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Tax Ethics for California CPAs

Course #4030

Exam Packet



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TAX ETHICS FOR CALIFORNIA CPAS (COURSE #4030)

COURSE DESCRIPTION

This course is designed to provide the California CPA with the ethical framework that the CPA can use as a guide to sort through ethical dilemmas. In addition to guidance provided by Circular 230, this course discusses various frivolous tax arguments and scams, and the court's decisions regarding them. It also discusses information specific to California. Uses the materials entitled *Tax Ethics for California CPAs*. No prerequisites. Course level: Basic. Course #4030 - 4 CPE hours.

Note: This course was specifically designed to meet the California renewal requirement of four hours of ethics education every two years for CPAs renewing after January 1, 2010.

Please note that California has an **additional** requirement that CPAs complete a two-hour regulatory review course once every six years. If you are required to complete the two-hour regulatory review course, it is **in addition** to the four hours of ethics that this course offers.

LEARNING ASSIGNMENTS and OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment

ASSIGNMENT	SUBJECT
1	Chapter 1: IRS Circular 230 <ul style="list-style-type: none">• Explanation of Provisions• What Is Not Considered “Practice Before the IRS”• Duties and Restrictions Relating to Practice Before the Internal Revenue Service• Sanctions for Violation of the Regulations• Summary of 2005-2009 Circular 230 Changes

Study the course materials from pages 1-1 to 1-32
Complete the review questions at the end of chapter 1
Answer the final exam questions 1 to 5

Objectives:

- To discuss the Internal Revenue Service requirements as outlined in Circular 230
- To identify the types of conduct that may result in discipline under Circular 230

ASSIGNMENT	SUBJECT
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| 2 | Chapter 2: Frivolous Tax Arguments <ul style="list-style-type: none">• Frivolous Tax Arguments• Frivolous Arguments in Collection Due Process Cases• Penalties for Pursuing Frivolous Tax Arguments• The “Dirty Dozen” Tax Scams• Abusive Tax Shelters |
|----------|--|

Study the course materials from pages 2-1 to 2-61
Complete the review questions at the end of chapter 2
Answer the final exam questions 6 to 19

Objectives:

- To identify the various types of frivolous tax arguments being promoted as well as the law
- To explain what the IRS is doing to identify and combat common tax scams and abusive tax shelters

ASSIGNMENT	SUBJECT
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- | | |
|----------|---|
| 3 | Chapter 3: California Specific Information |
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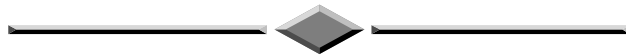
Study the course materials from pages 3-1 to 3-6
Complete the review questions at the end of each chapter
Answer the final exam question 20

Objectives:

- To identify the requirements specific to California

ASSIGNMENT

- 4 **Complete the Answer Sheet and Course Evaluation and mail to PES for credit**



NOTICE

This course and test have been adapted from materials and information contained in materials entitled *Tax Ethics for California CPAs* and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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Program publication date 4/7/10

TAX ETHICS FOR CALIFORNIA CPAS (COURSE #4030) – EXAM OUTLINE

COURSE EXPIRATION DATE: Per AICPA and NASBA standards, this course must be completed within one year from the date of purchase.

TEST FORMAT: The following final exam, consisting of 20 true/false and/or multiple choice questions, is based specifically on the material included in this course. The answer sheet must be completed and returned to PES for CPE certification. You will find the answer sheet at the back of this exam packet so that you may easily remove it and use it while taking your test.

LICENSE RENEWAL INFORMATION: The Tax Ethics for California CPAs course (#4030) qualifies for 4 CPE hours.

PROCESSING: Your exam will be graded promptly. **Whereas other PES courses require only a 70% passing score, the California State Board of Accountancy requires a score of 90% or better to pass this course.** When you pass, your certificate of completion will be mailed. If you do not pass, we will give you a courtesy call to inform you of this and then another answer sheet will be sent to you free of charge.

GRADING OPTIONS: Please choose only **one** of the following. There is no additional charge for any of these grading options. Make sure to fill out your answer sheet completely prior to submitting it.

- **ONLINE GRADING** –Visit our website at <http://www.mypescpe.com>. Login to your account (if you are a first-time user you *must* set up a new user account). Go to the “MY CPE” tab and click the “My CPE Exams in Progress” folder. If your exam is not already located in this folder, click “Add Exam Previously Purchased” and follow the instructions.
- **MAIL** – Your exam will be graded and your certificate of completion mailed to you the same day we receive it. Your certificate will be dated according to the **postmark date**; therefore, you do not need to overnight your exam. Please mail your answer sheet to:

**Professional Education Services, LP
4208 Douglas Blvd., Ste 50
Granite Bay, CA 95746**

- **FAX** – Your exam will be graded and you will be contacted either via phone or fax with your results within 4 business hours of receipt. A copy of your graded exam and certificate of completion will be mailed to you the same day we receive it. Your certificate will be dated according to the fax date. If you choose to fax your exam, please do not mail it. Your fax will serve as the original. Please refer to the attached answer sheet for further instructions on fax grading. Fax number (916) 791-4099.



***Thank you for using
Professional Education Services.
We appreciate your business!!***

TAX ETHICS FOR CALIFORNIA CPAS (COURSE #4030) – FINAL EXAM

The following questions are either true or false and/or multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. Circular 230 prescribes regulations governing the practice before the Internal Revenue Service. Which of the following is considered “practicing before the IRS:”
 - a) participating in rulemaking by submitting comments on the fairness of proposed regulations
 - b) representing a member of your immediate family
 - c) representing a client under audit who filed a Form 1040A
 - d) a general partner representing the partnership
2. According to Circular 230, a practitioner may generally determine the rate and fee structure to charge clients. Which of the following methods is not permitted under Circular 230:
 - a) fixed fees for specific routine services (e.g., \$150 for a Form 1040A)
 - b) a flat percentage fee based on the amount of refund on a Form 1040
 - c) hourly rates
 - d) a range of fees for particular services with a higher fee charged for more complex situations
3. In the case of direct mail communications, the practitioner shall retain a copy of the actual mailing for _____.: (Circular 230, Section 10.30)
 - a) 36 months
 - b) 12 months
 - c) 6 months
 - d) 6 weeks
4. Under which of the following circumstances may a practitioner endorse or otherwise negotiate a client’s federal income tax refund check: (Circular 230, Section 10.31)
 - a) when the client owes the practitioner fees for preparing the return
 - b) when the client owes the practitioner fees for preparing the return and the client was notified that the practitioner intended to negotiate the refund check
 - c) with the client’s oral permission
 - d) none of the above; a practitioner may not endorse client refund checks
5. In preparing the tax return for Nash Plumbing, Inc., you notice a large deduction for “consulting services.” You ask your client to explain this deduction, and he explains it represents tuition paid for his son to attend college. You know that no 1099 or W-2 was issued for these services nor is any of this income reflected on your client’s personal tax return or his son’s. Your client states that “everyone” in this industry does this. This deduction is equivalent to 20% of the net income. Which of the following is correct regarding your ability to sign the tax return for Nash Plumbing, Inc. per Circular 230 (Section 10.34):
 - a) you may sign the return only if the deduction is clearly identified on the return as “consulting expense paid to son” or some similar disclosure
 - b) the client’s assertion that the deduction is industry practice is frivolous. Accordingly, the position does not meet Section 10.34, and you may not sign the return
 - c) you may sign the return since the return meets the “not frivolous standard”
 - d) you may sign the return since everything on the return is the representation of the client

6. Which of the following is true regarding the voluntary nature of our federal tax system:
- a) the filing of a tax return is voluntary
 - b) the filing of tax returns is required but the payment of tax is voluntary
 - c) taxpayers are generally required to file tax returns if they meet the filing threshold
 - d) both the filing of a tax return and the payment of tax are voluntary
7. Which of the following is true regarding the IRS preparing tax returns for a person who fails to file:
- a) Section 6020(b) merely provides the IRS with a mechanism for determining the liability of a taxpayer who does not file a return
 - b) no tax is due unless the IRS files a return for a taxpayer
 - c) Section 6020(b) obligates the IRS to prepare a federal tax return for a person who does not file a return
 - d) none of the above
8. Which of the following is true regarding the tax treatment of wages received by a taxpayer for personal services:
- a) all wages are taxable unless specifically exempted
 - b) wages less than \$20,000 per year are not taxable
 - c) wages are not taxable if they are used for personal expenses and not accumulated
 - d) since a taxpayer has no basis in their labor, there is no taxable income
9. Which of the following is true regarding taxable income:
- a) for federal income tax purposes, "gross income" means all income from whatever source derived and includes compensation for services
 - b) there is no federal statute imposing a tax on income derived from sources within the United States by citizens or residents of the United States
 - c) federal income taxes are excise taxes imposed only on nonresident aliens and foreign corporations for the privilege of receiving income from sources within the United States
 - d) all of the above
10. Which of the following is true regarding the meaning of certain terms used in the Internal Revenue Code:
- a) a taxpayer is not a "citizen" of the United States, thus not subject to the federal income tax laws
 - b) the "United States" consists only of the District of Columbia, federal territories, and federal enclaves
 - c) federal reserve notes received for performing personal services are generally considered to be taxable income
 - d) a taxpayer is not a "person" as defined by the Internal Revenue Code, thus is not subject to the federal income tax laws
11. Which of the following is true regarding the types of employees that are subject to federal income tax:
- a) employee compensation by government employees is tax exempt
 - b) employee compensation is generally taxable for both government and non-government employees
 - c) employee compensation by non-government employees is tax exempt
 - d) employee compensation is not taxable in any circumstances

12. Which of the following constitutional amendment arguments is valid:
- a) the Sixteenth Amendment to the Constitution permits the U.S. Government to levy an income tax
 - b) federal income taxes constitute a "taking" of property without due process of law, violating the Fifth Amendment
 - c) taxpayers do not have to file returns or provide financial information because of the protection against self-incrimination found in the Fifth Amendment
 - d) taxpayers can refuse to pay income taxes on religious grounds by invoking the First Amendment
13. Which of the following constitutional amendment arguments have generally been upheld by the courts and permitted by the IRS:
- a) the Sixteenth Amendment to the United States Constitution was not properly ratified, thus the federal income tax laws are unconstitutional
 - b) the Sixteenth Amendment does not authorize a direct non-apportioned federal income tax on United States citizens
 - c) compelled compliance with the federal income tax laws is a form of servitude in violation of the Thirteenth Amendment
 - d) none of the above
14. Which of the following arguments forms a solid legal basis for not filing a tax return and/or not paying income taxes:
- a) most Americans can claim a special tax credit as reparations for slavery, poverty, lack of educational opportunity, and other oppressive treatment
 - b) taxpayers are entitled to a refund of the social security taxes paid over their lifetime
 - c) dependents who have no taxable income
 - d) taxpayers are not required to file a federal income tax return because the instructions and regulations associated with the Form 1040 do not display an OMB control number as required by the Paperwork Reduction Act
15. Many African Americans and Native Americans qualify for and may claim a special tax credit for reparation for slavery and other repressive treatment:
- a) this is entirely true
 - b) this is entirely false
 - c) Native Americans may claim the credit, but African Americans may not
 - d) African Americans may claim the credit, but Native Americans may not
16. A tax assessment is valid if the assessment was made from a substitute for return prepared pursuant to section 6020(b).
- a) true
 - b) false
17. A statutory notice of deficiency is not valid if it was not signed by the Secretary of the Treasury or by someone with delegated authority.
- a) true
 - b) false
18. A statutory notice of deficiency is valid only if the taxpayer filed an income tax return.
- a) true
 - b) false
19. The Tax Court has authority to decide legal issues related to income taxes in cases properly brought before the court.
- a) true
 - b) false

20. California generally restricts the use of the Certified Public Accountant title and the designation CPA to those who are active. Which of the following uses would likely be permitted by a CPA whose license is currently inactive:

- a) an inactive CPA signs tax returns Steve Nash, CPA
- b) an Internet website address is www.stevenashcpa.com
- c) business letterhead lists the following: XYZ Consulting, Steve Nash CPA
- d) a business card for a manufacturing company includes the following: Steve Nash, CPA (Inactive)

***Congratulations –
you've completed the exam!***

TAX ETHICS FOR CALIFORNIA CPAS #4030 (4 CPE hours) – ANSWER SHEET (4/10)

Important Note: For certification, this answer sheet must be completed and submitted to PES for grading within one year from the date of purchase. Please use black ink and print for quicker processing – thank you.

Name (as it appears on your license) _____
 Address _____
 City _____ State _____ Zip _____ Home Work
 Daytime Phone (____) _____ E-mail address (for online grading) _____
 License Number _____ State _____ Expiration Date _____ CPA, CFP, EA (circle one)
If course was ordered by another party, please indicate name here: _____

GRADING OPTIONS – Please choose only ONE of the following:

- **ONLINE GRADING** – Visit our website at <http://www.mypescpe.com>.
 - Login to your account (if you are a first-time user, you *must* set up a new user account).
 - Go to the “**MY CPE**” tab and click the “**My CPE Exams in Progress**” folder.
 - If your exam is not already located in this folder, click “**Add Exam Previously Purchased**” and follow the instructions.
- **Mail** – Mail your exam to: PES, 4208 Douglas Blvd., Ste 50, Granite Bay, CA 95746
- **Fax** – Fax your exam to (916) 791-4099 and choose **one** of the following options:
 Please: mail my results only or fax phone my results to: (____) _____

PLEASE INDICATE YOUR ANSWER BY FILLING IN THE APPROPRIATE CIRCLE

	A	B	C	D		A	B	C	D
1.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	11.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	12.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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5.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	15.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	16.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	17.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	18.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
9.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	19.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	20.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please complete the attached course evaluation – your opinion is extremely valuable.

Tax Ethics for California CPAs #4030 – Course Evaluation

Rate on a scale of 1-10 with 1 being poor and 10 being excellent.

- 1. The course met the course objectives described in the promotional material. _____
- 2. The course was up to date, held my interest, was timely, and effective. _____
- 3. The course materials were understandable, valuable, and suitable for a correspondence course. _____
- 4. The amount of advance knowledge and stated prerequisites were appropriate. _____
- 5. The completion time was appropriate for the number of credits allowed. _____
- 6. The course met my professional education needs. _____

Please answer the following questions – mark/rate any and all that may apply

- 1. How would you rate PES's order desk _____
 customer service _____

2. What can PES do to keep you as a valued customer?

3. Any other comments regarding this course or our company would be appreciated.

4. What other courses/subjects would you like to see PES offer in the future?



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