

Question 1 of 36

Which of the following parties are **not** affected by Treasury Circular 230?

- A. Attorneys.
- B. IRS agents. ✓**
- C. CPAs.
- D. Enrolled agents.

Explanation:

Who may practice before the IRS

- Attorneys
- Certified Public Accountants
- Enrolled Agents
- Enrolled Retirement Agents
- Enrolled Actuaries
- Registered Tax Return Preparers

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Treasury Circular 230 is a set of regulations that governs practice before the IRS. It regulates:

- Who may practice before the IRS
- Duties and restrictions of those who practice before the IRS
- Sanctions for violations
- Rules for disciplinary proceedings
- Availability of public records

Circular 230 affects attorneys, CPAs, enrolled agents, and others who prepare tax returns, provide tax advice, or represent taxpayers before the IRS (**Choices A, C, and D**). In addition to the licensing requirements (eg, CPA), the practitioner must not be under suspension or disbarment from practice before the IRS.

IRS agents are employees of the IRS. Therefore, they act on behalf of the IRS and **do not practice before the agency**. As such, IRS agents are not covered by Treasury Circular 230. The Internal Revenue Manual regulates the conduct of these agents.

Things to remember:

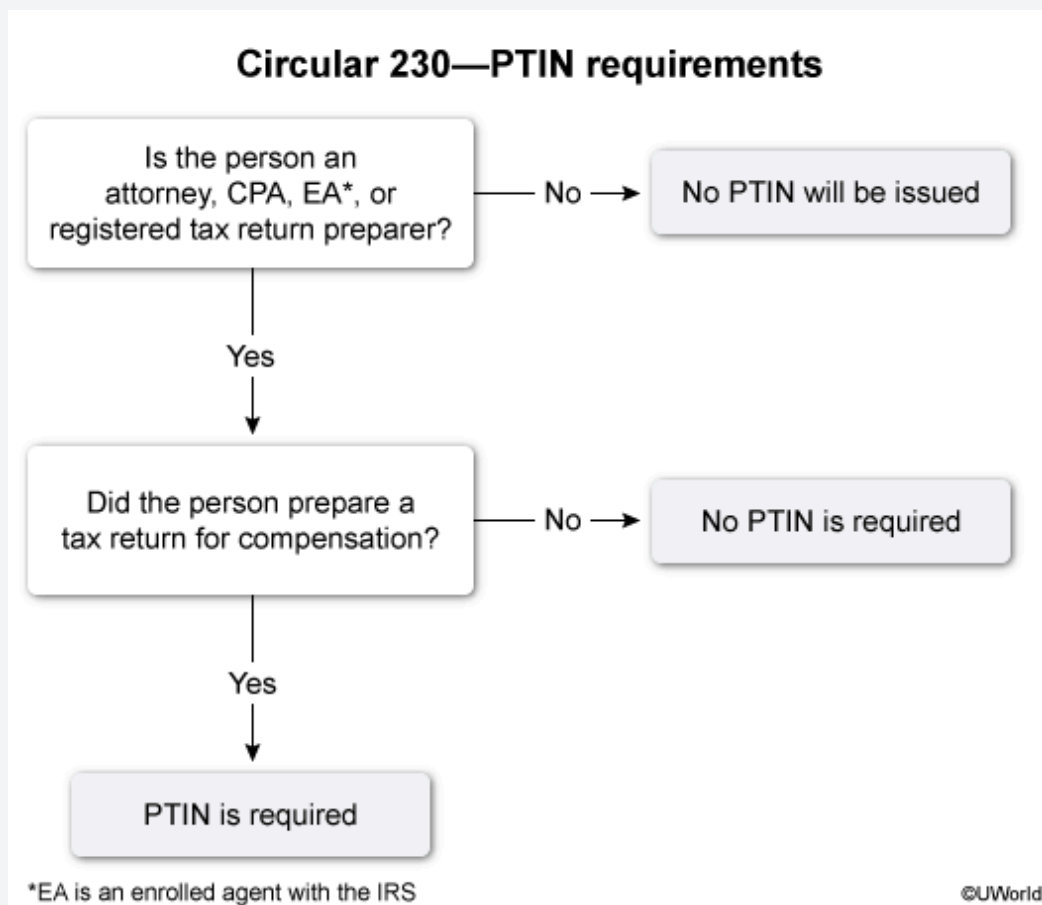
Treasury Circular 230 governs practice before the IRS. It affects attorneys, CPAs, enrolled agents, and others who prepare tax returns, provide tax advice, or represent taxpayers before the IRS.

Question 2 of 36

All of the following parties must register for a Preparer Tax Identification Number (PTIN) **except**

- A. A person who prepares tax returns at a heavily discounted rate for members of a church.
- B. A person who, at no charge, prepares tax returns for an auto mechanic friend, who in turn provides free automotive service.
- C. A person who prepares tax returns for family members at no charge. ✓**
- D. A person who prepares tax returns for farmers in exchange for produce.

Explanation:



To supervise the quality and integrity of tax return preparers, the IRS requires preparers to register for a preparer tax identification number (PTIN). This allows the IRS to track the qualifications and continuing education of preparers and to track issues with filed returns. Only attorneys, CPAs, enrolled agents (EAs), and registered tax return preparers may obtain PTINs.

Any party **preparing tax returns for a fee** is required to register for a **PTIN**. This applies even if the fee is discounted and regardless of whether it is received in the form of cash or some other form, such as goods or services (**Choices A, B, and D**). This does not include those preparing returns free of charge for friends or family. A PTIN is not required for those who provide clerical support related to tax return preparation, such as typing or copying.

Things to remember:

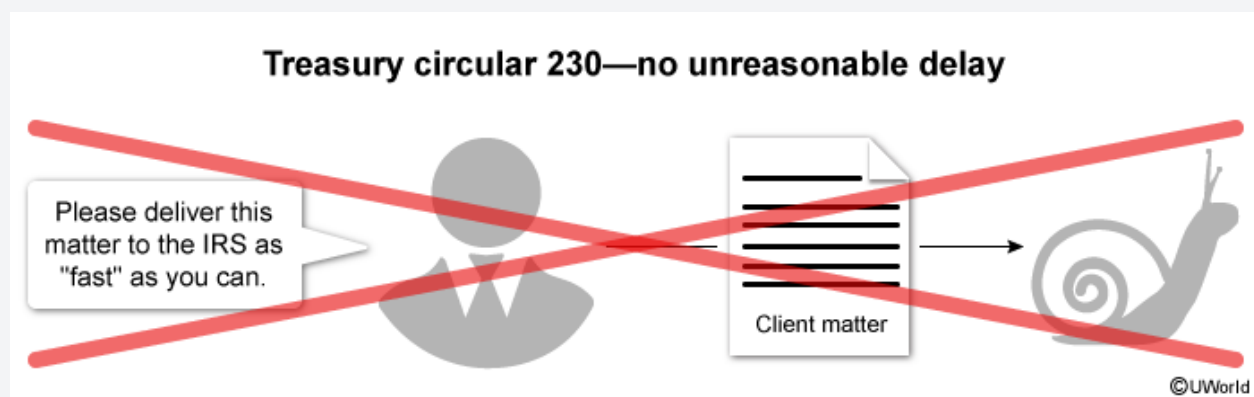
A preparer tax identification number (PTIN) is required to prepare a tax return in exchange for compensation. Compensation can be in cash or another form, such as services. A PTIN is not required for those preparing returns free of charge (ie, for friends or family).

Question 3 of 36

According to Treasury Circular 230, which of the following rules related to the prompt disposition of pending matters before the IRS applies to CPAs?

- A. Practitioners may request an extension of time of **not** more than five years related to the disposition of matters pending before the IRS to avoid any preparer penalties.
- B. Practitioners will be held responsible for any of the client's interest and penalties related to the unreasonable delay of matters pending before the IRS.
- C. Practitioners may **not** unreasonably delay the prompt disposition of matters pending before the IRS. ✓**
- D. Practitioners must ensure that matters are concluded within three years of the date of formal notification concerning any matters pending before the IRS.

Explanation:



Treasury Circular 230 (ie, Circular 230) is a document issued by the U.S. Treasury Department that establishes the rules for practicing before the IRS. It affects attorneys, CPAs, enrolled agents, and others who prepare tax returns, represent taxpayers before the IRS, or provide tax advice. Circular 230 is grouped into five subparts relating to:

- Authorization to practice before the IRS
- Duties and restrictions on those authorized to practice before the IRS (eg, CPAs)
- Sanctions for rules violations
- Disciplinary proceedings
- Availability of public records

One of the many duties and restrictions in Circular 230 is that CPAs may not unreasonably delay the prompt disposition of any matter before the IRS.

There is no mention of the time frame for how long pending matters can be extended or when they must be concluded (**Choices A and D**). Although a CPA may be disciplined under Circular 230 for unreasonably delaying a matter, Circular 230 does not impose interest and penalties on the *client* for the CPA's unreasonable delay (**Choice B**).

Things to remember:

One of the many duties and restrictions in Treasury Circular 230 is that CPAs may not

unreasonably delay the prompt disposition of any matter before the IRS.

Question 4 of 36

Under Treasury Circular 230, which of the following correctly represents the requirements related to the communication of fee information from a tax practitioner to a taxpayer?

- A. It may be communicated only through the confidential engagement letter between the tax practitioner and the taxpayer.
- B. It may be communicated in a number of ways, including in professional lists, telephone directories, mailings, and electronic mail. ✓**
- C. It must be communicated as an estimate before the engagement begins, with the understanding that the actual amount of the fee will **not** be determined until the engagement ends.
- D. It may **not** be communicated by television, radio, or hand-delivered flyers.

Explanation:

Permitted fee communications

- Professional lists
- Telephone directories
- Print media
- Mailings
- Electronic mail
- Radio
- Television

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Treasury Circular 230 regulates practice before the IRS. It affects tax practitioners such as attorneys, CPAs, enrolled agents, enrolled retirement plan agents, and others who practice before the IRS.

Section 10.30 – Solicitation indicates that **tax practitioners** may **disseminate information** about **fees** in a **variety of ways**. Permitted methods include professional lists, telephone directories, mailings, electronic mail, and any other method. Other approved methods include television, radio, and hand-delivered flyers (**Choice D**). The solicitation must comply with any and all state regulations.

(Choice A) Fee information may be communicated through a confidential engagement letter. However, it is not the *only* allowable method for communicating fee information.

(Choice C) Fees do not need to be presented as an estimate before the start of an engagement. Fixed fee arrangements are permitted. The tax practitioner must disclose any costs for which the taxpayer may be responsible.

Things to remember:

Tax practitioners may communicate fee information using a variety of methods, including professional lists, print media, hand-delivered flyers, radio, or television. Fees do not

need to be presented as an estimate before the start of an engagement. The tax practitioner must disclose any costs for which the taxpayer may be responsible.

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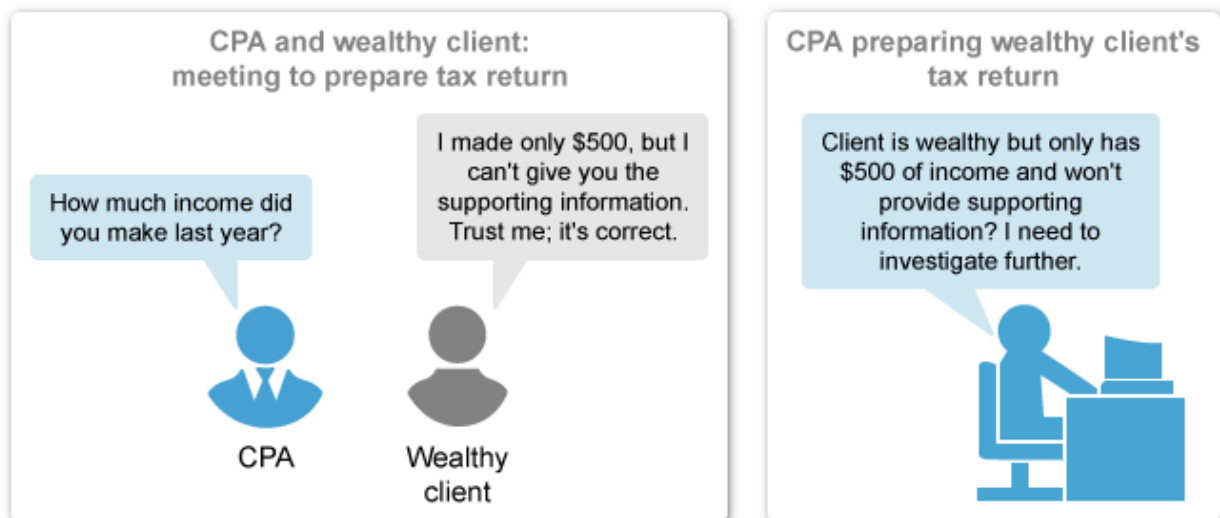
Baner, a CPA, is preparing a tax return for Affleck, a new client. During the course of the interview, Baner asks to inspect Affleck's source documents. Affleck responds that the supporting information is not readily available but assures Baner that the summary information is reliable. Which of the following statements best describes how Baner should proceed?

- A. Baner **cannot** accept Affleck's representations. The representations must be verifiable.
- B. Baner can accept the representations and explain to Affleck that the IRS's audit coverage is very low.
- C. Baner can automatically accept the representations, because a CPA is under no obligation to verify all client information.
- D. **Baner can accept the representations but should make reasonable inquiries to determine if the information appears to be incorrect, incomplete, or inconsistent.**



Explanation:

CPA relying on information furnished by client



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Under Section 10.34 of Treasury Circular 230, a **CPA may**, in good faith, **rely on information** obtained **from a client without verification**. However, **if the information** furnished by the client **appears incorrect**, incomplete, or otherwise unsatisfactory, the **CPA cannot ignore it (Choice C)**.

The CPA *can* accept the client and start preparing the tax return based on the client's representation(s) without having to verify *every* item of information the client provided **(Choice A)**. However, the CPA must use professional knowledge and judgment to determine if the client's information appears correct or incorrect. Basically, it's a "reasonableness" test. If something in the client's information appears unreasonable or incorrect, the **CPA must investigate further** by making sensible inquiries to clear up the discrepancies.

For instance, a wealthy client claiming to have only \$500 of income for the year, on the surface, doesn't seem plausible. The CPA will need to investigate further (eg, obtain client's tax transcript from the IRS) to determine if the client's claim of only \$500 income is true.

(Choice B) A CPA must investigate discrepancies in a client's information, regardless of the probability of the IRS's audit coverage.

Things to remember:

Under Section 10.34 of Treasury Circular 230, a CPA may, in good faith, rely on information obtained from a client without verification. However, if the information furnished by the client appears incorrect, incomplete, or otherwise unsatisfactory, the CPA may not ignore it. Instead, the CPA must investigate to verify the information.

Question 6 of 36

Which of the following situations would most likely be a violation of the Treasury Circular 230 solicitation guidelines by a CPA, assuming that there are **no** violations of federal or state laws or other rules?

- A. The CPA sends unsolicited e-mails to potential clients guaranteeing tax refunds from the Internal Revenue Service. ✓**
- B.** The CPA mails solicitation letters, clearly identified as such, to randomly selected business firms from a local directory, disclosing how the firms were selected to be contacted.
- C.** The CPA records a radio advertising broadcast that fails to disclose the fee charged for an initial consultation.
- D.** The CPA advertises in a local newspaper as providing accounting and tax services without disclosing fee information.

Explanation:

Circular 230 solicitation

- No false, fraudulent, or coercive statements
- Uninvited solicitations must identify it is a solicitation and indicate the source of information used to select recipients
- Fee information is not required
- Fee information cannot be misleading

Circular 230 is a set of U.S. Treasury regulations that governs practice before the IRS. It applies to tax practitioners who prepare tax returns, represent taxpayers before the IRS, or provide tax advice.

Section 10.30 addresses solicitation regulations. A practitioner may **not make false, fraudulent, or coercive statements** or claims. In addition, a practitioner **may not make misleading or deceptive statements** or claims with respect to any IRS matter in any form of public communication or private solicitation. Clearly a guarantee to obtain a tax refund meets the criteria of a misleading and deceptive claim because no one can guarantee a refund.

(Choice B) A lawful solicitation by or on behalf of a practitioner must *identify that it is a solicitation* and, if applicable, must *indicate the source of the information* used to select the recipient. There is no violation here.

(Choices C and D) A practitioner *may*, but is *not required* to, disseminate information about fees. Fee information may be communicated in a variety of ways, including professional lists, telephone directories, print media, mailings, electronic mail, facsimile, hand-delivered flyers, radio, television, and other methods.

Things to remember:

Under Circular 230, tax practitioners may not make false, fraudulent, or coercive statements or claims. Solicitations must be clearly identified and must indicate the source of the information used to select recipients. Practitioners may, but are not required to, disseminate information about fees.

Question 7 of 36

Under Treasury Circular 230, in which of the following situations is a CPA prohibited from giving written advice concerning one or more federal tax issues?

A. The CPA takes into account the possibility that a tax return will not be audited.



B. The CPA reasonably relies upon representations of the client.

C. The CPA considers all relevant facts that are known.

D. The CPA considers assumptions about future events related to relevant facts.

Explanation:

Treasury Department Circular No. 230: Requirements for a tax practitioner when giving other written advice	
Required	<ul style="list-style-type: none">• Basing advice on reasonable factual and legal assumptions (past and future)• Reasonably considering all relevant facts• Making reasonable efforts to identify facts for each tax matter• Relating applicable law to the facts
Prohibited	<ul style="list-style-type: none">• Relying on the client's representations or documents (eg, appraisals) if reliance would be unreasonable• Taking into account the possibility that a tax return will not be audited

The IRS established best practices to hold tax practitioners to a high standard when providing written tax advice to clients. When giving written advice, a practitioner must:

- Consider all relevant facts and circumstances known or that reasonably should be known (**Choice C**)
- Base the advice on *reasonable* factual and legal assumptions, including assumptions about future events (**Choice D**)
- Use reasonable efforts to identify and know which facts are relevant to the advice given
- Relate applicable laws and rules to the facts

The **practitioner must not**:

- Rely on the client's representations, statements, findings, or documents (eg, appraisals) if relying on them would be *unreasonable*. The practitioner may rely on these representations only if it is *reasonable* to do so (**Choice B**). For example, when giving written advice concerning gift tax issues, it would be unreasonable for the practitioner to rely on the client's 20-year-old property appraisal

- **Consider the likelihood** that a **tax matter** will or will not (1) **result** in the **tax return** being **audited** or (2) be **raised** in a **tax audit**. This rule is in place to prevent practitioners from advising clients to take highly aggressive tax positions based on the assumption that the IRS probably will not audit the return

Things to remember:

When giving written advice, a practitioner must not rely on the client's representations, statements, findings, or documents (eg, appraisals) if relying on them would be *unreasonable*. The practitioner can rely on these only if it is *reasonable* to do so.

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According to Treasury Department Circular 230, under which of the following circumstances may a tax practitioner charge a contingent fee for services?

- A. Preparing previous years' income tax returns that the taxpayer had failed to file on time.
- B. Obtaining a refund for the taxpayer by amending a previous year's income tax return.
- C. Reviewing previous returns filed by a different tax practitioner to find an error on which to base a refund claim.
- D. Assisting the taxpayer to obtain a refund in connection with statutory penalties and interest charged by the IRS. ✓**

Explanation:

Circular 230 contingent fees

Contingent fees are allowed only for specific types of services relating to:

- Refund claims, and original and amended returns that have been *challenged* by the IRS
- Claims for refund or credit filed to reduce interest and penalties charged by the IRS
- Judicial proceedings under the IRS (eg, private letter rulings)

The use of a contingent fee means the price for services rendered depends on the outcome. Accordingly, Treasury Circular 230 prohibits contingent fees except in limited circumstances. A **tax practitioner** is **allowed** to **charge** a **contingent fee** for **services relating to**:

- An examination (ie, audit) of or challenge to an original or amended return, or a claim for refund
- A **claim for credit** or refund **in connection** with **statutory interest** or **penalties** assessed by the IRS
- A judicial proceeding under the IRC (eg, filing a private letter ruling)

Contingent fees are *not* allowed for filing an original return (even if it's late) (**Choice A**). The prohibition also applies to filing refund claims for tax matters that have *not* been challenged or examined by the IRS (**Choices B and C**).

When contingent fees are used in a tax matter, the tax practitioner's interests are aligned with the client's. The IRS allows this in situations wherein the practitioner acts as an advocate on the client's behalf, such as representing the client in an IRS judicial proceeding. However, in nonadvocacy situations, such as preparing a tax return, a contingent fee could create a motivation for the practitioner to manipulate results.

Things to remember:

Treasury Circular 230 prohibits contingent fees except in limited circumstances. A

practitioner is allowed to charge a contingent fee for services relating to a claim for credit or refund in connection with statutory interest or penalties assessed by the IRS.

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Which of the following would be required to register for a Preparer Tax Identification Number (PTIN)?

- A. A CPA preparing returns in exchange for services but receiving no monetary compensation. ✓
- B. A CPA preparing returns for family and friends for no charge.
- C. A CPA preparing a return for an entity as an employee of that entity.
- D. A CPA's assistant who enters taxpayer data into an electronic tax return preparation system.

Explanation:

CPA as tax return preparer	
Qualifies if	<ul style="list-style-type: none">• Prepares tax returns for compensation (eg, money or barter)• Employs others to prepare tax returns
Does not qualify if	<ul style="list-style-type: none">• Prepares return for friends or family free of charge• Providing tax return administrative tasks (eg, data entry)• Prepares entity's return as an employee of that entity
Other elements	<ul style="list-style-type: none">• Required to have a Preparer Tax Identification Number (PTIN)• Need <i>not</i> be enrolled to practice before the IRS (ie, enrolled agent)

A tax return preparer includes anyone (eg, a CPA) 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 compensation can be either explicit (ie, for money) or implicit (ie, barter). A CPA is not classified as a tax return preparer if the CPA prepares a tax return for a family member or friend free of charge (**Choice B**).

Anyone who **qualifies** as a **tax return preparer** must **obtain** a Preparer Tax Identification Number (**PTIN**). The PTIN is a nine-digit number that must be used on all the tax returns and claims for refund prepared by the CPA. The PTIN must be renewed annually.

(Choice C) IRS rules specifically exempt from the definition of tax return preparer those employees who, as part of their job, prepare their employer's tax return.

(Choice D) Merely entering a taxpayer's data into an electronic tax return preparation system does not qualify a person as a tax return preparer.

Things to remember:

A tax return preparer includes anyone (eg, a CPA) 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. Tax return preparers must obtain a Preparer Tax Identification Number (PTIN) and include it on all tax returns and claims for refunds they prepare.

Question 10 of 36

Which of the following activities requires the CPA to file a written declaration with the IRS indicating the CPA is currently qualified as a CPA and authorized to represent the party?

Practice before the IRS

Provide written tax
advice

- A. Yes Yes
- B. **Yes No**
✓
- C. No Yes
- D. No No

Explanation:

Circular 230 requirements to practice before the IRS		
	Practice before the IRS	Provide written tax advice
Be in good standing	✓	✓
Written declaration	✓	X

Treasury Department Circular 230 is a set of regulations governing practice before the IRS. It affects tax practitioners including attorneys, CPAs, and enrolled agents. The regulations cover the requirements for representing taxpayers before the IRS, providing tax advice, and preparing tax returns.

To practice before the IRS, the CPA must not be suspended or disbarred from doing so. In general, the CPA must file a **declaration with the IRS** indicating the CPA is **qualified as a CPA** and **authorized to represent the party**. Although providing written tax advice (eg, tax opinion) is considered **practice before the IRS**, an exception is made for the written declaration requirement.

Written tax advice involves a CPA providing an opinion on the tax ramifications of a financial transaction for a client. The opinion is for the client and is never filed with the IRS. Providing a written declaration for every instance of written tax advice would be too onerous on the CPA and IRS. As such, a CPA who is not currently under suspension or disbarment may provide **written** tax advice **without** filing a **written declaration**.

Things to remember:

For a CPA to practice before the IRS, the CPA must not be under suspension or disbarment from practicing before the IRS. In general, the CPA must file a declaration with the IRS indicating the CPA is qualified as a CPA and authorized to represent the party. However, the CPA may provide written tax advice without filing a written declaration with the IRS.

Question 11 of 36

Under Treasury Circular 230, the IRS requires that certain records be returned to a client by the tax practitioner even though no payment for services has been received. Records of the client for this purpose do **not** include

- A. Materials prepared by a client's actuary and provided to the practitioner with respect to tax preparation.
- B. A schedule prepared by the practitioner that provides mathematical details of a particular amount included in a client's tax return. ✓**
- C. Electronic materials provided to the practitioner that existed before the client retained the practitioner.
- D. Written records given to the practitioner at the beginning of the engagement.

Explanation:

Treasury Circular 230 (Circular 230) is a set of regulations that govern practice before the IRS. It provides rules of conduct for anyone who prepares tax returns, represents taxpayers before the IRS, or provides tax advice (eg, CPAs, attorneys, enrolled agents). Topics include who can practice before the IRS, their duties while practicing, violation sanctions, and discipline.

Under Circular 230 §10.28, a tax practitioner must return a client's records even if the fee is unpaid. Client records are defined as:

- Material given to the tax preparer that existed prior to the tax preparer's current engagement with the client (**Choices C and D**).
- Items prepared by the client or a third party (**Choice A**).
- Anything prepared by the tax preparer, and *previously provided to the client*, that the client needs to file the current-year tax return (eg, prior-year tax returns).

However, the **tax practitioner** may **withhold** all **material** prepared during the **current engagement until** the **client pays** the fee for their preparation. This includes *current-year* returns, claims for refund, schedules, tax work papers, affidavits, or appraisals.

Things to remember:

A tax practitioner must return a client's records even if the fee is unpaid. Client records include preengagement material, client- and third party-prepared material, and practitioner-prepared material previously given to the client that the client needs to file the current-period tax return. However, the tax practitioner may withhold all other material prepared during the current engagement until the client pays the fee for preparation.

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When preparing a client's Form 1040, U.S. Individual Income Tax Return, a CPA determined that there was documentation supporting only \$12,000 of the \$20,000 travel expenses claimed by the client. Which of the following courses of action taken by the CPA would be in compliance with Treasury Circular 230?

- A. The CPA makes reasonable inquiries to obtain the needed documentation if the information as furnished appears to be incorrect or incomplete. ✓**
- B.** The CPA deducts the \$20,000 of expenses since there is a small likelihood that the IRS will audit the tax return.
- C.** The CPA relies in good faith, without verification, upon information furnished by the client in deducting the expenses.
- D.** The CPA deducts the \$20,000 of expenses as long as the client agrees to disclose on the return that \$8,000 of the expenses are undocumented.

Explanation:

Tax preparer's duty to verify taxpayer information

- May rely in good faith and without verification on information provided by taxpayer or third party (eg, adviser)
- Must make reasonable inquiries if information appears incorrect or incomplete
- Inquire about appropriate documentation if IRC requires it (eg, travel and entertainment expenses)
- Not required to:
 - Audit the taxpayer
 - Review or examine books, records, or operations
 - Copy *all* underlying documents to independently verify the information

Treasury Circular 230 (Cir 230) allows that a CPA **may**, in good faith, **rely** on **information provided by a taxpayer** when preparing the client's tax return. The CPA has a duty to inquire about information that appears wrong or incomplete. Filing a return using incomplete information without making appropriate inquiries violates this duty. There are no exceptions, even for tax returns with a small likelihood of being audited **(Choice B)**.

Reliance is satisfied when the CPA believes the taxpayer's information is correct and is satisfied that the taxpayer has proper documentation (eg, the client provided receipts) **(Choice C)**. The duty to inquire about incorrect and incomplete information is in place to encourage CPAs and tax preparers to comply with tax laws.

(Choice D) Filing the return and deducting the *entire* \$20,000 in expenses and disclosing that \$8,000 of the \$20,000 are undocumented expenses is a willful understatement of a tax liability. Tax rules require that only documented travel expenses

may be deducted. The CPA would most likely be subject to preparer penalties for knowingly deducting undocumented expenses on a tax return.

Things to remember:

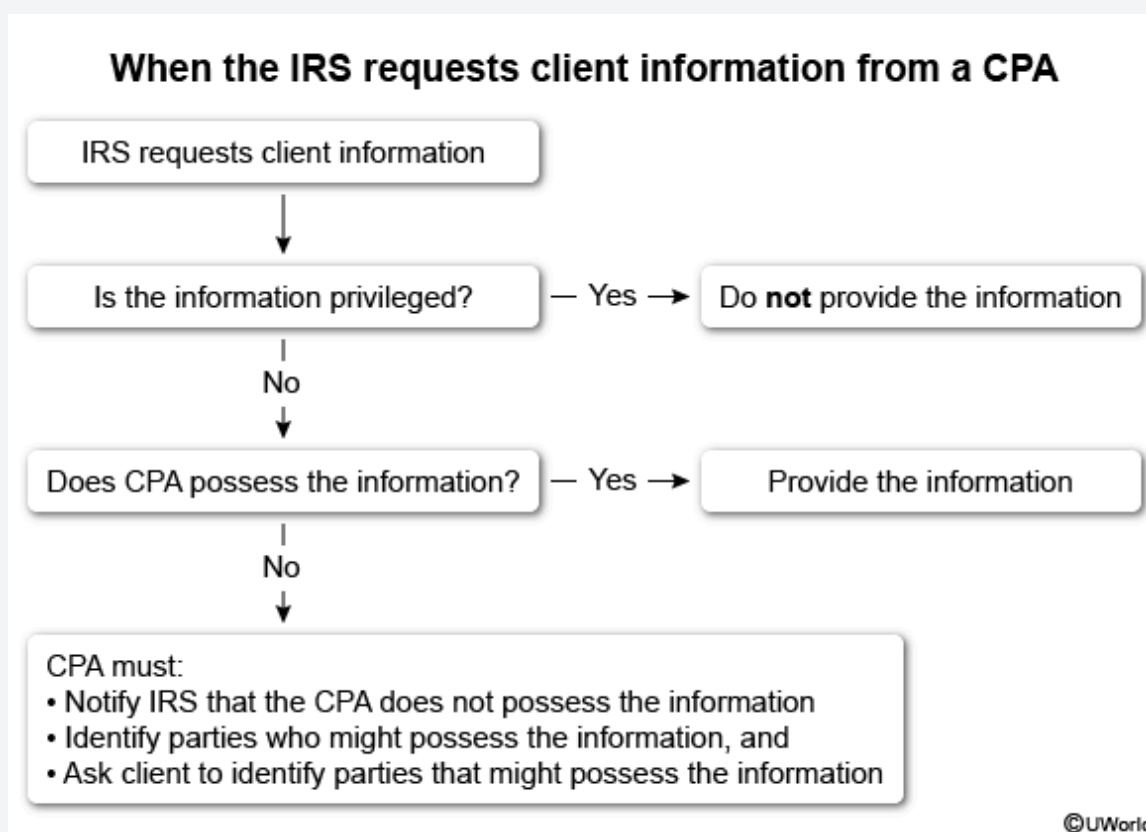
A tax preparer may, in good faith, rely on information provided by the taxpayer. The preparer has a duty to inquire about information that appears wrong or incomplete. Reliance is satisfied when the preparer believes the taxpayer's information is correct and properly documented (eg, the client provided receipts).

Question 13 of 36

The IRS requested client records from a CPA who does not have possession or control of the records. According to Treasury Circular 230, the CPA must

- A. Notify the IRS of the identity of any person who, according to the CPA's belief, could have the records. ✓
- B. Require the client to submit the records to the IRS or withdraw from the engagement.
- C. Obtain the records from the client and submit them to the IRS.
- D. Contact all third parties associated with the records, such as banks and employers, to obtain the requested records for submission to the IRS.

Explanation:



Treasury Circular 230 requires a tax practitioner (eg, CPA) to provide records to the IRS when those records are properly and lawfully requested. This rule *excludes* taxpayer information that is considered privileged. **When the records are not in the custody of the CPA, the CPA must:**

- Notify the IRS that the CPA does not have the information,
- **Identify** all **parties** the CPA believes might possess the information, and
- Ask the client to identify all parties who might retain the information.

This rule allows the IRS to efficiently obtain records it thinks are relevant to tax matters and thereby handle those tax matters more efficiently.

(Choice B) The CPA cannot require the client to submit records to the IRS and is not required to withdraw from the engagement if the client decides not to provide them.

(Choice C) The CPA is not required to act on behalf of the IRS to obtain the records from the client and then submit them to the IRS.

(Choice D) Although the CPA is not required to contact third parties (eg, banks, employers) to try and obtain the records, the CPA should notify the IRS about third parties the CPA believes might have the records.

Things to remember:

Circular 230 requires a tax practitioner (eg, CPA) to provide records to the IRS when those records are properly and lawfully requested. This rule excludes taxpayer information that is considered privileged. When the records are not in the custody of the CPA, the CPA is required to notify the IRS that the CPA does not have the information, identify parties who might possess the information, and ask the client to identify parties that might retain the information.

Question 14 of 36

Under Treasury Circular 230, which of the following actions of a CPA tax adviser is characteristic of a best practice in rendering tax advice?

- A. Requesting a review of a tax memorandum by an attorney who is familiar with the particular tax issues discussed in the memorandum.
- B. Requesting a review of a tax memorandum by an IRS advisory committee.
- C. Establishing relevant facts, evaluating the reasonableness of assumptions and representations, and arriving at a conclusion supported by the law and facts in a tax memorandum. ✓**
- D. Requiring a client to supply a written representation, signed under penalties of perjury, concerning the facts and statements provided to the CPA for preparing a tax memorandum.

Explanation:

Tax advisor best practices under Circular 230

Communication: Communicate clearly with the client

Facts and law: Establish facts, relevance, applicable law, and proper conclusions

Consequences: Inform client of consequences of tax positions (eg, possible penalties)

Integrity: Act fairly and honestly

The IRS established best practices to hold tax practitioners (eg, CPA tax advisers) to a high standard for providing quality client representation regarding federal tax issues. As part of **best practices**, a practitioner must conform to *all* the rules under Treasury Circular 230 (Cir 230). When rendering tax advice in, for instance, a tax memorandum, the **practitioner must:**

- **Establish** the **facts** and **determine** which ones are **relevant** to the tax issue and applicable law
- **Evaluate** the **reasonableness of any assumption** or **representations** made by the **client**
- **Advise** the **client of the consequences** of relying on the tax advice (eg, possible accuracy-related penalties)

(Choice A) Although the practitioner may need to seek the advice of an attorney to confirm highly technical tax issues, it's not required as a best practice under Cir 230.

(Choice B) Cir 230 has provisions for establishing advisory committees that issue professional responsibility rules and guidance for practitioners. However, those committees do not review tax memos.

(Choice D) The practitioner is not required to have the client swear, under penalty of perjury, that the client's assumptions and representations are true.

Things to remember:

As part of best practices when giving tax advice, a tax practitioner is required by Treasury Circular 230 to establish the facts relevant to a tax issue, evaluate the reasonableness of any assumption or representations made by the client, and advise the client of the consequences of relying on the tax advice (eg, possible accuracy-related penalties).

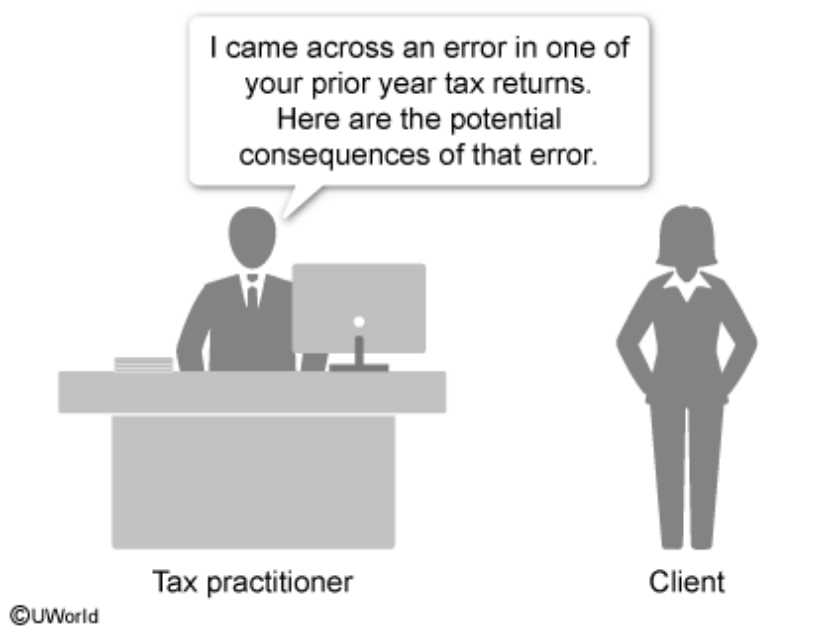
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While preparing a client's current year individual income tax return, a tax practitioner discovers an error in a prior year return. Under the rules of practice prescribed in Treasury Department Circular No. 230, the tax practitioner

- A. Must reimburse the client for any tax penalties if the error is the tax practitioner's fault.
- B. Must advise the client of the error and its potential consequences. ✓**
- C. Is **not** required to notify the IRS of the error if the tax return was filed more than 3 years earlier.
- D. Is required to file an amended return to correct the error if the tax return was filed within the past 3 years.

Explanation:

Tax practitioner duty to inform client of error



Under Treasury Department Circular No. 230, **when** a tax practitioner **becomes aware** of an incident of a **client's noncompliance** with **revenue laws** or of an **error** or omission on a filing with the IRS (eg, a prior year return), the **practitioner** is **required** to:

- **Promptly advise** the **client** of the **error** and
- Advise the client of the **potential consequences** of that error (eg, an accuracy penalty).

The practitioner must do this regardless of when the error occurred or whether the statute of limitations has expired. The rule ensures that the error will be brought to the client's attention in a timely manner and that the client will receive the proper information necessary to decide how to correct the error (eg, file an amended return) **(Choice D)**.

(Choice A) Although some tax practitioners may choose to reimburse a client for tax penalties caused by the practitioner's error, Circular 230 does *not* require it.

(Choice C) The tax practitioner cannot be required to notify the IRS directly because this would violate client confidentiality rules.

Things to remember:

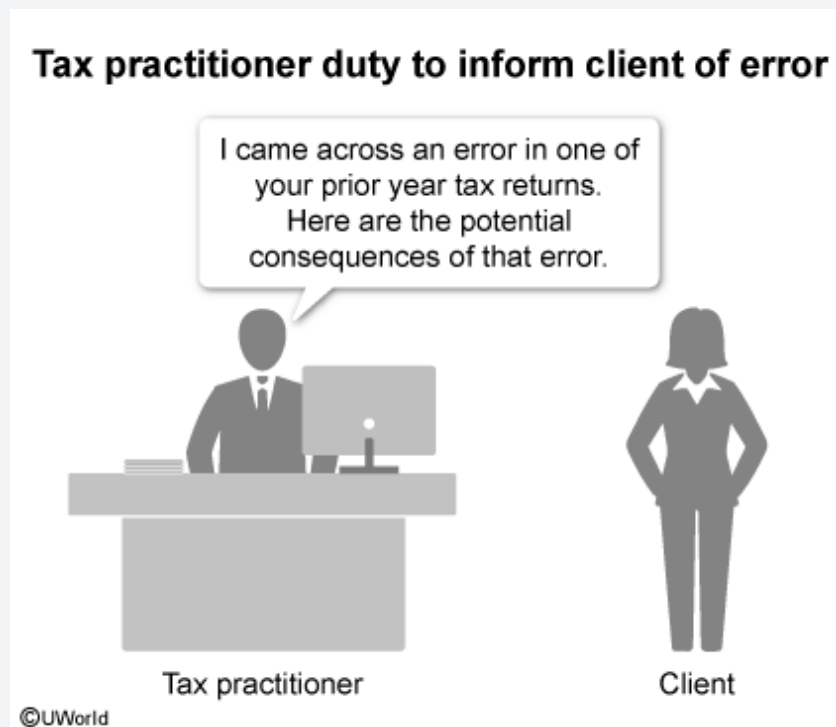
When a tax practitioner becomes aware of an error in a client's prior year tax return, the practitioner is required to promptly advise the client of the error and the potential consequences of that error (eg, accuracy penalty).

Question 16 of 36

While preparing a tax return for a new client and reviewing the client's prior-year return, a CPA noticed an error made by the client's former tax preparer. According to Treasury Department Circular 230, which of the following is the CPA specifically required to do in this case?

- A. Contact the tax preparer who made the error and suggest that an amended return be prepared for the client.
- B. Inform the client of the error and insist that the return be amended.
- C. **Inform the client of the error and advise of the consequences.** ✓
- D. Advise the client to contact the tax preparer of the prior-year return.

Explanation:



Under Treasury Circular 230 (Cir 230), **when a CPA becomes aware of a client's noncompliance with tax laws**, or an **error** or omission on a filing with the IRS (eg, prior year return), the **CPA is required** to:

- **Promptly advise the client of the error, and**
- Advise the client of the **potential consequences** of that error (eg, accuracy penalty).

This rule ensures that the error will be brought to the client's attention in a timely manner and that the client will have the information needed to decide how to correct the error (eg, file an amended return).

Cir 230 does not require the CPA to *insist* that the erroneous prior return be amended (**Choice B**). Nor does it require the CPA to *specifically advise* the client to contact a prior tax preparer (**Choice D**). From a practical standpoint, amending the prior return may be

necessary to correct the error. However, the client must ultimately make the decision after being informed of the error's consequences.

(Choice A) Directly contacting the prior tax preparer for any reason without first receiving the client's permission is prohibited by confidentiality rules.

Things to remember:

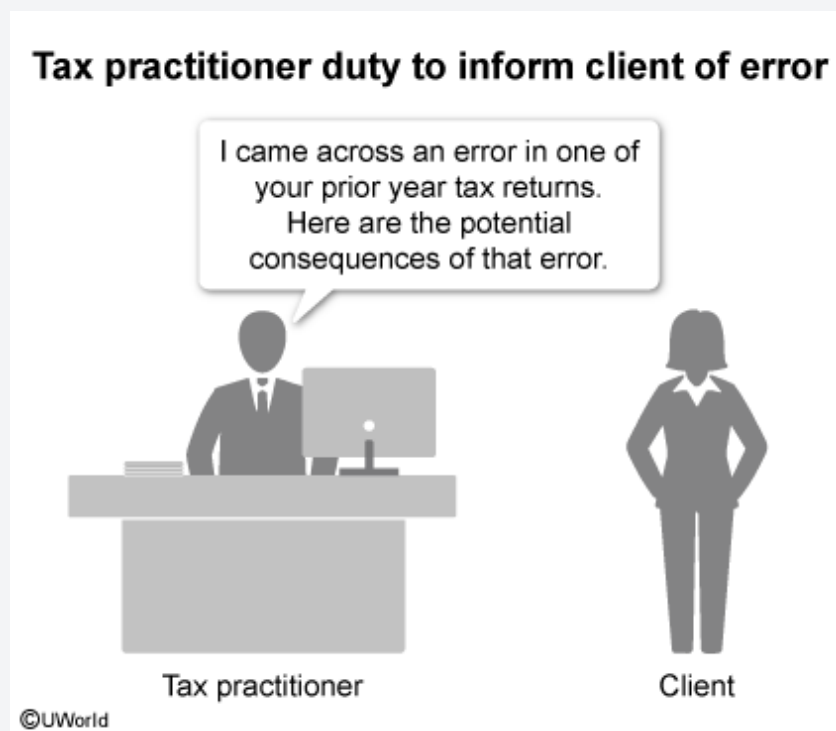
Under Treasury Circular 230, when a CPA becomes aware of an error in a client's prior year tax return, the CPA is required to promptly advise the client of the error. In addition, the CPA must advise the client of the error's potential consequences (eg, accuracy penalty).

Question 17 of 36

A CPA prepares income tax returns for a client. After the client signs and mails the returns, the CPA discovers an error. According to Treasury Circular 230, the CPA is required to

- A. Resign from the engagement if the client refuses to authorize filing an amended return.
- B. Prepare an amended return within 30 days of the discovery of the error.
- C. Promptly advise the client of the error. ✓**
- D. Reimburse the client if the error was the CPA's fault and resulted in a penalty over \$500.

Explanation:



Under Treasury Circular 230 (Cir 230), **when** a tax practitioner (eg, CPA) **becomes aware** of an incident of a **client's noncompliance** with **revenue laws**, or of an **error** or omission on a filing with the IRS (eg, a previously filed return), the **CPA is required** to:

- **Promptly advise** the **client of the error**, and
- Advise the client of the **potential consequences** of that error (eg, an accuracy-related penalty).

The rule ensures that the error will be brought to the client's attention in a timely manner and that the client will receive the proper information necessary to decide how to correct the error (eg, file an amended return).

However, it's the client, not the CPA, who ultimately decides whether to correct the error, such as by filing an amended return. There is no time limit for correcting the error, but in addition to a penalty, the client is responsible for interest that will accrue on any unpaid tax due to the error (**Choice B**).

(Choice A) The CPA and client may disagree about how to correct the error. If it is significant enough, the CPA may choose to resign from additional work for the client. However, Cir 230 does *not* require this.

(Choice D) Although some CPAs may choose to reimburse a client for tax penalties caused by the CPA's error, Cir 230 does *not* require it.

Things to remember:

When a tax practitioner becomes aware of an error in a client's previously filed tax return, the practitioner is required to promptly advise the client of the error and advise the client of the potential consequences of that error (eg, accuracy-related penalty).

Question 18 of 36

Under Treasury Department Circular 230, a practitioner may

- A. Endorse and deposit the taxpayer's refund check in payment for services as long as the refund amount is less than the practitioner's outstanding bill.
- B. Charge a contingent fee for obtaining a refund of penalties and interest paid by the taxpayer in a previous year. ✓**
- C. Sign a tax return that contains a frivolous tax position as long as the taxpayer has waived liability in writing.
- D. Represent clients despite a conflict of interest as long as the IRS consents in writing.

Explanation:

Circular 230

In general, tax practitioners must not:

- Charge an unconscionable fee
- Charge a contingent fee*
- Endorse a taxpayer's refund check
- Sign a return containing a frivolous position
- Represent clients if a conflict of interest exists

*Contingent fees may be charged in administrative challenges, claims in connection with statutory interest or penalties, and judicial proceedings

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Treasury Circular 230 is a set of regulations governing practice before the IRS. It affects tax practitioners (eg, attorneys, CPAs, enrolled agents, others who prepare tax returns or represent taxpayers before the IRS).

Tax practitioners may not charge unconscionable fees or contingent fees for matters before the IRS. However, a contingent fee may be charged for:

- services related to a claim for credit or refund in connection with statutory interest or penalties charged by the IRS
- an administrative examination or a challenge to an original return, an amended return, or a claim for refund
- services related to a judicial proceeding under the IRC

(Choice A) A tax preparer may not endorse or otherwise negotiate a government check issued in relation to a federal tax liability (eg, a tax refund check).

(Choice C) A practitioner may not sign a tax return that the practitioner knows to contain an unreasonable position. A position is not considered unreasonable if the practitioner has substantial authority to take the position or if the position has a reasonable basis of being upheld and is disclosed.

(Choice D) If a conflict of interest exists, a practitioner may represent a client only if each client affected by the conflict makes an informed consent in writing. In addition, the representation cannot be prohibited by law and the practitioner must have a reasonable belief that the representation will be competent and diligent.

Things to remember:

With limited exceptions, tax practitioners are not permitted to charge contingent fees. In addition, tax practitioners may not endorse a taxpayer's refund check and may not sign a return with a frivolous position. When a conflict of interest exists, each client affected by the conflict must make an informed consent in writing.

Question 19 of 36

Pursuant to Treasury Department Circular No. 230, which of the following statements about the return of a client's records is correct?

- A. Copies of the client's records must be destroyed 3 years after the tax return was filed.
- B. The practitioner may retain copies of the client's records. ✓**
- C. The existence of a dispute over fees generally relieves the practitioner of responsibility to return the client's records.
- D. The practitioner does **not** need to return any client records that may be necessary to document a tax position that was disclosed on the tax return.

Explanation:

Treasury Department Circular No. 230: Requirements for a tax practitioner to return client records	
General rule	<ul style="list-style-type: none">• Must return all client records when requested by client• May retain copies
If there is a fee dispute	<ul style="list-style-type: none">• May <i>temporarily withhold some</i> records• Must return records necessary for client to comply with tax obligations and allow access to others
Types of records	<ul style="list-style-type: none">• Written and electronic documents from client• Material prepared by client or client's other representatives (eg, attorney)• Prior returns and refund claims• Other material prepared and used for client's tax matter (eg, appraisals)

According to Treasury Department Circular No. 230, when a client requests, a tax practitioner must promptly return *all* of the client's records that are *necessary* for the client to comply with federal tax obligations. This rule is in place so clients can have easy, prompt access to their tax records when they need them (eg, to defend a tax position in an audit).

To properly maintain their client files, **practitioners** are **allowed to retain copies** of all **tax records provided by their clients**. This provision is especially important when a practitioner takes a position on a client's tax return that is based on disputed tax law. However, this allowance does not relieve the practitioner of the duty to return the client's tax records when asked to do so (**Choice D**).

(Choice A) Generally, practitioners are required to either *retain* copies of completed returns for 3 years or retain a list of clients for the prior 3 years. There is no requirement for a practitioner to *destroy* copies of a client's tax records after 3 years.

(Choice C) If there is a fee dispute the practitioner may withhold *some* documents. However, a practitioner is required to return all of the client's records that are necessary for the client to comply with federal tax obligations (eg, receipts for meals and entertainment).

Things to remember:

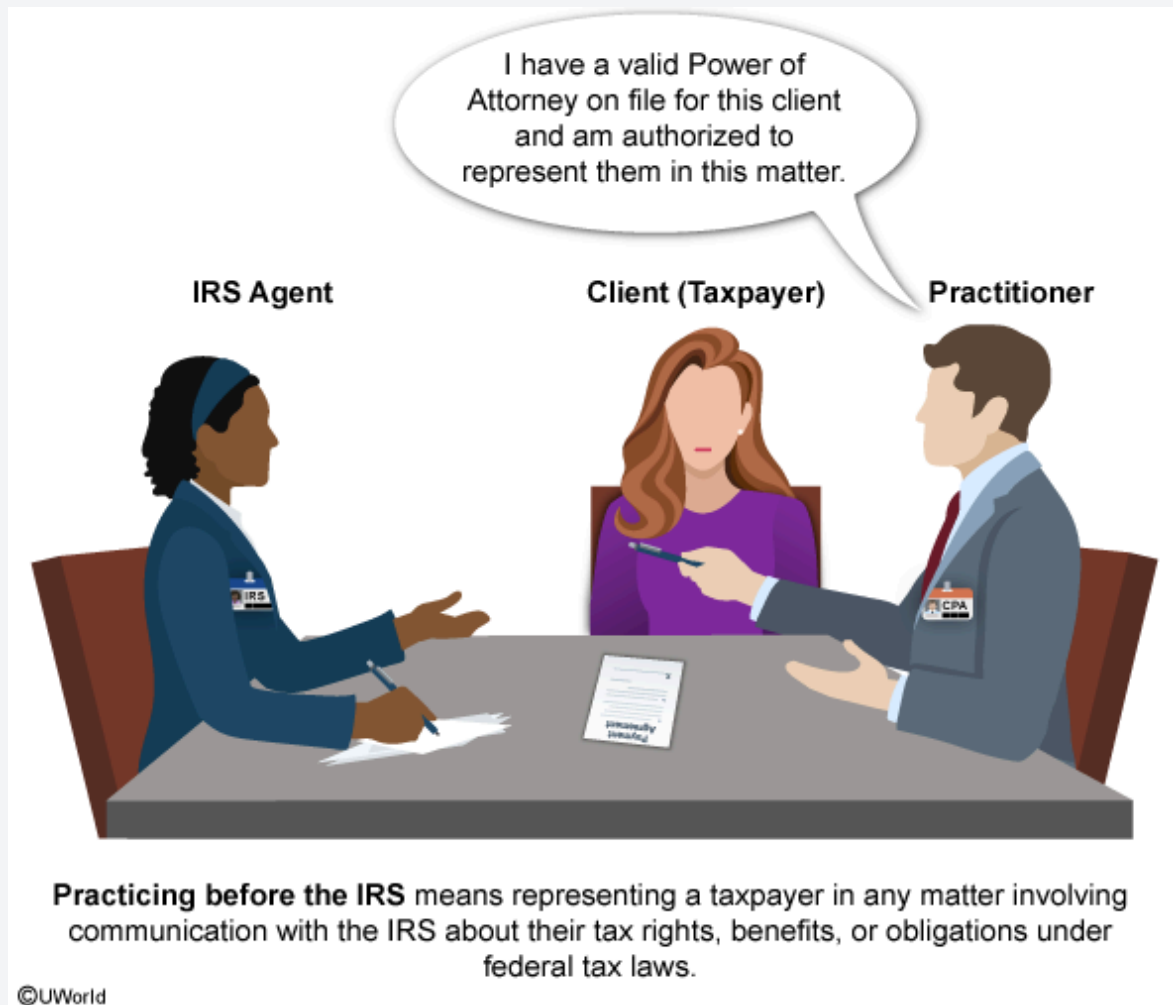
A tax practitioner must promptly return, on request by a client, all of the client's records that are necessary for the client to comply with federal tax obligations. However, the practitioner is allowed to retain copies of the client's tax records.

Question 20 of 36

According to Circular 230, each of the following is considered practice before the Internal Revenue Service **except**

- A. Preparing and filing documents with the IRS.
- B. Corresponding and communicating with the IRS on behalf of a taxpayer.
- C. Representing a taxpayer at conferences, hearings, or meetings with the IRS.
- D. Testifying as an expert in a tax-related court case involving the IRS. ✓

Explanation:



Circular 230 is a set of U.S. Treasury **regulations** that outlines **who may practice before the IRS** and the standards of conduct they must follow. It applies to tax practitioners such as CPAs, attorneys, and enrolled agents.

Circular 230 defines "practice before the IRS" as all matters involving a **presentation to the IRS** related to a **taxpayer's rights, privileges, or liabilities** under laws or regulations the IRS administers. This includes:

- Preparing and filing documents (**Choice A**)
- Communicating with the IRS on the taxpayer's behalf (**Choice B**)

- Representing a taxpayer at conferences, hearings, or meetings with the IRS
(Choice C)
- Providing oral or written advice involving any entity, transaction, plan, or arrangement, or other plan or arrangement having a potential for tax avoidance or evasion

Testifying as an expert witness in a tax-related court case—without acting as an advocate—**does not** constitute practice before the IRS, as it does not involve direct engagement with the IRS or any presentation made to the IRS related to the taxpayer's rights, privileges, or obligations.

Things to remember:

Circular 230 defines "practice before the IRS" as presenting to the IRS in matters related to taxpayers' rights or obligations under the laws the IRS administers; these presentations include preparing documents, communicating with the IRS, and representing clients in meetings. However, merely serving as an expert witness does *not* qualify as practice before the IRS.

Question 21 of 36

For regulations regarding practice as an accountant before the Internal Revenue Service, a CPA should look to

- A. AICPA *Code of Professional Conduct*.
- B. AICPA *Statements of Responsibilities in Tax Practice*.
- C. Treasury Department *Circular 230*. ✓**
- D. The *Internal Revenue Code*.

Explanation:

(Choice A) This answer is incorrect. The AICPA Code does not constitute regulations.

(Choice B) This answer is incorrect. The AICPA *Statements of Responsibilities in Tax Practice* are not regulations.

(Choice C) This answer is correct. Treasury Department *Circular 230* provides regulations regarding the practice of an accountant before the IRS.

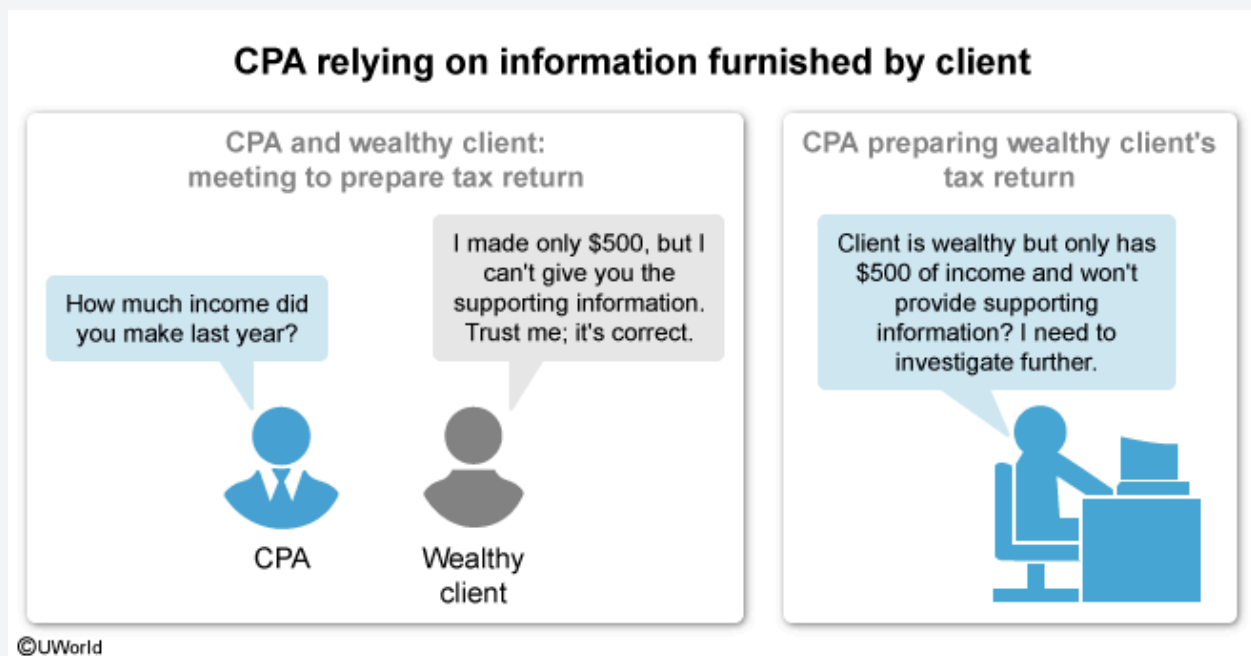
(Choice D) This answer is incorrect. The *Internal Revenue Code* provides regulations regarding the reporting and payment of taxes.

Question 22 of 36

A client claims to have driven 50,000 miles for business purposes during the preceding year and wishes to deduct all of the mileage. The CPA suspects that the client is overstating the amount of mileage actually driven for business purposes. According to Treasury Department Circular 230, the CPA should do which of the following?

- A. Deduct only the amount of mileage for business purposes that the CPA believes is reasonable.
- B. Make reasonable inquiries about the information supplied. ✓**
- C. Prepare the tax return without asking any questions.
- D. Put a note in the client's file indicating that the client made an oral declaration about mileage driven for business purposes.

Explanation:



A tax return should **not** be filed with a tax position that is unreasonable, lacks a reasonable basis, or represents a willful attempt to understate the liability. Treasury Department Circular 230 requires practitioners to exercise **due diligence** when preparing (or assisting in preparing), approving, and filing tax returns.

When preparing a client's tax return, practitioners may, in *good faith*, **rely on information** obtained **from a client without verification** *if* they believe the information is correct and properly documented. However, the practitioner has a duty to further investigate, by making **reasonable inquiries**, any information furnished by the client that appears **incorrect, incomplete**, or otherwise **unsatisfactory** based on information known by or furnished to the practitioner (**Choices C and D**).

In this scenario, the CPA suspects that the client is overstating the amount of business mileage. To substantiate a deduction for business mileage, the IRS requires a taxpayer to maintain a mileage log (written or digital) that details each business trip's date, time,

purpose, and number of miles driven. Accordingly, the CPA is required to **make reasonable inquiries about the mileage information supplied** by the client.

(Choice A) A practitioner may *never* simply enter a deduction for the amount of mileage that the practitioner believes is reasonable.

Things to remember:

Treasury Department Circular 230 (states that a CPA preparing a client's tax return may, in good faith, rely on information provided by the client. However, if any information furnished by the client appears incorrect, incomplete, or otherwise unsatisfactory, the CPA has a duty to make reasonable inquiries about such information.

Question 23 of 36

Which of the following situations would most likely be a violation of Treasury Circular 230?

- A. The CPA communicates fee information containing hourly rates via hand-delivered flyers.
- B. The CPA charges a contingent fee for preparing and filing an original tax return.** ✓
- C. The CPA uses the phrase "designated as a registered tax return preparer by the Internal Revenue Service" in solicitation mailers.
- D. The CPA charges a contingent fee for preparing a refund claim for penalties assessed by the Internal Revenue Service.

Explanation:

Circular 230 contingent fees

Contingent fees are allowed only for specific types of services relating to:

- Refund claims, and original and amended returns that have been *challenged* by the IRS
- Claims for refund or credit filed to reduce interest and penalties charged by the IRS
- Judicial proceedings under the IRS (eg, private letter rulings)

A **contingent fee** means a fee based on a specific favorable outcome, such as a percentage of taxes saved or a refund reported. Accordingly, **Treasury Circular 230 prohibits** charging a *contingent fee* for *any matter* before the IRS, with *limited* exceptions. This rule exists to avoid conflicts of interest and encourage practitioners to provide objective tax advice to clients.

Charging a *contingent fee* for preparing and filing an **original tax return violates** Circular 230. However, a practitioner may charge a contingent fee:

- When representing a client in connection with an IRS **examination** (of an original return, amended return, or claim for refund or credit)
- For services rendered in connection with a claim for refund related to statutory interest and penalties (**Choice D**)
- For any judicial proceeding arising under the Internal Revenue Code

(Choice A) Practitioners may charge fixed fees or hourly rates for their services if those fees are not unconscionable, and practitioners may publish or otherwise communicate fees in a variety of ways (eg, television, mailers, flyers), assuming the communication is not false, deceptive, or coercive.

(Choice C) Practitioners may not use the term *certified* or imply an employer/employee relationship with the IRS; however, the phrases "enrolled to represent or practice" and "designated as a registered tax return preparer" are acceptable.

Things to remember:

Treasury Circular 230 does not allow tax practitioners to charge contingent fees for preparing and filing an original tax return. Contingent fees, however, are allowed for services in connection with a claim for refund of penalties or interest assessed by the IRS.

Question 24 of 36

In preparing a client's current year individual income tax return, a tax practitioner discovers an error in the prior year's return. Under the rules of practice prescribed in Treasury Circular 230, the tax practitioner

- A. Is barred from preparing the current year's return until the prior year error is rectified.
- B. Must advise the client of the error. ✓**
- C. Is required to notify the IRS of the error.
- D. Must file an amended return to correct the error.

Explanation:

(Choice A) This answer is incorrect. This is not an accurate statement of the practitioner's obligation.

(Choice B) This answer is correct. A tax practitioner generally has a duty to inform the client upon discovering an error in the client's previously filed tax return. A tax practitioner is not barred from preparing the current year's return and has no obligation to notify the IRS of the error. It is the client's decision whether or not to file an amended return to correct the error.

(Choice C) This answer is incorrect. The practitioner cannot notify the IRS.

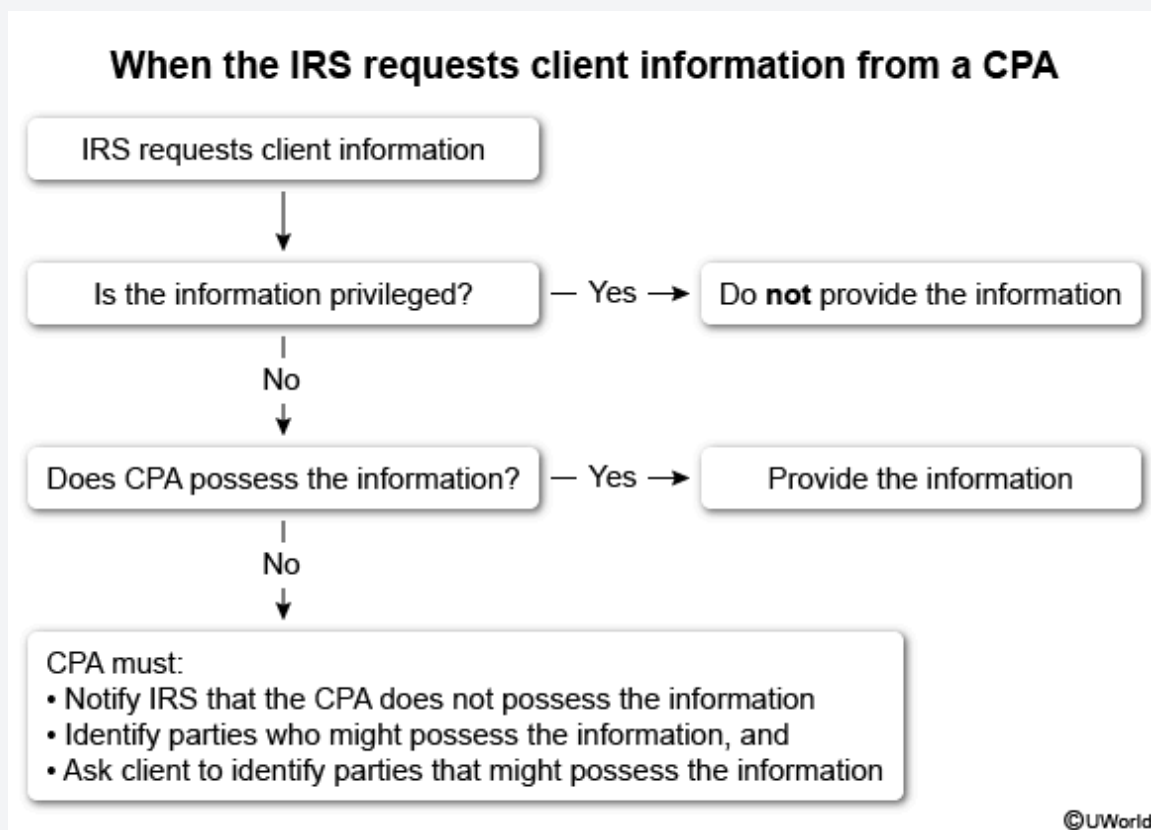
(Choice D) This answer is incorrect. This is not an accurate statement of the practitioner's obligation.

Question 25 of 36

According to Treasury Circular 230, in which of the following circumstances is a practitioner allowed to withhold information requested by a duly authorized Internal Revenue Service employee?

- A. The practitioner believes that the information is privileged. ✓
- B. The practitioner believes that the information is irrelevant to the audit.
- C. The practitioner believes that the information is stored at the client's offsite facility.
- D. The practitioner believes that the information relates to an alleged violation of the regulations.

Explanation:



Under **Treasury Circular 230**, a practitioner **must not unreasonably delay** the IRS's **request** for information or records. However, there is a specific **exception**: If the practitioner believes in good faith and on reasonable grounds that the **information is privileged**, the practitioner may withhold it.

Section 7525 extends a **limited confidentiality privilege** to certain communications between a **taxpayer** and a federally authorized **tax practitioner** (such as a CPA, enrolled agent, or attorney) that are made for the **purpose of tax advice**.

(Choices B, C, and D) None of the other reasons—such as believing the information is irrelevant, stored offsite, or related to an alleged regulatory violation—are valid grounds for withholding information from the IRS.

Things to remember:

A practitioner is allowed to withhold information requested by the IRS only if the practitioner believes the information is privileged.

Question 26 of 36

While reviewing a new client's prior-year tax returns, a CPA became aware that the client did not properly file all required federal income tax returns. Under Treasury Circular 230, what should the CPA do in this situation?

- A. Notify the AICPA of the situation and request a ruling of continuance.
- B. Notify the Internal Revenue Service of the client's noncompliance.
- C. Resign from the engagement.

D. Advise the client of the consequences of the noncompliance. ✓

Explanation:

Choice D (Correct): Section 10.21 of Circular 230 provides that a practitioner who becomes aware of a client's noncompliance with revenues laws or an error or omission in a filing with the IRS, the practitioner is required to promptly advise the client of the circumstance and the potential consequences.

Choice C (Incorrect): Section 10.21 of Circular 230 provides that a practitioner who becomes aware of a client's noncompliance with revenues laws or an error or omission in a filing with the IRS, the practitioner is required to promptly advise the client of the circumstance and the potential consequences. A CPA is not obligated to resign from the engagement, but there is an obligation to promptly inform the client upon becoming aware of such a circumstance.

Choices A, B (Incorrect): Section 10.21 of Circular 230 provides that a practitioner who becomes aware of a client's noncompliance with revenues laws or an error or omission in a filing with the IRS, the practitioner is required to promptly advise the client of the circumstance and the potential consequences. Information obtained from a client in connection with the preparation of their tax return is confidential, and the preparer is not permitted to reveal this information to third parties without the consent of the taxpayer, except in limited circumstances: (1) to respond to a valid government order; (2) as part of a quality control peer review program, or (3) to permit the electronic preparation or submission of the taxpayer's return.

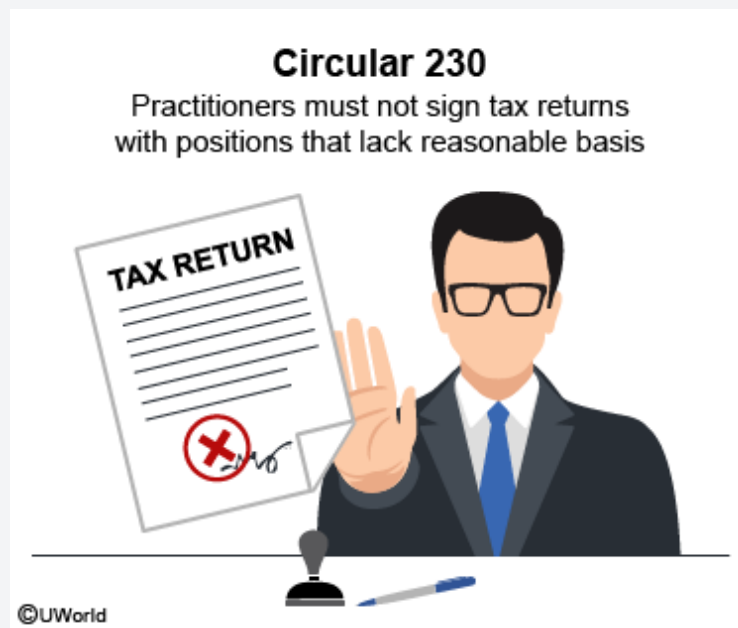
Question 27 of 36

According to Treasury Circular 230, practitioners must **not** sign a tax return if the return takes a position that does **not**, at a minimum, have

- A. A more-likely-than-not probability of being sustained.
- B. Substantial authority.
- C. A realistic possibility of being sustained.

D. A reasonable basis. ✓

Explanation:



Treasury Circular 230 establishes strict **rules** for **tax practitioners** regarding the **preparation** and **signing** of **tax returns** to ensure returns are accurate and comply with Treasury rules and the IRC. A practitioner **cannot sign** a return if any position taken in the return:

- Does not have a reasonable basis,
- Is frivolous,
- Reflects a willful attempt to understate tax liability, or
- Constitutes an intentional disregard for rules or regulations.

Tax professionals often use informal guidelines to judge the strength of a tax position. A reasonable basis means there is at least a 20% chance that the position would be upheld if reviewed by the IRS or a court. The other standards: realistic possibility (33% chance), substantial authority (40% chance), and more-likely-than-not (over 50% chance), represent higher thresholds of confidence and require stronger legal support for a tax position (**Choices A, B, and C**).

Things to remember:

To ensure the integrity of the tax system, Circular 230 prohibits tax practitioners from signing tax returns with positions that, at a minimum, lack reasonable basis.







Question 28 of 36

According to Treasury Circular 230, which of the following actions is permitted for a tax practitioner?

- A. Charging a contingent fee for preparing a client's original tax return.
- B. Imposing fees that are unreasonably high due to the complexity of the tax matter.
- C. Withholding client records until all outstanding fees are fully paid.
- D. Charging a contingent fee for representing a client in a judicial proceeding involving tax law. ✓**

Explanation:

Treasury Circular 230 - practitioner fee & record rules

Permitted	Not permitted
 Charging a contingent fee for amended return or refund claim filed within 120 days of IRS notice	 Charging an unconscionable fee
 Charging a contingent fee for a refund claim involving only statutory interest or penalties	 Charging a contingent fee for preparing an original tax return
 Charging a contingent fee for services in connection with a judicial proceeding under the internal revenue code	 Retaining client records due to nonpayment of fees

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Treasury Circular 230 sets professional **standards** for **tax practitioners**, including strict rules on fees and the handling of client records. Its purpose is to protect taxpayers and maintain integrity in tax practice. Practitioners must *not* charge **unconscionable fees** (fees that are excessive or unreasonable) (**Choice B**). **Contingent fees** (fees based on results) are generally **disallowed** since they may create conflicts of interest or encourage overly aggressive tax positions (**Choice A**).

There are some **exceptions** to the contingent fee rule. Practitioners *may* charge contingent fees when representing a client in (1) an IRS examination, (2) preparing an amended return or refund claim filed within 120 days of an IRS examination notice, (3) preparing a refund claim involving only statutory interest and penalties, or (4) any judicial proceeding under the IRC. These exceptions reflect situations where tying practitioner fees to outcomes is considered fair and appropriate.

Treasury Circular 230 also **prohibits** practitioners from **retaining client records** due to **nonpayment** of fees (**Choice C**). Taxpayers must *always* have access to their tax records to comply with their tax obligations, regardless of billing disputes.

Things to remember:

Treasury Circular 230 prohibits tax practitioners from charging contingent fees except for services related to IRC judicial proceedings, amended returns, and IRS examinations. It also bans unreasonable or excessive client fees and requires practitioners to return client records even if fees remain unpaid.

Question 29 of 36

In order to practice before the Internal Revenue Service, a certified public accountant

- A. **Must not currently be under suspension or disbarment from practice before the Internal Revenue Service.** ✓
- B. Must have at least 5 years' experience in the preparation of federal tax returns.
- C. Must file proof of a current CPA license with the Internal Revenue Service.
- D. Must **not** be a federal or state government employee.

Explanation:

Circular 230 requirements to practice before the IRS		
	Practice before the IRS	Provide written tax advice
Be in good standing	✓	✓
Written declaration	✓	X

Circular 230 outlines the IRS's rules of practice for individuals authorized to represent taxpayers before the agency. **Eligible practitioners** include attorneys, CPAs, enrolled agents, enrolled actuaries, enrolled retirement plan agents, and registered tax return preparers—so long as they **meet IRS qualifications** and **are in good standing**.

Being in good standing to practice before the IRS under Circular 230 is not merely about having the right title—it involves active maintenance of professional credentials, adherence to ethical standards, timely completion of continuing education obligations, and full compliance with IRS regulations. **Individuals** who are currently **suspended or disbarred** from practice **are prohibited** from representing taxpayers before the IRS.

Only federal and state government **employees involved in tax matters** where the **government** has a **direct interest** are prohibited from practicing before the IRS, to avoid conflicts of interest (**Choice D**). Additionally, there is *no requirement* that an individual must have at least 5 years of tax preparation experience or submit proof of licensure to qualify (**Choices B and C**).

Things to remember:

In order to practice before the IRS, a practitioner must be in good standing. Individuals who are currently suspended or disbarred from practice are not in good standing and are prohibited from representing taxpayers before the IRS.

Question 30 of 36

Accountants should be familiar with Treasury Department **Circular 230** because:

A. It provides regulations regarding practice before the Internal Revenue Service.



B. It provides additional regulations regarding the determination of personal income.

C. It provides additional resources that may be useful in preparing tax returns.

D. It provides guidance on appropriate advertising by accountants.

Explanation:

(Choice A) This answer is correct because it provides regulations regarding practice before the Internal Revenue Service.

(Choice B) This answer is incorrect. This is not an accurate statement of the content of *Circular 230*.

(Choice C) This answer is incorrect. This is not an accurate statement of the content of *Circular 230*.

(Choice D) This answer is incorrect. This is not an accurate statement of the content of *Circular 230*.

Question 31 of 36

According to Treasury Department **Circular 230**, a tax practitioner must promptly submit records or information in any matter before the IRS unless:

A. The practitioner believes in good faith and on reasonable grounds that the records or information are privileged. ✓

B. The practitioner believes that the records or information would be incriminating to the client.

C. The practitioner believes the client would not want the records or information provided.

D. The practitioner believes the records and information may not be relevant.

Explanation:

(Choice A) This answer is correct. This is grounds for not providing the information.

(Choice B) This answer is incorrect. This is not grounds for not providing the information.

(Choice C) This answer is incorrect. This is not grounds for not providing the information.

(Choice D) This answer is incorrect. This is not grounds for not providing the information.

Question 32 of 36

Which of the following statements is correct regarding a tax preparer's responsibilities under Treasury Circular 230?

- A. If the tax preparer learns of a material error in a tax return that they have filed for a client, they must quickly inform the IRS.
- B. If the IRS's agents properly ask the tax preparer to see records regarding one of their client's tax returns, it is their professional obligation to protect the client by delaying compliance as long as is reasonably possible.
- C. The tax preparer should qualify as a notary public so that they can notarize any applicable records and more efficiently prepare clients' tax returns.
- D. If the tax preparer's former partner has been disbarred by the IRS from tax practice, the tax preparer should **not** help the partner by paying them to prepare tax returns for the tax preparer's clients. ✓**

Explanation:

Under Treasury Circular 230, a practitioner should not knowingly accept even indirect assistance from any person disbarred or suspended from practice by the IRS.

(Choice A) The tax preparer's duty is to quickly inform the client, who can then make the decision whether or not to inform the IRS. That choice lies with the client, not with the tax preparer.

(Choice B) Under Circular 230, the tax preparer's obligation is to "promptly" submit to the IRS any records or information properly requested, *unless* the tax preparer believes in good faith and on reasonable grounds that the records or information are privileged.

(Choice C) Circular 230 provides that a tax practitioner must **not** act as a notary public with respect to matters before the IRS in which they are involved.

Things to remember:

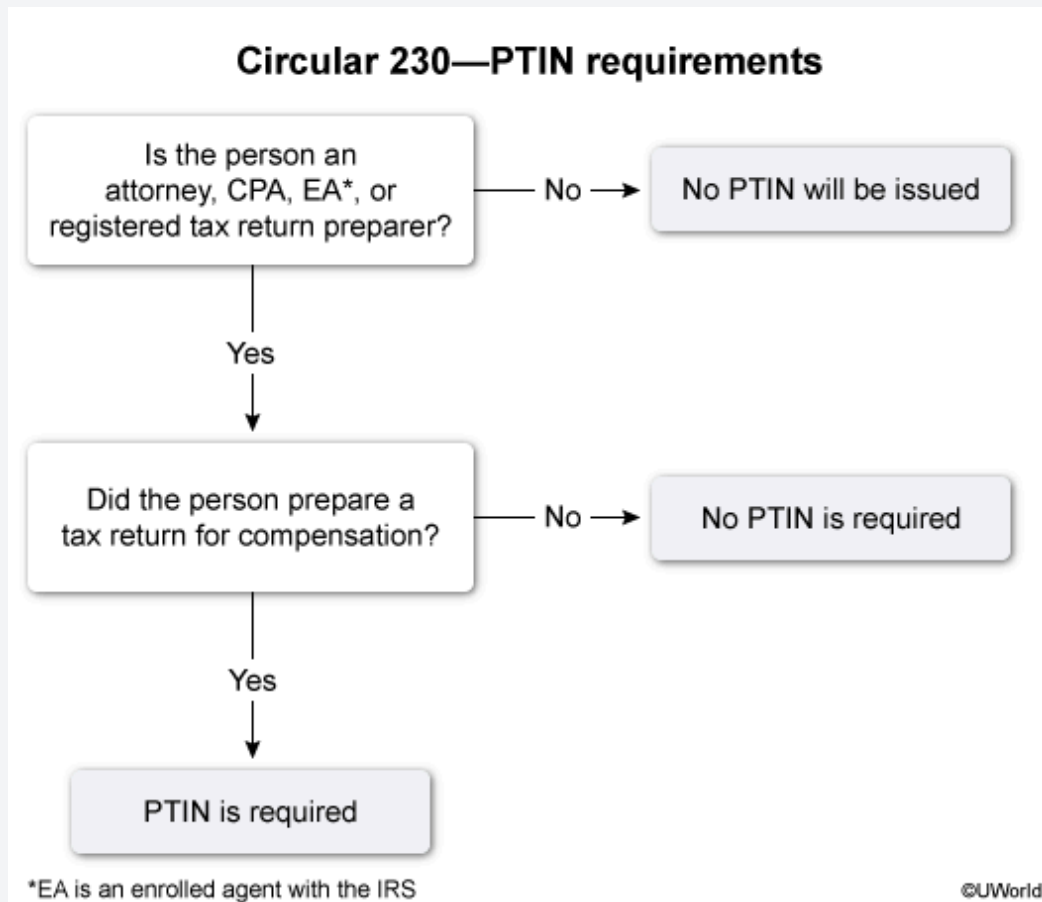
Under Treasury Circular 230 a practitioner should not knowingly accept even indirect assistance from any person disbarred or suspended from practice by the IRS.

Question 33 of 36

Under Treasury Circular 230, each of the following individuals is eligible to obtain a preparer tax identification number (PTIN) with the IRS, **except**

- A. An attorney.
- B. A revenue agent. ✓**
- C. An enrolled agent.
- D. A registered tax return preparer.

Explanation:



The IRS has established best practices to hold tax practitioners (eg, tax advisers) to a high standard for providing quality client representation regarding federal tax issues. As part of these best practices, a practitioner must conform to **Treasury Department Circular 230**, which consists of regulations concerning **professional practice before the IRS**.

A preparer tax identification number (PTIN) is required for the preparation of a tax return or claim for a refund in exchange for compensation. PTINs serve various purposes, including ensuring compliance and accountability, verifying tax preparer identification, and promoting quality professional standards. Only attorneys, CPAs, enrolled agents, and registered tax return preparers may obtain PTINs (**Choices A, C, and D**).

A revenue agent conducts tax audits of various entities (eg, individuals, businesses) and performs other compliance activities for the IRS. Because **revenue agents** are

responsible for auditing tax returns (not preparing them for compensation), they are **ineligible** to obtain a **PTIN**.

Things to remember:

Only attorneys, CPAs, enrolled agents, and registered tax return preparers may obtain a preparer tax identification number (PTIN). Revenue agents are responsible for auditing tax returns, not preparing them for compensation, so these agents are ineligible to obtain a PTIN.

Question 34 of 36

According to Treasury Circular 230, a practitioner may **not**

- A. Inform a client of how to avoid penalties by making disclosures to the IRS.
- B. Rely in good faith on information furnished by the client without verification.
- C. **Negotiate a federal tax refund check issued to a client by the government.** ✓
- D. Inform a client of any penalties that are likely to apply to a position taken on a return.

Explanation:

Preparer penalty for endorsing or negotiating a client's tax refund check

- Preparer may not endorse or negotiate client tax refund checks
- \$650 penalty for each improper endorsement

Circular 230 is a set of U.S. Treasury regulations that **govern** the **conduct** of **tax practitioners**—such as CPAs, attorneys, and enrolled agents—who represent taxpayers before the IRS. Under these rules, practitioners are specifically **prohibited from endorsing or negotiating** a client's tax **refund check**. The penalty for violating this rule is \$650 per check. The penalty's purpose is to prevent misappropriation of client funds.

(Choice A) Informing a client of how to avoid penalties by making disclosures to the IRS is not only allowed, it is a core part of providing competent and ethical representation, as required under Circular 230.

(Choice B) Relying in good faith on information furnished by the client without verification is permissible unless the information appears to be incorrect, inconsistent, or incomplete. The scenario in question does *not* imply any such red flags, so reliance without verification would be proper.

(Choice D) Informing a client of any penalties that may apply to a position taken on a return is a professional obligation and part of the practitioner's duty to inform the client responsibly.

Things to remember:

Tax practitioners are strictly prohibited from endorsing or negotiating a client's tax refund check.

Question 35 of 36

In order to avoid a practitioner penalty when determining earned income credit eligibility, a practitioner must do each of the following, except

- A. Dispose of earned income tax credit documentation after return preparation. ✓**
- B. Complete and submit a Paid Preparer's Due Diligence Checklist.
- C. Make reasonable inquiries if the information furnished to the preparer appears incorrect.
- D. Document the earned income credit calculation, including the method and information used to make the computation.

Explanation:

Tax benefits requiring additional due diligence and Form 8867

- Earned income tax credit (EITC)
- Child tax credit (CTC)
- Additional child tax credit (ACTC)
- Credit for other dependents (ODC)
- American opportunity tax credit (AOTC)
- Head of household (HOH) filing status

A tax return preparer (TRP) must always exercise *due diligence* in preparing a tax return. This includes interviewing the client, asking adequate questions, and obtaining appropriate and relevant information to determine the correct reporting of income, deductions, and tax benefits.

Certain tax benefits (eg, credits, filing status) that are frequently abused by taxpayers have **additional due diligence requirements** that the TRP must fulfill (eg, making further inquiries; obtaining supporting documentation; filing Form 8867, Paid Preparer's Due Diligence Checklist) to ensure the taxpayer's eligibility for those benefits (**Choices B and C**). The tax benefits subject to this rule are the:

- Earned income tax credit,
- Child tax credit,
- Additional child tax credit,
- Credit for other dependents,
- American opportunity tax credit, and
- Head of household filing status.

For example, Part II of Form 8867 requires the TRP to answer questions regarding due diligence for returns claiming the earned income tax credit. The TRP must document the taxpayer's eligibility, and the information used to make the computation (**Choice D**). A preparer is required to maintain the **documents relied on for due diligence** for **three**

years from the later of the due date or the filing date of the return (ie, the TRP may *not* dispose of the documents until then).

Things to remember:

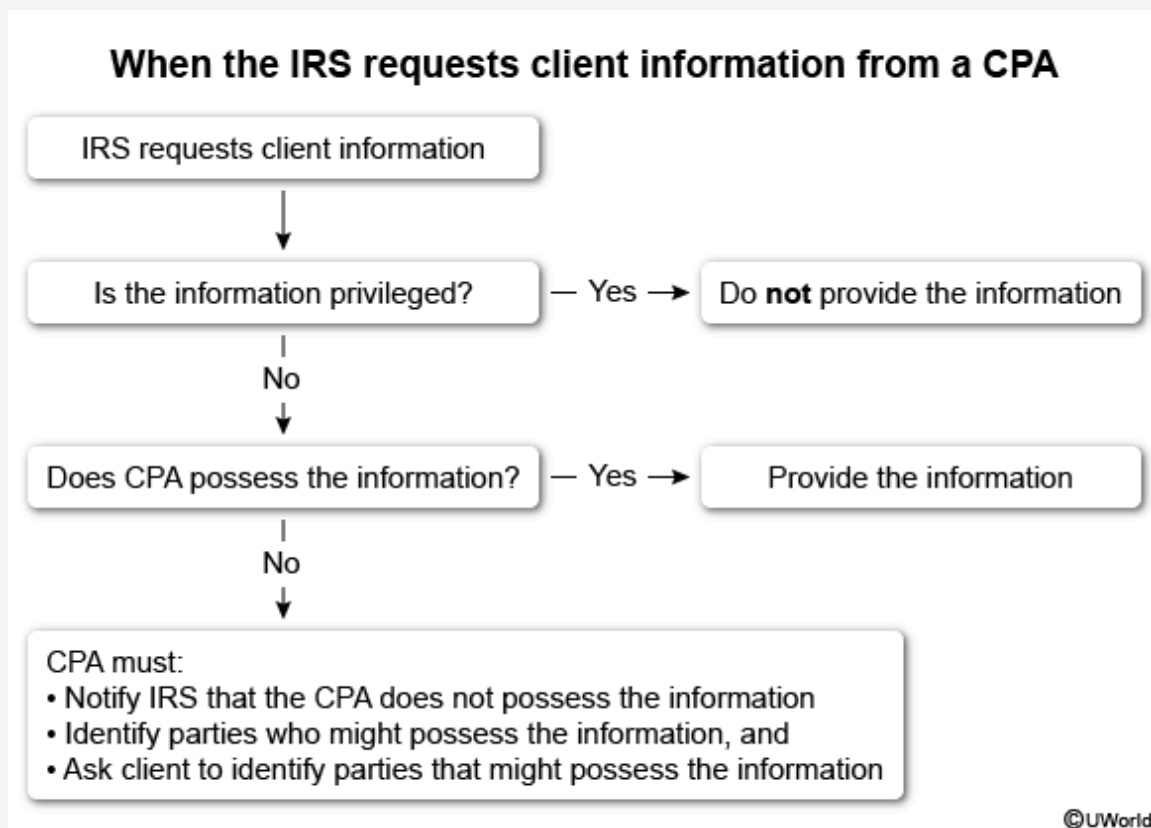
For certain tax benefits, a tax return preparer (TRP) must meet specific due diligence requirements above and beyond what is normally required. If a TRP is paid to prepare a claim for the earned income tax credit, the additional requirements include making further inquiries; filing Form 8867, Paid Preparer's Due Diligence Checklist; and documenting the calculation.

Question 36 of 36

An IRS agent requests records from a tax practitioner that are **not** in the practitioner's possession or control. The practitioner's client informs the practitioner that the records are held by a third-party data storage company. The practitioner does not have reason to believe the records are privileged. What action is required of the practitioner under Treasury Circular 230?

- A. Refuse to provide any information until the IRS agent obtains a court order.
- B. Independently verify the location of the records with the data storage company.
- C. Notify the IRS agent of the situation and provide the name of the data storage company. ✓**
- D. Obtain the records from the data storage company and provide them to the IRS agent.

Explanation:



Treasury Circular 230 mandates that tax practitioners (eg, CPAs) **provide records** to the IRS upon *proper and lawful request*, **excluding privileged taxpayer information**. This mandate enables the IRS to efficiently gather relevant records and expedite tax matters. When the records are *not* in the practitioner's possession, they must:

- Inform the IRS of their lack of possession
- Identify known potential record holders
- Request client assistance in identifying other potential record holders

In this scenario, the practitioner should **notify the IRS agent** of the situation and **provide the name of the data storage company**. In doing so, the practitioner fulfills

their obligation under Treasury Circular 230.

(Choice A) A court order is *not* necessary when a duly authorized IRS officer or employee makes a request. The practitioner is obligated to promptly submit records or information unless the practitioner believes the records or information are privileged.

(Choices B and D) The practitioner is *not* required to independently verify the location of the records or obtain the records from the data storage company and provide them to the IRS agent. This is beyond the scope of the practitioner's responsibility.

Things to remember:

When the IRS properly and lawfully requests client information from a practitioner and the records are not in the practitioner's possession, the CPA must inform the IRS of their lack of possession, identify potential record holders, and request the client's assistance in identifying parties that might possess the information.
