

CHAPTER 2--WORKING WITH THE TAX LAW

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1. Rules of tax law do *not* include Revenue Rulings and Revenue Procedures.

True False

2. A tax professional need not worry about the relative weight of authority within the various tax law sources.

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3. In recent years, Congress has been relatively successful in simplifying the *Internal Revenue Code*.

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4. A taxpayer should always minimize his or her tax liability.

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5. The first codification of the tax law occurred in 1954.

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6. The Code section citation is incorrect: § 212(1).

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7. Subchapter D refers to the “Corporate Distributions and Adjustments” section of the *Internal Revenue Code*.

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8. Regulations are generally issued immediately after a statute is enacted.

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10. Revenue Rulings issued by the National Office of the IRS carry the same legal force and effect as Regulations.

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11. A Revenue Ruling is a judicial source of Federal tax law.

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12. The following citation can be a correct citation: Rev. Rul. 95-271, I.R.B. No. 54, 18.

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15. A letter ruling applies only to the taxpayer who asks for and obtains a letter ruling.

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16. The IRS is *not* required to make a letter ruling public.

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18. Technical Advice Memoranda deal with completed transactions.

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19. Technical Advice Memoranda may *not* be cited as precedents by taxpayers.

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20. A taxpayer must pay any tax deficiency assessed by the IRS and sue for a refund to bring suit in the U.S. Court of Federal Claims. Only in the Tax Court can jurisdiction be obtained without first paying the assessed tax deficiency.

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45. The Regulation section of the CPA exam is 60% Taxation and 40% Law & Professional Responsibilities.

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A. 1913.

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- A. Taxation Committee.
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48. Federal tax legislation generally originates in what body?

- A. Internal Revenue Service.
- B. Senate Finance Committee.
- C. House Ways and Means Committee.
- D. Senate Floor.
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49. Subtitle A of the Internal Revenue Code covers which of the following taxes?

- A. Income taxes.
- B. Estate and gift taxes.
- C. Excise taxes.
- D. Employment taxes.
- E. All of the above.

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- B. Revenue Procedure.
- C. Regulations.
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- A. Temporary.
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- A. Give equal weight to the Code and the Regulations.
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- A. May not be cited as precedent.
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- A. Letter Ruling.
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A. *Standard Federal Tax Reporter*.

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A. Code section approach.

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A. Governmental bodies.

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C. Publishers.

D. CPA firms.

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71. Tax research involves which of the following procedures:

A. Identifying and refining the problem.

B. Locating the appropriate tax law sources.

C. Assessing the validity of the tax law sources.

D. Follow-up.

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72. Which tax-related website probably gives the best policy-orientation results?

- A. taxalmanac.org.
- B. irs.gov.
- C. taxsites.com.
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79. Which statement is *incorrect* with respect to taxation on the CPA exam?

- A. The CPA exam now has only four parts.
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80. How can Congressional committee reports be used by a tax researcher?

81. What are Treasury Department Regulations?

82. Compare Revenue Rulings with Revenue Procedures.

83. What is a Technical Advice Memorandum?

84. Discuss the advantages and disadvantages of the Small Cases Division of the U.S. Tax Court.

85. Distinguish between the jurisdiction of the U.S. Tax Court and a U.S. District Court.

86. How do treaties fit within tax sources?

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80. How can Congressional committee reports be used by a tax researcher?

Congressional committee reports often explain the provisions of proposed legislation and are a valuable source of ascertaining the intent of Congress. The intent of Congress is the key to interpreting new legislation by taxpayers, especially before Regulations are published.

81. What are Treasury Department Regulations?

Regulations are issued by the U.S. Treasury Department under authority granted by Congress. Interpretive by nature, they provide taxpayers with considerable guidance on the meaning and application of the Code. Regulations may be issued in *proposed*, *temporary*, or *final* form. Regulations carry considerable authority as the official interpretation of tax statutes. They are an important factor to consider in complying with the tax law. Courts generally ignore Proposed Regulations.

82. Compare Revenue Rulings with Revenue Procedures.

Revenue Rulings are official pronouncements of the National Office of the IRS. They typically provide one or more examples of how the IRS would apply a law to specific fact situations. Like Regulations, Revenue Rulings are designed to provide interpretation of the tax law. However, they do not carry the same legal force and effect as Regulations and usually deal with more restricted problems. Regulations are approved by the Secretary of the Treasury, whereas Revenue Rulings generally are not.

Revenue Procedures are issued in the same manner as Revenue Rulings, but deal with the internal management practices and procedures of the IRS. Familiarity with these procedures can increase taxpayer compliance and help the IRS administer the tax laws more efficiently. A taxpayer's failure to follow a Revenue Procedure can result in unnecessary delay or, in a discretionary situation, can cause the IRS to decline to act on behalf of the taxpayer.

83. What is a Technical Advice Memorandum?

The National Office of the IRS releases Technical Advice Memoranda (TAMs) weekly. TAMs resemble letter rulings in that they give the IRS's determination of an issue. However, they differ in several respects. Letter rulings deal with proposed transactions and are issued to taxpayers at their request. In contrast, TAMs deal with completed transactions. Furthermore, TAMs arise from questions raised by IRS personnel during audits and are issued by the National Office of the IRS to its field personnel. TAMs are often requested for questions relating to exempt organizations and employee plans. TAMs are not officially published and may not be cited or used as precedent.

84. Discuss the advantages and disadvantages of the Small Cases Division of the U.S. Tax Court.

There is no appeal from the Small Cases Division. The jurisdiction of the Small Cases Division is limited to cases involving amounts of \$50,000 or less. The proceedings of the Small Cases Division are informal (e.g., no necessity for the taxpayer to be represented by a lawyer or other tax adviser). Special trial judges rather than Tax Court judges preside over these proceedings. The decisions of the Small Cases Division are not precedents for any other court decision and are not reviewable by any higher court. Proceedings can be more timely and less expensive in the Small Cases Division. Some of these cases can now be found on the U.S. Tax Court Internet Website.

85. Distinguish between the jurisdiction of the U.S. Tax Court and a U.S. District Court.

The U.S. Tax Court hears only tax cases and is the most popular tax forum. The U.S. District Court hears a wide variety of nontax cases, including drug crimes and other Federal violations, as well as tax cases. Some Tax Court justices have been appointed from IRS or Treasury Department positions. For these reasons, some people suggest that the U.S. Tax Court has more expertise in tax matters.

86. How do treaties fit within tax sources?

The U.S signs certain tax treaties (sometimes called tax conventions) with foreign countries to render mutual assistance in tax enforcement and to avoid double taxation. Tax legislation enacted in 1988 provided that neither a tax law nor a tax treaty takes general precedence. Thus, when there is a direct conflict with the Code and a treaty, the most recent item will take precedence. A taxpayer must disclose on the tax return any position where a treaty overrides a tax law. There is a \$1,000 penalty per failure to disclose for individuals and a \$10,000 per failure penalty for corporations.