

## Chapter 01: Introduction to Taxation

### True / False

1. The FICA tax (Medicare component) on wages is *progressive* since the tax due increases as wages increase.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The FICA tax (Medicare component) is *proportional* because the rate is constant regardless of the wages earned.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

2. The Federal estate and gift taxes are examples of *progressive* taxes.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-01 - LO: 1-01  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## Chapter 01: Introduction to Taxation

3. The Federal excise tax on cigarettes is an example of a *proportional* tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The tax is a flat \$1.01 per pack.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-01 - LO: 1-01  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

4. Currently, the Federal corporate income tax is less *progressive* than the individual income tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Currently, the Federal corporate income tax has a flat rate of 21 percent; the individual income tax uses seven brackets from 10 percent to 37 percent.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-01 - LO: 1-01  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

5. Mona inherits her mother's personal residence, which she converts to a furnished rental house. These changes should affect the amount of *ad valorem* property taxes levied on the properties.
- True
  - False

**ANSWER:** True

**RATIONALE:** Conversion from residential to rental use will increase the taxes. Furthermore, Mona's mother may have had a senior citizen exemption on the property, which will no longer be appropriate. Lastly, the furnishings in the rent house could now be subject to an *ad valorem* tax on personalty.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

6. A *fixture* will be subject to the *ad valorem* tax on *personalty* rather than the *ad valorem* tax on *realty*.
- True
  - False

**ANSWER:** False

**RATIONALE:** By definition, a fixture becomes part of the real estate to which it is attached.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

7. Even if property tax rates are not changed, the amount of *ad valorem* taxes imposed on realty may not remain the same.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Property taxes will vary in accordance with changes in the assessed value of the property.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

8. The *ad valorem* tax on personal use personalty is more often avoided by taxpayers than the *ad valorem* tax on business use personalty.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

9. An excise tax is often used to try to influence behavior.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Examples of excise taxes include those imposed on alcohol and tobacco products  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

10. There is a Federal excise tax on hotel occupancy.
- True
  - False

**ANSWER:** False  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

11. The Federal gas-guzzler tax applies only to automobiles manufactured overseas and imported into the U.S.
- True
  - False

**ANSWER:** False  
**RATIONALE:** No such restriction is imposed. Although many of the European luxury and sports car manufacturers were initially hit hard by the tax, the law is silent on this matter.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

12. Like the Federal counterpart, the amount of the state excise taxes on gasoline varies from state to state.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The Federal excise tax rate on gasoline remains constant.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

13. Not all of the states that impose a general sales tax also have a use tax.
- a. True
  - b. False

**ANSWER:** False  
**RATIONALE:** Every state that has a general sales tax also has a use tax. There are no states with only a sales or use tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

14. Sales made by mail order are not exempt from the application of a general sales (or use) tax.
- a. True
  - b. False

**ANSWER:** True  
**RATIONALE:** They are not exempt but compliance is sporadic.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

15. Two persons who live in the same state but in different counties may not be subject to the same general sales tax rate.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This possibility could exist if local jurisdictions exact additional sales taxes.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

16. States impose either a state income tax *or* a general sales tax, but not both types of taxes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Many states impose both.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

17. A safe and easy way for a taxpayer to avoid local and state sales taxes is to make the purchase in a state that levies no such taxes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** A review of the Example 5 discussion shows that this may not always be successful.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

18. On transfers by death, the Federal government relies on an estate tax, while states impose an estate tax, an inheritance tax, both taxes, or neither tax.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The Federal government relies on an estate tax while states impose an estate tax, an inheritance tax, both taxes, or neither tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

19. An inheritance tax is a tax on a decedent's right to pass property at death.
- True
  - False

**ANSWER:** False  
**RATIONALE:** What is described is an estate tax. An inheritance tax is a tax on an heir's right to receive property from a decedent.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

20. One of the major reasons for the enactment of the Federal estate tax was to prevent large amounts of wealth from being accumulated within the family unit.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

21. Under Clint's will, all of his property passes to either the Lutheran Church or to his wife. No Federal estate tax will be due on Clint's death in 2018.
- True
  - False

**ANSWER:** True  
**RATIONALE:** A combination of the charitable and marital deductions will eliminate Clint's taxable estate.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

22. Under the usual state inheritance tax, two heirs, a cousin and a son of the deceased, would not be taxed at the same rate.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The more closely related the heir is to the decedent, the larger the exemption allowed and/or the lower the tax rate imposed.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

23. The annual exclusion, currently \$15,000, is available for gift and estate tax purposes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The annual exclusion is not available for estate tax purposes.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

24. In 2018, José, a widower, sells land (fair market value of \$100,000) to his daughter, Linda, for \$50,000. José has not made a taxable gift.
- True
  - False

**ANSWER:** False  
**RATIONALE:** \$100,000 (value of land) – \$50,000 (consideration received) – \$15,000 (per donee annual exclusion) = \$35,000 (taxable gift).  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

25. Julius, a married taxpayer, makes gifts to each of his six children. A maximum of twelve annual exclusions could be allowed as to these gifts.
- True
  - False

**ANSWER:** True  
**RATIONALE:** If Julius can obtain the consent of his wife to make the election to split the gifts, twelve per donee annual exclusions are available.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

26. One of the motivations for making a gift is to save on income taxes.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This presumes that income-producing property is involved and that the donee is in a lower tax bracket than the donor.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

27. The formula for the Federal income tax on corporations is the same as that applicable to individuals.
- True
  - False

**ANSWER:** False  
**RATIONALE:** For example, an AGI determination is required only for individual taxpayers.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

28. A state income tax *can* be imposed on *nonresident* taxpayers who earn income within the state on an itinerant basis.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Highly-paid taxpayers (e.g., entertainers, athletes) are often subject to a state's income tax. The so-called "jock tax" has been criticized since it singles out highly-paid and well known personalities and is not imposed on the average business traveler.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

29. For state income tax purposes, a majority of states allow a deduction for Federal income taxes.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Only a minority allow the deduction.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

30. Some states use their state income tax return as a means of collecting unpaid sales and use taxes.
- True
  - False

**ANSWER:** True  
**RATIONALE:** Often a table is provided that suggests an amount to be used.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

31. No state has offered an income tax amnesty program more than once.
- a. True
  - b. False

**ANSWER:** False  
**RATIONALE:** A state may offer amnesty programs as often as desired.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

32. For Federal income tax purposes, there never has been a general amnesty period.
- a. True
  - b. False

**ANSWER:** True  
**RATIONALE:** Limited amnesty has been made available as to various tax penalties in certain tax shelter situations.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

33. Under state amnesty programs, all delinquent and unpaid income taxes are forgiven.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The taxes and interest are not forgiven. Generally, only the penalties are forgiven.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-03 - LO: 1-03  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

34. When a state decouples from a Federal tax provision, it means that this provision will *not* apply for state income tax purposes.
- True
  - False

**ANSWER:** True  
**RATIONALE:** In view of tight state finances, decoupling from various Federal tax cuts has become quite common.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-04 - LO: 1-04  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

35. The principal objective of the FUTA tax is to provide some measure of retirement security.
- True
  - False

**ANSWER:** False  
**RATIONALE:** This is the objective of the FICA tax.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-03 - LO: 1-03  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

36. Currently, the tax base for the Social Security component of the FICA is *not* limited to a dollar amount.
- True
  - False

**ANSWER:** False  
**RATIONALE:** There is no dollar amount limitation on the Medicare component of FICA.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

37. A parent employs his twin daughters, age 17, in his sole proprietorship. The daughters are *not* subject to FICA coverage.
- True
  - False

**ANSWER:** True  
**RATIONALE:** An exemption exists for taxpayer's children who are *under age 18*.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

38. Unlike FICA, FUTA requires that employers comply with state as well as Federal rules.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This is a major difference between FICA and FUTA.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

39. The value added tax (VAT) *has not* had wide acceptance in the international community.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Its use in about 140 countries represents fairly wide acceptance.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-04 - LO: 1-04  
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**KEYWORDS:** Bloom's: Knowledge  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

40. The objective of *pay-as-you-go* (*paygo*) is to improve administrative feasibility.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

41. When Congress enacts a tax cut that is phased in over a period of years, revenue neutrality is achieved.
- True
  - False

**ANSWER:** False  
**RATIONALE:** No tax cut is revenue neutral unless accompanied by a revenue offset. A phase-in merely postpones some of the revenue loss caused by the tax cut.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

42. A tax cut enacted by Congress that contains a *sunset provision* will make the tax cut temporary.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The sunset provision rescinds the change and reinstates former law.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

43. The tax law provides various tax credits, deductions, and exclusions that are designed to encourage taxpayers to obtain additional education. These provisions can be justified on both economic and equity grounds.
- True
  - False

**ANSWER:** False  
**RATIONALE:** The justification is social and economic.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

44. Various tax provisions encourage the creation of certain types of retirement plans. Such provisions can be justified on both economic and social grounds.
- True
  - False

**ANSWER:** True  
**RATIONALE:** The economic justification is attributable to the savings that result. In terms of social justification, private retirement plans supplement the meager benefits provided by Social Security and, thereby, circumvent the need for public assistance.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

45. To lessen, or eliminate, the effect of multiple taxation, a taxpayer who is subject to both foreign and U.S. income taxes on the same income is allowed either a deduction or a credit for the foreign tax paid.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

46. To mitigate the effect of the annual accounting period concept, the tax law permits the carryforward to other years of the excess charitable contributions of a particular year.
- True
  - False

**ANSWER:** True  
**RATIONALE:** This is also the case with excess capital losses.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

47. Jason's business warehouse is destroyed by fire. As the insurance proceeds exceed the basis of the property, a gain results. If Jason shortly reinvests the proceeds in a new warehouse, no gain is recognized due to the application of the wherewithal to pay concept.

- a. True
- b. False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

48. As it is consistent with the wherewithal to pay concept, the tax law requires a seller to recognize gain in the year the installment sale occurs.

- a. True
- b. False

**ANSWER:** False  
**RATIONALE:** The seller is taxed in the years the installment payments are received.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

49. A provision in the law that compels accrual basis taxpayers to pay a tax on prepaid income in the year received and *not* when earned is consistent with generally accepted accounting principles.
- True
  - False

**ANSWER:** False  
**RATIONALE:** It is inconsistent with accounting rules, although it can be justified for tax purposes under the wherewithal to pay concept.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

50. As a matter of administrative convenience, the IRS would prefer to have Congress decrease (rather than increase) the amount of the standard deduction allowed to individual taxpayers.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Just the opposite is the case.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-07 - LO: 1-07  
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**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

51. In cases of doubt, courts have held that tax relief provisions should be broadly construed in favor of taxpayers.
- True
  - False

**ANSWER:** False  
**RATIONALE:** Such provisions should be *narrowly* construed *in favor of* taxpayers.  
**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-07 - LO: 1-07  
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**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

52. On occasion, Congress has to enact legislation that clarifies the tax law in order to change a result reached by the U.S. Supreme Court.
- True
  - False

**ANSWER:** True  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** True / False  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-07 - LO: 1-07  
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**STATE STANDARDS:** United States - AK - AICPA: FN-Research  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 2 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

53. Ultimately, most taxes are paid by individuals.

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** Corporations pay tax, but the tax is passed along eventually to individuals in the form of higher prices, lower wages and/or lower dividends.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-01 - LO: 1-01

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**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

54. In the current year, Azul Corporation, a calendar year C corporation, received a dividend of \$30,000 from Naranja Corporation. Azul owns 25% of the Naranja Corporation stock. Assuming it is not subject to the taxable income limitation, Azul's dividends received deduction is \$19,500.

- a. True
- b. False

**ANSWER:** True

**RATIONALE:** For tax years beginning after 2017, the deduction percentage for a 25% ownership is 65%. Thus, the dividends received deduction would be \$19,500 ( $\$30,000 \times 65\%$ ).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** True / False

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-04 - LO: 1-04

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**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## Chapter 01: Introduction to Taxation

### Multiple Choice

55. Which, if any, of the following taxes are *proportional* (rather than *progressive*)?

- a. State general sales tax
- b. Federal individual income tax
- c. Federal estate tax
- d. Federal gift tax
- e. All of these

**ANSWER:** a

**RATIONALE:** Sales taxes are applied at a constant rate that does not progress.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

56. Which, if any, of the following transactions will *increase* a taxing jurisdiction's revenue from the *ad valorem* tax imposed on real estate?
- A resident dies and leaves his farm to his church.
  - A large property owner issues a conservation easement as to some of her land.
  - A tax holiday issued 10 years ago has expired.
  - A bankrupt motel is acquired by the Red Cross and is to be used to provide housing for homeless persons.
  - None of these.

**ANSWER:** c

**RATIONALE:** Although a farm was probably subject to reduced valuation (due to its agricultural use), it will now be fully exempt since it is owned by a church (choice a.). Property that is subject to a conservation easement is usually appraised at a lower value (choice b.). The expiration of a tax holiday means that the property involved can now be taxed (choice c.). The motel has been converted from business property to exempt charitable use (choice d.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

57. Which, if any, of the following transactions will *decrease* a taxing jurisdiction's *ad valorem* tax revenue imposed on real estate?
- a. A tax holiday is granted to an out-of-state business that is searching for a new factory site.
  - b. An abandoned church is converted to a restaurant.
  - c. A public school is razed and turned into a city park.
  - d. A local university sells a dormitory that will be converted for use as an apartment building.
  - e. None of these.

**ANSWER:** a

**RATIONALE:** Choice a. has an effect since the tax holiday was granted. Choice b. will increase taxes as the church was abandoned and previously exempt. Choice c. converts one tax-exempt property (i.e., school) into another (i.e., public park). Choice d. probably places the building on the tax rolls because it is no longer owned by a tax-exempt institution.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

58. Which, if any, of the following is a typical characteristic of an *ad valorem* tax on personalty?
- Taxpayer compliance is greater for personal use property than for business use property.
  - The tax on automobiles sometimes considers the age of the vehicle.
  - Most states impose a tax on intangibles.
  - The tax on intangibles generates considerable revenue since it is difficult for taxpayers to avoid.
  - None of these.

**ANSWER:** b

**RATIONALE:** Taxpayer compliance is greater with business use property (choice a.). Very few states impose a tax on intangibles (choice c.) because it is easily avoided and does not generate much revenue (choice d.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

59. Federal excise taxes that are *no longer imposed* include:
- Tax on air travel.
  - Tax on wagering.
  - Tax on the manufacture of sporting equipment.
  - Tax on alcohol.
  - None of these.

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

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**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

60. Taxes *not imposed* by the Federal government include:
- Tobacco excise tax.
  - Customs duties (tariffs on imports).
  - Tax on rental cars.
  - Gas guzzler tax.
  - None of these.

**ANSWER:** c

**RATIONALE:** The Federal government imposes an excise tax on tobacco (choice a.), customs duties (choice b.), and a gas guzzler tax (choice d.). It does not impose a tax on rental cars (choice c.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

61. Taxes levied by *both* states and the Federal government include:

- a. General sales tax.
- b. Custom duties.
- c. Hotel occupancy tax.
- d. Franchise tax.
- e. None of these.

**ANSWER:** e

**RATIONALE:** Choices a., c., and d. are levied at the state or local level. Choice b. is strictly a Federal levy.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

62. Taxes levied by *all* states include:

- a. Tobacco excise tax.
- b. Individual income tax.
- c. Inheritance tax.
- d. General sales tax.
- e. None of these.

**ANSWER:** a

**RATIONALE:** All states impose a tobacco excise tax (choice a.). Most states impose individual income taxes (choice b.) and general sales taxes (choice d.), and only some states impose inheritance taxes (choice c.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

63. A use tax is imposed by:
- The Federal government and all states.
  - The Federal government and a majority of the states.
  - All states and not the Federal government.
  - Most of the states and not the Federal government.
  - None of these.

**ANSWER:** d

**RATIONALE:** A use tax is a complement to a general sales tax. Consequently, it is imposed by most states because only a few states do not have a general sales tax. At this point, the Federal government has no general sales tax.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

64. Burt and Lisa are married and live in a common law state. Burt wants to make gifts to their four children in 2018. What is the maximum amount of the annual exclusion they will be allowed for these gifts?
- a. \$15,000.
  - b. \$30,000.
  - c. \$60,000.
  - d. \$120,000.
  - e. None of these.

**ANSWER:** d

**RATIONALE:**  $4 \text{ (number of donees)} \times \$15,000 \text{ (annual exclusion)} \times 2 \text{ (number of donors)} = \$120,000$ . It is assumed that Lisa will make the election to split the gifts.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

65. Property can be transferred within the family group by gift or at death. One motivation for preferring the gift approach is:
- To take advantage of the higher unified transfer tax credit available under the gift tax.
  - To avoid a future decline in value of the property transferred.
  - To take advantage of the per donee annual exclusion.
  - To shift income to higher bracket donees.
  - None of these.

**ANSWER:** c

**RATIONALE:** The per donee annual exclusion is only available for gift tax purposes (choice c.). Ideally, gifts should involve property that is expected to *appreciate* in value (choice b.). A higher unified tax credit is not available for gift tax purposes (choice a.). Usually the donor is trying to shift future income to *lower* bracket donees (choice d.).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

66. Indicate which, if any, statement is *incorrect*. State income taxes:

- a. Can piggyback to the Federal version.
- b. Cannot apply to visiting nonresidents.
- c. Can decouple from the Federal version.
- d. Can provide occasional amnesty programs.
- e. None of these.

**ANSWER:** b

**RATIONALE:** Many states piggyback to the Federal system (choice a.). Some states, due to revenue shortfalls, have decoupled from various provisions of the Federal version (choice c.). The “jock tax,” although much criticized, is very much in being (choice b.). Some states have had more than one amnesty period (choice d.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

67. State income taxes *generally* can be characterized by:
- The same date for filing as the Federal income tax.
  - No provision for withholding procedures.
  - Allowance of a deduction for Federal income taxes paid.
  - Applying only to individuals and not applying to corporations.
  - None of these.

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

68. A characteristic of FICA is that:
- It does not apply when one spouse works for the other spouse.
  - It is imposed only on the employer.
  - It provides a modest source of income in the event of loss of employment.
  - It is administered by both state and Federal governments.
  - None of these.

**ANSWER:** e

**RATIONALE:** FICA is imposed on *both* the employer and the employee (choice b.). Spouses who work for each other are not exempt from the tax (choice a.). Its objective is retirement income, not loss of employment (choice c.). It is administered only by the Federal government (choice d.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

69. A characteristic of FUTA is that:
- It is imposed on both employer and employee.
  - It is imposed solely on the employee.
  - Compliance requires following guidelines issued by both state and Federal regulatory authorities.
  - It is applicable to spouses of employees but *not* to any children under age 18.
  - None of these.

**ANSWER:** c

**RATIONALE:** FUTA is imposed only on the employer (choices a. and b.). Choice d. refers to FICA. Because the administration of FUTA is shared by Federal and state governments, employers must comply with the rules issued by each (choice c.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

70. The U.S. (either Federal, state, or local) *does not* impose:
- Franchise taxes.
  - Severance taxes.
  - Occupational fees.
  - Custom duties.
  - Export duties.

**ANSWER:** e

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Knowledge

**OTHER:** Time: 2 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

71. Both economic and social considerations can be used to justify:
- Favorable tax treatment for accident and health plans provided for employees and financed by employers.
  - Disallowance of any deduction for expenditures deemed to be contrary to public policy (e.g., fines, penalties, illegal kickbacks, bribes to government officials).
  - Various tax credits, deductions, and exclusions that are designed to encourage taxpayers to obtain additional education.
  - Allowance of a deduction for state and local income taxes paid.
  - None of these.

**ANSWER:** c

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

72. Social considerations can be used to justify:
- Allowance of a credit for child care expenses.
  - Allowing excess capital losses to be carried over to other years.
  - Allowing accelerated amortization for the cost of installing pollution control facilities.
  - Allowing a Federal income tax deduction for state and local sales taxes.
  - None of these.

**ANSWER:** a

**RATIONALE:** Equity considerations justify choices b. and d., and economic considerations justify choice c.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

73. Allowing a tax credit for certain solar energy property can be justified:
- As helping small businesses.
  - As promoting administrative feasibility.
  - As promoting a government policy to use alternative energy sources.
  - Based on the wherewithal to pay concept.
  - None of these.

**ANSWER:** c

**RATIONALE:** The credit may fit within federal or state policies on usage of natural resources and alternative energies.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

74. Provisions in the tax law that promote energy conservation and more use of alternative (non-fossil) fuels can be justified by:
- Political considerations.
  - Economic and social considerations.
  - Promoting administrative feasibility.
  - Encouragement of small business.
  - None of these.

**ANSWER:** b

**RATIONALE:** Although it may be “good politics” to promote measures that ease the problem of global warming (choice a.), the real justification is economic (curtail dependence on foreign oil) and social (reduce pollution)—choice b. The encouragement of small business (choice d.) is a byproduct of these conservation provisions, but is not their justification.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

75. Which, if any, of the following provisions *cannot* be justified as mitigating the effect of the annual accounting period concept?
- Nonrecognition of gain allowed for involuntary conversions.
  - Net operating loss carryover provisions.
  - Carry over of excess charitable contributions.
  - Use of the installment method to recognize gain.
  - Carry over of excess capital losses.

**ANSWER:** a

**RATIONALE:** The involuntary conversion provision is based on the wherewithal to pay concept (choice a.).

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

76. Which, if any, of the following provisions of the tax law *cannot* be justified as promoting administrative feasibility (simplifying the task of the IRS)?
- Penalties are imposed for failure to file a return or pay a tax on time.
  - Prepaid income is taxed in the year received and not in the year earned.
  - Annual adjustments for indexation increases the amount of the standard deduction allowed.
  - Personal casualty losses in Federally-declared disaster areas must exceed 10% of AGI to be deductible.
  - A deduction is allowed for charitable contributions.

**ANSWER:** e

**RATIONALE:** Choices a. through d. aid the IRS in administering the tax laws. Choice e., particularly when trying to value property contributions, will add to the audit effort required by the IRS.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

77. A landlord leases property upon which the tenant makes improvements. The improvements are significant and are not made in lieu of rent. At the end of the lease, the value of the improvements are not income to the landlord. This rule is an example of:
- A clear reflection of income result.
  - The tax benefit rule.
  - The arm's length concept.
  - The wherewithal to pay concept.
  - None of these.

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

78. Two years ago, State Y enacted a new income tax credit for college prep materials. The credit is available to individuals and is equal to 40 percent of the cost of the items. The credit may not exceed \$50 in any year. The State Y Director of Finance has discovered this year that the amount of credit claimed is far higher than expected. Which principle of good tax policy might not have been considered in designing this tax which caused the original cost estimate to be too low?
- Equity.
  - Simplicity.
  - Economy in collection.
  - Minimum tax gap.

**ANSWER:** d

**RATIONALE:** If not well-defined, many expenses might qualify as college prep materials. Also, some taxpayers may just claim a credit of \$1 to \$50 thinking that they likely have some purchase, such as books or magazines, that qualify, or that they will not be caught for improperly claiming a small tax credit they do not qualify for.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Multiple Choice

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-01 - LO: 1-01

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 1 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

79. Which of the following taxes is only paid by the employer?
- a. FICA
  - b. FUTA
  - c. Social Security tax
  - d. Medicare tax

**ANSWER:** b  
**RATIONALE:** The other listed taxes are paid by both employer and employee.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** Multiple Choice  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02  
**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

80. A rationale for the installment method tax rule is:
- a. Ability to pay.
  - b. Equity and fairness.
  - c. Simplicity.
  - d. Revenue neutrality.

**ANSWER:** a  
**RATIONALE:** The installment sale method allows a taxpayer selling property with the buyer paying over more than one year to only report gain as he collects the purchase price. This ensures that he has funds available for paying the tax on the gain.  
**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** Multiple Choice  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension  
**STATE STANDARDS:** United States - AK - AICPA: FN-Reporting  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

81. Orange Corporation, a calendar year C corporation, owns stock in White Corporation and has net operating income of \$400,000 for the current year. White Corporation pays Orange a dividend of \$60,000. What amount of dividends received deduction may Orange claim if it owns 45% of White stock (assuming Orange's dividends received deduction is not limited by its taxable income)?
- a. \$30,000
  - b. \$39,000
  - c. \$42,000
  - d. \$60,000
  - e. None of the above

**ANSWER:**

b

**RATIONALE:**

The dividends received deduction depends upon the percentage of ownership by the corporate shareholder. If Orange Corporation owns 45% of White Corporation, Orange would qualify for a 65% deduction, or \$39,000 in this case.

**POINTS:**

1

**DIFFICULTY:**

Easy

**QUESTION TYPE:**

Multiple Choice

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-04 - LO: 1-04

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:**

Bloom's: Application

**OTHER:**

Time: 5 min.

**DATE CREATED:**

8/15/2018 10:51 AM

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8/17/2018 2:57 PM

### **Matching**

*Using the choices provided below, show the justification for each provision of the tax law listed.*

- a. Economic considerations
- b. Social considerations
- c. Equity considerations
- d. Both a. and b.

**DIFFICULTY:**

Easy

**QUESTION TYPE:**

Matching

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:**

United States - TX - AICPA: FN Measurment  
United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:**

Bloom's: Comprehension

**OTHER:**

Time: 2 min.

## **Chapter 01: Introduction to Taxation**

*DATE CREATED:* 8/15/2018 10:51 AM

*DATE MODIFIED:* 8/17/2018 2:57 PM

82. A tax credit for amounts spent to furnish care for children while the parent is at work.

*ANSWER:* b

*POINTS:* 1

83. Additional depreciation deduction allowed for the year the asset is acquired.

*ANSWER:* a

*POINTS:* 1

84. Tax brackets are increased for inflation.

*ANSWER:* c

*POINTS:* 1

85. A small business corporation can elect to avoid the corporate income tax.

*ANSWER:* a

*POINTS:* 1

86. A deduction for contributions by an employee to certain retirement plans.

*ANSWER:* d

*POINTS:* 1

87. A deduction for qualified tuition paid to obtain higher education.

*ANSWER:* d

*POINTS:* 1

88. A deduction for certain expenses (interest and taxes) incident to home ownership.

*ANSWER:* d

*POINTS:* 1

89. A Federal deduction for state and local income taxes paid.

*ANSWER:* c

*POINTS:* 1

90. A deduction for interest on student loans.

*ANSWER:* d

*POINTS:* 1

91. A bribe to the local sheriff, although business related, is not deductible.

*ANSWER:* b

*POINTS:* 1

92. Contributions to charitable organizations are deductible.

*ANSWER:* b

*POINTS:* 1

## **Chapter 01: Introduction to Taxation**

93. A Federal deduction for state and local sales taxes paid.

**ANSWER:** c

**POINTS:** 1

94. Tax credits available for the purchase of a vehicle that uses alternative (non-fossil) fuels.

**ANSWER:** a

**POINTS:** 1

95. Tax credits for home improvements that conserve energy.

**ANSWER:** a

**POINTS:** 1

96. More rapid expensing for tax purposes of the costs of installing pollution control devices.

**ANSWER:** a

**POINTS:** 1

### **Subjective Short Answer**

97. Taylor, a widow, makes cash gifts to her five married children (including their spouses) and to her seven grandchildren. What is the maximum amount Taylor can give for calendar year 2018 without using her unified transfer tax credit?

**ANSWER:** \$255,000.  $\$15,000$  (annual exclusion)  $\times$  17 donees = \$255,000.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

98. Paige is the sole shareholder of Citron Corporation. During the year, Paige leases a building to Citron for a monthly rental of \$80,000. If the fair rental value of the building is \$60,000, what are the income tax consequences to the parties involved?

**ANSWER:** The rent charged by Paige is not “arms length”; as such, Citron Corporation’s rent deduction is \$60,000 (not \$80,000). The \$20,000 difference is a nondeductible dividend distribution. For Paige, the change merely requires reclassification. Instead of \$80,000 of rent income, she has \$60,000 of rent income and \$20,000 of dividend income.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

99. In 1987, Roy leased real estate to Drab Corporation for 20 years. Drab Corporation made significant capital improvements to the property. In 2006, Drab decides not to renew the lease and vacates the property. At that time, the value of the improvements is \$800,000. Roy sells the real estate in 2018 for \$1,200,000 of which \$900,000 is attributable to the improvements. When is Roy taxed on the improvements made by Drab Corporation?

**ANSWER:** Roy is not subject to taxation on the improvements until he disposes of the property (i.e., 2018). After a controversial Supreme Court decision years ago, Congress clarified the tax law to make it more consistent with the wherewithal to pay concept.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Subjective Short Answer

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

### **Essay**

100. The Federal income tax is based on a pay-as-you-go system and has become a “mass tax.” Explain this statement.

**ANSWER:** The pay-as-you-go system is present in the wage and other withholding procedures. In the case of self-employed persons, it is manifested in the required quarterly payments for estimated taxes. The income tax became a mass tax during World War II when its coverage was extended to 74% of the population (from less than 6% in 1939).

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Research

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

101. Due to the population change, the Goose Creek School District has decided to close one of its high schools. Since it has no further need of the property, the school is listed for sale. The two bids it receives are as follows:

United Methodist Church	\$1,700,000
Planet Motors	1,600,000

The United Methodist Church would use the property to establish a sectarian middle school. Planet, a well-known car dealership, would revamp the property and operate it as a branch location.

If you were a member of the School District board, what factors would you consider in evaluating the two bids?

**ANSWER:** Although the bid from the United Methodist Church is higher, several other factors need to be considered. Does, for example, Goose Creek School district exempt property owned by churches from its *ad valorem* taxes? If so, losing this property from the tax base could prove very costly over the long run. Also, it is probable that income-producing property (such as a car dealership) would be taxed at a higher rate than that owned by a nonprofit organization (a school operated by a church). This assumes, of course, that the school would be taxed at all. The auto dealership also would generate sales tax.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

102. Morgan inherits her father's personal residence including all of the furnishings. She plans to add a swimming pool and sauna to the property and rent it as a furnished house. What are some of the *ad valorem* property tax issues Morgan can anticipate?

**ANSWER:** The real estate taxes probably will increase for several reasons. The capital improvements and the conversion from residential to rental will trigger the increase. Furthermore, the furnishings may generate an *ad valorem* tax on personalty. (Depending on applicable law, furniture might not be subject to tax unless used for business purposes—such as in this case.)

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

103. In 2016, Deborah became 65 years old. In 2017 she added a swimming pool, and in 2018 she converted the residence to rental property and moved into an assisted living facility. Since 2015, Deborah's *ad valorem* property taxes have decreased once and increased twice. Explain.

**ANSWER:** The decrease probably came in 2016 when Deborah reached age 65. The increases probably occurred in 2017 when she added the pool and in 2018 when the residence was converted to rental property with the property reassessed due to change in use and/or removal of the homestead exemption.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

104. A lack of compliance in the payment of use taxes can be resolved by several means. In this regard, comment on the following:

- a. Registration of automobiles.
- b. Reporting of Internet purchases on state income tax returns.

**ANSWER:**

- a. As reflected in Example 5, re-registration of a car purchased out-of-state is the responsibility of the owner's home state to collect the use tax.
- b. Completing the state income tax return reminds (or forces) the taxpayer to pay use taxes on out-of-state-purchases.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG: Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology: Technology:

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

105. What are the pros and cons of the following state and local tax provisions?

- a. An *ad valorem* property tax holiday made available to a manufacturing plant that is relocating.
- b. Hotel occupancy tax and a rental car surcharge.
- c. A back-to-school sales tax holiday.
  - a. Such a holiday is designed to attract new industry to the area. This means more jobs and growth in consumption. On the other hand, if the tax holiday is too generous, this places a strain on available public revenue. The result could be that schools and capital maintenance (roads, public services) will suffer.
  - b. The hotel occupancy tax and car rental surcharges are popular because they mainly impact visitors. Also, they can generate considerable revenue to finance major capital improvements. If these taxes become excessive, however, they could discourage major events (such as conventions).
  - c. Such holidays are very popular with both merchants and consumers and serve the social need of defraying some of the costs of sending children to school. Once established, however, they are difficult to get rid of. Thus, they become an annual drain on sales tax revenue.

**ANSWER:**

**POINTS:**

1

**DIFFICULTY:**

Easy

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:**

Bloom's: Analysis

**OTHER:**

Time: 10 min.

**DATE CREATED:**

8/15/2018 10:51 AM

**DATE MODIFIED:**

8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

106. What is a severance tax? How productive can it be in terms of generating revenue?

**ANSWER:** A severance tax is one imposed when natural resources (e.g., oil, gas, iron ore, coal) are extracted. It is based on the notion that the state has an interest in such resources. For some states, the revenue from severance taxes can be significant. Alaska, for example, relies heavily on its severance taxes and has been able to avoid both a state income tax and a general sales tax.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Evaluation

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

107. What is the difference between an inheritance tax and an estate tax? Who imposes these taxes?

**ANSWER:** An inheritance tax is a tax on the right to receive property from a decedent. An estate tax is imposed on the right to pass property at death. The Federal government imposes estate taxes, while states impose inheritance taxes. Some states impose both, while others impose neither.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Evaluation

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

108. Logan dies with an estate worth \$20 million. Under his will, \$10 million passes to his wife while \$10 million goes to his church. What is Logan's Federal estate tax result?

**ANSWER:** None. After a marital deduction of \$10 million and a charitable deduction of \$10 million, Logan's taxable estate is \$0.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Application

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

109. What might cause an individual to owe income taxes in more than one state?

**ANSWER:** Working in more than one state, or owning income-generating property in more than one state.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

110. Virtually all state income tax returns contain checkoff boxes for donations to various causes. On what grounds has this procedure been criticized?

**ANSWER:** In many cases the procedure is overused (i.e., a multiplicity of boxes). This overuse adds complexity to the return. Also, in most cases the donation is being drawn from any income tax refund that might be due. Thus, taxpayers may not fully appreciate that they are paying for such checkoffs.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
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Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

111. State and local governments are sometimes forced to find ways to generate additional revenue. Comment on the pros and cons of the following procedures:

- a. Decouple what would be part of the piggyback format of the state income tax.
- b. Tax amnesty provisions.
- c. Internet shaming.

**ANSWER:**

- a. The decoupling process is easily accomplished as to new Federal tax changes that have never taken effect at the state level. Taxpayers are not apt to miss what they never have enjoyed.
- b. Tax amnesty provisions generate considerable revenue. It also unmask many taxpayers who have not previously paid taxes. Now that the taxing jurisdiction is aware of their existence, they will tend to pay taxes in the future.
- c. By use of a public Web site, the taxing authority posts the names of those taxpayers that are delinquent as to various taxes (e.g., sales, income). This public humiliation (or threat of) very often results in compliance.

**POINTS:**

1

**DIFFICULTY:**

Moderate

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG: Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
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**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:**

Bloom's: Evaluation

**OTHER:**

Time: 10 min.

**DATE CREATED:**

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8/17/2018 2:57 PM



## **Chapter 01: Introduction to Taxation**

112. Briana lives in one state and works in the adjoining state. Both states tax the income she earns from her job. Does Briana have any relief from this apparent double taxation of the same income?

**ANSWER:** Most states allow their residents some form of tax credit for the income taxes paid to other states. In Briana's case, the credit would be allowed by the state where she lives for the taxes paid to the state where she works.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-02 - LO: 1-02

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
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United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

113. In terms of revenue neutrality, comment on a tax cut enacted by Congress that:

- a. contains revenue offsets.
- b. includes a sunset provision.

**ANSWER:**

- a. Ideally, to achieve revenue neutrality all tax cuts should be accompanied by revenue offsets.
- b. A sunset provision does not account for the immediate revenue losses generated by a tax cut. It merely provides that such losses will not continue beyond a specified date when the tax cut expires and the former tax law is reinstated.

**POINTS:** 1  
**DIFFICULTY:** Moderate  
**QUESTION TYPE:** Essay  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology  
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AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 10 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

114. The tax law contains various tax credits, deductions, and exclusions that are designed to encourage taxpayers to obtain additional education. On what grounds can these provisions be justified?

**ANSWER:** Social and economic considerations. As to the latter, a better educated workforce carries a positive economic impact.

**POINTS:** 1  
**DIFFICULTY:** Easy  
**QUESTION TYPE:** Essay  
**HAS VARIABLES:** False  
**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06  
**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
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AICPA: FN-Measurement  
**KEYWORDS:** Bloom's: Comprehension  
**OTHER:** Time: 5 min.  
**DATE CREATED:** 8/15/2018 10:51 AM  
**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

115. The tax law contains various provisions that encourage home ownership.

- a. On what basis can this objective be justified?
- b. Are there any negative considerations? Explain.

**ANSWER:** a. Home ownership can be justified on economic and social grounds.  
b. Granting tax advantages to persons who are purchasing their homes places the taxpayers who rent at a disadvantage. The result is inequality in treatment.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

116. The tax law allows an income tax deduction (or a credit) for foreign income taxes. Explain why.

**ANSWER:** The deduction (or a credit) for foreign income taxes can be justified on the grounds that it mitigates the double tax imposed on the same income.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

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AICPA: FN-Measurement

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 5 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

117. The tax law allows, under certain conditions, deferral of gain recognition for involuntary conversions.

- a. What is the justification for this relief measure?
- b. What happens if the proceeds are not entirely reinvested?

- a. By recognizing that the taxpayer's relative economic situation has not changed and that he or she lacks the wherewithal to pay a tax, any recognition of realized gain is deferred.
- b. If the proceeds from an involuntary conversion are not fully reinvested in property that is similar or related in service or use, recognized gain results. Such recognized gain cannot exceed realized gain and will be limited to the amount of the proceeds not reinvested. Recognition is based on the notion that the taxpayer now has the wherewithal to pay the tax that results.

**ANSWER:**

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
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**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

118. How do the net operating loss provisions in the tax law mitigate the effect of the annual accounting concept?

**ANSWER:** Without the allowance of a loss carryforward, the losses would disappear. As shown by Example 24, this result places a business with profit and loss fluctuations on a more level playing field with one that maintains a stable income pattern.

**POINTS:** 1

**DIFFICULTY:** Easy

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-06 - LO: 1-06

**NATIONAL STANDARDS:** United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

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AICPA: FN-Measurement

United States - AK - AICPA: FN-Reporting

**KEYWORDS:** Bloom's: Comprehension

**OTHER:** Time: 10 min.

**DATE CREATED:** 8/15/2018 10:51 AM

**DATE MODIFIED:** 8/17/2018 2:57 PM

## **Chapter 01: Introduction to Taxation**

119. In connection with facilitating the function of the IRS in the administration of the tax laws, comment on the utility of the following:

- a. An increase in the amount of the standard deduction.
- b. Dollar and percentage limitations on the deduction of personal casualty losses in Federally-declared disaster areas.
- c. Availability of interest and penalties for taxpayer noncompliance.

**ANSWER:**

- a. An increase in the amount of the standard deduction reduces the number of taxpayers who choose to itemize their personal deductions. This, in turn, cuts down on the deductions the IRS has to check.
- b. Limitations placed on casualty and theft losses curtail the number of taxpayers who can claim the deduction.
- c. The imposition of extra penalties, in addition to the tax owed, definitely deters taxpayer noncompliance.

**POINTS:**

1

**DIFFICULTY:**

Moderate

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:**

EOTX.SWFT.2019.LO: 1-07 - LO: 1-07

**NATIONAL STANDARDS:**

United States - BUSPORG: Comprehension - BUSPORG:Comprehension  
United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:**

United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

United States - AK - AICPA: FN-Risk Analysis

**KEYWORDS:**

Bloom's: Comprehension

**OTHER:**

Time: 20 min.

**DATE CREATED:**

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## **Chapter 01: Introduction to Taxation**

120. Congress reacts to judicial decisions that interpret the tax law in different ways. When it approves of a decision, Congress may act to amend the Code to incorporate the holding. When it disapproves, Congress may amend the Code to nullify its effect. Give an example of each one of these congressional reactions.

**ANSWER:** Congress approved of the judicial conclusion that most stock dividends should be nontaxable and amended the Code to this effect. However, it disagreed as to when leasehold improvements should be taxed to a lessor. Consistent with the wherewithal to pay concept, the improvements are to be taxed on the termination of the lease. Thus, Congress overturned a judicial holding that would have taxed such improvements in the year they are made by the lessee.

**POINTS:** 1

**DIFFICULTY:** Moderate

**QUESTION TYPE:** Essay

**HAS VARIABLES:** False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-07 - LO: 1-07

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United States - BUSPROG: Technology: Technology: - BUSPROG:  
Technology

**STATE STANDARDS:** United States - AK - AICPA: FN-Measurement -  
AICPA: FN-Measurement

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**KEYWORDS:** Bloom's: Comprehension

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## **Chapter 01: Introduction to Taxation**

121. Ultimately, most taxes are paid by individuals. Explain what this means in terms of income and payroll taxes paid by a corporation.

**ANSWER:**

A corporation pays many types of taxes, but like any other expenditure, it is ultimately paid by an individual. Income taxes are included in the price the corporation charges for goods and services. Or all or part might result in reduced earnings affecting investors or through reduced wages affecting employees. The payroll taxes paid by the corporate employer are likely borne by workers in the form of lower wages. That is, if the employer did not have to pay the taxes, they could pay higher wages to employees. These taxes might also be borne by customers and investors.

**POINTS:**

1

**DIFFICULTY:**

Moderate

**QUESTION TYPE:**

Essay

**HAS VARIABLES:**

False

**LEARNING OBJECTIVES:** EOTX.SWFT.2019.LO: 1-01 - LO: 1-01

**NATIONAL STANDARDS:** United States - BUSPROG: Comprehension

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