



## FINAL EXAM

# Course # 651001 Minimize Federal Business Taxes

based on the book:

**Doing Business Tax Free: Perfectly  
Legal Techniques to Reduce or  
Eliminate Your Federal Business Tax**  
by: Robert A. Cooke, CPA" ( 2001 )



10 CPE Credit Hours  
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 - Pay No Income Taxes**

1. Nonpassive means that you will have to participate actively.

TRUE

FALSE

2. The IRS computer now matches most W-2s and 1099 forms to individual tax returns.

TRUE

FALSE

## **Chapter 2 - Organize Your Business for the Smallest Tax Bite**

3. If you expect a gain and you have significant other income, operating as a sole proprietorship makes sense.

TRUE

FALSE

4. If you expect a loss and you have significant other income, operating as a sole proprietorship makes sense.

TRUE

FALSE

5. The extra penalty for accumulating corporate profits can be avoided if:

The accumulated profit exceeds 49% of AGI.

The accumulated profit is less than \$3,000,000

The accumulated profit originated from the sales of inventory.

You convince the IRS the money was kept in the corporation to meet the reasonable needs of the business.

6. The extra penalty for accumulating corporate profits can be avoided if you convince the IRS that the profit was kept to meet contingent liabilities.

TRUE

FALSE

7. Personal service corporations are corporation that provide services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting.

TRUE

FALSE

8. Personal service corporations are taxed at the same graduated corporation tax scale that applies to other corporations.

TRUE

FALSE

9. Each partner in a general partnership has unlimited liability for the partnerships debts.

TRUE

FALSE

10. Each limited partner in a limited partnership has limited liability for the partnerships debts.

TRUE

FALSE

11. A Limited Liability Company (LLC) is taxed like a partnership.

TRUE

FALSE

12. A Limited Liability Company (LLC) is taxed like a corporation.

TRUE

FALSE

### **Chapter 3 - Jump into Business and Keep the IRS from Becoming a Greedy Partner**

13. A business owner, operating as a S-Corp, can reduce social security taxes by paying himself less salary and more dividends.

TRUE

FALSE

14. Dividends are not subject to Social Security tax.

TRUE

FALSE

15. The Section 179 Election allows an individual or corporation to take an immediate deduction for the year in which the equipment was purchased instead of depreciating the cost over time, up to certain limits.

TRUE

FALSE

16. There is no Section 179 election for amortization.

TRUE

FALSE

17. Amortization is a method for deducting some intangible costs over time.

TRUE

FALSE

18. Software development costs are deducted immediately.

TRUE

FALSE

19. Advertising costs are deducted immediately.

TRUE

FALSE

20. Advertising costs are deducted when the revenue from the advertising is recognized.

TRUE

FALSE

#### **Chapter 4 - Keep Two or More Sets of Books (Legally) and Other Accounting Tricks**

21. With the accrual method, expenses are recognized when they are incurred, not when they are paid.

TRUE

FALSE

22. With the cash method, income is recognized when received. Expenses are recognized when paid.

TRUE

FALSE

23. Businesses which buy and sell merchandise for resale must record sales and cost of goods sold on a cash basis.

TRUE

FALSE

24. Businesses which buy and sell merchandise for resale must record sales and cost of goods sold on an accrual basis.

TRUE

FALSE

26. You may lose a net operating loss carryforward from a C-Corp if you elect S-Corp status

TRUE

FALSE

## **Chapter 5 - Change Personal Expenses into Business Tax Deductions**

25. The principle test for determining employee vs. contractor is that of control and direction.

TRUE

FALSE

27. Filing Form SS-8 requests a ruling from the IRS as to the status of a worker as employee or contractor.

TRUE

FALSE

28. Deducting business expenses is easier for a self-employed person than a salaried person.

TRUE

FALSE

29. The IRS may call income "hobby income" merely because the owner finds

pleasure in the endeavor.

TRUE

FALSE

30. If a business shows a profit in three out of five consecutive years, it may be presumed to be a business rather than a hobby.

TRUE

FALSE

31. The three out of five years safe harbor test, shifts the burden of proof from the taxpayer to the IRS.

TRUE

FALSE

32. Horse farms that breed, show, train and race horses need show a profit in two out of seven consecutive years to be presumed to be a business rather than a hobby.

TRUE

FALSE

33. If you travel out of the U.S. for more than seven days, you have to allocate your expenses between time spent on business and time spent on pleasure.

TRUE

FALSE

34. One way to make a lot of travel a deductible expense is to be in a business for which travel is an essential ingredient.

TRUE

FALSE

35. If education qualifies you for a new trade or business or is necessary for the minimum skill levels for your present position, the education is a personal, nondeductible expense.

TRUE

FALSE

36. You can deduct as legitimate business expenses, the cost of education that maintains or improves the skills necessary for your present job or business.

TRUE

FALSE

## Chapter 6 - Taking Money Out of Your Business

37. Tax on dividends is essentially paid twice, once by the corporation when it earned profit from which the dividends will be paid, and once by the stockholder when they receive the dividends.

TRUE

FALSE

38. Draw refers to the cash that a sole proprietor takes out of his business.

TRUE

FALSE

39. Borrowing money from your C Corp is always considered taxable income to you.

TRUE

FALSE

40. Loan proceeds from your C Corp used for personal nonmortgage purposes is likely to be nondeductible to you personally and taxable income to your C Corp.

TRUE

FALSE

## Chapter 7 - Spread the Tax Burden Around the Family

41. If your child is under 18 and works for your sole proprietorship, neither your child nor you are subject to social security taxes on the child's wages.

TRUE

FALSE

42. If your child is under 18 and works for your sole proprietorship, you are subject to social security taxes on the child's wages.

TRUE

FALSE

43. For estate tax purposes, the IRS will compute the value of your business by various methods, relying on the "facts and circumstances" of each

case.

TRUE

FALSE

44. Income tax rates on the income that an estate or trust earns are considerable higher than the tax rates on individuals.

TRUE

FALSE

### **Chapter 8 - Pay Taxes Late, Years Late, Without Penalty or Interest**

45. Publishers of periodicals are not allowed to immediately deduct all expenditures to establish, maintain, or increase the circulation of a newspaper, magazine or other periodical, regardless of when the revenue for these expenditures shows up.

TRUE

FALSE

46. A publisher of periodicals, using the accrual method, is allowed to defer paying tax on receipts for subscriptions until receipts have been paid.

TRUE

FALSE

### **Chapter 9 - Don't Ignore the Alternative Minimum Tax (AMT)**

47. You are required to fill out Form 6251 if your tax return contains a NOL.

TRUE

FALSE

48. You are required to fill out Form 6251 if you itemize on Schedule A.

TRUE

FALSE

### **Chapter 10 - Select and Use Professional Help**

49. An IRS appeals officer can make settlements with taxpayers.

TRUE

FALSE

50. Enrolled agents cannot represent you before the IRS.

TRUE

FALSE

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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or send an email to [support@apexcpe.com](mailto:support@apexcpe.com)**