

TEST BANK FOR

Concepts in Federal Taxation 29th Edition by Kevin E. Murphy, Mark Higgins, Randy Skalberg

Chapter 1-28 Answers are at the End of Each Chapter

Chapter 1

Indicate whether the statement is true or false.

1. When a state decouples from a Federal tax provision, it means that this provision will *not* apply for state income tax purposes.
 - a. True
 - b. False
2. A major advantage of a flat tax type of income tax is its simplicity.
 - a. True
 - b. False
3. In preparing a tax return, all questions on the return must be answered.
 - a. True
 - b. False
4. One of the major reasons for the enactment of the Federal estate tax was to prevent large amounts of wealth from being accumulated within a family unit.
 - a. True
 - b. False
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.
 - a. True
 - b. False
6. If more IRS audits are producing a higher number of *no change* results, this indicates increased compliance on the part of taxpayers.
 - a. True
 - b. False
7. A calendar year taxpayer files his 2020 Federal income tax return on March 4, 2021. The return reflects an overpayment of \$6,000, and the taxpayer requests a refund of this amount. The refund is paid on May 16, 2021. The refund need not include interest.
 - a. True
 - b. False
8. When interest is charged on a deficiency, any part of a month counts as a full month.
 - a. True
 - b. False
9. An excise tax is often used to try to influence behavior.

Name: _____ Class: _____ Date: _____

- a. True
- b. False

10. 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.

- a. True
- b. False

11. During any month in which both the failure to file penalty and the failure to pay penalty apply, the failure to file penalty is *increased* by the amount of the failure to pay penalty.

- a. True
- b. False

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

- a. True
- b. False

13. If an income tax return is *not* filed by a taxpayer, there is no statute of limitations on assessments of tax by the IRS.

- a. True
- b. False

14. The Federal estate and gift taxes are examples of *progressive* rate taxes.

- a. True
- b. False

15. The ratification of the Sixteenth Amendment to the U.S. Constitution was necessary to validate the Federal income tax on corporations.

- a. True
- b. False

16. Under state amnesty programs, all delinquent and unpaid income taxes are forgiven.

- a. True
- b. False

17. If fraud is involved, there is no time limit on the assessment of a deficiency by the IRS.

- a. True
- b. False

18. For individual taxpayers, the interest rate for income tax refunds (overpayments) *is* the same as that applicable to assessments (underpayments).

- a. True
- b. False

19. The formula for the Federal income tax on corporations is the same as that applicable to individuals.

- a. True
- b. False

Name: _____ Class: _____ Date: _____

20. In preparing an income tax return, the use of a client's estimates is *not* permitted.
- True
 - False
21. 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
22. Unlike FICA, FUTA requires that employers comply with state as well as Federal rules.
- True
 - False
23. Sales made over the internet are not exempt from the application of a general sales (or use) tax.
- True
 - False
24. Upon audit by the IRS, Faith is assessed a deficiency of \$40,000 of which \$25,000 is attributable to negligence. The 20% negligence penalty will apply to \$25,000.
- True
 - False
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
26. 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
27. 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.
- True
 - False
28. The Medicare component of the FICA tax (1.45% on wages) is *progressive* since the tax due increases as wages increase.
- True
 - False
29. A CPA firm in California sends many of its less complex tax returns to be prepared by a group of accountants in India. If certain procedures are followed, this outsourcing of tax return preparation is proper.
- True
 - False
30. The Federal income tax on individuals generates more revenue than the Federal income tax on corporations.

Name: _____ Class: _____ Date: _____

- a. True
- b. False

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

- a. True
- b. False

32. When Congress enacts a tax cut that is phased in over a period of years, revenue neutrality is achieved.

- a. True
- b. False

33. A *fixture* will be subject to the *ad valorem* tax on *personalty* rather than the *ad valorem* tax on *realty*.

- a. True
- b. False

34. In 2021, 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.

- a. True
- b. False

35. The annual exclusion, currently \$15,000, is available for gift and estate tax purposes.

- a. True
- b. False

36. If a tax deficiency is attributable to fraud, the negligence penalty will not be imposed.

- a. True
- b. False

37. The pay-as-you-go feature of the Federal income tax on individuals conforms to Adam Smith's canon (principle) of certainty.

- a. True
- b. False

38. On transfers by death, the Federal government relies on an estate tax, while states may impose an estate tax, an inheritance tax, both taxes, or neither tax.

- a. True
- b. False

39. If a taxpayer files early (i.e., before the due date of the return), the statute of limitations on assessments begins on the date the return is filed.

- a. True
- b. False

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

- a. True