







## 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.

## Explanation

### Background information

#### Tax preparers' responsibilities

**Overall:**

- Violations by tax preparers are considered *misconduct* and subject to numerous monetary civil and criminal penalties
- Penalties may be avoided based on exceptions for *good faith* or *reasonable cause* when errors result from:
  - Using a computerized tax preparation service
  - Obtaining advice from another professional on tax questions
  - Following inaccurate IRS form instructions or advice from an IRS employee

<b>Confidentiality of taxpayer's information</b>	<i>Not</i> permitted to share client information to third parties without the <i>consent</i> of the taxpayer; limited exceptions for court orders and quality control peer review
<b>Reliance on information provided by the taxpayer</b>	<i>Not</i> required to review supporting documentation but must make reasonable inquiries about information that appears to be wrong or inaccurate
<b>Client refund checks</b>	<i>Not</i> permitted to endorse or negotiate a client's refund check
<b>Understatement of a taxpayer's liability</b>	<i>Not</i> permitted to knowingly or recklessly <i>understate</i> a taxpayer's tax liability (eg, overstate expenses)
<b>Use of other professionals</b>	May rely on advice from competent professionals if the advice is believed to be reasonable
<b>Tax position that lacks substantial authority</b>	May not use a frivolous tax position, a position that lacks substantial authority, or an undisclosed position on a tax return

A **tax return preparer** is anyone who prepares for compensation, or who employs one or more persons to prepare, all or a substantial portion of any tax return or claim for refund. The IRS has established tax preparer *responsibilities* and acts of conduct. To encourage tax preparers' compliance with these responsibilities and with tax regulations, the IRS can assess numerous **monetary civil and criminal penalties** (ie, imprisonment) for violations that are considered *willful or reckless*.

To be guilty of **misconduct** and assessed penalties, a preparer must knowingly or recklessly:

- Understate the tax liability of a client (eg, overstating expenses)
- Give erroneous advice or fail to advise a client of tax elections available
- Endorse or negotiate a refund check for their own account (ie, to ensure that a client's tax refund is not comingled with the preparer's funds)
- Adopt a frivolous position on a tax issue (eg, lack substantial authority)

Tax preparer responsibilities include maintaining **confidentiality** of the taxpayer's information. The preparer is **not** permitted to reveal this information to third parties *without the consent* of the taxpayer, except in limited circumstances (eg, respond to a **valid government order, quality control peer review**).

When preparing a return, a preparer may, in **good faith**, rely on information provided by the taxpayer. However, the preparer is responsible for making **reasonable inquiries** about information that appears to be wrong or inaccurate (eg, lack of substantiation for certain expenses such as travel, charitable contributions). Failure to do so may result in a preparer penalty for any understated tax liability.

Although a preparer may be held responsible for errors in the preparation of a return, penalties *may* be avoided based on *exceptions* for **good faith** or **reasonable cause** when the error results from:

- Using a computerized tax preparation service
- Obtaining advice from another professional on tax questions
- Following inaccurate IRS form instructions or advice from an IRS employee

Whether a tax preparer acted with reasonable cause and/or in good faith is determined on a *case-by-case basis* by the IRS after considering all the *facts and circumstances*. The IRS will consider the preparer's education and experience as well as whether the preparer exercised the care that a reasonably prudent person would have used under the circumstances.

### **Row 1: The tax preparer disclosed taxpayer information under an order from a state court.**

Although tax preparer responsibilities include maintaining the *confidentiality* of the taxpayer's information, there are *certain situations* in which the preparer may share the information without the taxpayer's consent. In this scenario, the tax preparer disclosed the taxpayer's income tax return information under an *order from a state court*, without the taxpayer's consent. Because this is one of confidentiality *exceptions*, the preparer's **action does not constitute an act of tax preparer misconduct**.

### **Row 2: Tax preparer relied on the advice of an advisory preparer to calculate the taxpayer's tax liability.**

In this scenario, the tax preparer relied on the *advice of another 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.

Because the preparer *relied* on advice from *competent professional* and believed the *advice was reasonable*, the preparer did *not* knowingly or recklessly understate the tax liability of a client. Therefore, the **IRS will examine the facts and circumstances to determine if the reasonable cause exception, the good faith exception, or both exceptions apply.**

### **Row 3: The tax preparer negotiated the actual refund check for the tax preparer's own account.**

Any instance in which a preparer negotiates a client's refund check is a *willful violation of a tax preparer's responsibilities*. In this scenario, 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 *preparer negotiated the actual refund check* for the tax preparer's own account after receiving power of attorney from the taxpayer. Even though the preparer had a power of attorney, this **constitutes an act of tax preparer misconduct subject to the IRC penalty.**

### **Row 4: The tax preparer relied on information provided by the taxpayer regarding deductible travel expenses.**

Tax preparers are **not** required to obtain documentation from the taxpayer regarding the information used to prepare the return. However, preparers are required to make **reasonable inquiries** from the client about certain expenses (eg, travel). In this scenario, 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 preparer was *satisfied* by the taxpayer's representations that the taxpayer had adequate records for the deduction. However, based on this information, the income tax liability was understated. Because the preparer made *reasonable inquiries* and was *satisfied* with the information from the taxpayer, **no misconduct exists**. Even though the tax liability was understated, **no preparer penalty** would be assessed.

**Row 5: The tax preparer knowingly overstated the expenses on the income tax return.**

The taxpayer provided the tax preparer with a detailed check register to calculate business expenses. The tax preparer **knowingly** overstated the expenses on the income tax return. In this case, because the preparer **willfully understated** the taxpayer's liability by overstating the expenses, the **action constitutes an act of tax preparer misconduct subject to the IRC penalty.**

**Row 6: The tax preparer disclosed taxpayer income tax return information during a quality review conducted by CPAs.**

Although tax preparers' responsibilities include the *confidentiality of taxpayers' information*, there are certain situations in which a *preparer may share* the information without a taxpayer's consent. A **quality control peer review** conducted by other CPAs is an example of one of the exceptions. In this scenario, the tax preparer disclosed taxpayer income tax return information during a quality review conducted by CPAs. Therefore, the preparer's **action does not constitute misconduct.**

**Row 7: The tax preparer relied on incorrect instructions on an IRS tax form that were contrary to the regulations.**

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. The preparer in this scenario did *not* knowingly or recklessly understate the tax liability of a client. Although the preparer may be held responsible for errors in the preparation of a return, any penalties may be avoided based on the fact that the preparer relied on incorrect instructions. Therefore, the IRS will examine **the facts and circumstances to determine whether the reasonable cause exception applies, the good faith exception**, or both exceptions apply.

**Row 8: The tax preparer used income tax return information without the taxpayer's consent to solicit additional business.**

Tax preparer responsibilities include maintaining confidentiality of the taxpayers' information. A preparer is **not permitted** to reveal this **information to third parties** without taxpayer's consent. In this case, the tax preparer **willfully** used income tax return information without the taxpayer's consent to solicit additional business, which is *not* one of the exceptions. Accordingly, this **action constitutes an act of tax preparer misconduct subject to the IRC penalty.**

**Row 9: The tax preparer knowingly deducted the expenses of the taxpayer's personal domestic help as wages paid in the taxpayer's business.**

Preparers who **knowingly or recklessly understate** the a client's **tax liability** (eg, overstating expenses) have committed misconduct and are subject to penalties. In this scenario, 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. Therefore, the preparer's action **constitutes an act of tax preparer misconduct subject to the IRC penalty.**

## 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"/>

---

### Explanation

## Background information

Tax return preparer penalties		
Penalty imposed for	Amount of penalty	Imprisonment
Understatement of tax liability due to unreasonable positions (IRC Section 6694)	Greater of \$1,000 or 50% of tax return preparation fee	N/A
Understatement of tax liability due to willful or reckless conduct (IRC Section 6694)	Greater of \$5,000 or 75% of tax return preparation fee	N/A
Aiding and abetting understatement of tax liability (IRC Section 6701)	\$1,000 (\$10,000 for a corporate tax return)	N/A
Willfully prepares fraudulent returns or statements (IRC Section 7207)	\$10,000 (\$50,000 for a corporate tax return)	Maximum 1 year
Willfully disclosing or subscribing false tax returns or information under the penalties of perjury (IRC Section 7206)	\$100,000 (\$500,000 for a corporate tax return)	Maximum 3 years

A tax return preparer is anyone who **prepares for compensation** all or a substantial portion of any tax return or refund claim, or who employs one or more persons to prepare the return or claim. To encourage compliance by tax preparers with tax regulations, the **IRS can assess numerous monetary civil and criminal penalties** (ie, imprisonment) for actions such as understatement of a taxpayer's liability or filing fraudulent returns. A tax preparer may be subject to **more than one penalty**, depending on the nature of the infraction.

When preparing a return, the preparer may, in good faith, rely on information provided by the taxpayer. However, the preparer has a **duty to inquire** about information that appears wrong or incomplete. **Willful or reckless conduct** occurs when the preparer **disregards** an established tax rule while preparing a taxpayer's return or takes an undisclosed position on the return. For example, if the preparer files a return with a tax position for which there is *no substantial authority*, it must be disclosed on the return. Failure to do so results in penalties.

To encourage compliance by *taxpayers*, accuracy-related penalties resulting from the disregard of rules or substantial understatement of income tax are assessed on the *taxpayer* and **not** the tax preparer.

### Completed table

1	Violation	Maximum penalty amount	Maximum term of imprisonment
2	Understatement of tax liability due to an unreasonable position	\$1,000	0
3	Willful attempt to understate tax liability	\$5,000	0
4	Aiding and abetting an understatement of tax liability	\$1,000	0
5	Willfully delivers false or fraudulent returns	\$10,000	1
6	Willfully subscribes a return under penalties of perjury	\$100,000	3
7	Accuracy-related penalty on underpayments	\$0	0

### Row 2: Understatement of tax liability due to an unreasonable position

A preparer is subject to a penalty if any part of a taxpayer's understatement of liability is due to an **undisclosed position** on the return for which there is *not* a reasonable belief that the position is backed by substantial authority (ie, an unreasonable position). The penalty is equal to the greater of \$1,000 or 50% of the income derived by the preparer (ie, preparation fee) with respect to the return. **No imprisonment** is associated with this penalty.

In this scenario, the preparer did *not* perform research to determine whether the tax positions taken were backed by substantial authority. Therefore, the preparer knowingly

filed the return with positions that were questionable (ie, unreasonable until documented otherwise). The preparer's maximum penalty is **\$1,000**, which is the greater of \$1,000 or \$625 ( $50\% \times \$1,250$  preparation fee charged to the client).

### **Row 3: Willful attempt to understate tax liability**

Understatement of a taxpayer's tax liability due to willful or reckless conduct by the tax preparer is subject to a penalty equal to the greater of \$5,000 or 75% of the income derived by the preparer with respect to the return. **No imprisonment** is associated with this penalty.

In this case, the preparer's conduct that resulted in understatement of the taxpayer's liability was *willful* (ie, preparer knowingly took but failed to research or disclose tax positions). Accordingly, the maximum penalty is **\$5,000**, which is the greater of \$5,000 or \$937.50 ( $75\% \times \$1,250$  preparation fee charged to the client).

### **Row 4: Aiding and abetting an understatement of tax liability**

A person who assists or prepares a tax return, knowing that the information reported will result in an understatement of tax liability, is subject to an **"aiding and abetting" penalty of \$1,000 for an individual return** (\$10,000 for a corporate return). **No imprisonment** is associated with this penalty.

The CPA in this scenario prepared a return knowing it would result in the understatement of an individual taxpayer's liability (ie, aided and abetted). Accordingly, a **\$1,000** penalty is assessed.

### **Row 5: Willfully delivers false or fraudulent returns**

Any person who willfully delivers a tax return known to be fraudulent or false as to any material matter (eg, resulting in an understatement of the taxpayer's liability) is subject to a **maximum \$10,000** (\$50,000 for a corporate return) penalty, or **imprisonment not exceeding 1 year**, or both.

In this case, the CPA willfully delivered a fraudulent return and is subject to a **maximum fine of \$10,000** and/or **1 year's imprisonment**.

#### **Row 6: Willfully subscribes a return under penalties of perjury**

A person who willfully prepares and subscribes (ie, signs) a tax return or other document that the person does not believe to be true—when it contains a written declaration that it is made under the penalties of perjury—is guilty of a felony. For a tax preparer, the maximum penalty is \$100,000 (\$500,000 in the case of a corporate return) and/or imprisonment not to exceed 3 years.

In this scenario, the CPA prepared and signed a return under penalties of perjury that included tax positions the CPA had failed to research and could not ensure were backed by substantial authority. Therefore, the CPA was aware that the information reported might not be true. The **maximum fine of \$100,000** and up to **3 years' imprisonment** applies.

#### **Row 7: Accuracy-related penalty on underpayments**

The 20% **accuracy-related penalty** for substantial understatement of a tax liability applies to the **taxpayer**, *not the tax preparer*. This type of penalty is assessed when the understatement is attributable to the taxpayer's negligence or disregard of rules or regulations and has resulted in a substantial underpayment of income tax.

## 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

## Explanation

### Background information

IRC section	Privileged communications vs. confidentiality
Section 7216	<ul style="list-style-type: none"><li>• Addresses confidentiality of client information</li><li>• Prohibits tax return preparers from disclosing client tax return information</li><li>• If violated, tax return preparer is subject to a fine and/or imprisonment</li><li>• Exceptions exist (eg, when information is shared pursuant to a court order)</li></ul>
Section 7525	<ul style="list-style-type: none"><li>• Defines when communication between tax practitioner and client is considered privileged (ie, securing tax advice but <i>not</i> tax return preparation)</li><li>• Limited to noncriminal matters before IRS or a federal court</li><li>• May be waived in certain circumstances</li></ul>

In general, when preparing a tax return, a CPA must have access to highly sensitive client information (eg, source documents, workpapers, supporting schedules). A CPA who prepares tax returns is **not permitted** to use client information for personal benefit or **share this information with third parties** without the client's consent, except in **limited circumstances** (eg, by **court order**).

Section 7216(a) of the Internal Revenue Code (IRC) states the general rule for disclosure of information by tax return preparers. Specifically, it prohibits tax return preparers from knowingly or recklessly disclosing tax return information or using client tax return information for any purpose other than preparing, or assisting in preparing, an income tax return. Violating Section 7216(a) results in a misdemeanor and, if convicted, the tax return preparer is fined no more than \$1,000, imprisoned for no longer than one year, or both. The preparer must also pay the prosecution costs.

However, **Section 7216(b)** states *exceptions* to the general rule regarding client tax return information disclosure. When the disclosure is made **pursuant to a court order** and the tax return preparer complies, no violation occurs and **no fine or imprisonment results**.

Section 7525 addresses when communication between a tax practitioner and a client is considered privileged (similar to attorney-client or doctor-patient privilege). For this

privilege to apply, the communication must be for the purpose of securing tax advice (*not* for preparation of tax returns), meaning there is an expectation of confidentiality.

Section 7213 addresses the unauthorized disclosure of tax return information by persons *other than a tax return preparer*, such as federal/state employees or employees/owners of a business (eg, shareholders, partners).

### Completed table

	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?	IRC Section 7525(a)(2)
3	What IRC section, if any, provides for privileged communication between Natalia and Maple Corporation regarding the preparation of Maple's income tax return?	Not provided
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?	IRC Section 7216(b)(1)

### Rows 2 and 3: Privileged communications

Practitioner-client privilege, as detailed by **Section 7525(a)(2)**, is **limited to noncriminal matters before the IRS or a federal court**. The IRC allows the privilege to be waived in certain circumstances.

**Privileged communications** between a tax practitioner and client exist for the purpose of **securing tax advice** and **not** for the **preparation of tax returns**. Accordingly, Section 7525 does *not* apply to Natalia's client relationship with Maple Corporation. Therefore,

there is no IRC authority that grants privileged communications for tax returns, and the correct answer is "**Not provided.**"

**Row 4: Fine or imprisonment if disclosure is made pursuant to the court order**

Section 7216 addresses confidentiality of client information and prohibits tax return preparers from disclosing client tax return information. Violations result in a fine, imprisonment, or both, plus prosecution costs. However, **Section 7216(b)(1)** contains an exception that applies when the disclosure is made *pursuant to a court order*. In this case, no violation occurs and no fine or imprisonment results.






## 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="checkbox"/> 
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="checkbox"/> 
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="checkbox"/> 
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="checkbox"/> 
5.	Might Babers also be in criminal trouble in connection with the scenario in the previous question?	<input type="checkbox"/> 

**Available Options:**

A. Yes

B. No

---

## Explanation

1. No. The Section 7525 privilege does not apply to tax advice on state or local matters.
  2. No. The Section 7525 privilege does not apply in criminal proceedings.
  3. No. The Section 7525 privilege does not apply to written advice given in connection with promotion of a tax shelter. Because a significant purpose of this transaction was to shelter Bolero from tax liability, this exception to 7525 applies.
  4. Yes. Section 6713 of the Internal Revenue Code makes it possible to impose civil penalties for each unauthorized disclosure of tax information by a tax return preparer like Babers.
  5. Yes. Section 7216 of the Internal Revenue Code makes it possible to impose criminal penalties for knowingly disclosing any information obtained in connection with the preparation of a tax return.
-

## 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="text"/> 
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="text"/> 
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="text"/> 
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="text"/> 
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="text"/> 

**Available Options:**

A. Yes

B. No

---

## Explanation

1. No. Under Circular 230, a practitioner must promptly submit to the IRS any records that are properly and lawfully requested. Pretending there is a privilege that does not exist is not compliant with this standard.
2. No. Under Circular 230, practitioners must not act as a notary public with respect to matters before the IRS in which they are interested.
3. Yes. Circular 230 allows advertising that is accurate. So long as these are the prices that the firm intends to charge, there's no problem with advertising them.
4. Yes. There are obscure areas of tax law. No one can know all areas of the law, but well-trained and professional tax practitioners can, through research and/or consulting with others, master those areas of the law. So, this is not a problem that would prevent the tax practitioner from adequately serving the client.
5. No. Practitioners must not knowingly accept even indirect assistance from any person disbarred from practice by the IRS.