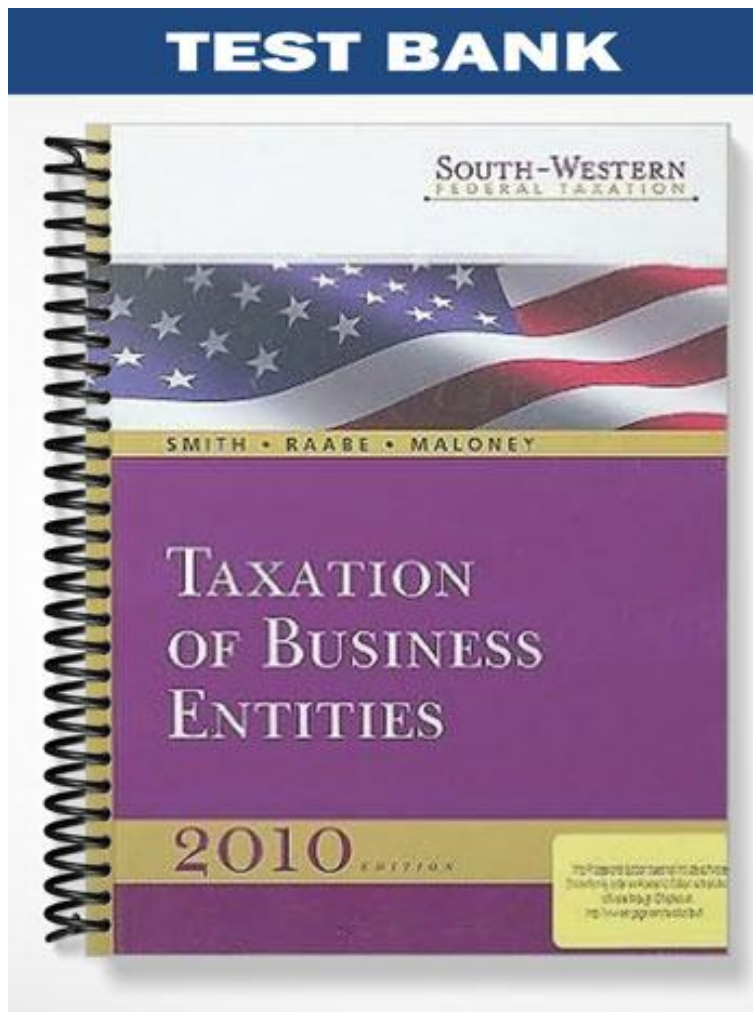


TEST BANK



SOUTH-WESTERN
FEDERAL TAXATION

SMITH • RAABE • MALONEY

TAXATION OF BUSINESS ENTITIES

2010 EDITION

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CHAPTER 2

WORKING WITH THE TAX LAW

Instructor: The test items in both the print Test Bank and ExamView test-creation software are numbered by question type within each chapter. Thus, users of ExamView can more easily preview their selections using the printed Test Bank in the same numbering system.

Learning Objective, Level of Difficulty, Estimated Time to Completion, and the AACSB's and AICPA's Core Competencies for each test item are located within the item itself.

<u>Question/ Problem</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
TRUE OR FALSE			
1	Rules of tax law	Unchanged	1
2	Weight of authority	Unchanged	2
3	Simplifying the Code	Unchanged	3
4	Minimizing tax liability	Unchanged	4
5	Codification of the tax law	Modified	5
6	Regulations	Unchanged	6
7	Proposed Regulations	Unchanged	7
8	General Counsel Memoranda	Unchanged	8
9	Regulations	Unchanged	9
10	Final Regulations	Unchanged	10
11	Temporary Regulations	Unchanged	11
12	Revenue rulings	Unchanged	12
13	Revenue procedures	Unchanged	13
14	Letter rulings	Unchanged	14
15	Determination letters	Unchanged	15
16	Technical Advice Memoranda	Unchanged	16
17	Treasury Decision	Unchanged	17
18	General Counsel Memoranda	Unchanged	18
19	Letter ruling	Unchanged	19
20	U.S. District Court: payment of tax deficiency	Unchanged	20
21	U.S. District Court: role of the jury	Unchanged	21
22	U.S. Tax Court: number of judges hearing a case	Unchanged	22
23	U.S. Court of Federal Claims: jury trial	Modified	23
24	U.S. Court of Federal Claims: payment of tax deficiency	Unchanged	24
25	Appellate court	Modified	25
26	Appellate court	Modified	26
27	Tax Court: Golsen rule	Unchanged	27
28	Supreme Court: certiorari	Unchanged	28
29	Judicial terminology	Unchanged	29
30	Judicial terminology	Unchanged	30
31	Board of Tax Appeals	Unchanged	31
32	Citation accuracy	Unchanged	32
33	Locating journal articles	Unchanged	33
34	Electronic researching	Unchanged	34

<u>Question/ Problem</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
35	Electronic tax services	New	
36	CD-based library	New	
37	Online access research	New	
38	Proposed transaction	New	
39	Regulation invalidation	New	
40	Weighting of Code and Regulations	New	
41	Proposed Regulations	New	
42	Interpretive Regulations	New	
43	U.S. District Court	New	
44	CPA examination	New	

MULTIPLE CHOICE

1	Code	Unchanged	1
2	Senate committee	Modified	2
3	Tax legislation	Unchanged	3
4	Code	Modified	4
5	Code format	Unchanged	5
6	Tax treaty	Unchanged	6
7	Administrative sources	Modified	7
8	Tax validity	Modified	8
9	Regulations and tax validity	Unchanged	9
10	Regulations	Unchanged	10
11	Code versus Regulations	Unchanged	11
12	Precedent	Modified	12
13	Temporary Regulations	Modified	13
14	Internal memoranda of IRS	Unchanged	14
15	Administrative releases	Unchanged	15
16	Precedential value	Unchanged	16
17	Appellate court	Modified	17
18	Court of Federal Claims	New	
19	Court that hears only tax disputes	New	
20	<i>Golsen</i> doctrine	New	
21	Location of Circuit Court of Appeals	New	
22	Interpreting citations	Unchanged	22
23	Interpreting citations	Unchanged	23
24	Interpreting citations	Unchanged	24
25	Reversing and affirming	Unchanged	25
26	Judicial system	Modified	26
27	Jurisdiction	New	
28	Most authoritative	New	
29	U.S. Tax Court	Unchanged	29
30	Authoritative court decisions	Unchanged	30
31	Tax treaty	Unchanged	31
32	Acquiescence	Unchanged	32
33	Primary versus secondary sources	Modified	33
34	Taxation on CPA exam	Unchanged	34

<u>Question/ Problem</u>	<u>Topic</u>	<u>Status: Present Edition</u>	<u>Q/P in Prior Edition</u>
ESSAY			
1	Congressional Committee Reports	Unchanged	1
2	Code Section numbers	Unchanged	2
3	Determination letters versus letter rulings	Unchanged	3
4	Temporary Regulations	Unchanged	4
5	<i>Golsen</i> doctrine	New	
6	Small Cases Division	Unchanged	6
7	Electronic tax research	Unchanged	7

TRUE/FALSE

1. Rules of tax law do *not* include Revenue Rulings and Revenue Procedures.

ANS: F

Rules of tax law do include Treasury Department pronouncements.

PTS: 1 DIF: 1 REF: p. 2-2 OBJ: 1
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

2. A tax professional must understand the relative weight of authority within the various tax law sources.

ANS: T PTS: 1 DIF: 1 REF: p. 2-2
 OBJ: 1 NAT: AICPA FN-Research | AACSB Reflective Thinking
 MSC: 2 min

3. In recent years, Congress has been relatively successful in simplifying the Internal Revenue Code.

ANS: F

The facts are quite the contrary.

PTS: 1 DIF: 1 REF: p. 2-2 OBJ: 6
 NAT: AICPA FN-Research | AACSB Reflective Thinking MSC: 2 min

4. A taxpayer should always minimize his or her tax liability.

ANS: F

A taxpayer should maximize the after-tax return in conjunction with the overall economic effect.

PTS: 1 DIF: 1 REF: p. 2-2 OBJ: 1
 NAT: AICPA FN-Measurement | AACSB Analytic MSC: 2 min

MSC: 2 min

12. Revenue Rulings carry the same legal force and effect as Regulations.

ANS: F

They do not carry the same (i.e., less) legal force as Regulations.

PTS: 1 DIF: 1 REF: p. 2-8 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

13. Revenue Procedures deal with the internal management practices and procedures of the IRS.

ANS: T PTS: 1 DIF: 1 REF: p. 2-9
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

14. Letter rulings may *not* be substantial authority for purposes of the accuracy-related penalty in § 6662.

ANS: F

Post-1984 letter rulings may be substantial authority for purposes of the accuracy-related penalty.

PTS: 1 DIF: 1 REF: p. 2-10 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

15. Determination letters usually involve proposed transactions.

ANS: F

They involve *completed* transactions.

PTS: 1 DIF: 1 REF: p. 2-10 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

16. Technical Advice Memoranda deal with completed transactions.

ANS: T PTS: 1 DIF: 1 REF: p. 2-11
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

17. Treasury Decisions are issued by the Treasury Department to promulgate new Regulations.

ANS: T PTS: 1 DIF: 1 REF: p. 2-10
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

18. General Counsel Memoranda may be cited as precedents by taxpayers.

ANS: F

They may not be cited as precedents.

PTS: 1 DIF: 1 REF: p. 2-11 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

19. Unlike determination letters, letter rulings are issued by the National Office of the IRS.

ANS: T PTS: 1 DIF: 1 REF: p. 2-10
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

20. A taxpayer must pay any tax deficiency assessed by the IRS and sue for a refund to bring suit in the U.S. District Court.

ANS: T
Only in the Tax Court can jurisdiction be obtained without first paying the assessed tax deficiency.

PTS: 1 DIF: 1 REF: Concept Summary 2.1
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

21. In a U.S. District Court, a jury can decide both questions of fact and questions of law.

ANS: F
Questions of law are resolved by the presiding judge.

PTS: 1 DIF: 1 REF: p. 2-13 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

22. Three judges will normally hear each U.S. Tax Court case.

ANS: F
Most Tax Court cases are heard and decided by only one judge. Only when more important or novel tax issues are involved will the entire court decide the case.

PTS: 1 DIF: 1 REF: p. 2-12 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

23. A taxpayer can obtain a jury trial only in a U.S. Court of Federal Claims.

ANS: F
A jury trial is available only in a U.S. District Court.

PTS: 1 DIF: 1 REF: Concept Summary 2.1
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

24. A taxpayer must pay any tax deficiency assessed by the IRS and sue for a refund to bring suit in the U.S. Court of Federal Claims.

ANS: T
The tax deficiency *must* be paid before suit can be instituted in either the U.S. District Court or the U.S. Court of Federal Claims.

PTS: 1 DIF: 1 REF: Concept Summary 2.1

OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 2 min

25. Arizona is in the jurisdiction of the Sixth Circuit Court of Appeals.

ANS: F
 Arizona is in the jurisdiction of the Ninth Circuit.

PTS: 1 DIF: 1 REF: Figure 2.4 OBJ: 1
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

26. Texas is in the jurisdiction of the Sixth Circuit Court of Appeals.

ANS: F
 Texas is in the jurisdiction of the Fifth Circuit.

PTS: 1 DIF: 1 REF: Figure 2.4 OBJ: 1
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

27. The *Golsen* rule has been overturned by the U.S. Supreme Court.

ANS: F
 The *Golsen* rule is followed by the U.S. Tax Court.

PTS: 1 DIF: 1 REF: p. 2-14 OBJ: 1
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

28. The granting of a Writ of Certiorari indicates that at least five members of the Supreme Court believe that an issue is of sufficient importance to be heard by the full court.

ANS: F
 The granting of the Writ indicates that at least four members of the Supreme Court believe that an issue is of sufficient importance to be heard by the full Court.

PTS: 1 DIF: 1 REF: p. 2-15 OBJ: 1
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

29. The “defendant” refers to the party against whom a suit is brought.

ANS: T PTS: 1 DIF: 1 REF: p. 2-15
 OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 2 min

30. The term “respondent” is a synonym for defendant.

ANS: T PTS: 1 DIF: 1 REF: p. 2-15
 OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 2 min

31. Before 1943, the U.S. Tax Court was called the Board of Tax Appeals.

ANS: T PTS: 1 DIF: 1 REF: p. 2-16
OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

32. The following citation *cannot* be correct: *James E. Wiese*, T.C. Summary Opinion, 2005-91.

ANS: F PTS: 1 DIF: 1 REF: p. 2-16
OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

33. An easy way to locate a journal article pertinent to a tax problem is through Commerce Clearing House's *Federal Tax Articles*.

ANS: T PTS: 1 DIF: 1 REF: p. 2-20
OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

34. Accessing tax documents through electronic means offers limited advantages over a strictly paper-based approach.

ANS: F
There are a number of major advantages in using electronic means in tax research.

PTS: 1 DIF: 1 REF: p. 2-25 OBJ: 3
NAT: AICPA FN-Research | AICPA FN-Leverage Technology | AACSB Analytic | AACSB
Technology MSC: 2 min

35. The major tax services are not available in electronic format.

ANS: F
Virtually all of the tax services are available in electronic format.

PTS: 1 DIF: 1 REF: p. 2-26 OBJ: 3
NAT: AICPA FN-Research | AICPA FN-Leverage Technology | AACSB Analytic | AACSB
Technology MSC: 2 min

36. Today a person can obtain a CD-based tax library of the archival data that make up a permanent, core library of tax documents for about \$300 per year.

ANS: T PTS: 1 DIF: 1 REF: p. 2-25
OBJ: 3
NAT: AICPA FN-Research | AICPA FN-Leverage Technology | AACSB Analytic | AACSB
Technology MSC: 2 min

37. For day-to-day tax research, the best approach is to use the online access tax research approach.

ANS: F

Online access can be quite expensive. It is probably best to use the CD approach for most of the day-to-day research.

PTS: 1 DIF: 1 REF: p. 2-27 OBJ: 3
 NAT: AICPA FN-Research | AICPA FN-Leverage Technology | AACSB Analytic | AACSB
 Technology MSC: 2 min

38. When dealing with proposed transactions, the tax research process is directed toward the determination of possible alternative consequences.

ANS: T PTS: 1 DIF: 1 REF: p. 2-18
 OBJ: 4 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 2 min

39. Often a court will invalidate a Regulation or portion thereof on the grounds that the Regulation is contrary to the intent of Congress.

ANS: F

Only occasionally will a Regulation be overturned by the courts.

PTS: 1 DIF: 1 REF: p. 2-22 OBJ: 4
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

40. IRS agents must give the Code and Regulations issued thereunder equal weight when dealing with taxpayers and their representatives.

ANS: T PTS: 1 DIF: 1 REF: p. 2-22
 OBJ: 4 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 2 min

41. Proposed Regulations are binding on the IRS and taxpayers.

ANS: F

They provide only a preview of future final Regulations.

PTS: 1 DIF: 1 REF: p. 2-22 OBJ: 4
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

42. Interpretive Regulations have the force and effect of law.

ANS: F

Only legislative Regulations have the force and effect of law. An interpretive Regulation is given less deference than a legislative Regulation.

PTS: 1 DIF: 1 REF: p. 2-22 OBJ: 4
 NAT: AICPA FN-Research | AACSB Analytic MSC: 2 min

43. A U. S. District Court decision carries less weight than a decision issued by the Fifth Circuit Court of Appeals.

ANS: T PTS: 1 DIF: 1 REF: p. 2-23
OBJ: 4 NAT: AICPA FN-Research | AACSB Analytic
MSC: 2 min

44. The computer-based CPA examination has four sections with true-false, multiple-choice, and case studies (called simulations).

ANS: F
No true-false questions appear on the CPA exam.

PTS: 1 DIF: 1 REF: p. 2-28 OBJ: 7
NAT: AICPA FN-Research | AICPA FN-Leverage Technology | AACSB Analytic | AACSB
Technology MSC: 2 min

MULTIPLE CHOICE

1. The Internal Revenue Code was codified for the first time in what year?

a. 1913.
b. 1923.
c. 1939.
d. 1954.
e. 1986.

ANS: C PTS: 1 DIF: 1 REF: p. 2-2
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

2. Tax bills are handled by which committee in the U.S. House of Representatives?

a. Taxation Committee.
b. Ways and Means Committee.
c. Finance Committee.
d. Budget Committee.
e. None of the above.

ANS: B PTS: 1 DIF: 1 REF: p. 2-3
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

3. Federal tax legislation generally originates in what body?

a. Internal Revenue Service.
b. Senate Finance Committee.
c. House Ways and Means Committee.
d. Senate floor.
e. None of the above.

ANS: C PTS: 1 DIF: 1 REF: p. 2-3
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

4. Subchapter K covers which specific area of tax law?
- Tax rates.
 - Partnerships.
 - Capital gains and losses.
 - Corporations.
 - None of the above

ANS: B PTS: 1 DIF: 1 REF: p. 2-5
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

5. In § 212(1), the number (1) stands for the:
- Section number.
 - Subsection number.
 - Paragraph designation.
 - Subparagraph designation.
 - None of the above.

ANS: C PTS: 1 DIF: 1 REF: p. 2-6 | Footnote 4
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

6. Which statement is *false* with respect to tax treaties?
- There is a \$1,000 penalty per failure to disclose on the tax return where there is a direct treaty conflict for an individual.
 - There is a \$10,000 penalty per failure to disclose on the tax return where there is a direct treaty conflict for a corporation.
 - Treaties override the Code when in conflict.
 - Treaties may override a Code section when in conflict.
 - None of the above.

ANS: C
When there is a direct conflict, the most recent item will take precedence.

PTS: 1 DIF: 1 REF: p. 2-6 OBJ: 1
NAT: AICPA FN-Research | AICPA FN-Risk Analysis | AACSB Analytic
MSC: 5 min

7. Which of the following is *not* an administrative source of the tax law?
- Field Service Advice.
 - Revenue Procedures.
 - Technical Advice Memoranda.
 - Treasury Decision
 - All of the above are administrative sources.

ANS: E PTS: 1 DIF: 1 REF: p. 2-7 to 2-11 | Exhibit 2.1
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

8. Which of the following sources has the *lowest* tax validity?
- Revenue Ruling.
 - Letter ruling.
 - Regulations.
 - Internal Revenue Code section.
 - None of the above.

ANS: B PTS: 1 DIF: 2 REF: p. 2-2 to 2-11
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

9. Which of the following types of Regulations has the *highest* tax validity?
- Temporary.
 - Legislative.
 - Interpretative.
 - Procedural.
 - None of the above.

ANS: B PTS: 1 DIF: 2 REF: p. 2-8 | p. 2-22 | Exhibit 2.1
OBJ: 1 | 4 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

10. What statement is *not* true with respect to a regulation which interprets the tax law?
- Issued by the U.S. Congress.
 - Issued by the U.S. Treasury Department.
 - Designed to provide an interpretation of the tax law.
 - Carries more legal force than a Revenue Ruling.
 - All of the above statements are true.

ANS: A
Treasury Regulations are issued by the U.S. Treasury Department.

PTS: 1 DIF: 1 REF: p. 2-7 | p. 2-8
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

11. In assessing the importance of a regulation, an IRS agent must:
- Give equal weight to the Code and regulations.
 - Give more weight to the Code rather than to a regulation.
 - Give more weight to the regulation rather than to the Code.
 - Give less weight to the Code rather than to a regulation.
 - None of the above.

ANS: A PTS: 1 DIF: 1 REF: p. 2-22 | Exhibit 2.1
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

12. Which item may *not* be cited as a precedent?

- a. Regulations.
- b. Temporary Regulations.
- c. Technical Advice Memoranda.
- d. U.S. Tax Court decision.
- e. None of the above.

ANS: C PTS: 1 DIF: 1 REF: p. 2-11 | Exhibit 2.1
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

13. What statement is *not* true with respect to Temporary Regulations?

- a. May not be cited as precedent.
- b. Issued as Proposed Regulations.
- c. Automatically expire within three years after the date of issuance.
- d. Found in the *Federal Register*.
- e. All of the above statements are true.

ANS: A PTS: 1 DIF: 2 REF: Exhibit 2.1 | p. 2-8
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

14. What administrative release deals with a proposed transaction rather than a completed transaction?

- a. Letter Ruling.
- b. Technical Advice Memorandum.
- c. Determination Letter.
- d. Field Service Advice.
- e. None of the above.

ANS: A PTS: 1 DIF: 2 REF: p. 2-9 | p. 2-10
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

15. Which of these citations does *not* refer to an administrative release?

- a. Notice 90-20, 1980-1 C.B. 328.
- b. Ltr. Rul. 9333032 (May 24, 1993).
- c. TAM 9510001 (March 6, 1995).
- d. T.C. Summary Opinion, 2005-111.
- e. All of the above.

ANS: D
D refers to a Tax Court opinion which is a *judicial* source of tax law.

PTS: 1 DIF: 2 REF: p. 2-16 OBJ: 1 | 2
NAT: AICPA FN-Research | AACSB Analytic MSC: 10 min

16. Which of the following indicates that a decision has precedential value for future cases?
- Stare decisis*.
 - Golsen* doctrine.
 - En banc*.
 - Reenactment doctrine.
 - None of the above.

ANS: A PTS: 1 DIF: 1 REF: p. 2-14
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

17. A taxpayer who loses in a U.S. District Court may appeal directly to the:
- Supreme Court.
 - U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - U.S. Circuit Court of Appeals.
 - All of the above.

ANS: D
Appeals from a U.S. District Court go to the taxpayer's home circuit of the U.S. Circuit Court of Appeals.

PTS: 1 DIF: 1 REF: Figure 2.3 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 5 min

18. Identify the number of the Court(s) of Federal Claims?
- 1.
 - 3.
 - 16.
 - 19.
 - None of the above is correct.

ANS: A PTS: 1 DIF: 1 REF: p. 2-12
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

19. Which trial court hears only tax disputes?
- U.S. District Court.
 - U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - U.S. Circuit Courts of Appeals.
 - None of the above.

ANS: B PTS: 1 DIF: 1 REF: Concept Summary 2.1
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

20. The *Golsen* doctrine applies to which court?
- U.S. District Court.
 - U.S. Court of Federal Claims.
 - U.S. Tax Court.
 - U.S. Supreme Court.
 - Some other court.

ANS: C PTS: 1 DIF: 1 REF: p. 2-14
 OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

21. Which state is located in the jurisdiction of the Fifth Circuit Court of Appeals?
- Texas.
 - California
 - New York.
 - South Carolina.
 - None of the above.

ANS: A PTS: 1 DIF: 1 REF: Figure 2.4
 OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

22. Interpret the following citation: 64-1 USTC ¶9618, *aff'd* in 344 F. 2d 966.
- A U.S. Tax Court Small Cases Division decision that was affirmed on appeal.
 - A U.S. Tax Court decision that was affirmed on appeal.
 - A U.S. District Court decision that was affirmed on appeal.
 - A U.S. Circuit Court of Appeals decision that was affirmed on appeal.
 - None of the above.

ANS: C

USTCs report decisions of the U.S. District Courts, Court of Federal Claims, Circuit Court of Appeals, and the Supreme Court. They do not report the decisions of the U.S. Tax Court. West's F. 2d series reports the decisions of the U.S. Claims Court (before October 1982) and the Circuit Courts of Appeal. They do not report the decisions of the U.S. Tax Court, U.S. District Courts, and the Supreme Court. In the light of these conditions, what are the possibilities.

- Choice a. is not possible, since there is no appeal from the Small Cases Division of the U.S. Tax Court.
- Choice b. is not possible because the USTC series does not contain the decision of the U.S. Tax Court.
- Choice d. is not possible since an appeal from the Circuit Court of Appeals would have been to the U.S. Supreme Court.

What the citation represents, therefore, is the affirmation of an appeal of a U.S. District Court decision (reported in the USTCs) by a Circuit Court of Appeals (reported in the F.2d series), or choice c.

PTS: 1 DIF: 1 REF: p. 2-15 | p. 2-17
 OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 10 min

23. Which citation refers to a Third Circuit Court of Appeals decision?
- 40 T.C. 1018.
 - 159 F. 2d 848 (CA-2, 1947).
 - 354 F. Supp. 1003 (D. Ct. Ga, 1972).
 - 914 F. 2d 396 (CA-3, 1990).
 - None of the above.

ANS: D PTS: 1 DIF: 1 REF: p. 2-16
 OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 10 min

24. Which citation refers to a U.S. Tax Court decision?
- Apollo Computer, Inc. v. U.S.*, 95-1 USTC ¶150,015 (Fed. Cl., 1994)
 - Westreco, Inc.*, T.C.Memo. 1992-561 (1992).
 - Bausch & Lomb, Inc. v. Comm.*, 933 F.2d 1084 (CA-2, 1991).
 - Portland Manufacturing Co. v. Comm.*, 35 AFTR2d 1439 (CA-9, 1975).
 - None of the above.

ANS: B PTS: 1 DIF: 1 REF: p. 2-16
 OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 10 min

25. If these citations appeared after a trial court decision, which one means that the decision was overruled?
- Aff'd 633 F.2d 512 (CA-7, 1980).
 - Rem'd 399 F.2d 800 (CA-5, 1968).
 - Aff'd 914 F.2d 396 (CA-3, 1990).
 - Rev'd 935 F.2d 203 (CA-5, 1991).
 - None of the above.

ANS: D PTS: 1 DIF: 1 REF: p. 2-15
 OBJ: 1 | 2 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

26. Which trial court has 19 judges?
- U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - U.S. Supreme Court.
 - U.S. Court of Appeals.
 - None of the above.

ANS: A
 The U.S. Tax Court has 19 regular judges. The U.S. Court of Federal Claims has 16. Neither the U.S. Court of Appeals nor the U.S. Supreme Court is a trial court.

PTS: 1 DIF: 1 REF: Concept Summary 2.1
 OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

27. Which trial court's jurisdiction depends on the geographical location of the taxpayer?
- U.S. Tax Court.
 - U.S. District Court.
 - U.S. Court of Federal Claims.
 - Small Cases Division of the Tax Court.
 - None of the above.

ANS: B PTS: 1 DIF: 1 REF: Concept Summary 2.1
 OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

28. Which trial court decision is generally more authoritative?
- U.S. District Court.
 - U.S. Tax Court.
 - U.S. Court of Federal Claims.
 - Small Cases Division of the Tax Court.
 - All of the above are the same.

ANS: B PTS: 1 DIF: 1 REF: Concept Summary 2.1
 OBJ: 1 | 4 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

29. A Memorandum decision of the U.S. Tax Court could be cited as:
- T.C.Memo. 1990-650.
 - 68-1 USTC ¶9200.
 - 37 AFTR2d 456.
 - All of the above.
 - None of the above.

ANS: A

The T.C.Memo. Citation (choice a.) refers to a memorandum decision of the U.S. Tax Court. CCH's U.S. Tax Cases series (USTC in choice b.) does not include decisions of the U.S. Tax Court. The same holds true of RIA's American Federal Tax Report (AFTR2d in choice c.).

PTS: 1 DIF: 1 REF: p. 2-16 OBJ: 2
 NAT: AICPA FN-Research | AACSB Analytic MSC: 5 min

30. Which court decision is generally more authoritative?
- A U.S. Tax Court decision.
 - Court of Federal Claims decision.
 - District Court decision.
 - U.S. Court of Appeals decision.
 - U.S. Tax Court Memorandum decision.

ANS: D PTS: 1 DIF: 1 REF: p. 2-13 to 2-15
 OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
 MSC: 5 min

31. Which statement is incorrect with respect to a tax treaty?
- A tax treaty always overrides a Code section when they conflict.
 - The purpose of a treaty is to render mutual assistance in tax enforcement and to avoid double taxation.
 - Taxpayers must disclose on their tax returns any position where a treaty overrides a Code section.
 - There is a \$1,000 penalty per failure to disclose a conflicting tax treaty.
 - All are correct.

ANS: A PTS: 1 DIF: 1 REF: p. 2-6
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

32. Which of the following statements about an acquiescence is correct?
- An acquiescence is issued in the *Federal Registrar*.
 - Acquiescences are published only for certain regular decisions of the U.S. Tax Court.
 - An acquiescence is published in the *Internal Revenue Bulletin*.
 - The IRS does not issue acquiescences to adverse decisions that are not appealed.
 - All of the above are correct.

ANS: C PTS: 1 DIF: 1 REF: p. 2-16
OBJ: 2 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

33. Which is a primary source of tax law?
- J. W. Yarbo v. Comm.*, 737 F.2d 479 (CA-5, 1984).
 - Article by a Federal judge in *Harvard Law Review*.
 - Technical Advice Memoranda.
 - Letter ruling.
 - All of the above are primary sources.

ANS: A PTS: 1 DIF: 1 REF: p. 2-24
OBJ: 4 NAT: AICPA FN-Research | AACSB Analytic
MSC: 5 min

34. Which statement is *incorrect* with respect to taxation on the CPA exam?
- The CPA exam now has only four parts.
 - There are no longer case studies on the exam.
 - A candidate may not go back after exiting a testlet.
 - Simulations include a four-function pop-up calculator.
 - None of the above are incorrect.

ANS: B PTS: 1 DIF: 1 REF: p. 2-28 | p. 2-29
OBJ: 7 NAT: AICPA FN-Measurement | AACSB Analytic
MSC: 5 min

ESSAY

1. How can congressional committee reports be used by a tax researcher?

ANS:

Congressional committee reports often explain the provisions of proposed legislation and are a valuable source for ascertaining the intent of Congress. The intent of Congress is the key to interpreting new legislation by taxpayers, especially before Regulations are published.

PTS: 1 DIF: 1 REF: p. 2-4 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic | AACSB Reflective Thinking
MSC: 5 min

2. Why are some Code section numbers intentionally omitted from the *Internal Revenue Code*?

ANS:

Some Code section numbers are intentionally omitted from the *Internal Revenue Code* so that later changes in the law can be incorporated into the Code without disrupting its organization.

PTS: 1 DIF: 1 REF: Footnote 2 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic | AACSB Reflective Thinking
MSC: 5 min

3. Compare a determination letter with a letter ruling.

ANS:

Like letter rulings, determination letters are issued at the request of taxpayers and provide guidance on the tax law. Determination letters differ from letter rulings in that the issuing source of a determination letter is the Area Director rather than the National Office of the IRS. Also, determination letters usually involve completed (as opposed to proposed) transactions. Determination letters are not published and are made known only to the party making the request.

PTS: 1 DIF: 1 REF: p. 2-9 | p. 2-10
OBJ: 1 NAT: AICPA FN-Research | AACSB Analytic | AACSB Reflective Thinking
MSC: 10 min

4. Explain the function of Temporary Regulations.

ANS:

Sometimes the U.S. Treasury Department issues Temporary Regulations relating to matters where immediate guidance is important. These regulations are issued without the comment period required for Proposed Regulations. Temporary Regulations have the same authoritative value as Final Regulations and may be cited as precedents. Temporary Regulations also must be issued as Proposed Regulations and automatically expire within three years after the date of issuance. Temporary Regulations and the simultaneous Proposed Regulations carry more weight than traditional Proposed Regulations.

PTS: 1 DIF: 1 REF: p. 2-8 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic | AACSB Reflective Thinking
MSC: 10 min

5. Explain the *Golsen* doctrine.

ANS:

Because the Tax Court is a national court, it decides cases from all parts of the country. For many years, the Tax Court followed a policy of deciding cases based on what it thought the result should be, even though its decision might be appealed to a U.S. Circuit Court of Appeals that had previously decided a similar case differently. A number of years ago this policy was changed in the *Golsen* decision. Now the Tax Court will decide a case as it feels the law should be applied *only* if the Circuit Court of Appeals of appropriate jurisdiction has not yet passed on the issue or has previously decided a similar case in accord with the Tax Court's decision. If the Circuit Court of Appeals of appropriate jurisdiction has previously held otherwise, the Tax Court will conform under the *Golsen* rule even though it disagrees with the holding.

PTS: 3 DIF: 1 REF: p. 2-14 OBJ: 1
NAT: AICPA FN-Research | AACSB Analytic MSC: 5 min

6. Discuss the advantages and disadvantages of the Small Cases Division of the U.S. Tax Court.

ANS:

There is no appeal from the Small Cases Division. The jurisdiction of the Small Cases Division is limited to cases involving amounts of \$50,000 or less. The proceedings of the Small Cases Division are informal (e.g., no necessity for the taxpayer to be represented by a lawyer or other tax adviser). Special trial judges rather than Tax Court judges preside over these proceedings. The decisions of the Small Cases Division are not precedents for any other court decision and are not reviewable by any higher court. Proceedings can be more timely and less expensive in the Small Cases Division. Some of these cases can now be found on the U.S. Tax Court Internet Website.

PTS: 1 DIF: 1 REF: p. 2-11 | p. 2-12
OBJ: 1
NAT: AICPA FN-Research | AICPA FN-Risk Analysis | AACSB Analytic | AACSB Reflective Thinking MSC: 5 min

7. How should a tax researcher view electronic tax research tools from a budget perspective?

ANS:

A paper tax library costs about \$20,000 to establish with an annual outlay of about \$5,000. For about \$300 a year, a tax CD with quarterly updates can provide a researcher a comprehensive tax source. An online system can be as much as \$200 per hour. Perhaps the best combination of electronic resources is to conduct day-to-day work on a CD system, and augment the CD search with online access when it is judged to be critical.

PTS: 1 DIF: 1 REF: p. 2-25 to 2-28
OBJ: 4
NAT: AICPA FN-Research | AICPA FN-Leverage Technology | AACSB Analytic | AACSB Technology MSC: 10 min