Senior Tax Specialist Practice Test (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **After Marlene's stock split, what is her new basis for the shares?**
   - A. Average of four shares at $40 a share.
   - B. Two shares at $70 a share and two shares at $90 a share.
   - C. Four shares at $160 a share.
   - D. Two shares at $35 a share and two shares at $45 a share.

2. **How do tax treaties typically affect foreign income taxation?**
   - A. They impose additional taxes on foreign incomes
   - B. They provide exemptions or lower tax rates on certain income types
   - C. They require all foreign income to be taxed at the domestic rate
   - D. They eliminate taxes on foreign income completely

3. **What is the purpose of Schedule E?**
   - A. To report capital gains and losses
   - B. To report supplemental income and loss, typically from rental real estate and royalties
   - C. To report ordinary business income
   - D. To summarize total income for the year

4. **What is the amount of tax calculated and shown on Holly's Qualified Dividends and Capital Gain Tax Worksheet?**
   - A. $0
   - B. $87
   - C. $92
   - D. $122

5. **How long should tax records generally be retained according to IRS guidelines?**
   - A. One year
   - B. Three years
   - C. Five years
   - D. Indefinitely

6. **For tax year 2017, estates and trusts are subject to the net investment income tax if they have undistributed net investment income and AGI exceeding which threshold?**
   - **A. $12,500.**
   - **B. $13,000.**
   - **C. $13,400.**
   - **D. $14,400.**

7. **What does the social security lump-sum election allow a taxpayer to do?**
   - **A. Treat the lump-sum benefit as received evenly among the reported years.**
   - **B. Amend prior-year returns.**
   - **C. Claim the benefit as received in the current year.**
   - **D. Claim it as if benefits had been received in those years.**

8. **What is a refundable tax credit?**
   - **A. A credit that reduces tax liability with no refund**
   - **B. A credit that can exceed tax liability resulting in a refund**
   - **C. A credit applied solely against capital gains**
   - **D. A credit for first-time homebuyers only**

9. **What commonly triggers an IRS audit?**
   - **A. High income levels alone**
   - **B. Discrepancies in reported income and flagged deductions**
   - **C. Filing for deductions without itemizing**
   - **D. Frequency of filing extensions**

10. **What is a carryforward in tax terms?**
    - **A. A tax benefit that can be used in the current tax year**
    - **B. A tax benefit that is postponed to a future tax year**
    - **C. A credit that can never be reused**
    - **D. A deduction that is available for multiple years**

Answers

1. **D**
2. **B**
3. **B**
4. **B**
5. **B**
6. **A**
7. **D**
8. **B**
9. **B**
10. **B**

Explanations

1. **After Marlene's stock split, what is her new basis for the shares?**

   A. **Average of four shares at $40 a share.**

   B. **Two shares at $70 a share and two shares at $90 a share.**

   C. **Four shares at $160 a share.**

   D. **Two shares at $35 a share and two shares at $45 a share.**

To determine Marlene's new basis for her shares after a stock split, it is essential to understand how stock splits affect the basis of shares owned. When a stock splits, the number of shares held by an investor increases, and the basis per share decreases accordingly. In this scenario, Marlene had a certain number of shares that were affected by the stock split. After the split, the total basis remains the same, but it is now divided among the increased number of shares. The share basis is calculated by taking the original total basis and dividing it by the new total number of shares. In this specific case, if Marlene ends up with four shares from the split, her total basis has been adjusted to ensure that while the number of shares is greater, the total investment remains unchanged. The selections show various potential basis amounts per share, but option D shows an effective reduction in per-share basis to correspond with the increase in shares resulting from the split. Thus, option D reflects an accurate recalibration of Marlene's original basis distributed evenly across her new holdings, supporting the principle that the total original investment remains the same post-split while the per-share basis is proportionately lowered to account for the increased number of shares. This understanding is crucial

2. **How do tax treaties typically affect foreign income taxation?**

   A. **They impose additional taxes on foreign incomes**

   B. **They provide exemptions or lower tax rates on certain income types**

   C. **They require all foreign income to be taxed at the domestic rate**

   D. **They eliminate taxes on foreign income completely**

Tax treaties are agreements between two countries that aim to prevent double taxation of income earned in one country by residents of another. By providing exemptions or lower tax rates on specific types of income, such as dividends, interest, and royalties, these treaties encourage cross-border investment and economic cooperation. Option B is correct because tax treaties often establish specific provisions for how certain types of income should be taxed, resulting in either a complete exemption from taxes in the source country or a reduced tax rate. This is beneficial for individuals or businesses operating in multiple jurisdictions, as it helps mitigate the tax burden they might otherwise face on their foreign earnings. The other options suggest various consequences of tax treaties that do not align with their primary purpose. For example, imposing additional taxes or requiring that all foreign income be taxed at the domestic rate would typically not be the intent of a tax treaty. Similarly, while some treaties can provide significant tax relief, completely eliminating taxes on foreign income is not a standard practice; rather, they aim to minimize the taxation to a reasonable level.

3. What is the purpose of Schedule E?

A. To report capital gains and losses

B. To report supplemental income and loss, typically from rental real estate and royalties

C. To report ordinary business income

D. To summarize total income for the year

The purpose of Schedule E is to report supplemental income and loss, which is primarily derived from rental real estate, royalties, partnerships, S corporations, estates, and trusts. This schedule allows taxpayers to detail income they receive from these sources, ensuring accurate reporting for tax purposes. By providing a comprehensive accounting of income from rentals or royalties, Schedule E plays a crucial role for landlords and individuals involved in passive activities or investments. It helps in determining the net income or loss from these activities, which can influence overall taxable income on a taxpayer's return. The correct understanding of Schedule E is essential for individuals who earn income through these means, as well as for tax professionals who prepare tax returns. Other choices, while related to tax reporting, do not pertain to the specific focus of Schedule E. Regular business income is reported on different forms, such as Schedule C for sole proprietorships, while capital gains and losses are reported on Schedule D. Summarizing total income for the year encompasses multiple schedules and forms, indicating that Schedule E is specifically tailored to outline supplemental income sources.

4. What is the amount of tax calculated and shown on Holly's Qualified Dividends and Capital Gain Tax Worksheet?

A. $0

B. $87

C. $92

D. $122

To determine the amount of tax calculated on Holly's Qualified Dividends and Capital Gain Tax Worksheet, it's important to understand how qualified dividends and long-term capital gains are taxed. These types of income are generally taxed at lower rates compared to ordinary income, typically at rates of 0%, 15%, or 20%, depending on the taxpayer's total income level. In this case, if Holly's qualified dividends and capital gains fall within an income threshold that corresponds to a 15% tax rate, the calculated amount would reflect that rate applied to the total qualified dividends and long-term capital gains she reported. The figure of $87 likely represents the tax due based on the application of these rates to her specific amounts of qualified income after considering the available deductions and credits. This amount requires a careful calculation where the benefits of preferential rates are balanced against Holly's overall tax situation, ensuring that all relevant factors, such as other sources of income and filing status, are considered. Therefore, if the correct answer is $87, it suggests a calculation based on the applicable tax rate for Holly's qualified dividends and capital gains that accurately reflects her financial circumstances within the given tax framework.

5. How long should tax records generally be retained according to IRS guidelines?

A. One year

B. Three years

C. Five years

D. Indefinitely

The IRS generally advises that tax records should be retained for a period of three years after the date you file your tax return. This timeline is based on the statute of limitations for auditing returns, which allows the IRS to review and assess any discrepancies or errors within that timeframe. Retaining records for three years provides a buffer in case of questions or audits regarding reported income and deductions. Moreover, there are specific circumstances that could lengthen this retention period, such as if you underreport your income by 25% or more, which may require keeping records for up to six years. However, the standard three-year rule applies to most individuals and tax situations. Keeping records for longer than this time frame, while not mandated, can be prudent for significant transactions, but is generally not necessary for standard tax returns. Other options, like one year or five years, do not align with the guidelines established by the IRS, and retaining records indefinitely is impractical and unnecessary for most taxpayers.

6. For tax year 2017, estates and trusts are subject to the net investment income tax if they have undistributed net investment income and AGI exceeding which threshold?

A. $12,500.

B. $13,000.

C. $13,400.

D. $14,400.

For tax year 2017, estates and trusts are subject to the net investment income tax if they have undistributed net investment income and adjusted gross income (AGI) exceeding the threshold of $12,500. This tax is designed to apply to certain investment income, including interest, dividends, and capital gains, and it kicks in for estates and trusts once their AGI surpasses this specific amount. The amount of $12,500 represents the threshold established for tax purposes, indicating that estates and trusts under this AGI would not be liable for the net investment income tax. Understanding these thresholds is crucial for tax compliance and planning, especially in the management of estates and trusts, where investment income can significantly impact tax liabilities.

7. What does the social security lump-sum election allow a taxpayer to do?

A. Treat the lump-sum benefit as received evenly among the reported years.

B. Amend prior-year returns.

C. Claim the benefit as received in the current year.

D. Claim it as if benefits had been received in those years.

The social security lump-sum election allows a taxpayer to claim benefits in such a way that they can treat the lump-sum payment as if it had been received in prior years. This method provides the taxpayer with the opportunity to allocate the payment over the years it covers, potentially leading to lower tax implications if the taxpayer's tax rate was lower in those previous years. For example, if a taxpayer receives a lump-sum payment that represents benefits that were due over multiple years, they can elect to have those benefits taxed as if they had received them in the respective prior years, which may allow them to benefit from lower overall taxation, particularly if their income tax situations differ significantly from year to year. This election can be especially beneficial for taxpayers whose current income might place them into a higher tax bracket compared to the years when the benefits were originally due. Thus, by making this election, they can manage their tax burden more effectively.

8. What is a refundable tax credit?

A. A credit that reduces tax liability with no refund

B. A credit that can exceed tax liability resulting in a refund

C. A credit applied solely against capital gains

D. A credit for first-time homebuyers only

A refundable tax credit is a type of credit that can reduce a taxpayer's liability to zero and, if the credit amount exceeds the tax owed, the taxpayer can receive the excess amount as a refund. This characteristic distinguishes refundable credits from non-refundable credits, which can only reduce tax liability to zero but not provide a refund if the credit exceeds the tax owed. For example, if a taxpayer qualifies for a refundable credit of $1,200 but only owes $800 in taxes, the taxpayer will receive the remaining $400 as a refund. This feature makes refundable credits particularly beneficial for low-income taxpayers who may not owe enough in taxes to take full advantage of non-refundable credits. The other options do not accurately describe refundable tax credits. The first option implies that the credit does nothing beyond reducing tax liability without any refunds, which is not true for refundable credits. The third option restricts the definition of the credit to capital gains, which is not representative of all refundable tax credits, as they can apply to a variety of situations. Lastly, defining a refundable credit as applicable only to first-time homebuyers overlooks numerous other refundable credits available, such as the Earned Income Tax Credit.

9. What commonly triggers an IRS audit?

A. High income levels alone

B. Discrepancies in reported income and flagged deductions

C. Filing for deductions without itemizing

D. Frequency of filing extensions

The correct answer highlights that discrepancies in reported income and flagged deductions are key indicators that can trigger an IRS audit. The IRS uses sophisticated algorithms and data analysis techniques to identify inconsistencies between the income reported on tax returns and the income information that they receive from third parties, such as employers, banks, and other financial institutions. When the tax return shows significant discrepancies or unusual deductions that do not align with the taxpayer's reported income, it raises red flags, prompting the IRS to conduct a more thorough review of the taxpayer's financial matters. For example, if a taxpayer reports a high level of deductions that far exceeds what is expected based on their income level, or if income reported from various sources does not match the figures submitted on the tax return, the IRS may initiate an audit to rectify these inconsistencies. This focus on accuracy aims to ensure compliance with tax laws and minimize tax evasion. The other possibilities do not carry the same weight in triggering audits. High income levels alone might not trigger an audit unless accompanied by other factors, such as discrepancies. Filing for deductions without itemizing typically does not raise alarms unless the deductions themselves are questionable, and frequently filing extensions does not automatically imply a need for audit scrutiny, as many taxpayers file extensions for legitimate reasons.

10. What is a carryforward in tax terms?

A. A tax benefit that can be used in the current tax year

B. A tax benefit that is postponed to a future tax year

C. A credit that can never be reused

D. A deduction that is available for multiple years

In tax terminology, a carryforward refers to a tax benefit, such as a loss or credit, that is not utilized in the original tax year and can instead be applied to future tax years. This allows taxpayers to effectively manage their tax liabilities by taking advantage of these unused benefits when they can provide maximum tax relief in forthcoming years. For example, if a taxpayer incurs a net operating loss in one year, they can carry this loss forward to offset income in future years, thereby potentially reducing their tax bill. This mechanism is designed to ensure that taxpayers can benefit from deductions and credits they were unable to use during the year they were incurred. The other options focus on immediate or limited applicability of tax benefits, which do not align with the nature of a carryforward. Therefore, recognizing that a carryforward allows for the indefinite postponement of certain tax attributes to later years is key to understanding why it is categorized as a tax benefit that is postponed rather than utilized immediately.