Name: ____________________ Class: ____________________ Date: ____________

Ch02

1. All of the following are goals of tax research EXCEPT:
   a. to balance the need for efficiency against the need for thoroughness
   b. to balance the client's tax goals with the client's nontax, personal considerations
   c. to find a defensible solution to a client's problem
   d. to find a perfect solution to a client's problem, no matter how long it takes

ANSWER: d

2. Which of the following statements describes the tax research process?
   a. It is strictly linear.
   b. It requires mechanical skills combined with critical thinking.
   c. It requires the ability to use complex mathematical techniques to identify and locate tax authorities.
   d. All of these are correct.

ANSWER: b

3. Collateral estoppel is a legal concept which:
   a. allows relitigation on the same facts or same issues
   b. bars relitigation on the same facts or same issues
   c. requires that the court resolve factual issues in a taxpayer's favor
   d. none of these are correct

ANSWER: b

4. The first step in the tax research process is to:
   a. establish the facts
   b. identify the issues
   c. locate authority
   d. evaluate authority

ANSWER: a

5. Once the initial facts have been gathered and the issues defined, the tax researcher must:
   a. develop conclusions and recommendations
   b. evaluate the authority
   c. contact the IRS
   d. locate the authority

ANSWER: d

6. In a closed-fact problem, the main goal of tax research is to:
   a. determine several alternative courses of future action for the taxpayer
   b. find support for an action the taxpayer has already taken
   c. determine several alternative courses of future action for the taxpayer and find support for an action the taxpayer has already taken
   d. none of these are correct

ANSWER: b

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7. The final step of the tax research process is to:
   a. develop conclusions and recommendations
   b. communicate recommendations
   c. document conclusions and recommendations
   d. litigate the tax-related dispute

ANSWER: b

8. Which of the following statements is CORRECT regarding online tax research?
   a. The method of constructing queries is the same for all databases.
   b. Most online tax services allow the use of connectors and wild cards.
   c. If a query generates too little information, the researcher should add more unique keywords.
   d. All of these are correct.

ANSWER: b

9. Tax research issues can be divided into two main categories. These are:
   a. fact and law issues
   b. primary and secondary issues
   c. major and minor issues
   d. internal and external issues
   e. tax and nontax issues

ANSWER: a

10. Which of the following are basic connectors you can use to construct a search query?
   a. google
   b. not
   c. or
   d. *
   e. both *not* and *or*

ANSWER: e

11. Which of the following represents a law issue?
   a. intent of the transaction
   b. definition of a term used in the code
   c. date of transaction
   d. location of the transaction
   e. all of these are correct

ANSWER: b

12. The amount of a transaction represents a:
   a. law issue
   b. social issue
   c. fact issue
   d. political issue

ANSWER: c

13. Which of the following is an example of secondary authority?
    a. tax treaties
    b. tax journals
    c. U.S. Constitution
    d. tax laws by Congress

ANSWER: b

14. A statutory source of federal tax law is:
    a. various rulings of the Treasury Department and the IRS
    b. collected rulings of the various courts on federal tax matters
    c. textbooks
    d. tax treaties

ANSWER: d

15. Which of the following is an administrative source of primary authority?
    a. U.S. Constitution
    b. collected rulings of the various courts on federal tax matters
    c. revenue rulings
    d. newsletters

ANSWER: c

16. A reference source that enables the researcher to follow the judicial history of court cases is known as:
    a. a case reporter
    b. a judicial directory
    c. the Cumulative Bulletin
    d. a citator

ANSWER: d

17. Once the research question has been stated, the researcher must next:
    a. gather the facts
    b. identify the keywords
    c. select a database and execute the search
    d. interpret and refine the search

ANSWER: b

18. Secondary sources are useful when:
    a. conflicting primary authority exists
    b. the issue is a closed-fact problem
    c. a researcher does not have access to primary sources
    d. a researcher disagrees with the client

ANSWER: a

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19. The IRS website can be used to perform which of the following tasks:
    a. obtain downloadable forms
    b. keyword search IRS tax publications
    c. file your tax return
    d. all of these are correct

ANSWER: d

20. Which of the following statements is INCORRECT regarding the CPA exam?
    a. The National Association of State Boards of Accountancy administers the test.
    b. Each state has its own test.
    c. CPA exam candidates must pass all four sections of the exam.
    d. The Regulation section requires tax research.

ANSWER: b

21. Which of the following forms the basis for all tax provisions?
    a. secondary authority
    b. the administrative authority of the IRS
    c. judicial interpretation of the law
    d. the statutory authority of Congress

ANSWER: d

22. The distinction between primary and secondary authority is important for which of the following reasons?
    a. to meet the accuracy threshold of "substantial authority"
    b. to avoid penalties under Section 6662 of the Code
    c. to search properly with connectors and wildcards
    d. to meet the accuracy threshold of "substantial authority" and to avoid penalties under Section 6662 of the Code

ANSWER: d

23. Tax journals perform which of the following functions?
    a. offer researchers expert analysis of unclear tax issues
    b. keep researchers aware of current developments
    c. suggest tax planning techniques
    d. all of these are correct

ANSWER: d

24. Skilled tax research requires a combination of reasoning and creativity.
    a. True
    b. False

ANSWER: True

25. A tax researcher can rely on tax journals as substantial authority under Section 6662 of the Code.
    a. True

b. False

ANSWER: False

26. The tax research process should be approached in a structured, step-by-step manner.

a. True

b. False

ANSWER: True

27. After the researcher has located authority that deals with the client's problem, he or she must develop conclusions and recommendations.

a. True

b. False

ANSWER: False

28. A tax researcher should ignore the personal preferences of a client and concentrate only on minimizing the client’s tax liability.

a. True

b. False

ANSWER: False

29. If a computer search generates too much information, the search may use fewer libraries or more unique keywords.

a. True

b. False

ANSWER: True

30. “Wildcards” such as an asterisk can be used to search for word variations in most tax services.

a. True

b. False

ANSWER: True

31. Commercial databases are ideal sources for having the most up-to-date information on tax laws and scenarios.

a. True

b. False

ANSWER: True

32. Google Scholar is an example of an online, free tax-related internet site.

a. True

b. False

ANSWER: True

33. Tax researchers should not consider the client’s potential liability in determining how much time to spend on a client’s problem.

a. True

b. False

ANSWER: False

34. The search “stock or securities” would find documents that contain both the term “stock” and the term “securities.”
    a. True
    b. False

ANSWER: False

35. The IRS website is a full-service, tax research resource.
    a. True
    b. False

ANSWER: False

36. All primary source material has the same precedential value.
    a. True
    b. False

ANSWER: False

37. The U.S. Constitution is a statutory source of tax law.
    a. True
    b. False

ANSWER: True

38. List in sequential order the major steps involved in the tax research process.

ANSWER: The tax research process can be broken down into six major steps, each an essential part of the overall research methodology. The steps in tax research are as follows.

o Establish the facts
o Identify the issues
o Locate authority
o Evaluate authority
o Develop conclusions and recommendations
o Communicate the recommendations

39. Explain the difference in primary and secondary sources of tax information and give several examples of each.

ANSWER: Primary authority consists of original pronouncements that come from government sources, including statutory, administrative, or judicial sources. Statutory authority comes out of the legislative branch of government, the U.S. Congress, and includes the Internal Revenue Code, legislative history, and tax treaties. Administrative documents come out of the IRS, including regulations, rulings, taxpayer publications, and other guidance documents. The judiciary releases court opinions which are a judicial primary source.
Secondary sources consist of interpretations of primary authority and are an *unofficial* source of tax information. Secondary authority includes tax services, journals, textbooks, treatises and newsletters.

40. List the significant tax facts that often influence the client's situation:

ANSWER: Significant facts that often influence the client’s situation include the following:

- The client's tax entity, for example, individual, corporation, or trust.
- The client's family status and stability.
- The client's past, present, and projected marginal tax rates.
- The client's place of legal domicile and citizenship.
- The client's motivation for the transaction.
- The relationships among the client and other parties who are involved in the transaction.
- Whether special tax rules apply to the taxpayer due to the type of business in which the taxpayer is engaged (i.e., he or she is a farmer, fisherman, or long-term contractor).
- Whether the transaction is proposed or completed.

41. Tax research has been described as an "iterative process." Explain what this means to the researcher and give an example of how this process might work with a hypothetical client.

ANSWER: The process of tax research is iterative in the sense that, once an answer is found, it often causes a new issue to appear, which then requires the gathering of more information. After the researcher has more information, he or she has to go back to the research materials to reevaluate the problem. For example, if a client comes in asking if he or she can deduct alimony, the researcher can look up the general federal tax rules for alimony. When looking at those rules, the researcher finds that the alimony must be paid under a divorce or separation agreement executed on or before December 31, 2018. When the researcher goes back to the client to question him or her about the details of the divorce, the client explains that while it occurred in 2018, it was not a divorce, but an annulment. Now the researcher must go back and research the issue of whether an alimony deduction is allowed for payments made under a decree of annulment. The researcher then finds that if an annulment has the same effect for support purposes as a divorce under local law, payments under an annulment decree qualify as deductible alimony.

In conclusion, the tax research process is not a linear process. Rather, the direction the research takes is dependent on how the facts and issues develop as the researcher gathers more information.