IRS any information that is missing from the tax return.
B. Receive copies of notices or transcripts related to the return, upon request.
C. Respond to certain IRS notices that the taxpayer shared with the designee about math errors, offsets, and return preparation.
D. Agree to proposed changes by the IRS to a return being audited.

ANSWER: D

A taxpayer can authorize the IRS to discuss his or her return with a friend, family member, or any other person the taxpayer chooses. By checking the "Yes" box in the "Third Party Designee" area of the return, the taxpayer authorizes the IRS to call the designee to answer questions that may arise during the processing of the tax return. It also authorizes the designee to:

- Give the IRS any information that is missing from the tax return.
- Call the IRS for information about the processing of the return or the status of the refund or payments.
- Receive copies of notices or transcripts related to the return, upon request.
- Respond to certain IRS notices that the taxpayer shared with the designee about math errors, offsets, and return preparation.

The designee is not authorized to receive any refund check, bind the taxpayer to anything (including any additional tax liability), or otherwise represent the taxpayer before the IRS. The authorization will automatically end no later than the due date (without regard to extensions) for filing the next year's return.

26. If a taxpayer's tax return was examined for the same items in either of the 2 previous years and no change was proposed to the taxpayer's tax liability:

A. The taxpayer may ignore the examination notice.
B. The taxpayer should call the Taxpayer Advocate Office and file a complaint.
C. The taxpayer should call the IRS as soon as possible to see if the examination should be discontinued.
D. The taxpayer should write a letter to the Service Center and complain that the Revenue Agents are harassing him.

ANSWER: C

If the taxpayer’s returns were examined for the same items in either of the two previous years and no change was proposed to the taxpayer’s tax liability, the taxpayer should contact the IRS and request that the examination be discontinued under the repetitive audit procedures.

27. 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.

ANSWER: D

Generally, a taxpayer's return is examined in the area where he or she lives. But if the return can be examined more quickly and conveniently in another area, such as where the taxpayer's books and records are located, the taxpayer can ask to have the case transferred to that area.

28. The IRS has begun an examination of Taxpayer X's income tax return. The IRS would like to ask X's neighbors questions with respect to that examination. There is no pending criminal investigation into the matter and there is no evidence that such contact will result in reprisals against the neighbors or jeopardize collection of the tax liability. Before the IRS contacts the neighbors, the IRS must:

A. Provide X with reasonable notice of the contact.
B. Make an assessment of X's tax liability.
C. Ask the court for a third-party recordkeeper subpoena.
D. Mail X a statutory notice of deficiency.

ANSWER: A

The IRS must give the taxpayer reasonable notice before contacting other persons about the taxpayer's tax matters. The taxpayer must be given reasonable notice in advance that, in examining or collecting a tax liability, the IRS may contact third parties such as the taxpayer's neighbors, banks, employers, or employees. The IRS must also give the taxpayer notice of specific contacts by providing the taxpayer with a record of persons contacted on both a periodic basis and upon the taxpayer's request. This provision does not apply to any of the following.

1. Pending criminal investigation.
2. When providing notice would jeopardize collection of any tax liability.
3. Where providing notice may result in reprisal against any person.
4. When the taxpayer authorizes the contact.

29. During the course of examining a taxpayer'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 the taxpayer reasonable notice before contacting third parties?

A. Pending criminal investigation.
B. Providing notice might result in reprisal against the contact.
C. The taxpayer authorizes the contact.
D. All of the above.

ANSWER: D

Refer to the analysis on the previous question.

30. If a taxpayer does not respond to the 30-day letter, or does not reach an agreement with an Appeals Officer, the IRS will send the taxpayer

A. A 90-day letter
B. A notice and demand
C. A notice of federal tax lien
D. Notice of intent to levy

ANSWER: A

If a taxpayer does not respond to the 30-day letter, or does not reach an agreement with an Appeals Officer, the IRS will send the taxpayer a 90-day letter, which is also known as a notice of deficiency.

31. A taxpayer received an audit notification letter scheduling an appointment for July 1, 2021 for the examination of her tax year 2019 Form 1040 return. The week before the scheduled appointment, she received a telephone call from the IRS office cancelling the appointment. She was told that she would be contacted at a later date to reschedule the appointment. She was not contacted until July 1, 2022, when she was advised of a new appointment date. Errors identified in the examination resulted in her owing additional tax of $4,000 plus accrued interest of $600. The taxpayer does not believe that she should have to pay interest for the period that she was waiting for her appointment to be rescheduled. How should she proceed?

A. Pay the tax and interest and deduct the interest on her 2022 return, the year paid.
B. Immediately request an Appeals conference to contest the interest.
C. Request an abatement of the interest by filing a Form 843 with the IRS service center where she filed her 2019 return
D. Immediately petition the Tax Court to contest the interest.

ANSWER: C

The IRS may abate (reduce) the amount of interest a taxpayer owes if the interest is due to an unreasonable error or delay by an IRS officer or employee performing a ministerial or managerial act.

Ministerial act. This is a procedural or mechanical act, not involving the exercise of judgment or discretion, during the processing of a case after all prerequisites (for example, conferences and review by supervisors) have taken place. A decision concerning the proper application of federal tax law (or other federal or state law) is not a ministerial act.

Managerial act. This is an administrative act during the processing of a case that involves the loss of records or the exercise of judgment or discretion concerning the management of personnel. A decision concerning the proper application of federal tax law (or other federal or state law) is not a managerial act.

In this question, the interest from the unreasonable delay for the appointment for the examination can be abated since the delay was a managerial act. The taxpayer can request an abatement (reduction) of interest on Form 843. The claim should be filed with the service center where the return was filed.

32. When dealing with IRS employees, you have certain rights. Which of the following most accurately reflects those rights?

A. A right of appeal is available for most collection actions.
B. A right of representation is only available in audit matters; it is not available for collection matters.
C. A case may not be transferred to a different IRS office, even if your authorized representative is located in an area different from your residence.
D. If you disagree with the IRS employee who handles your case, you must first have the employee's permission before requesting a meeting with the manager.

ANSWER: A

A right of representation is available during all tax matters involving the IRS.

A taxpayer can have the examination transferred to another district if he or she has moved to another district or his or her books are located in another district

If a taxpayer disagrees with the IRS employee who handles his or her case, the taxpayer may request a meeting with the manager without getting approval from the IRS employee.

33. The IRS offers fast track mediation services to help taxpayers resolve disputes resulting in all of the following EXCEPT:

A. Examinations
B. Offers in compromise.
C. Certain collection due process cases.
D. Service Center penalty appeals cases.

ANSWER: D

The IRS offers fast track mediation services to help taxpayers resolve many disputes resulting from:

1. Examinations (audits).
2. Offers in compromise.
3. Trust fund recovery penalties.
4. Other collection actions (for example, certain qualifying collection due process cases).

Most cases that are not docketed in any court qualify for fast track mediation.

Certain cases are excluded from fast track mediation. They include:

1. Issues for which there is no legal precedent.
2. Issues where the courts have rendered opposing or differing decisions in different jurisdictions.
3. Industry Specialization Program issues.
4. An issue for which the taxpayer has filed a request for competent authority assistance.
5. Service Center penalty appeals cases.
6. Service Center Offer in Compromise cases.
7. Collection Appeals Program cases.
8. Automated Collection System cases.
9. Constitutional issues.

Appeal Rights and Procedures

34. The examination of a taxpayer's tax return resulted in adjustments creating a tax liability in the amount of $30,000. The taxpayer does not believe she owes anything. A Notice of Proposed Income Tax Deficiency is issued to the taxpayer, who wants to appeal the Revenue Agent's adjustments to the IRS Office of Appeals. The taxpayer 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.

ANSWER: B

The taxpayer will receive a "30-day letter" notifying him or her of the right to appeal the proposed changes within the required 30 days.

35. With respect to preparation of a case for IRS Appeals the following statements are correct EXCEPT:

A. A brief written statement of the disputed issue (s) is not required if the increase or decrease in tax, including penalties, or refund, determined by examination is more than $2,500 but not more than $10,000.
B. If the proposed increase or decrease in tax, including penalties or claimed refund is more than $25,000, the taxpayer must submit a written protest of the disputed issues, including a statement of facts supporting the taxpayer's position on all disputed issues.
C. A declaration that the statement of facts is true under penalties of perjury must be added and signed by the taxpayer.
D. If a representative submits the protest for the taxpayer, he or she must submit a declaration stating, that he or she submitted the protest and accompanying documents and whether he or she knows personally that the statement of facts in the protest and accompanying documents are true and correct.

ANSWER: A

When a taxpayer requests an Appeals conference, he or she may also need to file either a formal written protest or a small case request with the office named on the letter received from the IRS. A taxpayer must file a written protest for the following.

1. In all employee plan and exempt organization cases regardless of the dollar amount.
2. In all partnership and S corporation cases without regardless of the dollar amount.
3. In all cases, unless the taxpayer qualifies for the small case request procedure, or special appeal procedures such as requesting Appeals consideration of liens, levies, seizures, or installment agreements.

If the total amount for any tax period is not more than $25,000, a taxpayer may make a small case request instead of filing a formal written protest. For a small case request, the taxpayer must send a letter:

1. Requesting Appeals consideration,
2. Indicating the changes he or she does not agree with, and
3. Indicating the reasons why he or she did not agree.

36. 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.

ANSWER: C

Refer to the analysis on the previous question. The taxpayer must sign the written protest, stating that it is true, under the penalties of perjury as follows:

"Under the penalties of perjury, I declare that I examined the facts stated in this protest, including any accompanying documents, and, to the best of my knowledge and belief they are true, correct, and complete."

If the taxpayer's representative submits the protest, he or she may substitute a declaration stating:

1. That he or she prepared the protest and accompanying documents, and
2. Whether he or she knows personally that the statement of facts in the protest and accompanying documents are true and correct.

37. A taxpayer is the sole shareholder in an S corporation. The S corporation was examined and the IRS proposed a $20,000 deficiency. What must the shareholder do to request an Appeals conference?

A. File a formal written protest.
B. Pay the deficiency.
C. Hire a federally authorized tax practitioner to represent the S corporation.
D. Nothing because the S corporation is eligible for the small case procedure.

ANSWER: A

A taxpayer must file a written protest for the following.

1. In all employee plan and exempt organization cases regardless of the dollar amount.
2. In all partnership and S corporation cases without regardless of the dollar amount.
3. All other cases, unless the taxpayer qualifies for the small case request procedure, or special appeal procedures such as requesting Appeals consideration of liens, levies, seizures, or installment agreements.

38. The Statutory Notice of Deficiency is also known as

A. A 30-day letter because the taxpayer generally has 30 days from the date of the letter to file a petition with the Tax Court.
B. A 90-day letter because the taxpayer generally has 90 days from the date of the letter to file a petition with the Tax Court.
C. An Information Document Request (IDR) because the taxpayer is asked for information to support its position regarding its liability for tax.
D. A notice and demand because the taxpayer is put on notice that the tax liability is due and owing.

ANSWER: B

If a taxpayer does not respond to the 30-day letter or if he or she does not reach an agreement with an Appeals Officer, the IRS will send the taxpayer a **90-day letter**, also known as a statutory notice of deficiency.

If the taxpayer lives outside the United States, the notice of deficiency provides **150 days** to either agree to the deficiency or to file a petition with the Tax Court for a redetermination of the deficiency.

39. All of the following statements concerning the procedure for a written protest submitted by a representative to obtain an Appeals Office conference are correct EXCEPT:

A. A written protest is required when the tax due, INCLUDING penalties, is MORE than $25,000.
B. A written protest MUST contain the tax years involved AND a statement that the taxpayer wants to appeal to the Appeals Office.
C. A written protest MUST contain a statement of facts for EACH disputed issue and a statement of law or other authority relied upon for each issue.
D. A written protest MUST contain a declaration under penalties of perjury, signed by the taxpayer that the statement of facts is true and correct.

ANSWER: D

A written protest should contain the following:

1. Name and address, and daytime telephone number of the taxpayer,
2. A statement that the taxpayer wants to appeal the examination findings to the Appeals Office,
3. A copy of the letter showing the proposed changes and findings the taxpayer does not agree with (or the date and symbols from the letter),
4. The tax periods or years involved,
5. A list of the changes that the taxpayer does not agree with, and why he or she does not agree,
6. The facts supporting the taxpayer's position on any issue that he or she does not agree with, and
7. The law or authority, if any, on which the taxpayer is relying.

If the taxpayer submits the written protest, he or she must contain a signed declaration that the statement of facts under (6) is true under penalties of perjury. If the taxpayer's representative submits the protest, he or she may substitute a declaration stating:

1. That he or she prepared the protest and accompanying documents, and
2. Whether he or she knows personally that the statement of facts in the protest and accompanying documents are true and correct.

40. If you don't agree with the I RS examination conclusion you may take your case to which of the following:

A. United States Tax Court
B. United States Court of Federal Claims
C. United States District Court
D. All of the above

ANSWER: D

If the taxpayer and the IRS still disagree after the appeals conference, the taxpayer can take his case to the United States Tax Court, the United States Court of Federal Claims, or the United States District Court.

41. A disagreement with the IRS 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.

ANSWER: D

To take a case to the Tax Court, the IRS must first send the taxpayer a notice of deficiency. Then, the taxpayer must file a petition 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). A case can be taken to Tax Court if it pertains to income tax, estate tax, gift tax, or certain excise taxes of private foundations, public charities, qualified pensions and other retirement plans, or real estate investment trusts.

42. After the issuance of a Statutory Notice of Deficiency, failure to timely file a petition with Tax Court will result in which of the following?

A. The IRS will issue a 30-day letter.
B. The IRS will assess the tax it says the taxpayer owes.
C. The IRS will issue a 90-day letter.
D. You will be required to post a deposit before being allowed to request an extension for time to file a petition.

ANSWER: B

If the taxpayer does not file his petition on time, the proposed tax will be assessed, a bill will be sent to the taxpayer, and the taxpayer will not be able to take his case to the Tax Court.

43. A taxpayer may choose to pay a disputed deficiency and then file a claim for refund. If the claim is denied by the IRS or if no decision is made in 6 months, the taxpayer may petition.

A. The United Sates Tax Court.
B. The Court of Appeals.
C. Either the United States District Court of the Court of Appeals.
D. Either the United States District Court or the United States Claims Court.

ANSWER: D

The District Court and the Claims Court hear tax cases only after the taxpayer has paid the tax and filed a claim for a credit or refund. The U.S. Court of Appeals hears appeals of decisions from the other three courts.

44. The "Small Tax Case" procedures in the Tax Court allow resolution of cases under a set of rules that are simpler than the normal Tax Court procedures. A case may be designated a "Small Tax Case" in the Tax Court, if the amount of tax at issue for each tax year or period is not more than

A. $50,000
B. $100,000
C. $125,000
D. $150,000

ANSWER: A

If the amount in the case is $50,000 or less for any one tax year or period, the Tax Court has a simple alternative to resolve the case. This simple alternative is called the Small Case Tax Procedure. Under this procedure, a taxpayer can present his or her case to the Tax Court for a decision that is final and cannot be appealed. Generally, the Tax Court hears cases before any tax has been assessed and paid.

45. 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.
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.

ANSWER: D

Generally, the Tax Court hears cases before any tax has been assessed and paid.

46. Disputes involving what areas of taxation may NOT be resolved in the United States Tax Court?

A. Income tax
B. Gift tax
C. Employment tax
D. Estate tax

ANSWER: C

The following areas of taxation can be resolved in tax court.

1. Income tax.
2. Estate tax.
3. Gift tax.
4. Certain excise taxes of private foundations, public charities, qualified pension and other retirement plans, or real estate investment trusts.

The tax court does not have jurisdiction over employment, certain other excise, or wagering taxes.

47. If you don't agree with the IRS examination conclusion you may take your case to the United States Tax Court for the following:

A. State income tax examination.
B. Federal income tax examination.
C. Federal estate tax examination.
D. Both B. and C.

ANSWER: D

The following areas of taxation can be resolved in tax court.

1. Income tax.
2. Estate tax.
3. Gift tax.
4. Certain excise taxes of private foundations, public charities, qualified pension and other retirement plans, or real estate investment trusts.

The tax court does not have jurisdiction over state income tax.

48. To which court may a taxpayer petition, without first paying the disputed tax, regarding a disagreement with the IRS?

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

ANSWER: C

The District Court and the Claims Court hear tax cases only after the taxpayer has paid the tax and filed a claim for a credit or refund.

49. A taxpayer does not agree with the findings of the Tax Court and his case was not handled under the "small tax case procedure." Which one of the following courts would he appeal to first?

A. Court of Appeals.
B. U.S. Court of Appeals for the Federal Circuit.
C. U.S. Supreme Court.
D. Claims Court.

ANSWER: A

Both the taxpayer and the Government may appeal decisions of the Tax Court, Claims Court or District Court to the Court of Appeals.

50. The IRS has the burden of proof for any factual issue in a court proceeding if the taxpayer has met the following requirements EXCEPT:

A. Provided credible evidence relating to the issue in a court proceeding.
B. Complied with all substantiation requirements and maintained all required records.
C. Cooperated with all reasonable requests by the IRS for information regarding the preparation and related tax treatment of any item reported on the return.
D. Had a net worth of $8 million or less and not more than 50 employees at the time the taxpayer's tax liability is contested in any court proceeding if the tax return is for a corporation, partnership, or trust.

ANSWER: D

The IRS generally has the burden of proof for any factual issue if the taxpayer has met the following requirements.

1. Introduced credible evidence relating to the issue.
2. Complied with all substantiation requirements of the Internal Revenue Code.
3. Maintained all records required by the Internal Revenue Code.
4. Cooperated with all reasonable requests by the IRS for information regarding the preparation and related tax treatment of any item reported on the tax return.
5. Had a net worth of $7 million or less and not more than 500 employees at the time the taxpayer's tax liability is contested in any court proceeding if the tax return is for a corporation, partnership, or trust.

51. A corporation's tax return was examined, resulting in unagreed adjustments which were appealed and sustained at the IRS Appeals Office. The corporation still believes that the adjustments are erroneous and wants a judge to hear it 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 is not a criterion that 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. The corporation had not more than 200 employees at the time the petition was filed in the Tax Court.

ANSWER: D

The IRS generally has the burden of proof for any factual issue if the taxpayer has met the following requirements.

1. Introduced credible evidence relating to the issue.
2. Complied with all substantiation requirements of the Internal Revenue Code.
3. Maintained all records required by the Internal Revenue Code.
4. Cooperated with all reasonable requests by the IRS for information regarding the preparation and related tax treatment of any item reported on the tax return.
5. Had a net worth of $7 million or less and not more than 500 employees at the time the taxpayer's tax liability is contested in any court proceeding if the tax return is for a corporation, partnership, or trust.

Collection Procedures

52. A taxpayer received a Notice of Tax Due and Demand for Payment in the amount of $30,000 as a result of an examination of her Form 1040. She is not able to pay the entire amount at this time and would like to set up an installment agreement. Which of the following statements is NOT true regarding setting up an installment agreement?

A. The taxpayer must wait for a Notice of Federal Tax Lien to be filed before she can request an installment agreement.
B. The taxpayer may have to fill out a Collection Information Statement.
C. The taxpayer will be charged a user fee to set up an installment agreement.
D. The taxpayer must file all of her returns that are due to be eligible for an installment agreement.

ANSWER: A

A taxpayer can request a monthly installment plan if the taxpayer cannot pay the full amount owed. To be valid, the request must be approved by the IRS. However, if the taxpayer owes $10,000 or less in tax and meets certain other criteria, the IRS must accept the request. If the IRS approves the installment request, the IRS will send a notice detailing the terms of the agreement and requesting a fee. The fees are:

- $31, if setting up an online payment agreement and making the payments by direct debit.
- $107, if not setting up an online payment agreement but making the payments by direct debit.
- $149, if setting up an online payment agreement but not making the payments by direct debit.
- $225, if not setting up an online payment agreement and not making the payments by direct debit.
- $43 if the taxpayer's income is below a certain level.

53. A taxpayer received a Notice of Tax Due and Demand for Payment in the amount of $25,000 as a result of an examination of her Form 1040, U. S. Individual Income Tax Return. She is not able to pay the entire amount at this time and would like to set up an installment agreement. Which of the following statements is NOT true regarding setting up an installment agreement?

A. Installment agreements generally require equal monthly payments.
B. The taxpayer must file all tax returns that are required to be filed, and make current estimated tax payments (if required).
C. The taxpayer will be charged a user fee to set up an installment agreement.
D. Under an installment agreement, payment must be paid by check.

ANSWER: D

A taxpayer can request a monthly installment plan if the taxpayer cannot pay the full amount owed. To be valid, the request must be approved by the IRS. There is a user fee. The fees are:

- $31, if setting up an online payment agreement and making the payments by direct debit.
- $107, if not setting up an online payment agreement but making the payments by direct debit.
- $149, if setting up an online payment agreement but not making the payments by direct debit.
- $225, if not setting up an online payment agreement and not making the payments by direct debit.
- $43 if the taxpayer's income is below a certain level.

54. All of the following statements with respect to resolving tax problems involving the collection process are correct EXCEPT:

A. You may be entitled to a reimbursement for fees charged by your bank if the IRS has erroneously levied your account.
B. You should first request assistance from IRS collection employees or their mangers before seeking assistance from the Problem Resolution Officer.
C. If you suffer a significant hardship because of the collection of the tax liability, you may request assistance from the IRS on Form 911, Application for Assistance Order to Relieve Hardship.
D. While you are making installment payments, interest will continue to accrue only on the tax liability due.

ANSWER: D

While a taxpayer is making installment payments, interest and penalties will continue to accrue on the unpaid balance of taxes. Interest will also continue to accrue on the unpaid balance of penalties and interest owed.

55. The installment agreement is one of the acceptable methods of paying off a tax debt to the United States Treasury. Financial information on a "Collection Information Statement" may be required as a condition of the installment agreement. Generally, an installment agreement will be accepted without this statement if the dollar amount is:

A. $20,000 or less if it is a joint return.
B. $25,000 or less.
C. At least $15,000 for the current year, but less than $20,000 for all years.
D. $10,000 or less.

ANSWER: B

If the total amount owed is greater than $25,000 but not more than $50,000, the taxpayer must agree to an Electronic Funds Transfer (EFT) Agreement to qualify for an installment agreement without completing a financial statement (Form 433-F). If the taxpayer does not agree to a Direct Debit Installment Agreement, Form 433-F, Collection Information Statement, must be completed and mail it with Form 9465. If the amount owed is greater than $50,000, Form 433-F must be completed and mailed with Form 9465.

56. Which of the following is true with respect to an offer in compromise?

A. The taxpayer must pay the full amount owed.
B. Collection actions, such as levy, may be delayed.
C. A rejected offer cannot be appealed.
D. Penalties and interest will stop accruing during the offer evaluation process.

ANSWER: B

In certain circumstances, the IRS will allow a taxpayer to pay less than the full amount. To qualify the taxpayer should submit an offer in compromise. The offer in compromise may delay collection actions such as levy. If an offer in compromise is rejected, the taxpayer has 30 days to ask the Appeals Office of the IRS to reconsider the offer. Penalties and interest will continue to accrue during the offer evaluation process.

57. The IRS may accept an Offer in Compromise to settle unpaid tax accounts for less than the full amount due. A Collection Information Statement (financial statement) is NOT required with the offer when the reason for the offer is

A. Doubt as to liability.
B. Doubt as to collectibility.
C. To promote effective tax administration.
D. Economic hardship.

ANSWER: A

An Offer in Compromise may be made for one of the following reasons.

1. **Doubt as to the liability** - there is doubt as to whether or not the assessed tax is correct.
2. **Doubt as to collectibility** - there is a doubt that the taxpayer has the ability to fully pay the amount owed.
3. **Promote effective tax administration** - there is no doubt that the assessed tax is correct and no doubt that the amount owed could be collected, but the taxpayer has an economic hardship or other special circumstances which may allow the IRS to accept less than the total balance due.

If a taxpayer submits an Offer in Compromise based on the doubt as to collectibility or promotion of effective tax administrative, the taxpayer must also submit a Collection Information Statement (Form 433- A for individuals and/or Form 433- B for businesses). The Collection Information Statement is not required for an Offer in Compromise based on doubt as to liability.

58. All of the following are reasons why the IRS may settle for less than the full amount of the balance due by accepting an Offer in Compromise EXCEPT:

A. There is doubt as to whether or not the assessed tax is correct.
B. There is doubt as to the collectibility.
C. The taxpayer is currently unemployed.
D. There is no doubt that assessed tax is correct and no doubt that the amount owed could be collected, but the taxpayer has an economic hardship.

ANSWER: C

Refer to the analysis on the previous question.

59. Which of the following may the IRS settle by accepting an Offer in Compromise for less than the full amount of the balance due?

A. A tax deficiency, but not penalties and accrued interest.
B. A tax deficiency plus penalties, but not accrued interest.
C. A tax deficiency plus accrued interest, but not penalties.
D. A tax deficiency plus penalties and accrued interest.

ANSWER: D

The IRS may accept an Offer in Compromise to settle unpaid tax accounts for less than the full amount of the balance due. This applies to all taxes, including any interest, penalties, or additional amounts arising under the internal revenue laws.

60. When considering to accept an Offer in Compromise, the IRS will use the following expenses in their expense calculations EXCEPT:

A. Mortgage payments
B. Tuition for private schools
C. College expenses
D. Both B & C

ANSWER: D

To calculate an offer amount, the taxpayer will need information about his or her financial situation, including cash, investments, available credit, assets, income, and debt. Also required is information about the taxpayer's average gross monthly household income and expenses. The entire household includes spouse, significant other, children, and others that reside in the household. This is necessary for the IRS to accurately evaluate the offer. In general, the IRS will not accept expenses for tuition for private schools, college expenses, charitable contributions, and other unsecured debt payments as part of the expenses calculation.

61. All of the following forms are used when filing an Offer in Compromise EXCEPT:

A. Form 656
B. Form 433-A
C. Form 433-B
D. Form 433-F

ANSWER: D

Form 656 is used to file an Offer in Compromise (OIC). Form 433-A, Collection Information Statement for Wages Earners and Self-Employed Individuals, must be attached to an OIC submitted by an individual. Form 433-B, Collection Information Statement for Businesses, must be attached to an OIC submitted by a business. A taxpayer may be required to fill out a Form 433-F, Collection Information Statement, if he or she owes more than $25,000 and wants to set up an installment agreement (Form 9465).

62. Taxpayer A wants to file an Offer in Compromise based on the doubt of the liability. Which financial statement must be attached to Form 656-L (Doubt as to Liability)?

A. Form 433-A
B. Form 433-B
C. Form 9423
D. No financial form is needed.

ANSWER: D

When submitting Form 656-L, a taxpayer must provide a written statement explaining why the tax debt or portion of the tax debt is incorrect. In addition, the taxpayer should provide supporting documentation or evidence that will help the IRS identify the reason(s) the taxpayer doubts the accuracy of the tax debt. Since the taxpayer is not requesting a reduction on the taxes due, no financial statements are needed.

63. Once a notice of federal tax lien has been filed, all of the following are true EXCEPT:

A. The lien applies to all of the taxpayer's real and personal property, and to all of his or her rights to property, until the tax is paid.
B. The IRS will issue a release of the notice of federal tax lien within 15 business days after the taxpayer satisfies the tax due (including interest and other additions) by paying the debt, by having it adjusted, or if the IRS accepts a bond that the taxpayer submits, by guaranteeing a payment of the debt.
C. By law, a filed notice of tax lien can be withdrawn if withdrawal will speed collecting the tax.
D. The law requires the IRS to notify the taxpayer in writing within 5 business days after the filing of a lien.

ANSWER: B

The IRS will issue a Release of the Notice of Federal Tax Lien:

1. Within **30 days** after the taxpayer satisfies the tax due (including interest and other additions) by paying the debt or by having it adjusted, or
2. Within **30 days** after the IRS accepts a bond that the taxpayer submits, guaranteeing payment of the debt.

64. A lien is a legal claim to property as security or payment for a tax debt. Select the best answer regarding the filing of a Notice of Federal Tax Lien:

A. May be filed simultaneously with a Notice and Demand for Payment.
B. May be filed when a tax deficiency resulting from an audit is agreed to.
C. May not be filed when an installment agreement is in effect and payments are being made.
D. May be filed after a tax liability is assessed, billed and the debt is not paid within 10 days of notification.

ANSWER: D

The IRS may still file a Notice of Federal Tax Lien even though the taxpayer has agreed to an installment agreement and is making payments.

65. How long does the IRS have to remove a lien after a tax liability has been paid off?

A. 15 days
B. 30 days
C. 60 days
D. 90 days

ANSWER: B

The IRS will issue a Release of the Notice of Federal Tax Lien:

- Within 30 days after the taxpayer satisfies the tax due (including interest and other additions) by paying the debt or by having it adjusted, or
- Within 30 days after the IRS accepts a bond that the taxpayer submits, guaranteeing payment of the debt.

66. A levy is

A. A public notice to the taxpayer's creditors that the Government has a claim against the taxpayer's property.
B. A legal seizure of property to satisfy a tax debt.
C. An assessment of taxes.
D. An extension of the statutes of limitations.

ANSWER: B

A levy is a legal seizure that authorizes the taking of property (such as a house or car) or rights to property (such as income, bank account, or Social Security payments) to satisfy a tax debt.

67. Which of the following best describes a levy when it relates to a tax debt

A. A levy is not a legal seizure of property.
B. A levy on salary or wages will end when the time expires for legally collecting the tax.
C. A levy can only be released by the filing of a lien.
D. A levy does not apply to wearing apparel and school books.

ANSWER: B

A levy is a legal seizure of property to satisfy a tax debt. The IRS can release a levy without filing a lien. A levy does not apply to school books and wearing apparel that are necessary for the taxpayer and his or her family.

68. If, after a Collection Due Process hearing with the Office of Appeals to discuss an IRS levy or lien, a taxpayer does not agree with the Appeals determination, the taxpayer has how many days from the date of the determination to bring suit to contest the determination?

A. 15 days
B. 30 days
C. 60 days
D. 90 days

ANSWER: B

If, after a Collection Due Process hearing with the Office of Appeals to discuss an IRS levy or lien, the taxpayer does not agree with the Appeals determination, the taxpayer has **30 days** from the date of the determination to bring suit in a court of proper jurisdiction (U.S. Tax Court or U.S. District Court, depending on the circumstances).

69. A taxpayer can use Form 9423, Collection Appeal Request, to appeal all of the following collection actions EXCEPT?

A. Notice of Federal Tax Lien.
B. Final Notice of Intent to Levy
C. Request for a Collection Due Process Hearing.
D. Denial or termination of an installment agreement.

ANSWER: C

Form 9423, Collection Appeal Request, is used to appeal a collection action. Using Form 9423, a taxpayer may request an appeal of the following actions.

1. Notice of federal tax lien.
2. Final Notice of Intent to Levy.
3. Notice of Seizure
4. Denial or termination of an installment agreement.

If a taxpayer disagrees with the decisions of the Revenue Officer and wishes to appeal, the taxpayer must first request a conference with a Collection manager. If the taxpayer cannot resolve the disagreement with the Collection manager, the taxpayer may request Appeals consideration by completing Form 9423. On From 9423, the taxpayer must check the collection action(s) that he or she disagrees with and explain why he or she disagrees. The taxpayer must also explain a solution to resolve his or her tax problem. The taxpayer must let the Collection office know within 2 business days after the conference with the Collection manager that he or she plans to submit Form 9423. The Form 9423 must be received or postmarked within 3 business days of the conference with the Collection manager or collection action may resume.

70. To qualify for innocent spouse relief, a taxpayer must meet all the following conditions EXCEPT:

A. Filed a joint return which has an understatement of tax due to erroneous items of the taxpayer's spouse (or former spouse).
B. Establish that at the time the taxpayer signed the joint return the taxpayer did not know, and had no reason to know, that there was an understatement of tax.
C. Be divorced, widowed, legally separated, or have not lived spouse for the 12 months ending on the date election of this relief is filed.
D. Taking into account all the facts and circumstances, it would be unfair to hold the taxpayer liable for the understatement of tax.

ANSWER: C

A taxpayer must meet all of the following conditions to qualify for innocent spouse relief.

1. Filed a joint return which has an understatement of tax due to erroneous items of taxpayer’s spouse (or former spouse).
2. Establish that at the time the taxpayer signed the joint return the taxpayer did not know, and had no reason to know, that there was an understatement of tax.
3. Taking into account all the facts and circumstances, it would be unfair to hold the taxpayer liable for the understatement of tax.

71. Married taxpayers file a joint return and are unable to pay the taxes. The spouse not responsible for incurring the tax liability can make use of what relief of the liability?

A. Innocent spouse relief
B. Separation of liability relief
C. Equitable relief
D. Tax Court review relief

ANSWER: A

In some cases, one spouse may be relieved of joint liability for tax, interest, and penalties on a joint return for items of the other spouse that were incorrectly reported on the joint return. There are three types of relief available.

1. **Innocent spouse relief**. A taxpayer must meet all of the following conditions to qualify for innocent spouse relief.
   a. Filed a joint return which has an understatement of tax due to erroneous items of the taxpayer's spouse (or former spouse).
   b. Establish that at the time the taxpayer signed the joint return the taxpayer did not know, and had no reason to know, that there was an understatement of tax.
   c. Taking into account all the facts and circumstances, it would be unfair to hold the taxpayer liable for the understatement of tax.
2. **Separation of liability**. Applies to joint filers who are divorced, widowed, legally separated, or have not lived together for the 12 months ending on the date election of this relief is filed.
3. **Equitable relief**. Applies to all joint filers who do not qualify for innocent spouse relief or separation of liability and to married couples filing separate returns in community property states.

Claims for Refund

72. A claim for refund must be filed

A. No later than 3 years after you filed your original return
B. No later than 2 years from the date you paid the tax
C. Both A and B, whichever is later
D. 4 years after making estimated payments

ANSWER: C

A claim for refund must be filed within 3 years from the date the original return was filed or 2 years from the date the tax was paid, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date.

73. Taxpayer G timely filed her 2019 tax return and paid the $2,000 tax as shown on the return at the time of filing. The return was subsequently examined and G signed an agreement form for the proposed changes on August 20, 2021. She paid the additional tax due of $5,000 on September 30, 2021. In 2022, G located missing records which she believes would make $3,000 of the additional assessment erroneous. Which of the following statements accurately states the date by which G must file a claim for refund to get the $3,000 back?

A. August 20, 2023, two years from signing the agreement form.
B. April 15, 2023, three years from the due date of the original return.
C. September 30, 2023, two years from when the additional tax was paid.
D. No claim for refund can be filed since an examination agreement form was signed.

ANSWER: C

A claim for refund must be filed within 3 years from the date the original return was filed or 2 years from the date the tax was paid, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date.

74. A calendar year taxpayer filed his federal income tax return, with a refund due, for tax year 2021 on April 1, 2022. The last day to timely file a claim for refund with respect to that return is:

A. April 1, 2024
B. April 15, 2024
C. April 1, 2025
D. April 15, 2025

ANSWER: D

A claim for refund must be filed within 3 years from the date the original return was filed or 2 years from the date the tax was paid, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date.

75. Taxpayer M's individual income tax return for 2019 was examined by the IRS, which resulted in a tax assessment in the amount of $10,000. Thereafter, M discovered papers which he believed would show that the IRS determination was erroneous. M can claim a refund of income taxes as follows:

A. Take a credit for the amount on his 2020 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 2019, or two years from the date he paid the tax, whichever is later.
D. Immediately sue for a refund in court.

ANSWER: C

A claim for refund must be filed within 3 years from the date the original return was filed or 2 years from the date the tax was paid, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date.

76. All of the following forms can be used to file a claim for refund EXCEPT:

A. Form 843
B. Form 1040X
C. Form 1120X
D. Form 4506

ANSWER: D

Individuals must use Form 1040X, Amended U.S. Individual Income Tax Return for refund or abatement of federal income tax. Corporations should file Form 1120X, Amended U.S. Corporation income Tax Return for a refund claim.

Form 843 is used to request the following.

1. An abatement of tax, other than income, estate, or gift tax.
2. A refund to an employee of excess social security or railroad retirement (RRTA) tax withheld by any one employer, but only if the employer will not adjust the overcollection.
3. A refund of an employee social security or Medicare taxes that were withheld in error.
4. A refund or abatement of interest, penalties, or additions to tax caused by certain IRS errors or delays, or certain erroneous written advice from the IRS.
5. A refund or abatement of a penalty or addition to tax due to reasonable cause or other reason (other than erroneous written advice provided by the IRS) allowed under the law.
6. A refund under section 6715 for misuse of dyed fuel.
7. Abatement or refund of interest or penalties under section 6404(e) or 6404(f) relating to excise taxes.
8. A refund or abatement of tier 1 RRTA tax for an employee representative.

Form 4506 is used to request a copy of the taxpayer's tax return.

Statute of Limitations

77. A taxpayer timely filed his Federal income tax return for 2018. 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 the taxpayer believed were erroneous. The second Revenue Agent was assigned to an extended training assignment. Before going on training, the taxpayer and the second Revenue Agent orally agreed that the statute of limitations could be extended to December 31, 2022. 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, 2022.
B. A Statutory Notice of Deficiency must be mailed on or before December 31, 2022.
C. A Statutory Notice of Deficiency must be mailed on or before April 15, 2022.
D. The assessment of tax can be made at any time.

ANSWER: C

Generally, the IRS has 3 years from the date a tax return is file (or the date the return was due, if later) to assess any additional tax. The taxpayer and the IRS could agree in writing to extend the statute of limitations.

In this question, the agreement to extend the statute of limitations was orally and not in writing. Therefore, the IRS must mail a Notice of Deficiency no later than three years (April 15, 2022) after the due date for the 2018 tax return (April 15, 2019).

78. A calendar year taxpayer filed her tax return for tax year 2020, which was due on April 15, 2021, on May 1, 2021. The taxpayer did not request, and therefore did not receive, an extension of time to file her 2020 Federal Income Tax return. The taxpayer paid the amount due as shown on the 2020 return on June 30, 2021. Based on these facts, the last day for the IRS to assess additional tax with respect to the taxpayer's 2020 return is

A. June 20, 2023
B. April 15, 2024
C. May 1, 2024
D. June 20, 2024

ANSWER: C

Assessment statutes of limitations generally limit the time the IRS has to make tax assessments to within three years after a return is due or filed, whichever is later.

79. After assessment, as a general rule, the IRS has the authority to collect outstanding federal taxes for

A. Three years.
B. Five years.
C. Ten years.
D. Twenty years.

ANSWER: C

If the IRS has assessed the tax within the statutory period of limitation, the tax may be collected by levy or proceeding in court commencing within 10 years after the assessment or within any period for collection agreed upon in writing between the IRS and the taxpayer before the expiration of the 10-year period.

80. A taxpayer timely filed his U.S. individual income tax return for calendar year 2012 without any extensions. The return showed a balance of income taxes due in the amount of $75,000. The taxpayer 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 the taxpayer's tax liability expires on which of the following dates?

A. April 15, 2019.
B. April 15, 2023.
C. December 31, 2024.
D. April 15, 2024.

ANSWER: B

Refer to the analysis on the previous question. The statute of limitation expires 10 years after the due date of the 2012 tax return (April 15, 2013)

Taxpayer Penalties

81. A taxpayer's income tax return was examined resulting in an income tax deficiency in the amount of $50,000 from two $25,000 adjustments. The Revenue Agent determined that the taxpayer 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.

ANSWER: B

A taxpayer may be subject to an accuracy-related penalty if the underpayment of tax is because of one of the following:

1. Negligence or disregard of the rules or regulations. Failure to make a reasonable attempt to comply with the tax law or to exercise ordinary and reasonable care in preparing a return. Negligence also includes failure to keep adequate books and record.
2. Substantially understate income tax. The understatement is substantial if it is more than the larger of 10% of the correct tax or $5,000.
3. Claimed tax benefits for a transaction that lacks economic substance.
4. Fail to disclose a foreign financial asset.

The penalty is equal to 20% of the understatement.

Accuracy-related penalty:
$25,000 × 20% = $5,000

82. If there is an underpayment of tax on your return due to fraud, how much is the penalty added to your tax?

A. 20% of the underpayment due to fraud.
B. 20% of the underpayment, reduced for those items for which there was adequate disclosure.
C. $500 added to any other penalty provided by law.
D. 75% of the underpayment due to fraud.

ANSWER: D

Any underpayment of tax on a return due to fraud is subject to a penalty of **75%** of the underpayment.

83. A frivolous income tax return is one that does not include enough information to figure the correct tax or that certain information clearly showing that the tax that was reported is substantially incorrect. If a taxpayer files a frivolous return, which penalty applies specifically to the taxpayer for the frivolous return?

A. $50 for failure to supply your social security number.
B. 20% of the underpayment, reduced for those items for which there was adequate disclosure made.
C. $5,000 frivolous return penalty, applied in addition to any other applicable penalty or penalties.
D. $100 for the failure to furnish the tax shelter registration number.

ANSWER: C

A taxpayer may have to pay a penalty of **$5,000** for filing a frivolous tax return. This penalty is added to any other penalty provided by law. A frivolous income tax return is one that does not include enough information to figure the correct tax or that certain information clearly showing that the tax reported is substantially incorrect.

Chapter 3. Completion of the Filing Process

Recordkeeping for Taxpayers

1. A taxpayer should keep all of the following records when deducting an expense EXCEPT:

A. Canceled checks.
B. Sales slips.
C. Invoices.
D. Original copies of all records.

ANSWER: D

Expenses are the costs incurred by a taxpayer to carry on a business. The taxpayer's supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following:

1. Canceled checks or other proof of payment.
2. Receipts.
3. Sales slips.
4. Invoices.
5. Written communications from qualified charities.

A taxpayer can replace hard copies of books and records using an electronic storage system as long as the system is in compliance with IRS requirements for an electronic storage system and procedures are established to ensure continued compliance with all applicable rules and regulations.

2. How long should a taxpayer keep tax records?

A. 4 years if additional tax is owed.
B. 5 years if the taxpayer files a claim for a loss from worthless securities.
C. No limit if a taxpayer does not file a return.
D. 10 years if the taxpayer files a fraudulent return.

ANSWER: C

A taxpayer must keep records for as long as they may be needed for the administration of any provision of the Internal Revenue Code. This means records must be kept that support items shown on a tax return until the period of limitations for that return runs out. The period of limitations is the period of time in which a taxpayer can amend his or her return to claim a credit or refund or the IRS can assess additional tax. The following shows the periods of limitations that apply to income tax returns. Unless otherwise stated, the years refer to the period beginning after the return was filed. Returns filed before the due date are treated as being filed on the due date.

Situation	Period of Limitation
Did not file return	No limit
Filed a fraudulent return	No limit
Did not report income that was more than 25% of the gross income shown on the tax return	6 years
Owed additional tax and (1), (2), and (3) above do not apply	3 years
Filed a claim for credit or refund after filing tax return	Later of 3 years or 2 years after tax was paid
File a claim for a loss from worthless securities	7 years

3. Taxpayers must keep their records as long as they may be needed for the administration of any provision of the Internal Revenue Code. Generally, this means records must be kept that support items shown on the return until the period of limitations for that return runs out. Which statement listed below is NOT true?

A. If no other provisions apply, the statute of limitations is 3 years after the return was filed.
B. If more than 25% of gross income has been omitted from the tax return, the statute of limitations is 6 years after the return was filed, unless the omitted amount was disclosed in the return or in a statement attached to the return, in a manner adequate to apprise the IRS of the nature and amount of the omission.
C. If a fraudulent return is filed, the statute of limitations is 7 years.
D. If a tax return is not filed at all, there is no statute of limitations.

ANSWER: C

Refer to the analysis on the previous question. If a fraudulent return is filed, there is no limit of the statute of limitations.

4. A taxpayer in a trade or business must report to the IRS any cash received transaction that is more than which amount?

A. $1,000
B. $10,000
C. $50,000
D. Not required to report any transaction.

ANSWER: B

Any taxpayer in a trade or business who receives more than $10,000 in cash in a single or in related transactions in a 12-month period must report the transaction to the IRS using Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business. Form 8300 does not have to be filed if the transaction is not related to a trade or business. A "transaction" occurs when:

1. Goods, services, or property are sold.
2. Property is rented.
3. Cash is exchanged for other cash.
4. A contribution is made to a trust or escrow account.
5. A loan is made or repaid.
6. Cash is converted to a negotiable instrument, such as a check or a bond.

Form 8300 must be filed to report cash paid to the taxpayer if it is:

1. Over $10,000,
2. Received as:
   a. One lump sum of over $10,000,
   b. Installment payments that cause the total cash received within one year of the initial payment to total more than $10,000, or
   c. Other previously unreportable payments that cause the total cash received within a 12-month period to total more than $10,000,
3. Received in the course of a trade or business,
4. Received from the same buyer (or agent), and
5. Received in a single transaction or in related transactions. Any transactions between a buyer and a seller that occur within a 24-hour period are related transactions.

Cash is:

1. The coins and currency of the United States (and any other country), and
2. A cashier's check, bank draft, traveler's check, or money order received, if it has a face amount of $10,000 or less and received it in:
   a. A designated reporting transaction, or
   b. Any transaction in which the taxpayer knew the payer is trying to avoid the reporting of the transaction on Form 8300.

File Form 8300 by the 15th day after the date the cash was received.

5. If a taxpayer donates a vehicle to a charitable organization and the organization sells the vehicle for more than $500, the organization is required to send the taxpayer Form 1098-C within how many days of the sale?

A. 10 days
B. 30 days
C. 60 days
D. By January 31 of the next year.

ANSWER: B

If a taxpayer donates a car to a qualified organization, the deduction is limited to the gross proceeds from its sale by the organization. This rule applies if the claimed value of the donated vehicle is more than $500. However, if the organization makes significant intervening use of or materially improves the car, the taxpayer may be able to deduct its fair market value. In addition, the taxpayer may be able to deduct the car's fair market value if the organization will give the car, or sell it for a price well below fair market value, to a needy individual to further the organization's charitable purpose. The organization must send the donee Form 1098-C (Contributions of Motor Vehicles, Boats, and Airplanes) within 30 days of the sale of the vehicle, boat or airplane and the taxpayer must attach Form 1098-C to his or her tax return.

6. Which of the following statements is true regarding recordkeeping for taxpayers?

A. Taxpayers can keep their records on an electronic storage system but must keep the original hard copy books and records.
B. Taxpayers cannot take a deduction on a return if they have incomplete records.
C. If a taxpayer cannot produce a receipt because of reasons beyond the taxpayer’s control, the taxpayer can prove a deduction by reconstructing his or her records or expenses.
D. Taxpayers, who keep their records on an electronic storage system, can destroy their original document only after getting written approval from the IRS.

ANSWER: C

All electronic storage systems must provide a complete and accurate record of data that is accessible to the IRS. Electronic storage systems are also subject to the same controls and retention guidelines as those imposed on original hard copy books and records. The original hard copy books and records may be destroyed provided that the electronic storage system has been tested to establish that the hard copy books and records are being reproduced in compliance with IRS requirements for an electronic storage system and procedures are established to ensure continued compliance with all applicable rules and regulations.

If a taxpayer has incomplete records to prove an element of an expense, then the taxpayer must prove the element with:

- The taxpayer’s own written or oral statement, containing specific information about the element, and
- Other supporting evidence that is sufficient to establish the element.

If a taxpayer cannot produce a receipt because of reasons beyond taxpayer’s control, the taxpayer can prove a deduction by reconstructing his or her records or expenses. Reasons beyond the taxpayer’s control include fire, flood, and other casualty.

Recordkeeping for Tax Preparers

7. 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.

ANSWER: D

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 the name, taxpayer identification number, and taxable year of the taxpayer for each return prepared. 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. 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. These records must be retained and kept available for inspection for the 3-year period following the close of the return period which the return or claim of refund was presented for signature to the taxpayer.

8. 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.

ANSWER: B

Refer to the analysis on the previous question. A record of the date the return or claim for refund was prepared does not have to be retained.

9. A return preparer did NOT retain copies of all returns that he prepared but did keep a LIST that reflected the taxpayer's name, identification number, tax year and type of return for all of his clients. Which of the following statements best describes this situation?

A. The preparer is in compliance with the provisions of Code Section 6107 if he retains the list for a period of one year after the close of the return period in which the return was signed.

B. The preparer is in compliance with the provisions of Code Section 6107 providing he retains the list for a three-year period after the close of the return period in which the return was signed.

C. The preparer is NOT in compliance with Code Section 6107 since he must retain copies of all returns filed.

D. The preparer is NOT in compliance with Code Section 6107 since he has not kept all the information required by the code.

ANSWER: B

A tax return preparer is required to retain for a period of 3 years:

1. A copy of any return prepared or retain a record of the name, taxpayer identification number, and taxable year of the taxpayer for whom the return was prepared, and the type of return prepared,
2. A record of the name of the individual preparer required to sign the return, and
3. Make such copy or record available for inspection upon request by the IRS.

10. A person who employs a preparer to prepare returns must make a record setting forth the name, taxpayer identification number, and place of work of each preparer employed by him at any time during the return period (July 1 - June 30). This record must be kept available for inspection for:

- 2-year period following the close of the return period
- 3-year period following the close of the return period
- 4-year period following the close of the return period
- 5-year period following the close of the return period

ANSWER: B

A person who employs a preparer to prepare returns must make a record setting forth the name, taxpayer identification number, and place of work of each preparer employed by him at any time during the return period (July 1 - June 30). This record must be kept available for inspection for the 3-year period following the close of the return period to which that record relates.

Electronic Return Requirements

11. An applicant may be denied participation in IRS e-file for a variety of reasons that include the following EXCEPT:

A. Indicted of a criminal offense under the revenue laws of the U.S.
B. Failure to file timely and accurate Federal, state, or local tax returns.
C. Suspension/disbarment from practice before the IRS or before a state or local tax agency.
D. Knowingly and directly or indirectly employing or accepting assistance from any firm, organization, or individual denied participation in IRS e-file, or suspended or expelled from participating in IRS e-file.

ANSWER: A

The IRS reviews each firm or organization, principal, and responsible official listed on the IRS e-file application. An applicant may be denied participation in IRS e-file for a variety of reasons that include but are not limited to:

- Conviction of any criminal offense under the revenue laws of the United States or of a state or other political subdivision.
- Failure to file timely and accurate Federal, state, or local tax returns.
- Failure to timely pay any Federal, state, or local tax liability.
- Assessment of penalties.
- Suspension/disbarment from practice before the IRS or before a state or local tax agency.
- Disreputable conduct or other facts that may adversely impact IRS e-file.
- Misrepresentation on an IRS e-file Application.
- Unethical practices in return preparation.
- Non-compliance with §6695(g) of the IRC.
- Stockpiling returns prior to official acceptance to participate in IRS e-file.
- Knowingly and directly or indirectly employing or accepting assistance from any firm, organization, or individual denied participation in IRS e-file, or suspended or expelled from participating in IRS e-file.
- Knowingly and directly or indirectly accepting employment as an associate, correspondent, or as a sub-agent from, or sharing fees with, any firm, organization, or individual denied participation in IRS e-file, or suspended or expelled from participating in IRS e-file.

12. An applicant denied participation in IRS e-file has the right to an administrative review. An applicant must mail a written response within

A. 15 days
B. 30 days
C. 60 days
D. There is no administrative review.

ANSWER: B

An applicant may mail a written response to the address shown in the denial letter, within 30 days of the date of the denial letter. The applicant's response must address the IRS' reason(s) for denial and have supporting documentation attached.

13. Which of the following returns may be electronically filed?

A. Tax returns with fiscal year periods.
B. Amended tax returns for the last 5 years.
C. Tax returns with rare or unusual processing conditions.
D. Current year Form 1040 with APO address.

ANSWER: D

Filing individual income tax returns using IRS e-file is limited to tax returns with due dates in the current and two previous tax years. A taxpayer can electronically file an individual income tax return year round except for a short cut over period at the end of the calendar year.

The following returns are excluded from electronic filing:

1. Tax returns with fiscal year tax periods.
2. Returns containing forms or schedules that cannot be processed by IRS e-file other than those forms and schedules that are required to be submitted with Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return.
3. Tax returns with Taxpayer Identification Numbers within the range of 900-00-0000 through 999-99-9999 except Adopted Taxpayer Identification Numbers (ATIN) and Individual Taxpayer Identification Numbers (ITIN) which have the following characteristics:
   - The fourth and fifth digits of valid ATINs are 93
   - The fourth and fifth digits of valid ITINs are 70 through 88, 90 through 92 and 94 through 99.
4. Tax returns with rare or unusual conditions or that exceed the specifications for returns allowable in IRS e-file cannot be processed electronically.

Amended returns for tax years 2019 or later (Form 1040 and 1040-SR) can be e-filed. No amended returns for earlier years can be e-filed.

14. Which of the following statements regarding entities that are required to file tax returns electronically is NOT true?

A. Corporations, including S corporations, with $10 million or more in total assets and that file 250 or more returns a year are required to electronically file their Form 1120, 1120S, and 1120-F.
B. Partnerships with more than 150 partners (Schedules K-1) are required to electronically file their Form 1065.
C. Tax-exempt organizations with total assets of $10 million or more ($100 million in 2005), who file at least 250 returns annually, to file Forms 990 electronically.
D. Private foundations and charitable trusts are required to file Forms 990-PF electronically regardless of their asset size, if they file at least 250 returns annually.

ANSWER: B

The following entities are required to e-file their tax returns:

1. Corporations with $10 million or more in total assets and that file 250 or more returns a year are required to electronically file their Form 1120, 1120S, and 1120-F.
2. Partnerships with more than 100 partners (Schedules K-1) are required to electronically file their Form 1065.
3. Tax-exempt organizations with total assets of $10 million or more ($100 million in 2005), who file at least 250 returns annually, to file Forms 990 electronically.
4. Private foundations and charitable trusts are required to file Forms 990-PF electronically regardless of their asset size, if they file at least 250 returns annually.
5. Most small tax-exempt organizations whose annual gross receipts are normally $50,000 or less ($25,000 for tax years ending after December 31, 2007 and before December 31, 2010) are required to electronically submit Form 990-N, also known as the e-Postcard, unless they choose to file a complete Form 990 or Form 990-EZ instead.
6. Excise tax return. Any taxpayer who files a Form 2290 with respect to 25 or more vehicles for any taxable period shall file such returns electronically.

Note: The electronic filing requirements apply only to entities that file at least 250 returns, including income tax, excise tax, employment tax, and information returns (including Forms W-2 and 1099), during a calendar year.

15. Which of the following statements is NOT correct regarding electronically filed returns?

A. A return for a deceased taxpayer can be electronically filed.
B. U. S. Individual Income Tax Returns may be electronically filed after October 15.
C. Only current year tax returns may be electronically filed.
D. Some electronically filed returns require a separate signature document to be submitted to the appropriate IRS Center.

ANSWER: C

Filing individual income tax returns using IRS e-file is limited to tax returns with due dates in the current and two previous tax years. A taxpayer can electronically file an individual income tax return year round except for a short cut over period at the end of the calendar year.

16. 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

ANSWER: C

A Form 1065 U.S. Partnership Return must be filed electronically or on magnetic media if the number of partners is more than 100.

Responsibilities of the Electronic Return Originator (ERO)

17. 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 a percentage of refund.
C. Separate fees for direct deposits.
D. None of the above.

ANSWER: D

If an ERO charges a fee for the electronic transmission of a tax return, the fee may not be based on a percentage of the refund amount or be computed using any figure from the tax return. An ERO may not charge a separate fee for Direct Deposit.

18. Which of the following is an acceptable method of computation for an Electronic Return Originator fee?

A. Fees based on time required for preparation.
B. Fees based on AGI from the tax return.
C. Fees based on percent of refund.
D. Flat fee identical for all customers.

ANSWER: D

Refer to the analysis on the previous question. The charge must be a flat fee and must be identical for all customers.

19. A tax preparer prepared and electronically transmitted a tax return to the IRS. The IRS notified the preparer that the electronic portion of the return was rejected for processing. Which statement listed below best explains what the preparer must do?

A. Must advise the taxpayer that the return may never be filed electronically.
B. If the preparer cannot correct the error, the preparer must take reasonable steps to inform the taxpayer of the rejection within 24 hours and provide the taxpayer with the reject code(s) accompanied by an explanation.
C. The preparer must mail a paper copy of the return to the IRS.
D. If the preparer cannot correct the error, the preparer must take reasonable steps to inform the taxpayer of the rejection by the return due date or within 1 week, whichever date is earlier.

ANSWER: B

If the IRS rejects the electronic portion of a taxpayer's return for processing and the reason for the rejection cannot be rectified with the information already provided to the ERO, the ERO must take reasonable steps to inform the taxpayer of the rejection within 24 hours. The ERO must provide the taxpayer with the reject code(s) accompanied by an explanation.

20. Authorized electronic filing providers must notify the IRS of all changes to the information they originally submitted on Form 8633, Application to Participate in the IRS Electronic Filing Program. All revisions may be made using Form 8633, but you may update certain information by letter, using the firm's official letterhead. Which of the following revisions listed below may be submitted by letter and does NOT require a Form 8633.

A. Adding an additional principal of a firm, such as a partner or a corporate officer.
B. Making a change to the Responsible Official listed on Form 8633.
C. Adding federal/state electronic filing to your list of services.
D. Deleting a principal that is listed on Form 8633.

ANSWER: C

Providers must revise their IRS e-file Application within 30 days of a change of any information on the current application. Changes that may be updated by letter using the firm's official letter are the following:

1. All addresses.
2. All phone and fax numbers.
3. Email addresses.
4. Contact persons.
5. Form types to be e-filed.
6. Transmission protocols.
7. Adding Federal/State e-file.
8. Changes to Foreign Filer information.

The following situations are changes that cannot be made by letter, but require revision using the IRS e-file Application (or by Form 8633 if unable to register for e-services):

1. The Authorized IRS e-file Provider is functioning solely as a Software Developer or Reporting Agent and intends to do business as an ERO, Intermediate Service Provider, or Transmitter;
2. An additional Principal of the firm, such as a partner or a corporate officer is being added;
3. The Responsible Official is changed; or
4. A Principal must be deleted.

21. The IRS monitors and performs annual suitability checks on authorized IRS electronic filing providers for compliance with the revenue procedure and program requirements. Violations may result in a variety of sanctions. Which statement is correct with respect to sanctions the IRS may impose on an electronic filing provider?

A. The IRS may issue a letter of reprimand or a 1-year suspension as a sanction for a level one infraction in the electronic filing program.
B. The IRS may impose a period of suspension that includes the remainder of the calendar year in which the suspension occurs, plus the next 2 calendar years, for a level two infraction in the electronic filing program.
C. The IRS may suspend or expel an authorized IRS electronic filing provider prior to administrative review for a level three infraction in the electronic filing program.
D. The IRS may not impose a sanction that is greater than a 1-year suspension from the electronic filing program.

ANSWER: C

Violations of IRS e-file requirements may result in warning or sanctioning an Authorized IRS e-file Provider. Sanctioning may be a written reprimand, suspension or expulsion from participation from IRS e-file, or other sanctions, depending on the seriousness of the infraction. The IRS categorizes the seriousness of infractions as Level One, Level Two, and Level Three. Sanctions may be appealed through the Administrative Review Process. In most circumstances, a sanction is effective thirty days after the date of the letter informing the Provider of the sanction, or the date the sanction is upheld by the reviewing offices or the Office of Appeals, whichever is later. The three levels of infraction are as follows.

Level One Infractions — Level One Infractions are violations of IRS e-file rules and requirements that, in the opinion of the IRS, have little or no adverse impact on the quality of electronically filed returns or on IRS e-file. The IRS may issue a letter of reprimand for a Level One Infraction.

Level Two Infractions — Level Two Infractions are violations of IRS e-file rules and requirements that, in the opinion of the IRS, have an adverse impact upon the quality of electronically filed returns or on IRS e-file. Level Two Infractions include continued Level One Infractions after the IRS has brought the Level One Infraction to the attention of the Authorized IRS e-file Provider. Depending on the infractions, the IRS may either restrict participation in IRS e-file or suspend the Authorized IRS e-file Provider from participation for one year and the remainder of the current year.

Level Three Infractions — Level Three Infractions are violations of IRS e-file rules and requirements that, in the opinion of the IRS, have a significant adverse impact on the quality of electronically filed returns or on IRS e-file. Level Three Infractions include continued Level Two Infractions after the IRS has brought the Level Two Infraction to the attention of the Authorized IRS e-file Provider. A Level Three Infraction may result in suspension from participation in IRS e-file for two years and the remainder of the current year. Depending on the severity of the infraction, such as fraud or criminal conduct, a Level Three Infraction may result in expulsion without the opportunity for future participation. The IRS reserves the right to suspend or expel an Authorized IRS e-file Provider prior to administrative review for Level Three Infractions.

22. What is an EFIN?

A. A number assigned by the IRS to identify preparers that are accepted into the e-file program.
B. A number assigned by the IRS to identify preparer when a Form 2848 or Form 8821 is filed.
C. A number assigned by the IRS to identify enrolled agents.
D. A number assigned by the IRS to identify unenrolled preparers.

ANSWER: A

An EFIN is a number assigned by the IRS to identify preparers or firms that have completed the IRS e-file Application to become an Authorized IRS e- file Provider. Providers need the EFIN to electronically file tax returns.

23. A preparer files a return for a taxpayer electronically. The return is rejected because a dependent claimed on the return was claimed on someone else's return. What should the preparer do?

A. Wait 24 hours and resubmit the return electronically.
B. Notify the IRS.
C. Remove the dependent from the return and resubmit the return electronically.
D. Notify the taxpayer that a paper return will have to be sent to the IRS for processing.

ANSWER: D

If the IRS cannot accept the return for processing, the taxpayer must file a paper return. In order to timely file the return, the paper return must be filed by the later of the due date of the return or 10 calendar days after the date the IRS gives notification that it rejected the electronic portion of the return or that the return cannot be accepted for processing. The paper return should include an explanation as to why the return was filed after the due date.

24. Taxpayers must sign and date Form 8879, IRS e-file Signature Authorization

A. Prior to the transmission of the return to the IRS.
B. Only after the transmitted return has been accepted by the IRS.
C. Within 24 hours after the transmitted return is accepted by the IRS.
D. Within 3 days after the transmitted return is accepted.

ANSWER: A

Taxpayers must sign and date Form 8879 prior to the transmission of the return to the IRS.

25. EROs must retain the completed Form 8879 for

A. 3 years from the return due date or IRS received date, whichever is earlier.
B. 3 years from the return due date or IRS received date, whichever is later.
C. 4 years from the return due date or IRS received date, whichever is later.
D. 5 years from the return due date or IRS received date, whichever is later.

ANSWER: B

EROs must retain the completed Form 8879 for 3 years from the return due date or IRS received date, whichever is later.

26. If a tax return is filed electronically, all of the following supporting document must be sent to the IRS using Form 8453 EXCEPT:

A. Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes
B. Form 2848, Power of Attorney and Declaration of Representative (or POA that states the agent is granted authority to sign the return).
C. Form 8283, Noncash Charitable Contributions, Section A, (if any statement or qualified appraisal is required) or Section B, Donated Property, and any related attachments (including any qualified appraisal or partnership Form 8283).
D. Form 8949, Sales and Other Dispositions of Capital Assets, (or a statement with the same information), even if reporting transactions electronically on Form 8949.

ANSWER: D

Use Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return, to send any required paper forms or supporting documentation listed on Form 8453 to the IRS. Do not attach any form or document that is not shown on Form 8453. If required to mail in any documentation not listed on Form 8453, the return cannot be file electronically. Form 8453 must be mailed to the IRS within 3 business days after receiving acknowledgment that the IRS has accepted the electronically filed tax return. The follow is a list of these supporting documents:

1. Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes (or equivalent contemporaneous written acknowledgment).
2. Form 2848, Power of Attorney and Declaration of Representative (or POA that states the agent is granted authority to sign the return).
3. Form 3115, Application for Change in Accounting Method.
4. Form 3468 - attach a copy of the first page of NPS Form 10-168, Historic Preservation Certification Application (Part 2—Description of Rehabilitation), with an indication that it was received by the Department of the Interior or the State Historic Preservation Officer, together with proof that the building is a certified historic structure (or that such status has been requested).
5. Form 4136 - attach the Certificate for Biodiesel and, if applicable, Statement of Biodiesel Reseller or a certificate from the provider identifying the product as renewable diesel and, if applicable, a statement from the reseller.
6. Form 5713, International Boycott Report.
7. Form 8283, Noncash Charitable Contributions, Section A, (if any statement or qualified appraisal is required) or Section B, Donated Property, and any related attachments (including any qualified appraisal or partnership Form 8283).
8. Form 8332, Release / Revocation of Release of Claim to Exemption for Child by Custodial Parent (or certain pages from a divorce decree or separation agreement, that went into effect after 1984 and before 2009).
9. Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities.
10. Form 8864 - attach the Certificate for Biodiesel and, if applicable, Statement of Biodiesel Reseller or a certificate from the provider identifying the product as renewable diesel and, if applicable, a statement from the reseller.
11. Form 8949, Sales and Other Dispositions of Capital Assets, (or a statement with the same information), if you elect not to report your transactions electronically on Form 8949.

27. Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return can be sent to the IRS by

A. Email
B. Fax
C. Mail
D. Form 8453 does not have to be sent to the IRS.

ANSWER: C

Use Form 8453, U.S. Individual Income Tax Transmittal for an IRS e-file Return, to send any required paper forms or supporting documentation listed on Form 8453 to the IRS. Do not attach any form or document that is not shown on Form 8453. If required to mail in any documentation not listed on Form 8453, the return cannot be file electronically. Form 8453 must be mailed to the IRS within 3 business days after receiving acknowledgement that the IRS has accepted the electronically filed tax return.

Refund Anticipation Loans (RALs)

28. Which of the following provides the most accurate information regarding a refund anticipation loan?

A. IRS states that it will guarantee a refund within two weeks for an electronically filed return.
B. Electronic Return Originators may charge a separate fee for direct deposit to a temporary account when a refund anticipation loan is involved.
C. Electronic Return Originators must charge the same identical flat fee for all refund anticipation loan clients.
D. Electronic Return Originators may charge a double fee because it is a joint return.

ANSWER: C

A Refund Anticipation Loan (RAL) is money borrowed by the taxpayer from a lender based on the taxpayer's anticipated refund amount. The IRS has no involvement in RALs. Nor does the IRS guarantee that refunds will be deposited within a specific time or they will be deposited in their entirety. EROs may charge clients a flat fee for assisting taxpayers who wish to apply for a RAL. Fees must be identical for all RAL clients and customers. EROs may not share any fees imposed by lenders based on refund amounts or loan amounts.

29. The contractual agreement for a Refund Anticipation Loan (RAL) is between which of the following?

A. Taxpayer and lender.
B. Taxpayer and electronic filing provider.
C. Electronic filing provider and the lender.
D. IRS and the taxpayer.

ANSWER: A

Refer to the analysis on the previous question.

30. Which of the following statements applies to Refund Anticipation Loans?

A. A Refund Anticipation Loan is money borrowed by the taxpayer from the U.S. Government.
B. A Refund Anticipation Loan indicator must be included in the electronic return data that is transmitted to the IRS.
C. If the anticipated tax refund is not received after a Refund Anticipation Loan is made, the loan is automatically subtracted from the subsequent years' refunds until paid.
D. The Treasury Department is liable for any loss suffered by taxpayers, electronic return originators and financial institutions resulting from reduced refunds or Direct Deposits not being honored if documentation is provided that correct procedures were followed.

ANSWER: B

A Refund Anticipation Loan (RAL) is money borrowed by the taxpayer from a lender based on the taxpayer's anticipated refund amount. The IRS has no involvement in RALs. Nor does the IRS guarantee that refunds will be deposited within a specific time or they will be deposited in their entirety. The Treasury Department is not liable for any loss suffered by taxpayer, EROs or financial institutions resulting from reduced refunds or Direct Deposits not being honored causing refunds to be issued by check. The RAL is a loan on the current year's refund and cannot be subtracted from the subsequent years' refunds.

31. A Refund Anticipation Loan (RAL) is money borrowed by a taxpayer from a lender based on the taxpayer's anticipated income tax refund. Which of the statements below is correct?

A. All parties to Refund Anticipation Loan agreements, including Electronic Return Originators (ERO's), must ensure that taxpayers understand that Refund Anticipation Loans are interest bearing loans and not substitutes for a faster way of receiving a refund.
B. The IRS has minimal involvement and responsibility for Refund Anticipation Loans.
C. The Electronic Return Originator should advise the taxpayer that if a Direct Deposit is not received within the expected time frame, the IRS may be liable to the lender for additional interest on the Refund Anticipation Loan.
D. The IRS is responsible for ensuring that Refund Anticipation Loan indicators are included in the electronic return data that is transmitted to the IRS.

ANSWER: A

All parties to Refund Anticipation Loan (RAL) agreements, including Electronic Return Originators (ERO's), must ensure that taxpayers understand that Refund Anticipation Loans are interest bearing loans and not substitutes for a faster way of receiving a refund. The IRS has no involvement in RALs. The Electronic Return Originator should advise the taxpayer that if a Direct Deposit is not received within the expected time frame for whatever reason, the taxpayer may be liable to the lender for additional interest and other fees on the RAL. The ERO is responsible for ensuring that Refund Anticipation Loan indicators are included in the electronic return data that is transmitted to the IRS.

Phoenix Tax Group Refund Policies

30 Day Money-Back Guarantee

If you are not satisfied with any of our products, you can return them for a full refund, excluding shipping and handling charges. A refund must be requested within 30 days of purchase, and all hardcopy materials must be returned in the original box. No credit will be given for any materials marked on, missing or damaged in any way. To request a refund, fill out the Refund Request form below.

Pass Guarantee

1. The Pass Guarantee applies only to products designated as "Packages."
2. To receive a refund, you must have taken and failed a test/exam twice.
3. You must provide your failed scores for both failed exams by filling out the Refund Request form below. This must be done within 30 days of the second failed exam.
4. Hard copy materials must be returned within 30 days of the second failed exam.
5. If you purchased Enrolled Agent study materials together in a three part package, refunds will be pro-rated for the part being returned.
6. The refund will only apply to the person who purchased the study materials from The Phoenix Tax Group. The refund policy does not apply to companies purchasing study materials for employees.

Instructions

To ensure proper credit, please fill out our online refund request form.

http://www.phoenixtax.com/about/refunds

Evaluation

Enrolled Agent Exam Study Package Survey

We feel we have the best and most comprehensive enrolled agent exam preparatory materials available. However, we are always looking for ways to improve. We would appreciate it if you would take a moment to complete our online evaluation at:

http://www.PhoenixTax.com/ea_survey

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