

SEE

Special Enrollment Exam

Part 3 - Representation, Practice
and Procedures

2018 Study Questions



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Table of Contents

| | |
|---|------------|
| Introduction | iii |
| The Phoenix Tax Group Guarantee | iii |
| Course Objectives | iv |
| How to Prepare for the Exam | v |
| About the Computer Based SEE Exam | vi |
| Obtain a PTIN | vii |
| Registering and Scheduling an Examination Appointment | viii |
| Chapter 1. Tax Practices and Procedures | 1 |
| Tax Preparer Rules | 1 |
| Due Diligence | 4 |
| Tax Preparer Penalties | 6 |
| Practice Before the IRS | 10 |
| Becoming an Enrolled Agent | 14 |
| Requirements for Enrolled Agents | 15 |
| Renewal of Enrollment | 22 |
| Sanctions against Enrolled Agents | 23 |
| Continuing Professional Education (CPE) | 31 |
| Practice by Unenrolled Persons | 35 |
| Chapter 2. Representation before the IRS | 39 |
| Power of Attorney | 39 |
| Legal Authority and References | 44 |
| Examination of Returns | 48 |
| Appeal Rights and Procedures | 52 |

| | |
|--|-----------|
| Collection Procedures | 59 |
| Claims for Refund | 66 |
| Statute of Limitations | 69 |
| Taxpayer Penalties | 70 |
| Chapter 3. Completion of the Filing Process | 73 |
| Recordkeeping for Taxpayers | 73 |
| Recordkeeping for Tax Preparers | 77 |
| Electronic Return Requirements | 79 |
| Responsibilities of the Electronic Return Originator (ERO) | 82 |
| Refund Anticipation Loans (RALs) | 87 |
| Phoenix Tax Group Refund Policies | 89 |
| Evaluation | 90 |

Introduction

The Phoenix Tax Group Guarantee

We have been successfully preparing tax practitioners to pass the Special Enrollment Exam for over 20 years. Practitioners who have used our study materials, study strategies and have put in the time and effort have had over a 90% passing rate.

30 Day Money-Back Guarantee

If you are not satisfied with any of our products, you can return them for a full refund, excluding shipping and handling charges. A refund must be requested within 30 days of purchase, and all hardcopy materials must be returned in the original box. No credit will be given for any materials marked on, missing or damaged in any way. To request a refund, fill out the Refund Request form below.

Pass Guarantee

1. The Pass Guarantee applies only to products designated as "Packages."
2. To receive a refund, you must have taken and failed a test/exam twice.
3. You must provide your failed scores for both failed exams by filling out the Refund Request form below. This must be done within 30 days of the second failed exam.
4. Hard copy materials must be returned within 30 days of the second failed exam.
5. If you purchased Enrolled Agent study materials together in a three part package, refunds will be pro-rated for the part being returned.
6. The refund will only apply to the person who purchased the study materials from The Phoenix Tax Group. The refund policy does not apply to companies purchasing study materials for employees.

Instructions

To ensure proper credit, please fill out our online refund request form.

<http://www.phoenixtax.com/about/refunds>

Course Objectives

These study materials are designed to prepare students to pass the IRS Special Enrollment Examination the first time they take the exam. After completing your study, you should have the tax knowledge needed to pass the exam.

The material is covered at an intermediate level. It is helpful if the student has had some beginning level courses relating to tax law and at least a year of income tax preparation experience.

You will be learning tax law from the study cards, and exercising your understanding with test questions from previous years' exams, in addition to our own questions that are similar to questions on the exam. The questions are all multiple choice (no true/false). All of the questions and study material have been updated to 2017 tax law. The 2018 exam (May 1, 2018 - February 28, 2019) will cover the federal tax law as of December 31, 2017.

Note: All references on the examination are to the Internal Revenue Code, forms and publications, as amended through December 31, 2017. Also, unless otherwise stated, all questions relate to the calendar year 2017. Questions that contain the term 'current tax year' refer to the calendar year 2017. In answering questions, candidates should **NOT** take into account any changes as a result of the Tax Cuts and Jobs Act of 2017 or any legislation or court decisions after December 31, 2017.

The material is broken down into three parts similar to the parts on the exam. Part 1 discusses individual income tax law, Part 2 discusses sole proprietorship and partnership, corporation (including S corporation), fiduciary, estate, and trust tax law and tax-exempt organizations, and Part 3 discusses practitioner ethics, recordkeeping, IRS tax examination, appeals, and collection procedures, practitioner rules and penalties, and research materials. Because we categorize the questions and study cards, all questions and content pertaining to a specific tax law are grouped together, even though they might be asked in more than one part of the exam.

We feel we have the best and most comprehensive enrolled agent exam preparatory materials available. However, we are always looking for ways to improve. We would appreciate it if you would take a moment to complete our online evaluation at [http:// www.phoenixtax.com/ea_survey](http://www.phoenixtax.com/ea_survey).

If you have any questions regarding any of the questions in this book, please email us at **support@phoenixtax.com**. Do not call our 800 number.

Good luck on the exam.

How to Prepare for the Exam

The following is a set of guidelines for preparing for the exam:

1. We recommend that you study a minimum of 100 to 120 hours total for all three parts of the exam. For Part 1, we recommend 35-45 hours of study. For Part 2, we recommend 45-60 hours of study. For Part 3, we recommend 20-25 hours of study. Break up your study time. Do not try to study 3 or 4 hours at a time. Most people's comprehension level starts to fade after an hour. Unlike other exam prep courses, we have designed our materials to take with you wherever you go. Use your spare time during the day to study the cards. You will be surprised how much you can absorb by studying in intervals of 15 to 30 minutes. Read the study cards before proceeding to the questions in the book.
2. DO NOT rely on your tax experience to pass this exam. It has been our experience that people with limited tax experience (one year or less) have a far better success rate on this exam than people with many years of tax experience. The reason is that preparers with years of experience tend to rely on their practical knowledge of taxes. This exam tests on theory, not practical experience. The IRS is primarily interested in your ability to understand the tax law and to properly and accurately determine taxable income (i.e., figuring basis in an asset to determine gain, what income is taxable, what deductions are allowed, etc.).
3. You can now use a calculator to do the computational questions. Prometric will provide you with a hand-held calculator. You cannot bring your own calculator.
4. Be familiar with the tax forms and the filing dates for those forms. There are quick reference cards for tax forms at the bottom of each card deck. Also, be familiar with the different penalties that can be assessed against a taxpayer and a tax preparer.
5. The exam will test on a specific tax law in more than one part. For example, questions pertaining to property basis or retirement plans will be tested in both Part 1 and Part 2; questions pertaining to recordkeeping in Part 1 and Part 2 could be tested in Part 3; taxpayer penalties could be tested in all three parts. Therefore, we strongly recommend you to take the exam in the following order. Take Part 1 first, Part 2 second and Part 3 last. You should also take all three parts of the exam as close together as possible.
6. You must have a positive attitude toward this exam. If you do not think you can pass this exam, you won't. Fifty percent of preparing for this exam is being mentally prepared.

About the Computer Based SEE Exam

The Internal Revenue Service has contracted with Prometric to conduct its examination program. Prometric provides computerized testing at test centers throughout the world. The IRS and Prometric are working together closely to ensure that examinations meet federal requirements as well as professional examination development standards.

Testing Dates

The 2018 SEE examination begins May 1, 2018 and examinations will be offered continuously through February 28, 2019. The exam is in three parts. The three parts **DO NOT** have to be taken at once. You can take one part at a time. Once you have taken and passed one part, you have two years from the date of passing that part to take and pass the other two parts.

Testing Fees

The exam costs \$181.94 per part.

Exam Questions

Each part of the exam has 100 questions. All questions are weighted equally.

Time Limited for the Exam

You are given 3.5 hours to complete each part of the exam. The actual seat time is 4 hours to allow for a tutorial at the beginning and a survey at the end.

Examination Results

The exam is graded on a scale of 40 - 130 with 40 being the lowest score and 130 being the highest score possible. You must have a score of 105 or better for each part of the exam to pass. You will receive your scores immediately after taking the exam.

Passing Score

If you pass, the score will only show a passing designation. It will not show a score.

Failing Score

If you fail, your score report will show a scaled score between 40 and 104. You will also receive diagnostic information to assist you with future examination preparation. Diagnostic information will show an indicator of 1, 2, or 3 meaning:

1. Considerably below the minimally acceptable score. It is important for you to approach how you study this topic as you prepare to take the test again. You may want to consider taking a course or participating actively in a study group on this topic.
2. Marginally below the minimally acceptable score. You should study this topic in detail as you prepare to take the test again.
3. At or above the minimally acceptable score. Be sure to review this topic as you prepare to take the test again.

Experimental Questions

The examination may include some experimental questions that will not be scored. If present, they are distributed throughout the exam and will not be identified as such. These are used to gather statistical information on the questions before they are added to the exam as scored items. These experimental questions will not be counted for or against your final score.

Obtain a PTIN

You must have a PTIN to sign up for the Enrolled Agent Exam. Chances are you already have your PTIN, but if you do not, you will have to get one. The IRS Tax Professional PTIN Sign-up System is available at www.irs.gov/ptin. Once online, you will need to:

Create Your Account. Provide your name, email address, and security question information. The system will then email your temporary password, which you will change when you go back to enter your information in the PTIN application.

Apply for Your PTIN. Complete the online application by providing personal information, information about your previous year's tax return, professional credentials, and more.

Get Your PTIN. Your PTIN will be provided online.

It takes about 15 minutes to sign up online and receive your PTIN. If you opt to use the paper application, Form W-12 IRS Paid Preparer Tax Identification Number (PTIN) Application, it will take 4-6 weeks to process.

PTIN renewal. PTINs must be renewed annually by December 31 for the following year. Renewal Open Season usually begins each year in mid-October.

Registering and Scheduling an Examination Appointment

Registration Process

You can register and schedule the exam using one of the three following options:

A. Online—a one-step process

The quickest way to register and schedule an examination is online. This is the only way to register and schedule an exam in the same day.

To register and schedule an examination online, follow these steps:

1. Access **www.prometric.com/irs** using Internet Explorer. Other web browsers will not work.
2. Click the **Obtain a PTIN/Register for My Test** button.
3. If it's your first time, click **Create Account** button to set up your user ID and password.
4. **Register and pay for the test.** You will be asked to provide your PTIN number. Prometric will assign you a candidate number. It will be the same as your PTIN
5. **Schedule your test.** Again, go to **www.prometric.com/irs**. Click on the **Schedule My Test** button. You will be asked to provide the candidate number that Prometric assigned to you when you registered for your test in step 4. Schedule your test at your closest testing center at a convenient date and time.

B. By phone

1. Call Prometric at 800.306.3926

C. By mail

1. Mail your completed Form 2587 to:
Prometric
Attn: IRS Special Enrollment Examination
7941 Corporate Drive
Nottingham, MD 21236
2. Wait six to 10 calendar days for delivery and processing before scheduling an examination appointment.

Scheduling an Examination

Candidates can take each part of the examination at their convenience. Consequently, parts do not have to be taken on the same day, or on consecutive days. All parts do not have to be taken or scheduled during an examination window.

Candidates can take examination parts up to four times each during the testing period (May 1, 2018 to February 28, 2019). Once your registration has been processed, you can schedule an examination appointment at any time online at www.prometric.com/irs or by calling 800-306-3926 between 8 a.m. and 9 p.m. (Eastern Time), Monday through Friday. You will be provided a number confirming your appointment. Record and keep this confirmation number for your records—you will need it to reschedule, cancel or change your appointment in any way.

Examination Locations

Examinations are administered by computer at a Prometric Testing Center. Currently, the Special Enrollment Examination is given at nearly 300 Prometric testing centers located across the United States and internationally. Test centers are located in most major metropolitan areas. A complete list of these testing centers, addresses and driving directions is located at www.prometric.com/irs. In the box titled Do More, click on "Continue" and select your preferred test location. Most locations are open on Saturdays and some locations are open on Sundays and evenings.

Testing Fees

The testing fee is \$181.94 for each part of the examination. This fee is paid at the time you schedule your examination. Accepted forms of payment include: MasterCard, Visa, American Express, Discover, Diner's Club cards bearing the MasterCard symbol and JCB. Electronic checks are also accepted when scheduling by phone. Money orders, paper checks and cash are not accepted. Examination testing fees are not refundable or transferable.

Rescheduling Your Appointment

If you need to reschedule an examination for another date, time or location, you must contact Prometric. Rescheduling fees will apply as follows:

- No fee if you reschedule at least 30 calendar days prior to your appointment.
- \$35 fee if you reschedule five to 29 calendar days before your appointment.
- Another \$181.94 full examination fee if you reschedule less than five calendar days before your appointment date.

Chapter 1. Tax Practices and Procedures

Tax Preparer Rules

1. Which of the following must obtain a Preparer Tax Identification Number (PTIN)?

- A. Enrolled Agent
- B. Attorney
- C. CPA
- D. All of the above

ANSWER: A

A PTIN must be obtained by all enrolled agents, as well as all tax return preparers who are compensated for preparing, or assisting in the preparation of, all or substantially all of any U.S. federal tax return, claim for refund, or other tax form submitted to the IRS. Attorneys and certified public accountants do not need to obtain a PTIN unless they prepare for compensation all or substantially all of a federal tax return or claim for refund.

2. Which of the following persons must obtain a Preparer Tax Identification Number (PTIN)?

- A. A retired tax professional volunteering at a VITA site, where he prepares individual tax returns for lower-income individuals for no compensation.
- B. A retirement plan administrator who prepares Forms 5500 and the accompanying schedules for clients.
- C. An employee of a tax firm who prepares tax returns but the returns are reviewed and signed by someone else.
- D. An administrative assistant in the office who also performs data entry during tax filing season. At times, clients call and provide him with information, which he records in the system.

ANSWER: C

A PTIN must be obtained by all tax return preparers who are compensated for preparing, or assisting in the preparation of, all or substantially all of any U.S. federal tax return, claim for refund, or other tax form submitted to the IRS. Anyone hired to prepare tax returns needs a PTIN regardless of whether that person reviews and/or signs the returns. Anyone who prepares Form 5500 series are exempt from obtaining a PTIN.

3. A tax return preparer must complete the paid preparer's area of the return if

- A. The taxpayer prepares his own return.
- B. The individual volunteers to complete the return for no cost.
- C. The individual was paid to prepare, assist in preparing, or review the tax return.
- D. An employee prepares a tax return for his employer by whom he is regularly and continuously employed.

ANSWER: C

An individual who was paid to prepare, assist in preparing, or review a taxpayer's tax return must sign it and fill in the other blanks in the paid preparer's area of the return.

Chapter 1. Tax Practices and Procedures

4. A tax preparer's client submitted a list of expenses to be claimed on Schedule C of the tax return. The preparer is required to comply with which one of the following conditions?

- A. The preparer is required to independently verify the client's information.
- B. The preparer can ignore implications of information known by him.
- C. Inquiry is not required if the information appears to be incorrect or incomplete.
- D. Appropriate inquiries are required to determine whether the client has substantiation for travel and entertainment expenses.

5. While gathering information to prepare a return for a client, a preparer discovers that his client failed to file Federal income tax returns for the previous two tax years. Circular 230 requires that the preparer do the following:

- A. Promptly advise the client that she did not comply with the Internal Revenue laws by failing to file Federal income tax returns for the previous two years.
- B. Refuse to prepare the client's Federal income tax return unless she files her Federal income tax returns for the previous two years.
- C. Inform the IRS that the client did not file Federal income tax returns for the previous two years.
- D. Both B and C.

6. Identify the appropriate action that a tax practitioner should take when he or she becomes aware of an error or omission on a client's return.

- A. Amend the return and provide it to the client.
- B. Inform the IRS of the noncompliance, error, or omission.
- C. Do nothing.
- D. Promptly advise the client of such non-compliance, error, or omission.

ANSWER: D

In preparing a return, the preparer may in good faith rely, without verification, upon information furnished by the taxpayer. The preparer is not required to examine or review documents or other evidence in order to verify independently the taxpayer's information. However, the preparer may not ignore the implications of information furnished.

ANSWER: A

If a tax practitioner is aware a client has not complied with revenue laws, he or she is only required to advise the client promptly of the noncompliance.

ANSWER: D

If a tax practitioner is aware a client has not complied with revenue laws, he or she is only required to advise the client promptly of the noncompliance.

7. A tax preparer prepares a taxpayer's income tax return. The taxpayer gives the preparer power of attorney, including the authorization to receive his federal income tax refund check. Accordingly, the IRS sends the taxpayer's \$100 refund check to the preparer's office. The taxpayer is very slow in paying his bills and owes the preparer \$500 for tax services. The preparer should

- A. Use the check as collateral for a \$100 loan until the taxpayer pays the preparer.
- B. Refuse to give the taxpayer the check until the taxpayer pays the \$500.
- C. Get the taxpayer's written authorization to endorse the check, cash the check, and reduce the amount the taxpayer owes to \$400.
- D. Turn the check directly over to the taxpayer.

8. Which of the following statements is CORRECT with respect to a client's request for records of the client that are necessary for the client to comply with his or her Federal tax obligations?

- A. The practitioner may never return records of the client to the client even if the client requests prompt return of the records.
- B. The existence of a dispute over fees always relieves the practitioner of his or her responsibility to return records of the client to the client.
- C. The practitioner must, at the request of the client, promptly return the records of the client to the client unless applicable state law provides otherwise.
- D. The practitioner must, at the request of the client, return the records of the client to the client within three months of receiving the request.

ANSWER: D

Income tax preparers cannot endorse or otherwise negotiate (cash) any refund check issued to the taxpayer.

ANSWER: C

In general, a practitioner must, at the request of a client, promptly return any and all records of the client that are necessary for the client to comply with his or her Federal tax obligations. The practitioner may retain copies of the records returned to the client. The existence of a dispute over fees generally does not relieve the practitioner of his or her responsibility under Circular 230 Section 10.28.

Nevertheless, if applicable state law allows or permits the retention of a client's records by the practitioner in the case of dispute over fees for services rendered, the practitioner need only return those records that must be attached to the taxpayer's return. The practitioner, however, must provide the client with reasonable access to review and copy any additional records of the client retained by the practitioner under state law that are necessary for the client to comply with his or her Federal tax obligations.

Due Diligence

9. When a prepared return claims the earned income credit, which of the following is NOT true?

- A. Due diligence requirements apply.
- B. No special requirements apply to returns claiming earned income credit.
- C. The preparer may be penalized \$510 if no attempt is made to determine eligibility for the credit.
- D. The preparer must take additional steps to ensure that a client is eligible for earned income credit.

10. A tax preparer will not be subject to a preparer penalty for an erroneously claimed EIC if he or she complies with which one of the following?

- A. Completion of an eligibility checklist based upon information provided by the client.
- B. Completion of the computation worksheet for the EIC based upon information provided by the client.
- C. Knowledge or reason to know that the information used to determine eligibility for an amount of the EIC is correct.
- D. All of the above.

ANSWER: B

Preparers who prepare tax returns claiming the Earned Income Tax Credit (EITC), must meet four due diligence requirements:

1. **Complete Form 8867**, Paid Preparer's Earned Income Credit Checklist, and submit this completed form to IRS with every electronic EITC claim prepared and attach to every paper return.
2. **Complete the EITC worksheet** in the Form 1040 instructions, Publication 596, Earned Income Credit, or complete a document with the same information.
3. **Keep the following documents for 3 years:**
 - Form 8867.
 - The EIC worksheet.
 - A copy of any document that was provided by the client and on which the preparer relied on to complete Form 8867 or the EIC Worksheet.
 - A record of when and how (including from whom) the preparer got the information used to prepare the return.
 - A record of any additional questions the preparer asked and the client answered.
4. **Knowledge.** The preparer must not know or have reason to know, that any information used in determining the taxpayer's eligibility for the amount of the EIC is not correct.

ANSWER: D

Refer to the analysis on the previous question.

11. To satisfy the earned income credit due diligence requirements, a preparer must retain all of the following EXCEPT:

- A. A copy of the completed Eligibility Checklist or Alternative Eligibility Record.
- B. A copy of the Computation Worksheet or Alternative Computation Record.
- C. A copy of the social security cards for the taxpayer and each qualifying child.
- D. A record of how and when the information used to complete the Eligibility Checklist or Alternative Eligibility Record and the Computation Worksheet or Alternative Computation Record was obtained by the preparer, including the identity of any person furnishing the information.

12. For five years, a tax preparer has been preparing tax returns for the same client that included a Schedule K-1 from a partnership showing significant income. This year, the preparer did not see a Schedule K-1 from the partnership among the information provided to him by the client. What does due diligence require the preparer to do?

- A. Without talking to the client, the preparer should estimate the amount that would be reported as income on the Schedule K-1 based on last year's Schedule K-1 and include that amount on the client's return.
- B. Call the client's financial advisor and ask him about the investments.
- C. Nothing, because the preparer is required to rely only on the information provided by his client, even if he has a reason to know the information is not accurate.
- D. Ask the client about the fact that she did not provide him with a Schedule K-1.

ANSWER: C

Preparers who prepare tax returns claiming the Earned Income Tax Credit (EITC), must meet four due diligence requirements:

1. **Complete Form 8867**, Paid Preparer's Earned Income Credit Checklist, and submit this completed form to IRS with every electronic EITC claim prepared and attach to every paper return.
2. **Complete the EITC worksheet** in the Form 1040 instructions, Publication 596, Earned Income Credit, or complete a document with the same information.
3. **Keep the following documents for 3 years:**
 - Form 8867.
 - The EIC worksheet.
 - A copy of any document that was provided by the client and on which the preparer relied on to complete Form 8867 or the EIC Worksheet.
 - A record of when and how (including from whom) the preparer got the information used to prepare the return.
 - A record of any additional questions the preparer asked and the client answered.
4. **Knowledge.** The preparer must not know or have reason to know, that any information used in determining the taxpayer's eligibility for the amount of the EIC is not correct.

ANSWER: D

The IRS (in Circular 230 and the regulations found at 31 CFR §10.22) requires a practitioner to exercise due diligence "... in determining the correctness" of a tax return. In order to follow these standards, the IRS expects that a return preparer will test the validity of the information provided by the client.

Tax Preparer Penalties

13. An enrolled agent could be subject to preparer penalties under section 6694(a) and section 6694(b) for preparing which of the following returns?

- A. Estate or gift tax returns.
- B. Excise tax returns.
- C. Employment tax returns.
- D. All of the above.

14. An enrolled agent prepares an income tax return for a client and opines that a deduction can be claimed for a bad debt. If the return is examined and the deduction is disallowed, the enrolled agent will not be subject to a preparer penalty under which of the following circumstances?

- A. The position on the return would more likely than not be sustained on the merits.
- B. There was a reasonable basis for the position.
- C. The position was disclosed on the tax return.
- D. All of the above.

ANSWER: D

A tax return preparer is any person who prepares for compensation, or who employs one or more persons to prepare for compensation, all or a substantial portion of a tax return or claim for refund of tax imposed by the Internal Revenue Code. Only one individual associated with a firm is a preparer with respect to the same tax return or refund claim.

Section 8246 of The Small Business and Work Opportunity Act of 2007 amends several provisions of the Code to extend the application of the income tax return preparer penalties to all tax return preparers, alter the standards of conduct that must be met to avoid imposition of the penalties for preparing a return which reflects an understatement of liability, and increase applicable penalties. The Act has expanded the preparer penalties to preparers of all returns, amended returns and claims for refund, including estate and gift tax returns, generation-skipping transfer tax returns, employment tax returns, and excise tax returns.

ANSWER: D

Penalty for Understatement Due to an Unrealistic Position (Section 6694(a)). A penalty of the greater of \$1,000 or 50% of the preparer's fee for preparation of a return will apply if:

1. The preparer knew (or reasonably should have known) of the unrealistic position,
2. There was not a reasonable belief that the position would be sustained on its merits, and
3. The position was not disclosed, or there was no reasonable basis for the position.

15. A tax preparer prepares a client's income tax return. The client sold some stock in a corporation and believes the proceeds of the stock are all a return to capital, and therefore, not included in her gross income. After research, the preparer determines that there is reasonable basis for the client's position, but does not believe there is a realistic possibility of success on the merits. Under what circumstances can the preparer sign the return if the proceeds are not included in income reported on the return?

- A. If the preparer has a reasonable belief that the position would more likely than not be sustained and is adequately disclosed on the return.
- B. If the preparer documents her disagreement with the client's position and keeps it in her file.
- C. If the client agrees in writing not to dispute any IRS challenge to the position.
- D. Under no circumstances.

16. A penalty may be assessed on any preparer or

- A. Any person who prepares and signs a tax return or claim for refund.
- B. Any member of a firm who gives advice (written or oral) to a taxpayer or to a preparer not associated with the same firm.
- C. The individual with overall supervisory responsibility for the advice given by the firm with respect to the return or claim.
- D. Both A and C.

17. If an individual is employed as a tax preparer employee by a tax preparation firm, which of the following penalties may be assessed to the tax preparer?

- A. \$50 per return for failure to furnish a copy of the return to the taxpayer.
- B. \$50 per return for failure to furnish preparer's identifying number to the taxpayer.
- C. \$50 per return for failure to maintain copies of returns prepared or maintain a listing of clients.
- D. None of the above.

ANSWER: A

Refer to the analysis on the previous question. To avoid a penalty, the preparer must have a reasonable belief that the tax treatment of each position on the return would be sustained on its merits, or there is a reasonable basis for each position and each position is adequately disclosed on the return.

ANSWER: D

A penalty may be assessed on the preparer who prepares and signs the return or the individual with overall supervisory responsibility for the advice given by the firm with respect to the return or claim.

ANSWER: D

The penalties for failure to furnish a copy of the return, failure to furnish preparer's identifying number to the taxpayer and failure to maintain copies of returns prepared or maintain a listing of clients will not be imposed upon the following.

1. A preparer who is employed by a person who is also a preparer of the return, or
2. A preparer who is a partner in a partnership which is also a preparer of the return.

18. Which of the following situations describes a disclosure of tax information by an income tax preparer which would subject the preparer to a penalty?

- A. Mr. R dies after furnishing tax return information to his tax return preparer. Mr. R's tax return preparer discloses the information to Mr. J, R's nephew, who is NOT the fiduciary of R's estate.
- B. In the course of preparing a return for D Company, Ms. J obtained information indicating the existence of illegal kickbacks. Ms. J gave the information to Mr. B, an auditor in her firm, who was performing a financial audit of the company. Mr. B confirmed illegal kickbacks were occurring and brought the information to the attention of D Company officers.
- C. An individual informed the proper Federal officials of actions he mistakenly believed to be illegal.
- D. A return preparer obtained information from a client while selling the client life insurance. The information was identical to tax return information that had been furnished to him previously. The preparer discussed this information with his wife who was NOT an employee of any of his businesses.

19. If a penalty is proposed against a preparer that the preparer does not agree with, what actions are available to the preparer?

- A. Request a conference with the agent and present additional information and explanations showing that the penalty is not warranted.
- B. Wait for the penalty to be assessed and a notice and demand statement to be issued, then pay the penalty within 30 days and file a claim for refund.
- C. Wait for the penalty to be assessed and a notice and demand statement to be issued, then pay at least 15% of the penalty within 30 days and file a claim for refund.
- D. Any of the above.

ANSWER: A

Any tax return preparer who discloses tax return information without formal consent of the taxpayer shall be guilty of a misdemeanor and, upon conviction, could be fined not more than \$1,000. The following are exceptions under the penalty for disclosure:

- 1. Disclosure of tax information to a related taxpayer. A related taxpayer is related to another taxpayer if they have any one of the following relationships: husband and wife, child and parent, grandchild and grandparent, partner and partnership, trust or estate and beneficiary, trust or estate and fiduciary, and corporation and shareholder. A nephew is not considered a related taxpayer.
- 2. Disclosure of tax information to another employee of the firm who may use it to render other legal or accounting services to or for the taxpayer.
- 3. Disclosure of tax information to the proper federal, state or local official, to inform the official of activities which may have constituted a violation of any criminal law even if the preparer is mistake about the activities.
- 4. Disclosure of identical information obtained from other sources (while selling life insurance).

ANSWER: D

Before the assessment of penalty, the IRS will send a 30-day letter to the preparer notifying him or her of the proposed penalty and offer an opportunity to the preparer to request further administration consideration and a final determination by the IRS concerning the assessment. If the preparer makes a timely request, assessment may not be made until the IRS makes a final determination. If the IRS assesses a penalty, it will send the preparer a notice and demand for payment of the amount assessed. Within 30 days after the date of the notice and demand, the preparer can pay the entire amount of the assessment and then file a claim for refund within 3 years after payment or pay an amount equal to at least 15 percent of the assessment and file a claim for refund.

20. If a tax preparer fails to furnish a copy of the tax return prepared to the taxpayer, the practitioner can be subject to a penalty of

- A. \$25
- B. \$50
- C. \$75
- D. \$100

21. What is the maximum penalty imposed in a calendar year on tax preparer who fails to sign the tax return he or she prepares?

- A. \$10,000
- B. \$20,000
- C. \$25,500
- D. \$50,000

22. What is the tax preparer penalty for understatement of taxpayer's liability due to unreasonable position?

- A. The greater of \$500 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
- B. The greater of \$1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.
- C. The greater of \$1,000 or 100% of the income derived by the tax return preparer with respect to the return or claim for refund.
- D. The greater of \$5,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.

ANSWER: B

The penalty is \$50 for each failure to comply with IRC § 6695(a) regarding furnishing a copy of a return or claim to a taxpayer. The maximum penalty imposed on any tax return preparer shall not exceed \$25,500 in a calendar year.

ANSWER: C

The penalty is \$50 for each failure to sign a return. The maximum penalty imposed on any tax preparer in a calendar year is \$25,500.

ANSWER: B

The penalty for understatement of taxpayer's liability due to unreasonable position is the greater of \$1,000 or 50% of the income derived by the tax return preparer with respect to the return or claim for refund.