



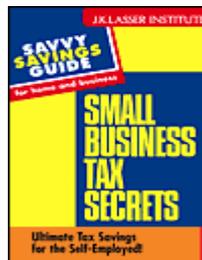
## FINAL EXAM

# Course # 611065 Small Business Tax Secrets

based on the book:

### **Small Business Tax Secrets Ultimate Tax Savings for the Self-Employed**

by: J.K. Lasser Institute ( 2003 )



Taxation

*This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading. Instructions are provided at the end of this document.*

## **Chapter 1 - What is a Business for Tax Purposes?**

1. Investors report gains and losses on Schedule C.

TRUE

FALSE

2. A dealer or trader of real estate reports rental income and deductions on Schedule E, Part I.

TRUE

FALSE

3. Relevant factors in determining a profit motive include:

the manner in which the taxpayer carries on the activity

the expertise of the taxpayer or his advisors

elements of personal pleasure or recreation

all of the above

4. The financial status of a taxpayer is relevant in determining profit motive for a trade or business.

TRUE

FALSE

5. Hobby expenses are subject to the reduction by 2% of Adjusted Gross Income (AGI).

TRUE

FALSE

6. According to the Supreme Court, 'ordinary' means:

normal

usual

customary

all of the above

7. According to the Supreme Court, an expense which occurs only once in a taxpayer's lifetime may not be considered 'ordinary'.

TRUE

FALSE

8. 'Necessary' according to the Supreme Court means no more than "appropriate and helpful" in running your business.

TRUE

FALSE

## Chapter 2 - Choices for Business Organization

9. As an employee earning in excess of \$87,000 in 2003, your additional income from your part time sole proprietorship is only subject to 2.9% self-employment tax.

TRUE

FALSE

10. This type of entity is treated as a partnership for tax purposes:

general partnerships

Limited Liability Partnerships (LLPs)

Limited Liability Companies (LLCs)

all of the above

11. A general partner is personally liable for the debts of the partnership.

TRUE

FALSE

12. A partner reports his share of partnership profits shown on Schedule K-1 only if it was distributed to him in the current taxable year.

TRUE

FALSE

13. For tax purposes, special allocations of a partnership must have:

prior IRS approval

substantial economic effect

the consent of at least two partners

all of the above

14. Guaranteed payments as compensation for services are subject to self employment tax for:

general partners

limited partners

neither general nor limited partners

both general and limited partners

15. A partner's basis in the partnership is increased by:

the sum of money she contributed

the adjusted basis of property she contributed

the amount of any income recognized from the contribution of services to the partnership

all of the above

16. The penalty tax on accumulated earnings of a corporation can be avoided if the corporation can prove that the accumulation is for reasonable business needs.

TRUE

FALSE

17. A shareholder may recognize a loss on boot received.

TRUE

FALSE

18. Capital losses that cannot be taken in the current year can be carried forward to future years.

TRUE

FALSE

19. Capital losses are fully deductible against capital gains.

TRUE

FALSE

20. A corporation will not be disallowed S Corp status if it:

is a foreign corporation

has 150 shareholders

has only one class of stock

has nonresident alien shareholders

21. S Corp shareholders must pay tax on their shares of corporate income

regardless of whether it is actually distributed.

TRUE

FALSE

22. If you form a corporation and immediately elect S Corp status, there may be certain situations in which you are taxed at the corporate level.

TRUE

FALSE

23. The advantages of a Limited Liability Company (LLC) organizational structure include:

limited liability for owners

single level of taxation

maximum flexibility in dividing profits and losses

all of the above

24. A potential advantage of an S Corp organizational structure is the ability of S Corp shareholders to avoid Social Security taxes on their share of corporate income above a reasonable wage.

TRUE

FALSE

### **Chapter 3 - Tax Accounting Methods and Periods**

25. The following taxpayers are required to use accrual accounting for tax purposes:

a C Corp with average annual gross receipts of \$1,000,000

a partnership classified as a 'tax shelter'

an S Corp with average annual gross receipts of \$750,000 that is required to maintain inventory

all of the above

26. The IRS position, in general, is that prepaid income is recognized when received by accrual method taxpayers.

TRUE

FALSE

#### **Chapter 4 - Limitations on Use of Your Home**

27. Deductions for the business use of your home may not exceed net income derived from the business use.

TRUE

FALSE

28. Disallowed home office expenses may not be carried forward.

TRUE

FALSE

29. Pursuant to IRC Section 280A, qualified use of a home office includes:

regular use

exclusive use

both regular and exclusive use

neither regular nor exclusive use

30. The burden of proof for any deductions you claim is on you.

TRUE

FALSE

31. Balancing your personal checkbook in your home office violates the exclusivity test of IRC Section 280A.

TRUE

FALSE

32. A taxpayer's ability to claim home office deductions is not affected by the taxpayer conducting substantial nonadministrative or nonmanagement activities at a fixed location of business outside the home.

TRUE

FALSE

33. If you meet clients at your home office, you must still meet the 'principle place of business' requirement in order to deduct your home office expenses.

TRUE

FALSE

34. You may avoid the 'principle place of business' requirement by housing your home office in a separate free standing structure on your residential property that you use regularly and exclusively in connection with your trade or business.

TRUE

FALSE

35. According to the Seventh Circuit Court of Appeals, but not necessarily the IRS, if you can show that your facilities at work are inadequate for the work you are required to do as an employee, your home office will meet the 'convenience of the employer' test.

TRUE

FALSE

36. Unreimbursed employee expenses are deducted as miscellaneous itemized deductions on Schedule A and are subject to the reduction by 2% of AGI.

TRUE

FALSE

## Chapter 5 - Form 8829 Line by Line

37. Tier one deductions reported on Part II of Form 8829, Expenses for Business Use of Your Home, are deductions that would be allowed on Schedule A even if you had no home office.

TRUE

FALSE

38. Direct expenses reported on Form 8829 should be multiplied by the business percentage calculated earlier.

TRUE

FALSE

39. Telephone expenses should be included on Form 8829, Line 19, Utilities.

TRUE

FALSE

40. For purposes of computing depreciation on the business portion of your home, your home's adjusted basis generally includes:

original cost of the property including closing costs

cost of special tax assessments paid for local improvements

capital improvements made prior to use as a home office

all of the above

## Chapter 6 - Planes, Trains, and (Especially) Automobiles

41. If your home office does not qualify as your 'principle place of business' and you have another regular work location in the same city, transportation costs between your home and the other work location is considered:

deductible transportation expenses

deductible travel expenses

nondeductible personal commuting

none of the above

42. In determining an automobile's adjusted basis when using the standard mileage allowance, for year 2002, depreciation will be considered to have been allowed at the rate of:

11.5 cents per business mile

14 cents per business mile

15 cents per business mile for the first 15,000 business miles

15 cents per mile for all business miles

43. A business use Escalade SUV, weighing in excess of 6000 pounds, will depreciate faster than a business use Pinto, weighing 3000 pounds because the luxury automobile limit will not apply.

TRUE

FALSE

44. To qualify for the new 30% depreciation allowance, your car must:

have been bought used

have been bought between September 10, 2001 and September 11, 2004

be used over 30% in qualified business use

all of the above

45. If you lease a car to use for your business, and use the actual cost method, the lease payments are deductible in lieu of depreciation, subject to certain limits for luxury cars.

TRUE

FALSE

## Chapter 7 - Other Common Business Deductions

46. An employee who is reimbursed for all business related expenses may be able to skip Form 2106 and not report either the reimbursement or the expense.

TRUE

FALSE

47. Computers are considered to be:

four year property

five year property

six year property

seven year property

48. General requirements for property qualified for the new 30% depreciation allowance include:

the depreciable property must be new with a recovery period of 20 years or less

the depreciable property must have been bought between September 10, 2001 and September 11, 2004

over 50% of the property's use must be qualified business use

all of the above

49. The new 30% depreciation allowance is deductible for:

regular tax

alternative minimum tax

neither regular tax nor alternative minimum tax

both regular tax and alternative minimum tax

50. The Section 179 election must be made within a three year period beginning the first year the property was placed in service.

TRUE

FALSE

51. You may allocate a Section 179 deduction amongst different properties.

TRUE

FALSE

52. Excess Section 179 deductions limited by taxable income cannot be carried forward to future years.

TRUE

FALSE

53. Taxable business income for purposes of calculating the limit on Section 179 deductions includes net income from all businesses you and your spouse (if filing a joint return) actively conduct during the year.

TRUE

FALSE

54. Business gifts are deductible to the extent of \$25 per donee per year.

TRUE

FALSE

55. Effective in tax year 2003, self-employed individuals can deduct 100% of their health insurance premiums above the line.

TRUE

FALSE

56. A Savings Incentive Match Plan for Employees (SIMPLE) can be set up by:

a sole proprietor

a partnership

an S Corp

all of the above

### Chapter 8 - Other Taxes

57. Generally, you are not an independent contractor if you are receiving payments from someone who has the right to control or direct only the result of your work, not specifically what you do or how you do it.

TRUE

FALSE

58. The following worker is considered a 'statutory employee':

someone who performs services as a full time life insurance sales representative

a computer repair technician

a clergyman

a deputy fire marshal

### Chapter 9 - Records You Better Keep

59. The elements you must be able to prove for travel expenses DO NOT include:

amount

time

place

business relationship

60. Listed property generally includes:

your business car

your home computer

your cellular phone

all of the above

Instructions for Submitting Answers Online:

- Sign In at [www.ApexCPE.com](http://www.ApexCPE.com)
- Click the "My CPE" tab at the top of the page.
- Click "My CPE Courses".
- Find the current CPE year and click "Go to My Courses".
- Find this course and click the "Go to Course" link.
- Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.
- Enter your answers on the online exam sheet.
- Click the "Grade Exam" button at the bottom of the page. Your exam will be graded automatically. If your score exceeds 70%, a "Create Certificate" button will display. Otherwise, you may continue to retake the exam until you pass.
- A short evaluation page will display. Please provide your feedback for the course.
- Once the evaluation is complete, click the "Submit Evaluation & Create Certificate" button at the top of the page.
- You may print your Certificate of Completion by selecting File Print from your browser. Certificates remain online for at least five years from the certificate date.

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