

# SEE

Special Enrollment Exam

Part 2 - Businesses

2020 Study Questions



All Rights Reserved

© 2020 The Phoenix Tax Group

United States Public Laws, Federal Regulations and decisions of administrative and executive agencies and courts of the United States, are in the public domain. The material contained herein, including analysis, editorial comments and arrangement of materials, is subject to this copyright notice.

Printed in the United States of America

# Table of Contents

---

<b>Introduction</b>	<b>vii</b>
The Phoenix Tax Group Guarantee	vii
Course Objectives	viii
How to Prepare for the Exam	ix
About the Computer Based SEE Exam	x
Obtain a PTIN	xi
Registering and Scheduling an Examination Appointment	xii
<b>Chapter 1. Business Entities</b>	<b>1</b>
Employer Identification Number	1
Accounting Periods	3
Accounting Methods	5
Cash Basis	5
Accrual Basis	8
Related Parties	10
Change in Accounting Method	12
Inventories	13
Uniform Capitalization Rules	14
<b>Chapter 2. Partnerships</b>	<b>17</b>
Formation	17
Family Partnerships	18
Filing Requirements	19
Organization Expenses	21
Tax Year	23

---

Partners' Distributive Share of Income, Expenses, Gains and Losses .....	24
Partnership Distribution .....	30
Partner's Gain or Loss .....	30
Partner's Basis for Distributed Property .....	31
Transactions Between Partnership and Partners .....	33
Guaranteed Payments .....	33
Sale or Exchange of Property to Related Parties .....	35
Contribution of Property .....	36
Basis of Partner's Interest .....	39
Disposition of Partner's Interest .....	41
Sale, Exchange or Other Transfer .....	41
Payment for Unrealized Receivables and Inventory Items .....	43
Liquidation at Partner's Retirement or Death .....	45
<b>Chapter 3. C Corporations .....</b>	<b>47</b>
Businesses Taxed as Corporations .....	47
Property Exchanged for Stock .....	51
Services Exchanged for Stock .....	58
Return Filing and Payment Requirements .....	59
Estimated Tax Payments and Extensions .....	61
Organizational and Start-Up Expenses .....	63
Business Income and Deductions .....	65
Related Party Transactions .....	66
Dividends-Received Deduction .....	69
Below-Market Loans .....	72

---

Charitable Contributions .....	72
Capital Gains .....	73
Capital Losses .....	74
Net Operating Losses .....	76
Tax Calculations .....	76
Controlled Group of Corporations .....	77
Earnings and Profits .....	78
Reconciliation of Income (Schedule M-1) .....	78
Accumulated Earnings Tax .....	82
Distributions to Shareholders .....	83
Reporting Dividends and Other Distributions .....	90
Withholding Taxes .....	91
Stock Redemptions .....	92
Corporate Liquidations .....	94
<b>Chapter 4. S Corporations .....</b>	<b>99</b>
The Election .....	99
Termination of S Corporation Status .....	101
Filing Requirments and Extensions .....	103
Shareholder's Basis .....	104
Losses .....	107
Capital Gains .....	108
Pass Through Items .....	109
Taxes .....	110
Distributions to Shareholders .....	111

---

<b>Chapter 5. Business Income and Expenses</b> .....	<b>113</b>
Information Returns .....	113
Self-Employment Income .....	113
Employees' Pay .....	116
Interest Expenses .....	124
Bad Debts .....	125
Travel and Entertainment .....	126
Insurance Expenses .....	129
Business Gifts .....	131
Casualty and Theft Losses .....	131
Taxes .....	133
Rent Expense .....	134
Other Business Expenses .....	135
Qualified Business Income (QBI) Deduction .....	138
Depreciation, Section 179, Amortization, and Depletion Deduction .....	139
Depreciable Property .....	139
Section 179 Deduction .....	140
Amortization .....	142
Depletion .....	143
General Business Credit .....	144
Work Opportunity Credit .....	144
Credit for Small Employer Pension Startup Costs .....	145
Disabled Access Credit .....	145
Employer-Provided Childcare Facilities and Service Credit .....	146

---

Limitation on Losses .....	147
Net Operating Losses .....	147
Not-for-profit Activities .....	148
Passive Activity Limits .....	150
At-Risk Rules .....	151
<b>Chapter 6. Business Assets .....</b>	<b>153</b>
Basis of Property .....	153
Purchase of Property .....	153
Property Received by Gift .....	158
Inherited Property .....	159
Property Received for Services .....	160
Property Received in Nontaxable Transactions .....	161
Stock Dividends, Rights and Splits .....	162
Property Transfers Between Spouses .....	164
Adjustments to Basis .....	164
Goodwill .....	166
Gains and Losses on Sales of Business Property .....	167
Section 1231 Property .....	167
Section 1245 Property .....	168
Section 1250 Property .....	169
Nontaxable Property Transactions .....	170
<b>Chapter 7. Estates and Trusts .....</b>	<b>173</b>
Final Return for Decedent - Form 1040 or 1040-SR .....	173
Income Tax Return of an Estate - Form 1041 .....	174

---

Filing Requirements .....	174
Income, Exemptions and Deductions .....	175
Credits, Tax, and Payments .....	178
Distribution to Beneficiaries from an Estate (Distributive Net Income) .....	179
Trusts .....	181
<b>Chapter 8. Tax-Exempt Organizations .....</b>	<b>185</b>
Application, Approval, and Appeal Procedures .....	185
Filing Requirements .....	188
<b>Chapter 9. Retirement Plans for Businesses .....</b>	<b>193</b>
Qualified Plans .....	193
Simplified Employee Pension (SEP) .....	197
Savings Incentive Match Plans for Employees (SIMPLE) .....	198
401(k) Plans .....	200
<b>Chapter 10. Farm Accounting .....</b>	<b>203</b>
<b>Phoenix Tax Group Refund Policies .....</b>	<b>211</b>
<b>Evaluation .....</b>	<b>212</b>



# 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 2019 tax law. The 2020 exam (July 1, 2020 - February 28, 2021) will cover the federal tax law as of December 31, 2019.

**Note:** All references on the examination are to the Internal Revenue Code, forms and publications, as amended through December 31, 2019. Also, unless otherwise stated, all questions relate to the calendar year 2019. Questions that contain the term 'current tax year' refer to the calendar year 2019.

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 2020 SEE examination begins May 1, 2020 and examinations will be offered continuously through February 28, 2021. 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 \$182 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](http://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—[www.prometric.com/see](http://www.prometric.com/see)**

#### **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, 2020 to February 28, 2021). Once your registration has been processed, you can schedule an examination appointment at any time online at [www.prometric.com/see](http://www.prometric.com/see) 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](http://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 \$182 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 \$182 full examination fee if you reschedule less than five calendar days before your appointment date.





# Chapter 1. Business Entities

---

## Employer Identification Number

**1.** An employer Identification Number (EIN) is required for the following entities EXCEPT:

- A. A sole proprietorship with no employees.
- B. A partnership.
- C. A trust or an estate.
- D. An employee plan.

**ANSWER: A**

An employer Identification Number (EIN) is required for the following:

- 1. Reporting employment taxes and excise taxes.
- 2. A partnership.
- 3. A corporation.
- 4. Limited Liability Company (LLC)
- 5. A trust or an estate.
- 6. An employee plan.
- 7. An exempt organization.

**2.** A sole proprietor will need a new employer identification number (EIN) for which of the following?

- A. Changing the name of the business
- B. Incorporating
- C. Operating multiple businesses
- D. Changing business locations

**ANSWER: B**

A sole proprietor will need a new EIN if any of the following are true:

- Filing for bankruptcy under Chapter 7 (liquidation) or Chapter 11 (reorganization).
- Incorporating.
- A sole proprietor that takes in partners and operate as a partnership.
- Establishing a pension, profit sharing, or retirement plan.

A sole proprietor will not need a new EIN if any of the following are true:

- Change the name of your business.
- Change location or add locations.
- Operating multiple businesses.

## Chapter 1. Business Entities

**3.** Under which of the following situations would a business need a new employer identification number?

- A. A partnership that declares bankruptcy.
- B. A C corporation that elects S corporation status.
- C. A partnership is terminated and a new partnership begins.
- D. A corporation changes its name.

### **ANSWER: C**

A partnership will need a new EIN if any of the following are true:

- Incorporating.
- One partner takes over and operates as a sole proprietorship.
- The partnership is terminated and a new partnership is begun.

A partnership will not need a new EIN if any of the following are true:

- The partnership declares bankruptcy. However, if a liquidating trust is established for a partnership that is in bankruptcy, an EIN for that trust is required.
- The partnership name changes.
- Change location or add locations.
- The partnership terminates under IRC Section 708 (b)(1)(B). A partnership shall be considered terminated if within a 12-month period there is a sale or exchange of at least 50% of the total interest in partnership capital and profits to another partner. If the purchaser and remaining partners immediately contribute the properties to a new partnership, they can retain the old partnership EIN.

A corporation will need a new EIN if any of the following are true:

- The corporation is a subsidiary of a corporation and currently uses the parent's corporate EIN.
- The corporation becomes a subsidiary of a corporation.
- The corporation becomes a partnership or a sole proprietorship.
- The corporation creates a new corporation after a statutory merger.
- The corporation receives a new corporate charter.

A corporation will not need a new EIN if any of the following are true:

- The corporation is a division of a corporation.
- After a corporate merger, the surviving corporation uses its existing EIN.
- A corporation declares bankruptcy. However, if a liquidating trust is established for a corporation that is in bankruptcy, an EIN for that trust is required.
- Corporate name change or change in location or add locations.
- The corporation elects to be taxed as an S Corporation by filing Form 2553.
- The corporation is sold and the assets, liabilities and charters are obtained by the buyer.
- After a corporate reorganization, the corporation only changes identity, form, or place of organization.

## Accounting Periods

**4.** Which of the following must adopt the calendar year as their tax year?

- A. A taxpayer who keeps no books or records.
- B. An S corporation.
- C. A tax shelter.
- D. A partnership.

**ANSWER: A**

A taxpayer must adopt the calendar year if:

- The taxpayer keeps no books or records;
- The taxpayer has no annual accounting period;
- The taxpayer's present tax year does not qualify as a fiscal year; or
- The taxpayer is required to use a calendar year by a provision in the Internal Revenue Code or the Income Tax Regulations.

**5.** Which of the following would be considered a fiscal tax year?

- A. 02/15/2018 - 03/15/2019
- B. 08/01/2018 - 07/31/2019
- C. 04/01/2018 - 04/30/2019
- D. 01/01/2019 - 12/31/2019

**ANSWER: B**

A fiscal year is 12 consecutive months ending on the last day of any month except December.

**6.** Which of the following dates would NOT be considered the end of a tax year?

- A. The last Friday in June.
- B. September 30.
- C. April 15.
- D. December 31.

**ANSWER: C**

A tax year that ends on the same day of the week (e.g., the last Friday in June) is a 52-53-week tax year. A tax year ending on the last day of the month except December (e.g., September 30) is a fiscal year. A tax year ending on December 31 is a calendar year.

**7.** In order to adopt a fiscal tax year on its first federal income tax return, the taxpayer must

- A. Maintain books and records and report income and expenses using that tax year.
- B. Attach a completed Form 1128 to its fiscal year basis income tax return.
- C. File a short period return.
- D. Get IRS approval.

**ANSWER: A**

To adopt a fiscal year, a taxpayer must maintain books and records and report income and expenses using the same tax year.