

Sample Consultant Examination

Based on 2006 Tax Law

Answers, subject matter and references can be found on the attached pages

1. Taxpayer is self-employed in construction. He has an office-in-home and uses the entire garage to store tools, equipment and materials used in his business. The square footage of the office is 150 sq. ft. The garage is 450 sq. ft. the entire square footage of the house is 1550 without the garage. His business expenses are as follows: Rent 12,000, rental insurance 500 and utilities 2500. What is the office-in-home deduction on Schedule C. His net profit before office-in-home deduction is \$4,000.
 - A. \$900
 - B. \$3600
 - C. \$4000
 - D. \$4500

2. Ten years ago, John bought a lot for \$3,000 and built a home on the lot. Materials cost him \$18,000. When completed, the county assessed the land at \$3,000 and the improvements at \$30,000. In a prior year, he added storm windows and doors at a cost of \$2,000. This year, the county assessment indicates land valued at \$12,000 and improvements at \$50,000. He has just been transferred by his employer and plans to rent his house. His basis for depreciation is:
 - A. \$18,000
 - B. \$20,000
 - C. \$32,000
 - D. \$50,000

3. Taxable patronage dividends received are reported on Schedule B.
 - A. True
 - B. False

4. Tabitha Brown's W-2 shows Social Security tips of \$750 and allocated tips of \$2,500. Ms. Brown keeps a daily tip record which shows total tips received during the year of \$1,250. Ms. Brown is required to include additional tip income of:
 - A. -0-
 - B. \$ 500
 - C. \$ 750
 - D. \$2,500

5. You must attach a statement to your tax return to elect to postpone reporting crop insurance proceeds in your income for the year the damage took place.
 - A. True
 - B. False

6. Mrs. Rhino was divorced on January 1 of the tax year. Her son lived in her home for the entire year. It cost \$3,000 to maintain Mrs. Rhino's home, of which she contributed \$2,000 and Joe Rhino, ex-husband, contributed \$1,000 through support payments. She has, however, signed Form #8332 (Release of Claim to Exemption for Child of Divorced or Separated Parents) releasing the exemption for their son to her ex-husband. Which is the most advantageous filing status for which Mrs. Rhino can qualify?
- A. Married filing joint return
 - B. Head of household
 - C. Married filing separately
 - D. Single
7. Oscar and Tabitha received a \$5,400 court settlement, \$5,000 of which was damages for personal injury and \$400 of which was interest. Which statement below is true?
- A. Interest of \$400 is reported on Schedule B.
 - B. Damage award of \$5,400 is reported on Line 21.
 - C. Nothing is recognized as taxable.
 - D. Damage award of \$5,000 is reported on Line 21.
8. Which of the following is included in taxable income?
- A. Workers' Compensation
 - B. Veterans' insurance and dividends
 - C. Intern's income while teaching
 - D. Scholarship for tuition for a degree
9. An individual materially participates in activity if he or she participates for more than 500 hours during the tax year.
- A. True
 - B. False
10. Mr. Bullwinkle retires and receives a total distribution from a qualified retirement plan. The distribution included \$10,000 of previously taxed contributions, \$10,000 of the employer's contributions, and accumulated earnings of \$5,000. The maximum allowable rollover is:
- A. \$ 5,000
 - B. \$10,000
 - C. \$15,000
 - D. \$25,000
11. The loss on a sale of Section 1231 property is subject to the \$3,000 capital loss limitation.
- A. True
 - B. False

12. The base amounts for determining taxable social security are correct for all but which of the following statements:
- A. 0 for married filing separate and lived with spouse one week of the year
 - B. 16,000 for married filing separate
 - C. 25,000 for qualifying widow
 - D. 32,000 for married filing joint
13. Which of the following is not subtracted from gross income in figuring adjusted gross income?
- A. Interest forfeited on early withdrawal from a time deposit savings account
 - B. Alimony paid
 - C. Non-business casualty losses
 - D. Self-employed health insurance deduction
14. In August of the current year Mrs. Diamond learned that her husband had intentional misrepresented entries on his Schedule C from their joint return two years prior. Mrs. Diamond may amend the return to file married filing separately to avoid liability for her husband's actions.
- A. True
 - B. False
15. Which of the following is not required to be added to taxable income to compute alternative minimum taxable income.
- A. interest paid on a home mortgage not used to buy, build or substantially improve the home
 - B. state and local taxes
 - C. tax exempt interest from private activity bonds
 - D. contributions to qualified charitable organizations
16. Mrs. Taxpayer, a divorcee, has custody of her two children, both of whom are under 13 years of age. Her ex-husband qualified for and claimed the children as dependents on his return. Mrs. Taxpayer may claim child care expenses on her federal return, as she is gainfully employed and the children live in her home.
- A. True
 - B. False
17. If you first have income on which you are required to pay estimated tax after June 10, of the current year, you should make an estimated payment by:
- A. April 15th
 - B. June 15th
 - C. September 15th
 - D. January 15th

18. All of the following medical expenses are deductible except:
- A. Equipment and materials for contact lenses
 - B. Hospital inpatient care, including meals and lodging to receive medical care
 - C. Expenses for an organ donor
 - D. Expenses for doctor-recommended program to improve general health
19. If your deductible casualty or theft losses exceed your income, you may have a net operating loss, even if the casualty or theft was for personal property.
- A. True
 - B. False
20. A single parent filing head of household with an AGI of \$55,000 (before any adjustments) has a dependent daughter with \$3,000 in qualified tuition as a graduate student. What is the most advantageous treatment of tuition expense:
- A. Hope credit
 - B. LLC (Lifetime Learning Credit)
 - C. Tuition fee deduction
 - D. Schedule A miscellaneous deduction
21. The taxpayer worked part of a year and earned \$14,720. Upon terminating employment the taxpayer, age 47, received a \$17,000 lump-sum distribution from a qualifying plan. Of the \$17,000, \$3,200 represented taxpayer's non-deductible contributions. Taxpayer rolled over \$9,000 into an IRA 30 days after receipt of the distribution. He made an IRA contribution of \$2,000 the following April before filing his tax return. What amount will taxpayer owe as an early withdrawal penalty?
- A. \$280
 - B. \$480
 - C. \$600
 - D. \$800
22. Net income from a part-time business is not subject to self-employment tax if the owner is otherwise employed full-time.
- A. True
 - B. False
23. After residing and working in Oregon all his working life, taxpayer moved to Washington and withdrew all of the funds in his IRA as a Washington resident. He must pay tax to Oregon on all amounts withdrawn from the IRA, since all contributions were deducted from Oregon income and all earnings accrued while an Oregon resident.
- A. True
 - B. False

24. The Oregon working family child care credit is allowed to taxpayers with qualifying child care expenses, earned income of \$7,100 or more and investment income less than \$2,800.
- A. True
 - B. False
25. Which of the following would not be a subtraction or addition on your Oregon return?
- A. Federal income tax refunds on amended tax returns
 - B. Foreign tax paid
 - C. Gambling losses claimed as an itemized deduction on the federal tax return
 - D. Earned income credit
26. Geraldine, a Washington resident works on the Bonneville Dam all year. What Oregon return is she required to file?
- A. Oregon part-year resident Form 40P
 - B. Oregon non-resident Form 40N
 - C. Oregon resident Form 40
 - D. Oregon resident Form 40S
27. If your refund is \$1.00 or more, you may apply it to the next years estimated tax payments.
- A. True
 - B. False
28. Mary paid additional federal tax of \$1,500 during the tax year due to an audit of a prior year return. She is single and deducted \$2,300 in federal taxes in the audit year. Her federal tax liability for the current year was \$2,900. What can she deduct in the current year as an "other" subtraction?
- A. \$0
 - B. \$350
 - C. \$1100
 - D. \$1500
29. A licensee, upon written request, shall make available or return source material to a client.
- A. True
 - B. False

Answers, Subject Matter and References

Sample Consultant Examination

References can be found in 2006 tax law publications, booklets & instructions

FEDERAL

- 1.) **Correct Answer: C (\$4000)**
Subject Matter: Business Income & Deductions
Reference: Pub. 587
- 2.) **Correct Answer: B (\$20,000)**
Subject Matter: Depreciation
Reference: Pub. 551
- 3.) **Correct Answer: B (False)**
Subject Matter: Dividends
Reference: Pub. 17, Chapter 8 & Pub. 550
- 4.) **Correct Answer: B (\$500)**
Subject Matter: Earned Income
Reference: Pub. 17, Chapter 6
- 5.) **Correct Answer: A (True)**
Subject Matter: Farms
Reference: Pub. 225, Chapter 3
- 6.) **Correct Answer: B (Head of Household)**
Subject Matter: How to File
Reference: Pub. 17, Chapter 2
- 7.) **Correct Answer: A (Interest of \$400 is reported on Schedule B)**
Subject Matter: Interest
Reference: Pub. 525 (other income)
- 8.) **Correct Answer: C (Intern's income while training)**
Subject Matter: Miscellaneous Income
Reference: Pub. 17, Chapter 12
- 9.) **Correct Answer: A (True)**
Subject Matter: Passive Activities & Rentals
Reference: Pub. 925
- 10.) **Correct Answer: D (\$25,000)**
Subject Matter: Pensions & Annuities
Reference: Pub. 17, Chapter 10
- 11.) **Correct Answer: B (False)**
Subject Matter: Sales of Property
Reference: Pub. 544, Chapter 3
- 12.) **Correct Answer: B (\$16,000 for married filing separate)**
Subject Matter: Social Security
Reference: Pub. 17, Chapter 11
- 13.) **Correct Answer: C (Non-business casualty losses)**
Subject Matter: Adjustments
Reference: Pub. 17, Chapter 25
- 14.) **Correct Answer: B (False)**
Subject Matter: Amended Returns
Reference: Pub. 17, Chapter 1

- 15.) **Correct Answer: D (Contributions to qualified charitable organizations)**
Subject Matter: Alternative Minimum Tax (AMT)
Reference: 1040 Instructions & Publication 17, Chapter 30
- 16.) **Correct Answer: A (True)**
Subject Matter: Credits
Reference: Pub. 17, Chapter 32
- 17.) **Correct Answer: C (September 15th)**
Subject Matter: Estimated Payments
Reference: Pub. 17, Chapter 4
- 18.) **Correct Answer: D (Expenses for doctor-recommended program to improve general health)**
Subject Matter: Itemized Deductions
Reference: Pub. 17, Chapter 21
- 19.) **Correct Answer: A (True)**
Subject Matter: Net Operating Losses (NOLs) & At Risk Amounts
Reference: Pub. 17, Chapter 25
- 20.) **Correct Answer: C (Tuition fee deduction)**
Subject Matter: Other Areas
Reference: Pub. 970
- 21.) **Correct Answer: B (\$480)**
Subject Matter: Other Taxes
Reference: Pub. 17, Chapter 17
- 22.) **Correct Answer: B (False)**
Subject Matter: Self-Employment Tax
Reference: Pub. 17, Chapter 1 & Pub. 334, Chapter 1

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- 23.) **Correct Answer: B (False)**
Subject Matter: Additions
Reference: Pub. 17 ½
- 24.) **Correct Answer: A (True)**
Subject Matter: Credits
Reference: Pub. 17 ½
- 25.) **Correct Answer: D (Earned Income Credit)**
Subject Matter: Deductions
Reference: Pub. 17 ½
- 26.) **Correct Answer: B (Oregon non-resident Form 40N)**
Subject Matter: How to File
Reference: Pub. 17 ½
- 27.) **Correct Answer: A (True)**
Subject Matter: Payments
Reference: Pub. 17 ½
- 28.) **Correct Answer: D (\$1500)**
Subject Matter: Subtractions
Reference: Pub. 17 ½
- 29.) **Correct Answer: A (True)**
Subject Matter: License Law
Reference: OAR 800-010-0025(6) Integrity & Objectivity