

TEST BANK



9TH EDITION

Federal Tax Research

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Federal Tax Research, Ninth Edition
TAX RESEARCH METHODOLOGY

TEST BANK, Chapter 2

Multiple Choice

Choose the *best* answer for each of the following questions:

- ___ 1. Which of the following statements describes the tax research process?
- a. It is strictly linear.
 - b. It requires mechanical skills combined with critical thinking.
 - c. It requires the ability to use complex mathematical techniques to identify and locate tax authorities.
 - d. All of the above.
- ___ 2. All of the following are goals of tax research EXCEPT?
- a. to balance the need for efficiency against the need for thoroughness
 - b. to balance the client's tax goals with the client's nontax, personal considerations
 - c. to find a defensible solution to a client's problem
 - d. to find a perfect solution to a client's problem, no matter how long it takes
- ___ 3. Collateral estoppel is a legal concept which:
- a. allows relitigation on the same facts or same issues
 - b. bars relitigation on the same facts or same issues
 - c. requires that the court resolve factual issues in a taxpayer's favor
 - d. none of the above
- ___ 4. The first step in the tax research process is to:
- a. establish the facts
 - b. identify the issues
 - c. locate authority
 - d. evaluate authority

- ___ 5. Once the initial facts have been gathered and the issues defined, the tax researcher must:
- a. develop conclusions and recommendations
 - b. evaluate the authority
 - c. contact the IRS
 - d. locate the authority
- ___ 6. In a closed-fact problem, the main goal of tax research is to:
- a. determine several alternative courses of future action for the taxpayer
 - b. find support for an action the taxpayer has already taken
 - c. both a and b
 - d. none of the above
- ___ 7. The final step of the tax research process is to:
- a. develop conclusions and recommendations
 - b. communicate recommendations
 - c. document conclusions and recommendations
 - d. litigate the tax-related dispute
- ___ 8. Which of the following statements is CORRECT regarding computerized tax research?
- a. The method of constructing queries is the same for all databases.
 - b. Most computer tax services allow the use of connectors and wild cards.
 - c. If a query generates too little information, the researcher should add more unique keywords.
 - d. All of the above are correct.
- ___ 9. Tax research issues can be divided in two main categories. These are:
- a. fact and law issues
 - b. primary and secondary issues
 - c. major and minor issues
 - d. internal and external issues
 - e. tax and nontax issues

- ___ 10. Which of the following are basic connectors you can use to construct a search query?
- a. google
 - b. not
 - c. or
 - d. *
 - e. only b and c
- ___ 11. Which of the following represents a law issue?
- a. intent of the transaction
 - b. definition of a term used in the code
 - c. date of transaction
 - d. location of the transaction
 - e. all of the above
- ___ 12. The amount of a transaction represents a:
- a. law issue
 - b. social issue
 - c. fact issue
 - d. political issue
- ___ 13. Which of the following is an example of secondary authority?
- a. tax treaties
 - b. tax journals
 - c. U.S. Constitution
 - d. tax laws by Congress
- ___ 14. A statutory source of Federal tax law is:
- a. various rulings of the Treasury Department and the IRS
 - b. collected rulings of the various courts on Federal tax matters
 - c. textbooks
 - d. tax treaties

- ___ 15. Which of the following is an administrative source of primary authority?
- U.S. Constitution
 - collected rulings of the various courts on Federal tax matters
 - regulations
 - newsletters
- ___ 16. A reference source that enables the researcher to follow the judicial history of court cases is known as:
- a case reporter
 - a judicial directory
 - the Cumulative Bulletin
 - a citator
- ___ 17. CCH's annotated, or code-based commercial tax service is:
- the *United States Tax Reporter*
 - the *Tax Coordinator 2d*
 - the *Standard Federal Tax Reporter*
 - the *Federal Tax Library*
- ___ 18. The *Tax Management Portfolios* are published by:
- CCH
 - RIA
 - Bureau of National Affairs (BNA)
 - LexisNexis
- ___ 19. Once the research question has been stated, the researcher must next:
- gather the facts
 - identify the keywords to construct a proper query
 - select a database and execute the search
 - interpret and refine the search

- ___ 20. Secondary sources are useful when:
- a. conflicting primary authority exists
 - b. the issue is a closed-fact problem
 - c. a researcher does not have access to primary sources
 - d. when a researcher disagrees with the client
- ___ 21. The IRS website can be used to perform which of the following tasks:
- a. obtain downloadable forms
 - b. keyword search IRS tax publications
 - c. search with connectors and wildcards
 - d. all of the above
- ___ 22. Which of the following statements is INCORRECT regarding the CPA exam:
- a. The National Association of State Boards of Accountancy administers the test.
 - b. Each state has its own test.
 - c. CPA exam candidates must pass all four sections of the exam.
 - d. The Regulation section requires tax research.
- ___ 23. Which of the following forms the basis for all tax provisions?
- a. secondary authority
 - b. the administrative authority of the IRS
 - c. judicial interpretation of the law
 - d. the statutory authority of Congress
- ___ 24. The distinction between primary and secondary authority is important for which of the following reasons?
- a. to meet the accuracy threshold of “substantial authority.”
 - b. to avoid penalties under Section 6662 of the Code.
 - c. to search properly with connectors and wildcards.
 - d. only a and b

- ___ 25. Tax journals perform which of the following functions:
- a. offer researchers expert analysis of unclear tax issues
 - b. keep researchers aware of current developments
 - c. suggest tax planning techniques
 - d. all of the above

True or False

Indicate which of the following statements are *true* or *false* by circling the correct answer.

- T F 1. Skilled tax research requires a combination of reasoning and creativity.
- T F 2. A tax researcher can rely on tax journals as substantial authority under Section 6662 of the Code.
- T F 3. The tax research process should be approached in a structured, step-by-step manner.
- T F 4. After the researcher has located authority that deals with the client's problem, he or she must develop conclusions and recommendations.
- T F 5. A tax researcher should ignore the personal preferences of a client and concentrate only on minimizing the client's tax liability.
- T F 6. If a computer search generates too much information, the research may use fewer libraries or more unique keywords.
- T F 7. "Wildcards" such as an asterisk can be used to search for word variations in most tax services.
- T F 8. Topical tax services are arranged by subject as defined by the publisher's editorial staff.
- T F 9. Westlaw is an example of an online, free tax-related internet site.
- T F 10. The power of Congress to implement and collect taxes is summarized in the Internal Revenue Code, the official title of U.S. tax law.
- T F 11. Tax researchers should not consider the client's potential liability in determining how much time to spend on a client's problem.
- T F 12. *The Tax Adviser* journal is published by the AICPA.

- T F 13. RIA Checkpoint is a web-based tax research service that contains all the RIA material on Federal, state, local, and international taxation.
- T F 14. Kleinrock's ATX service is designed for small firm practitioners conducting tax research.
- T F 15. The search "stock or securities" would find documents that contain both the term "stock" and the term "securities."
- T F 16. The IRS website is a full-service, tax research resource.
- T F 17. One of the issues a tax researcher should be concerned about is how definitive a research result must be.
- T F 18. The CPA exam is prepared by the AICPA.
- T F 19. All primary source material has the same precedential value.
- T F 20. The U.S. Constitution is a statutory source of tax law.

Short Answer

1. List in sequential order the major steps involved in the tax research process.
2. Explain the difference in primary and secondary sources of tax information and give several examples of each.
3. Describe the types of factual issues of importance in a tax research case.

Essay Question

1. Tax research has been described as an "iterative process." Explain what this means to the researcher give an example of how this process might work with a hypothetical client.

SOLUTIONS, CHAPTER 2 TEST BANK

Multiple Choice

- | | | | | | | | | | |
|----|---|-----|---|-----|---|-----|---|-----|---|
| 1. | b | 6. | b | 11. | b | 16. | d | 21. | d |
| 2. | d | 7. | b | 12. | c | 17. | c | 22. | b |
| 3. | b | 8. | b | 13. | b | 18. | a | 23. | d |
| 4. | a | 9. | c | 14. | d | 19. | b | 24. | d |
| 5. | d | 10. | b | 15. | c | 20. | a | 25. | a |

True or False

1. T
2. F Under Section 6662 of the Code, which deals with the accuracy-related penalty, taxpayer must have “substantial authority” for an undisclosed position. That authority must be based on only on primary sources, not secondary sources. Tax journals may give some insight to the preparer, but they are not considered “substantial authority” under the Code.
3. T “Hit and miss” searching can be time-consuming and may result in gaps in a researcher’s analysis. Therefore, a structured approach is generally more efficient and leads to more accurate results.
4. F After the researcher has located authority that deals with the client's problem, he or she must evaluate the usefulness of that authority.
5. F The researcher must be aware of the nontax considerations pertinent to a client’s situation such as economic constraints and personal preferences.
6. T
7. T
8. T
9. F Westlaw is a commercial, subscription law library online with extensive tax and other legal and business information databases.
10. T
11. F The researcher has an obligation to a client not to waste the client’s money on a low cost/benefit issue.
12. T
13. T
14. T
15. F This search would find documents that have *either* the word “stock” or the word “securities.”
16. F The IRS website, while containing much useful information, is not a full-service tax research resource.
17. T
18. T
19. F Different types of primary authority have different value as precedent. The researcher must understand the hierarchy of primary sources.
20. T

Short Answer

1. The tax research process can be broken down into six major steps, each an essential part of the overall research methodology. The steps in tax research are as follows.
 - Establish the facts
 - Identify the issues
 - Locate authority
 - Evaluate authority
 - Develop conclusions and recommendations
 - Communicate the recommendations
2. Primary authority consists of original pronouncements that come from government sources, including statutory, administrative, or judicial sources. Statutory authority comes out of the legislative branch of government, the U.S. Congress, and includes the Internal Revenue Code, legislative history, and tax treaties. Administrative documents come out of the IRS, including regulations, rulings, taxpayer publications, and other guidance documents. The judiciary releases court opinions which are a judicial primary source.

Secondary sources consist of interpretations of primary authority and are an *unofficial* source of tax information. Secondary authority includes tax services, journals, textbooks, treatises and newsletters.

3. Significant facts that often influence the client's situation include the following:
 - The client's tax entity, for example, individual, corporation, or trust.
 - The client's family status and stability.
 - The client's past, present, and projected marginal tax rates.
 - The client's place of legal domicile and citizenship.
 - The client's motivation for the transaction.
 - The relationships among the client and other parties who are involved in the transaction.
 - Whether special tax rules apply to the taxpayer due to the type of business in which the taxpayer is engaged (i.e., he or she is a farmer, fisherman, or long-term contractor).
 - Whether the transaction is proposed or completed.

Essay Question

1. The process of tax research is iterative in the sense that, once an answer is found, it often causes a new issue to appear, which then requires the gathering of more information. After the researcher has more information, he or she has to go back to the research materials to reevaluate the problem. For example, if a client comes in asking if they can deduct alimony, the researcher can look up the general federal tax rules for alimony. When looking at those rules, the researcher finds

that the alimony must be made under a divorce or separation instrument. When the researcher goes back to the client to question the client about the details of the divorce instrument, the client explains that it was not a divorce, but an annulment. Now the researcher must go back and research the issue of whether an alimony deduction is allowed for payments made under a decree of annulment. The researcher then finds that if an annulment has the same effect for support purposes as a divorce under local law, payments under an annulment decree qualify as deductible alimony.

In conclusion, the tax research process is not a linear process. Rather, the direction the research takes is dependent on how the facts and issues develop as the researcher gathers more information.