







## Question 1 of 5

A CPA sole practitioner has tax preparers' responsibilities when preparing tax returns for clients.

Each scenario represents an independent factual situation in which a CPA sole practitioner has prepared and signed the taxpayer's income tax return. For each item, select the correct response regarding the tax preparers' responsibilities. A response may be selected once, more than once, or not at all.

	Situation	Tax Preparers' Responsibilities
1	The tax preparer disclosed taxpayer income tax return information under an order from a state court, without the taxpayer's consent.	<input type="text"/> 
2	The tax preparer relied on the advice of an advisory preparer to calculate the taxpayer's tax liability. The tax preparer believed that the advisory preparer was competent, and that the advice was reasonable. Based on the advice, the taxpayer had understated income tax liability.	<input type="text"/> 
3	The tax preparer did not charge a separate fee for the tax return preparation and paid the taxpayer the refund shown on the tax return less a discount. The tax preparer negotiated the actual refund check for the tax preparer's own account after receiving power of attorney from the taxpayer.	<input type="text"/> 
4	The tax preparer relied on information provided by the taxpayer regarding deductible travel expenses. The tax preparer believed that the taxpayer's information was correct but inquired about the existence of the travel expense records. The tax preparer was satisfied by the taxpayer's representations that the taxpayer had adequate records for the deduction. Based on this information, the income tax liability was understated.	<input type="text"/> 
5	The taxpayer provided the tax preparer with a detailed check register to compute business expenses. The tax preparer knowingly overstated the expenses on the income tax return.	<input type="text"/> 
6	The tax preparer disclosed taxpayer income tax return information during a quality review conducted by CPAs. The tax preparer maintained a record of the review.	<input type="text"/> 

7	The tax preparer relied on incorrect instructions on an IRS tax form that were contrary to the regulations. The tax preparer was not aware of the regulations nor the IRS announcement pointing out the error. The understatement was immaterial as a result of the isolated error.	<input type="text"/>
8	The tax preparer used income tax return information without the taxpayer's consent to solicit additional business.	<input type="text"/>
9	The tax preparer knowingly deducted the expenses of the taxpayer's personal domestic help as wages paid in the taxpayer's business on the taxpayer's income tax return.	<input type="text"/>

**Available Options:**

- A. The tax preparer's action constitutes an act of tax preparer misconduct subject to the Internal Revenue Code penalty.
  - B. The Internal Revenue Service will examine the facts and circumstances to determine whether the reasonable cause exception applies; the good faith exception applies; or both exceptions apply.
  - C. The tax preparer's action does not constitute an act of tax preparer misconduct.
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## Question 2 of 5

A federal income tax paid preparer, who is a CPA, prepared a return for an individual client who wanted to minimize taxable income. The preparer took undisclosed tax return positions that effectively reduced income by \$80,000 and for which the preparer did not perform research to determine whether there was a reasonable position. The preparer charged a fee of \$1,250 and filed the return after obtaining the appropriate signature.

The return was selected for audit by the IRS. At the conclusion of the audit, the IRS disallowed the tax return position that effectively reduced income by \$80,000. The IRS determined that the amount of underpayment related to the income was \$26,000. Because the preparer was unable to find support for the positions taken on the return, the IRS prevailed in court actions against the preparer for fraud.

For the violations listed in the table below, enter the penalties that apply to the preparer. In Column B, enter the maximum applicable penalty amount in dollars; in Column C, enter the maximum applicable term of imprisonment in years. Independently evaluate each violation and determine each penalty. If no penalty amount or prison term applies, enter a zero (0) in the appropriate cell.

1	Violation	Maximum penalty amount	Maximum term of imprisonment
2	Understatement of tax liability due to an unreasonable position	<input type="text" value="123"/>	<input type="text" value="123"/>
3	Willful attempt to understate tax liability	<input type="text" value="123"/>	<input type="text" value="123"/>
4	Aiding and abetting an understatement of tax liability	<input type="text" value="123"/>	<input type="text" value="123"/>
5	Willfully delivers false or fraudulent returns	<input type="text" value="123"/>	<input type="text" value="123"/>
6	Willfully subscribes a return under penalties of perjury	<input type="text" value="123"/>	<input type="text" value="123"/>
7	Accuracy-related penalty on underpayments	<input type="text" value="123"/>	<input type="text" value="123"/>

## Question 3 of 5

**Exhibits:** "IRC Section 7213(a).pdf", "IRC Section 7216.pdf", "IRC Section 7525(a).pdf"

Natalia Chekov, CPA, prepared the Year 5 *Form 1120, U.S. Corporation Income Tax Return*, for Maple Corporation in Year 8. A court order required Natalia to disclose certain tax calculations to an unrelated third party. These calculations were used in the preparation of Maple's Year 8 tax return.

Answer the following questions regarding the disclosure of the requested information to an unrelated third party. In column B, select the IRC section citation that provides the highest statutory authority to support the response. If the correct answer is not provided, select "Not provided" from the dropdown option list. An option may be used once, more than once, or not at all.

	A	B
1	Question	IRC Section Citation
2	What IRC section, if any, lists the situations in which Natalia can assert practitioner-client privilege and refuse to provide sensitive client information to third parties?	<input type="text"/>
3	What IRC section, if any, provides for privileged communication between Natalia and Maple Corporation regarding the preparation of Maple's income tax return?	<input type="text"/>
4	What IRC section, if any, addresses whether Natalia would be subject to a fine and/or imprisonment if disclosure of sensitive taxpayer information is made pursuant to the court order?	<input type="text"/>

### Available Options (IRC Section Citation):

- A. IRC Section 7213(a)(1)
- B. IRC Section 7213(a)(3)
- C. IRC Section 7216(a)(1)
- D. IRC Section 7216(b)(1)
- E. IRC Section 7525(a)(1)
- F. IRC Section 7525(a)(2)
- G. Not provided






## Question 4 of 5

### Situation:

CPA Babers has had the ill fortune to do work for a number of clients who seem to have attracted the attention of law enforcement and other potential litigants.

### Required:

Answer the following questions by clicking on the answer cells and selecting “yes” or “no.”

1.	Minton hired Babers to complete and file his Kansas State Income Tax return. Later, when the FBI was investigating Minton, it sought information from Babers. Minton sought to invoke the Section 7525 privilege to prevent Babers from being forced to provide the FBI with any information. Will Minton succeed?	<input type="text"/> 
2.	Burtts hired Babers to complete and file his federal income tax return. Later, when the IRS was investigating Burtts for criminal tax fraud, it sought information from Babers. Burtts sought to invoke the Section 7525 privilege to prevent Babers from being forced to provide the IRS with any information. Will Burtts succeed?	<input type="text"/> 
3.	Bolero Corporation hired Babers to give it written tax advice in connection with its acquisition of a Canadian corporation. A significant purpose of this acquisition was to enable Bolero to realize \$100 million in tax-deductible foreign currency losses, which would greatly reduce Bolero’s tax burden. When the IRS launched a civil investigation into the propriety of the transaction, Bolero sought to invoke the Section 7525 privilege to prevent Babers from being forced to provide the IRS with any information. Will Bolero succeed?	<input type="text"/> 
4.	Johnson hired Babers to prepare and file his federal income tax return. Later, Johnson ran for political office and became a controversial figure. A crusading journalist paid Babers to provide him with information about Johnson’s tax return. If the IRS finds out about this, might it hit Babers with a civil penalty?	<input type="text"/> 
5.	Might Babers also be in criminal trouble in connection with the scenario in the previous question?	<input type="text"/> 

**Available Options:**

A. Yes

B. No

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# Question 5 of 5






## Bolodny & Grampage—Circular 230 Basics

### Situation:

You are fresh out of accounting school and going to work for the prestigious tax firm of Bolodny & Grampage (B&G). You are determined to have an ethical career, so you are assessing your new firm's practices in the area of IRS work.

### Required:

Considering IRS Circular 230, please analyze the following questions and answer them with a "yes" or "no."

	A	B
1	You know that IRS agents auditing one of B&G's corporate clients has requested certain relevant documents that are in B&G's possession. You heard a senior partner in the firm say: "We're going to claim the documents are privileged, just until we can think up a valid reason not to turn them over. That should hold the IRS off for a while." Is this conduct consistent with Circular 230's standards?	<input type="checkbox"/> 
2	You notice one of the tax partners notarizing an important document for a proceeding in which she is representing an important client. Is this conduct consistent with Circular 230's standards?	<input type="checkbox"/> 
3	Another tax partner asks you to proofread an advertisement he has drafted that quotes specific prices for services that the firm intends to offer. Is this consistent with Circular 230's standards?	<input type="checkbox"/> 
4	You overhear a tax associate tell a client: "Oh, man. That's a really obscure area of tax law. I don't know the first thing about it. Let me look into it and get back to you." Is this consistent with Circular 230's standards?	<input type="checkbox"/> 
5	The firm's senior partner comes to your office and introduces you to her son, Raymond. Raymond, it turns out, has been disbarred by the IRS. But Raymond still needs a job, so the senior partner explains that Raymond will do work for clients, but you will sign off on it because "It would be awkward for Raymond to sign." Is this consistent with Circular 230's standards?	<input type="checkbox"/> 

Available Options:

A. Yes

B. No