Below is a review of your answers, with the incorrectly answered questions first, followed by the correctly answered questions:

1. Question ID: 94850387 (Topic: Entities - Sole Proprietorships)
Which of the following tax forms may be used to calculate the profit and loss of a sole proprietor?

- **A. Schedule SE**wrong
- B. Schedule E
- C. Schedule Fcorrect
- D. Schedule J

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 35% of students.

Correct Answer Explanation for C:

The only two forms that are used to report income or loss from a sole proprietorship are **Schedule C** or **Schedule F**. Farm income and expenses from a self-employed farmer are reportable on a Schedule F. Schedule SE is used to calculate self-employment tax only—it is not used to report income or loss from a business. Schedule E is used to report rental income only. Schedule J is not used to report income or loss; it is used to calculate income averaging for farmers and fishermen.

2. Question ID: 94850340 (Topic: Entities - Sole Proprietorships)
Which form is used for a sole proprietor to make quarterly payments of self-employment tax?

- **A. Form 1099-MISC.**wrong
- B. Form 1040-ES.correct
- C. Form 941.
- D. Schedule SE.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 60% of students.

Correct Answer Explanation for B:

Form 1040-ES, Estimated Tax for Individuals, is used by sole proprietors to pay quarterly estimated taxes. A sole-proprietor may also choose to pay estimated taxes online, using EFTPS or Direct Pay, on the IRS website.

3. Question ID: 958501701 (Topic: Entities - Sole Proprietorships)

Which of the following statements is true about the transfer of a sole proprietorship?

- **A. A sole proprietorship is similar to a corporation, and can be transferred easily to new owners through a stock sale.**wrong
- B. A sole proprietorship cannot be passed on to a new owner as the same business entity.correct
- C. A sole proprietorship is automatically converted into a corporation upon transfer.
- D. A sole proprietorship can be transferred without any changes to the business structure.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 78% of students.

Incorrect Answer Explanation for A:

A sole proprietorship cannot be passed on to a new owner as the same business entity because, by definition, a sole proprietorship is owned and operated by a single, specific individual. If a business operated as a sole proprietorship is sold, it must be operated by the new owner as either a different sole proprietorship or as a different type of business entity through a sale of assets of the business.

Correct Answer Explanation for B:

A sole proprietorship cannot be passed on to a new owner as the same business entity because, by definition, a sole proprietorship is owned and operated by a single, specific individual. If a business operated as a sole proprietorship is sold, it must be operated by the new owner as either a different sole proprietorship or as a different type of business entity through a sale of assets of the business.

Show Other Explanations

6. Question ID: 958501697 (Topic: Entities - Sole Proprietorships)
What is a primary tax characteristic of a sole proprietorship?

- A. The business income is reported on the owner’s personal tax return.correct
- B. The business is exempt from self-employment tax.
- **C. The business pays corporate tax rates.**wrong
- D. The business is taxed separately from the owner, and is considered a separate entity.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 93% of students.

Incorrect Answer Explanation for C:

With a sole proprietorship, the business income is reported on the owner's personal tax return.

Income and expenses from the sole proprietorship are reported on Schedule C, Profit or Loss from Business, of Form 1040. A self-employed individual with net earnings of $400 or more from self-employment is also required to pay self-employment tax by filing Schedule SE, Self-Employment Tax, along with their Form 1040.

Correct Answer Explanation for A:

With a sole proprietorship, the business income is reported on the owner's personal tax return.

Income and expenses from the sole proprietorship are reported on Schedule C, Profit or Loss from Business, of Form 1040. A self-employed individual with net earnings of $400 or more from self-employment is also required to pay self-employment tax by filing Schedule SE, Self-Employment Tax, along with their Form 1040.

Show Other Explanations

7. Question ID: 958501698 (Topic: Entities - Sole Proprietorships)
At what net earnings threshold is a self-employed individual required to pay self-employment tax?

- A. $400correct
- **B. $2,500**wrong
- C. $1,000
- D. $600

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 72% of students.

Incorrect Answer Explanation for B:

A self-employed individual with net earnings of $400 or more from self-employment is required to pay self-employment tax. Income and expenses from the sole proprietorship are reported on Schedule C, Profit or Loss from Business, of Form 1040. In addition, sole proprietors must also calculate and pay self-employment tax by filing Schedule SE, Self-Employment Tax, with their Form 1040.

Correct Answer Explanation for A:

A self-employed individual with net earnings of $400 or more from self-employment is required to pay self-employment tax. Income and expenses from the sole proprietorship are reported on Schedule C, Profit or Loss from Business, of Form 1040. In addition, sole proprietors must also calculate and pay self-employment tax by filing Schedule SE, Self-Employment Tax, with their Form 1040.

Show Other Explanations

11. Question ID: 94850338 (Topic: Entities - Sole Proprietorships)
If an LLC is owned by a single individual, and the taxpayer does not file an entity classification with the IRS, how will the business be taxed?

- A. As a corporation.
- B. As a sole proprietorship.correct
- **C. As a partnership.**wrong
- D. As an exempt entity.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 86% of students.

Correct Answer Explanation for B:

If a “disregarded entity” (LLC) is owned by an individual, it is treated as a sole proprietor, unless the taxpayer files an entity classification election and elects to be taxed as a corporation. If the “disregarded entity” is owned by any other entity, it is treated as a branch or division of its owner.

12. Question ID: 958501705 (Topic: Entities - Partnerships)
The Unger Partnership was just recently formed this year. There are 10 partners in the Unger Partnership, some of which are entities. Unger Partnership wants to elect-out of the centralized partnership audit regime (CPAR). Which of the following is NOT considered an "eligible partner" in order for Unger Partnership to elect out of CPAR?

- **A. An individual**wrong
- B. S Corporation
- C. LLCcorrect
- D. C Corporation

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 40% of students.

Incorrect Answer Explanation for A:

Eligible partnerships may elect out of the CPAR, the centralized partnership audit regime. An "eligible" partnership cannot have more than 100 partners, and must only have "eligible" partners. LLCs are NOT eligible partners.

Partnerships with just one non-qualified partner *cannot* opt-out of the centralized audit regime, even if the partnership has fewer than 100 partners.

Correct Answer Explanation for C:

Eligible partnerships may elect out of the CPAR, the centralized partnership audit regime. An "eligible" partnership cannot have more than 100 partners, and must only have "eligible" partners. LLCs are NOT eligible partners.

Partnerships with just one non-qualified partner *cannot* opt-out of the centralized audit regime, even if the partnership has fewer than 100 partners.

Show Other Explanations

13. Question ID: 94850645 (Topic: Entities - Partnerships)
Which of the following business activities would not automatically be treated as a partnership for tax purposes?

- **A. A foreign partnership not created in the United States, but with some source income derived from business activity in the United States.**wrong
- B. A husband and wife who own and run a business together and choose to file separate returns (MFS).
- C. An LLC with two members that runs a convenience store.
- D. Joint ownership of a residential rental property when the joint owners are unrelated persons.correct

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 40% of students.

Correct Answer Explanation for D:

Joint ownership of a rental activity is generally not considered a partnership. Mere co-ownership of property that is maintained and leased or rented is not a partnership. *A foreign partnership not created in the United States, but with some source income derived from business activity in the United States* is incorrect because generally a foreign partnership that has income effectively connected within the United States or has gross income derived from sources in the United States must file a partnership return, even if its principal place of business is outside the United States or all its members are foreign persons. *An LLC with two members that runs a convenience store* is incorrect because an LLC with at least two members is classified as a partnership (by default) for federal income tax purposes unless an election is made to be taxed as a corporation. *A husband and wife who own and run a business together and choose to file separate returns (MFS)* is incorrect because a business jointly owned and operated by a married couple is generally treated as a partnership for federal tax purposes unless the spouses elect to be treated as a qualified joint venture. However, treatment as a qualified joint venture can only be elected on a joint return. Therefore, spouses who file separately and run a business together are recognized as partners and must file a partnership return.

15. Question ID: 958501706 (Topic: Entities - Partnerships)
A partnership must always have at least one __________ whose actions legally bind the business and who is legally responsible for a partnership's debts and liabilities.

- **A. Partnership representative**wrong
- B. Corporate partner
- C. General partnercorrect
- D. Limited partner

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 89% of students.

Incorrect Answer Explanation for A:

A partnership must always have at least one general partner whose actions legally bind the business and who is legally responsible for a partnership's debts and liabilities.

Correct Answer Explanation for C:

A partnership must always have at least one general partner whose actions legally bind the business and who is legally responsible for a partnership's debts and liabilities.

Show Other Explanations

16. Question ID: 98894206 (Topic: Entities - Partnerships)
If a multi-member LLC is owned jointly by a married couple, and the taxpayers do not live in a community property state, what is the default entity classification for the business?

- **A. S corporation**wrong
- B. Partnershipcorrect
- C. Marital trust
- D. Sole proprietorship

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 91% of students.

Correct Answer Explanation for B:

A multi-member LLC, which includes an LLC that is jointly owned by a married couple, is generally classified as a partnership by default for Federal tax purposes. The business should file Form 1065, U.S. Return of Partnership Income. Note that there is an exception to this rule, but only in a community property state, which allows married couples to elect to treat their MMLLC as a Qualified Joint Venture.

18. Question ID: 958501704 (Topic: Entities - Partnerships)
What is the maximum number of partners a partnership can have, and still be eligible to "elect out" of centralized partnership audit regime (CPAR)?

- A. 100correct
- **B. 50**wrong
- C. 10
- D. 500

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 87% of students.

Incorrect Answer Explanation for B:

Eligible partnerships may elect out of the CPAR, the centralized partnership audit regime. An "eligible" partnership cannot have more than 100 partners.

Note: Under the centralized partnership audit regime (CPAR), when a partnership tax return is audited by the IRS, the partnership itself will be subject to paying income tax in the event it is determined that it had originally underreported its taxable income on the return. However, if a partnership is considered an "eligible small partnership," the partnership can elect out of CPAR on Schedule B-2 (which is attached to the partnership's Form 1065).

Correct Answer Explanation for A:

Eligible partnerships may elect out of the CPAR, the centralized partnership audit regime. An "eligible" partnership cannot have more than 100 partners.

Note: Under the centralized partnership audit regime (CPAR), when a partnership tax return is audited by the IRS, the partnership itself will be subject to paying income tax in the event it is determined that it had originally underreported its taxable income on the return. However, if a partnership is considered an "eligible small partnership," the partnership can elect out of CPAR on Schedule B-2 (which is attached to the partnership's Form 1065).

Show Other Explanations

20. Question ID: 958501703 (Topic: Entities - Partnerships)
Under the centralized partnership audit regime (CPAR), who is responsible for paying income tax if a partnership underreports its taxable income?

- A. The individual partners
- **B. Only the responsible parties**wrong
- C. Only the general partners
- D. The partnership itselfcorrect
Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 51% of students.

Incorrect Answer Explanation for B:

Under the centralized partnership audit regime (CPAR), in the event a partnership tax return is audited by the IRS, the partnership itself will be subject to paying income tax in the event it is determined that it had originally underreported its taxable income on the return. However, if a partnership is considered an "eligible small partnership," the partnership can elect out of CPAR on Schedule B-2 (which is attached to the partnership's Form 1065).

Correct Answer Explanation for D:

Under the centralized partnership audit regime (CPAR), in the event a partnership tax return is audited by the IRS, the partnership itself will be subject to paying income tax in the event it is determined that it had originally underreported its taxable income on the return. However, if a partnership is considered an "eligible small partnership," the partnership can elect out of CPAR on Schedule B-2 (which is attached to the partnership's Form 1065).

Show Other Explanations

21. Question ID: EA2 0723 10 (Topic: Entities - Partnerships)
Superior Farms is taxed as a partnership. The business has four equal partners, some of which are entities. The partnership wants to opt-out of the Centralized Partnership Audit Regime (CPAR). Which of the following partners would <u>prevent</u> Superior Farms from electing out of CPAR?

- A. Thomas, who owns his partnership interest through a revocable grantor trust.correct
- **B. Grimmway Corporation, a C corporation.**wrong
- C. Henrietta Smith, an individual who holds her partnership interest directly.
- D. The Bill Jones Estate, an estate of a recently-deceased partner.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 42% of students.

Correct Answer Explanation for A:

Since Thomas owns his partnership interest through a revocable grantor trust, this would make him an "ineligible partner", and therefore, it would prevent Superior Farms from electing out of the Centralized Partnership Audit Regime. In order to elect out of CPAR, a partnership must only have "eligible partners," which are: individuals, a C corporation, a foreign entity that would be treated as a C corporation if it were a domestic entity, an S corporation, or an estate of a deceased partner. Ineligible partners include: other partnerships, trusts, disregarded entities (such as a grantor trust or a disregarded SMLLC), and bankruptcy estates.

22. Question ID: 958501702 (Topic: Entities - Partnerships)
What is a primary tax characteristic of a partnership?

- **A. Most partnerships pay entity-level income tax.**wrong
- B. A partnership is exempt from filing an annual return, as long as the individual owners report their income and loss on Schedule C.
- C. Profits and losses pass through to the partners.correct
- D. A partnership is usually taxed at flat, corporate tax rates.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 92% of students.

Incorrect Answer Explanation for A:

A partnership itself does not pay income tax. Instead, any profits or losses “pass through” to its partners, who are then responsible for reporting their respective shares of the partnership’s income or loss on their own returns.

Correct Answer Explanation for C:

A partnership itself does not pay income tax. Instead, any profits or losses “pass through” to its partners, who are then responsible for reporting their respective shares of the partnership’s income or loss on their own returns.

Show Other Explanations

23. Question ID: 958501708 (Topic: Entities - Qualified Joint Ventures)
Which of the following is a requirement for a business to be considered a Qualified Joint Venture (QJV)?

- **A. The business must be a multi-member limited liability company (MMLLC)**wrong
- B. The business cannot have any employees
- C. The business must be incorporated, and owned by a married couple
- D. Both spouses must own and participate in the businesscorrect
  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 82% of students.

  Incorrect Answer Explanation for A:

  In order to be classified as a QJV, or Qualified Joint Venture, the business must NOT be incorporated, and the business must be owned and operated by a married couple who both own and participate in the business.

  The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

  Correct Answer Explanation for D:

  In order to be classified as a QJV, or Qualified Joint Venture, the business must NOT be incorporated, and the business must be owned and operated by a married couple who both own and participate in the business.

  The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

  Show Other Explanations

  25. Question ID: 958501709 (Topic: Entities - Qualified Joint Ventures)
  What is one of the main benefits of spouses electing to be treated as a Qualified Joint Venture (QJV)?

- **A. It allows the business to operate in multiple states**wrong
- B. It provides additional liability protection
- C. It exempts the business from paying corporate-level tax rates
- D. It allows the business to avoid filing a partnership returncorrect
  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 89% of students.

Incorrect Answer Explanation for A:

One of the main benefits of spouses electing to be treated as a Qualified Joint Venture is that the election allows the business to avoid filing a partnership return.

The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Correct Answer Explanation for D:

One of the main benefits of spouses electing to be treated as a Qualified Joint Venture is that the election allows the business to avoid filing a partnership return.

The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Show Other Explanations

28. Question ID: 958501710 (Topic: Entities - Qualified Joint Ventures)
Cassie and Billy are married and live in Florida, which is not a community property state. They operate an unincorporated business together, which is a busy coffee shop. The business is not an LLC. Cassie and Billy would like their business to be treated as a Qualified Joint Venture. They plan to file a joint tax return together. How should their business activity be reported, if they make the QJV election?

- A. Cassie and Billy must file a partnership tax return, Form 1065
- **B. The business activity is reported on a single Schedule C for the business**wrong
- C. Cassie and Billy should file separate Schedules C and separate Schedules SE.correct
- D. Their business activity should be split between two Schedule E forms, one for each spouse

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 79% of students.

Incorrect Answer Explanation for B:

If Cassie and Billy would like to make the QJV election, each spouse would file a separate Schedule C and separate Schedule SE.

The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Correct Answer Explanation for C:

If Cassie and Billy would like to make the QJV election, each spouse would file a separate Schedule C and separate Schedule SE.

The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Show Other Explanations

29. Question ID: 94850341 (Topic: Entities - Qualified Joint Ventures)
Dale and Jennifer run a coffee shop together. The business is not an LLC or a corporation. Which of the following statements is correct regarding a husband and wife (or same-sex spouses who are married) who own and run an unincorporated business together?

- A. A married couple cannot operate a partnership together because of the related party transaction rules.
- **B. A married couple can choose to report their business by filing a single Schedule C. They must file jointly.**wrong
- C. A married couple can choose to report their business as a qualified joint venture and file two separate Schedules C. They must file jointly.correct
- D. A married couple can elect to be treated as a single individual for Social Security tax purposes.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 89% of students.

Correct Answer Explanation for C:

An unincorporated business jointly owned by a married couple is generally classified as a partnership for federal tax purposes. However, a married couple who operate a business together may choose to file as a qualified joint venture (QJV), filing on two separate Schedules C, as long as they file jointly. Unless a business meets the requirements of a qualified joint venture, a sole proprietorship must be solely owned by one spouse, although the other spouse may work in the business as an employee.

For more information about the qualified joint venture rules that apply to married couples who own a business, see Election for Married Couples Unincorporated Businesses.

30. Question ID: 94850072 (Topic: Entities - Qualified Joint Ventures)
Rhett and Skylar are married and file jointly. They operate an unincorporated business together, but they do not want to file a partnership tax return. They live in New Jersey, which is not a community property state. The business is not an LLC or any other state-law entity. What are their options?

- A. The spouses can file a single Schedule C and alternate years.
- **B. They are required by law to file a partnership tax return.**wrong
- C. The spouses can elect to file as a Qualified Joint Venture.correct
- D. One spouse can claim all the income.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 67% of students.

Correct Answer Explanation for C:

The spouses can elect to file as a Qualified Joint Venture. A qualified joint venture (QJV) conducted by married spouses who file a joint return for a tax year is not treated as a partnership for Federal tax purposes. A qualified joint venture is a joint venture that conducts a trade or business where:

- The only members of the joint venture are a married couple who file a joint return,
- Both spouses materially participate in the trade or business, and
- Both spouses elect not to be treated as a partnership.

Spouses make the “qualified joint venture” (QJV) election on a jointly filed Form 1040 by dividing all items of income, gain, loss, deduction, and credit between them in accordance with each spouse's respective interest in the joint venture, and each spouse filing with the Form 1040 a separate Schedule C, (or Schedule F). Only businesses that are owned and operated by spouses as co-owners (and not in the name of a state law entity, such as an LLC or LLP) qualify for the QJV election (there is a narrow exception for couples who reside in community property states, who can still elect QJV treatment if they operate a MMLLC together as sole owners).

To learn more about Qualified Joint Ventures, see the IRS page for Election for Married Couples Unincorporated Businesses.

31. Question ID: 958501707 (Topic: Entities - Qualified Joint Ventures)
How is a Qualified Joint Venture (QJV) defined by the IRS?

- **A. A partnership agreement between two related parties**wrong
- B. A business structure that provides liability protection to its owners
- C. A corporation formed and operated only by a married couple
- D. A tax election made by a married couple who own and operate a business togethercorrect

  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 89% of students.

  Incorrect Answer Explanation for A:

  A Qualified Joint Venture is a tax election made by a married couple who jointly own and operate a business together.

  The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

  Correct Answer Explanation for D:

  A Qualified Joint Venture is a tax election made by a married couple who jointly own and operate a business together.

  The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Show Other Explanations

32. Question ID: 958501712 (Topic: Entities - Qualified Joint Ventures)
Harry and Lenore are married and run a small restaurant together. Their business is unincorporated. They want to avoid filing a partnership tax return. Which of the following actions would prevent Harry and Lenore from making a Qualified Joint Venture (QJV) election?

- **A. They live in a common law state**wrong
- B. They file separate tax returnscorrect
- C. Their restaurant business has losses for the year
- D. They are members of a recognized religious group that is opposed to filing electronically.

  Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 88% of students.

Incorrect Answer Explanation for A:

In order to make a QJV election, Harry and Lenore must file jointly. If they file separate tax returns, they will be required to report their business as a partnership, and file a partnership tax return, instead.

If Harry and Lenore would like to make the QJV election, they must file a joint tax return, and then each spouse would file a separate Schedule C and separate Schedule SE.

The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Correct Answer Explanation for B:

In order to make a QJV election, Harry and Lenore must file jointly. If they file separate tax returns, they will be required to report their business as a partnership, and file a partnership tax return, instead.

If Harry and Lenore would like to make the QJV election, they must file a joint tax return, and then each spouse would file a separate Schedule C and separate Schedule SE.

The IRS definition of a qualified joint venture: A qualified joint venture is a joint venture that conducts a trade or business where (1) the only members of the joint venture are a married couple who file jointly, (2) both spouses participate in the trade or business, and (3) both spouses elect not to be treated as a partnership.

Show Other Explanations

33. Question ID: 94850368 (Topic: Entities - C Corporations)
Which of the following entities does not have to use a “required tax year”?

- **A. A sole proprietorship**wrong
- B. S corporation
- C. Partnership
- D. C corporationcorrect
  Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 72% of students.

Correct Answer Explanation for D:

A C corporation generally does not have to use a required tax year and can use any fiscal year instead. A business adopts a tax year when it files its first income tax return. Any business, regardless of entity type, can adopt the calendar year as its tax year. To see a detailed explanation of accounting periods, see Publication 538, Accounting Periods and Methods and the dedicated IRS page that discusses tax years.

34. Question ID: 94850365 (Topic: Entities - C Corporations)
Which of the following is not a pass-through entity?

- A. S corporation.
- B. C Corporation.correct
- **C. Partnership.**wrong
- D. Trust.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 94% of students.

Correct Answer Explanation for B:

A C corporation is not a pass-through entity. Partnerships, S corporations, and trusts are pass-through entities and are generally not taxed on their earnings. In the case of a partnership, income and losses pass through to the individual partners. In the case of an S corporation, income and losses pass through to shareholders. In the case of a trust, a trust is a pass-through entity that is allowed a deduction for its distributions to beneficiaries.

38. Question ID: 94850950 (Topic: Entities - C Corporations)
Which of the following statements is TRUE with regard to corporations?

- A. C corporations are taxed at graduated tax rates.
- B. A domestic C corporation cannot have foreign shareholders.
- C. A C corporation may have an unlimited number of shareholders.correct
- **D. A C corporation receives a tax deduction when it distributes dividends to shareholders**wrong

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 82% of students.

Correct Answer Explanation for C:

A C corporation may have an unlimited number of shareholders. Unlike an S Corporation, there is no limit to how many shareholders a C Corporation can have. In addition, shareholders may be foreign or domestic. All the other statements are false.

39. Question ID: 94850924 (Topic: Entities - C Corporations)
Which of the following is generally considered a BENEFIT of a corporation?

- **A. Accrual-based financial statements.**wrong
- B. Double taxation.
- C. Perpetual life.correct
- D. Difficult accounting.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 84% of students.

Correct Answer Explanation for C:

The aspect of continual existence, or "perpetual life" is generally considered a benefit of corporate status. Unlike a sole proprietorship, the company does not dissolve on the death of the owner, or shareholder.

41. Question ID: 94850930 (Topic: Entities - C Corporations)
Which of the following is NOT an attribute of a C corporation?

- **A. Perpetual existence**wrong
- B. Passthrough tax treatmentcorrect
- C. Limited liability for shareholders
- D. Easy transferability of ownership interests

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 92% of students.

Correct Answer Explanation for B:

A C corporation is not a passthrough entity. A C corporation is a distinct and separate legal entity that can own property, enter into contracts, and be sued. A C corporation has perpetual existence, limited liability for shareholders (owners), and offers easy transferability of ownership interests through a stock sale.

42. Question ID: 94850942 (Topic: Entities - C Corporations)
Corporations are incorporated under _________________.

- **A. Local law**wrong

- B. Federal law
- C. Commerce law
- D. State lawcorrect
  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 62% of students.

  Correct Answer Explanation for D:

  Corporations are incorporated under applicable state law. Each state passes its own corporate laws. The state of incorporation does not impact the corporation's federal income tax liability.

  44. Question ID: 94850779 (Topic: Entities - C Corporations)
  Because a corporation is a separate entity from its shareholders, the shareholders have __________ liability.

- A. Federal
- **B. Alternative**wrong
- C. Transitory
- D. Limitedcorrect
  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 95% of students.

  Correct Answer Explanation for D:

  Because a corporation is a separate entity, the shareholders have **limited** liability. This is one of the major benefits of corporate formation. However, this liability is not absolute. If a shareholder personally guarantees the obligations of the corporation or cosigns a loan, then the shareholder's assets may be at risk.

  45. Question ID: 94850780 (Topic: Entities - C Corporations)
  Which of the following is a benefit of C corporations?

- A. A C corporation offers liability protection and perpetual existence.correct
- **B. Shareholders of a C corporation cannot deduct corporate losses.**wrong
- C. Earnings of a C corporation are taxed twice, once at the corporate level, and once at the shareholder level.
- D. A C corporation must hold formal board and shareholder meetings and keep accurate minutes of these meetings.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 93% of students.

Correct Answer Explanation for A:

A C corporation has benefits and drawbacks. A C corporation offers liability protection and perpetual existence. These are two benefits of a C corporation. A C corporation also offers:

- Separation between shareholders and management.
- Readily transferable shares.
- No limits on shareholder ownership. A C corporation can have one shareholder, or an unlimited number of shareholders (unlike an S corporation, which is limited to 100 shareholders).
- Shareholders can be foreign or domestic, nonresident aliens, and entities.

For more information about C Corporations, see the Publication 542, Corporations.

47. Question ID: 94850945 (Topic: Entities - S Corporations)
What are the two main reasons a corporation may elect "S status"?

- **A. To have an unlimited number of shareholders and allow for preferred stock.**wrong
- B. To allow for unlimited equity financing and to be more attractive to investors.
- C. To avoid double taxation on distributions and to allow corporate losses to pass through to its owners.correct
- D. To attract foreign shareholders, and to have an unlimited number of shareholders.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 96% of students.

Correct Answer Explanation for C:

The two main reasons for electing S corporation status are: (1) To avoid double taxation on distributions and (2) To allow corporate losses to pass through to its owners. The other answers listed would be advantages of a C corporation, not an S corporation.

49. Question ID: 94850379 (Topic: Entities - S Corporations)
Daniella and her husband, Roger, file articles of incorporation in their state of residence, Nevada. They will be the sole owners of the business, which will provide web design services. Nevada is a community property state. What tax classifications are available to them with respect to this new entity?

- **A. A qualified joint venture, a C corporation, or a partnership.** wrong
- B. A partnership or a corporation.
- C. An S corporation or a C corporation. correct
- D. A corporation or a partnership.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 37% of students.

Correct Answer Explanation for C:

Daniella and Roger filed articles of incorporation (not articles of organization), which means their entity type is a corporation by default. They cannot choose to be treated as a partnership or a qualified joint venture. However, if they file Form 2553 with the IRS, then they can make the election to be classified as an S corporation for tax purposes. Their only choices are: a C corporation or an S corporation.

50. Question ID: 758501719 (Topic: Entities - S Corporations)
Which type of corporation is ineligible to elect S corporation status?

- A. Limited Liability Company
- **B. C Corporation**wrong
- C. Nevada corporation
- D. Foreign corporationcorrect

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 64% of students.

Incorrect Answer Explanation for B:

A foreign corporation cannot elect S corporation status. An S-corporation election requires that the entity must be a domestic business, meaning it must have been formed or incorporated within the United States.

Correct Answer Explanation for D:

A foreign corporation cannot elect S corporation status. An S-corporation election requires that the entity must be a domestic business, meaning it must have been formed or incorporated within the United States.

Show Other Explanations

53. Question ID: 758501716 (Topic: Entities - S Corporations)
What is the primary tax advantage of an S corporation?

- A. It can be a foreign or domestic entity.
- B. It is exempt from all state taxes.
- C. It allows shareholders to avoid double taxation.correct
- **D. It does not need to file an annual tax return.**wrong

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 96% of students.

Incorrect Answer Explanation for D:

S corporations pass their income, losses, deductions, and credits directly to shareholders, who report these on their individual tax returns, thus avoiding double taxation at the corporate level.

Correct Answer Explanation for C:

S corporations pass their income, losses, deductions, and credits directly to shareholders, who report these on their individual tax returns, thus avoiding double taxation at the corporate level.

Show Other Explanations

55. Question ID: EA2 0723 07 (Topic: Entities - LLCs)
If an LLC has at least two members and is classified as a partnership, it generally must file ________.

- **A. Form 1120-S**wrong
- B. Schedule C
- C. Form 1065correct
- D. Form 1041

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 91% of students.

Correct Answer Explanation for C:

If an LLC has at least two members and is classified as a partnership, it generally must file Form 1065, U.S. Return of Partnership Income.

56. Question ID: 94850355 (Topic: Entities - LLCs)
Duane and Madeline are the only members of a domestic LLC. Upon the formation of the LLC, they filed Form 8832, Entity Classification Election, to elect to be taxed as a C corporation. Shortly after, however, they decided they would prefer to be taxed as a

partnership, and elected to change their entity classification. Two years later, Duane and Madeline change their minds again and decide they want to switch back and be classified as a C corporation. How long must they wait before they are allowed to change to a different entity classification?

- A. Five years.correct
- **B. 90 days.**wrong
- C. Three years.
- D. One year.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 54% of students.

Correct Answer Explanation for A:

They must wait five years. Once a business entity makes an election to change its classification, it cannot change the election again within five years (60 months). An election to change an LLC’s classification cannot take effect more than 75 days prior to the date the election is filed, nor can it take effect later than 12 months after the date the election is filed. The 60-month limitation does not apply if the previous election was made by a newly-formed eligible entity and was effective on the date of formation.

58. Question ID: EA2 0723 07 (Topic: Entities - LLCs)
An MMLLC with at least two members is classified as _____________ for federal income tax purposes.

- A. A partnership.correct
- **B. An S Corporation.**wrong
- C. A C corporation.
- D. A sole proprietorship.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 93% of students.

Correct Answer Explanation for A:

An MMLLC with at least two members is classified as a partnership for federal income tax purposes. This is the default classification. An LLC can also elect to instead be classified as a corporation. To elect S corporation tax status, the entity needs to file IRS Form 2553, Election by a Small Business Corporation. An LLC can file Form 8832, Entity Classification Election, to be taxed as a C corporation.

59. Question ID: 94850932 (Topic: Entities - LLCs)
Comley Fashion, LLC is a newly formed LLC with three owners. The owners of Comley Fashion would like to elect to be treated as a C corporation for tax purposes. What form must be filled out in order to make this election?

- **A. Form 3115**wrong
- B. Form 2553
- C. Form 1120
- D. Form 8832correct

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 85% of students.

Correct Answer Explanation for D:

If a business is an LLC with multiple owners, then it is classified as a partnership by default. The owners can use Form 8832, Entity Classification Election, to elect to be taxed as a C corporation.

61. Question ID: 94850389 (Topic: Entities - LLCs)
Ethel owns a single-member LLC that holds a residential rental property. She is not a real estate professional and has not made an election for her LLC to be taxed as a corporation. How should she report the income from her LLC?

- A. Schedule E, Form 1040.correct
- **B. Form 1065.**wrong
- C. Schedule LLC, Form 1040.
- D. Schedule C, Form 1040.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 65% of students.

Correct Answer Explanation for A:

Ethel's LLC is a disregarded entity for tax purposes. Since the income is rental income, the rental should still be reported on Schedule E.

62. Question ID: 94850427 (Topic: Entities - LLCs)
Which of the following entities can be treated as "disregarded entities?"

- A. A 501(C)(3) exempt organization
- B. Single member LLCcorrect
- C. S corporation

- **D. C Corporation**wrong

  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 91% of students.

  Correct Answer Explanation for B:

  A "disregarded entity" is a business with a single owner that is not separate from the owner for federal income tax purposes. The most common disregarded entity is the single-member limited liability company (SMLLC). A grantor trust is another type of common disregarded entity.

63. Question ID: 94850364 (Topic: Entities - LLCs)
What is one of the advantages of an LLC over a general partnership?

- A. An LLC has more flexibility with regard to contract agreements between owners.
- B. An LLC enjoys limited liability, while a general partnership does not.correct
- **C. An LLC can have an unlimited number of owners.**wrong
- D. An LLC is a better tax shelter.

  Study Unit 1: Business Entities and Requirements covers the information for this question.

  This question is answered correctly on the first attempt by 86% of students.

  Correct Answer Explanation for B:

  An LLC enjoys limited liability, while a general partnership does not. Unlike the partners in a partnership, none of the owners or members of an LLC are personally liable for its debts. If a limited liability company (LLC) is treated as a partnership for tax purposes, it must file Form 1065 annually and one of its owners must sign the return.

64. Question ID: EA2 0723 08 (Topic: Entities - LLCs)
Gary and Olivia are members of an LLC classified as a partnership for federal tax purposes. Each holds an equal membership interest. Gary and Olivia want to make an election for their LLC to be taxed as a C corporation. What is the procedure for this?

- **A. The LLC must file a Form 2553 and affirmatively elect to be treated as a corporation.**wrong
- B. The LLC must convert to a C corporation at the state level by filing new articles with the Secretary of State.
- C. The LLC must file a Form 1120 and affirmatively elect to be treated as a corporation.
- D. The LLC must file a Form 8832 and affirmatively elect to be treated as a corporation.correct

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 82% of students.

Correct Answer Explanation for D:

The LLC must file a Form 8832, Entity Classification Election, and affirmatively elect to be treated as a corporation (Form 2553 is used for an S corporation election, rather than a C Corporation).

66. Question ID: 94850357 (Topic: Entities - LLCs)
Chana is the single owner of an LLC. Her company will be taxed as a __________ by default.

- **A. C corporation or S corporation, depending on the amount of her company's average gross receipts.**wrong
- B. S corporation.
- C. Sole proprietorship.correct
- D. C corporation.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 91% of students.

Correct Answer Explanation for C:

An LLC with a single owner is classified as an entity "disregarded", or separate, from its owner for income tax purposes, unless the owner elects to be taxed as a corporation. Thus, a single-owner LLC owned by an individual is treated in a manner similar to a sole proprietorship and the owner is subject to the tax on net earnings from self-employment. Similarly, a single-owner LLC owned by a corporation or a partnership is included in the owner's tax return as if it were a division of the corporation or partnership. If an LLC wishes to be taxed as a corporation, it would file either:

- Form 8832 to elect to be treated as a C corporation.
- Form 2553 to elect to be treated as an S corporation

70. Question ID: 94851100 (Topic: Employer Identification Number)
A taxpayer may apply for an EIN online if their principal business is located in:

- A. The United States, Canada, or Mexico.
- **B. The United States or in any foreign country.**wrong
- C. The United States or in any U.S. Territory.correct
- D. The United States, excluding U.S. Territories.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 69% of students.

Correct Answer Explanation for C:

A taxpayer may apply for an EIN online if their principal business is located in the United States or in any U.S. Territory. The person applying online must have a valid Taxpayer Identification Number (SSN or ITIN). Foreign businesses that cannot apply for an EIN online can use Form SS-4, Application for Employer Identification Number, instead. See the IRS' online EIN Application Portal.

71. Question ID: 94851206 (Topic: Employer Identification Number)
Which form is used to request an EIN for a foreign entity when the entity cannot request an EIN online?

- A. Form SS-4.correct
- B. Form W-8BEN.
- **C. Form 8821.**wrong
- D. Form W-9.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 59% of students.

Correct Answer Explanation for A:

Form SS-4, Application for Employer Identification Number, is the form used to request an EIN when a business or an individual cannot request an EIN online. See more information about the EIN application process at the IRS' online EIN Application Portal.

72. Question ID: 94850367 (Topic: Employer Identification Number)
A business must obtain an EIN in all of the following instances except:

- **A. When it files an excise tax return.**wrong
- B. When it withholds taxes paid to a nonresident alien.
- C. When it operates as an exempt organization.
- D. When it operates as a sole proprietorship with no employees.correct

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 87% of students.

Correct Answer Explanation for D:

A sole proprietor with no employees is generally not required to obtain an EIN. The sole proprietor can choose to use their Social Security number, instead. An employer identification number is used for reporting purposes. Unlike Social Security numbers that are assigned to individuals, EINs are typically assigned to business entities. A business must apply for an EIN if any of the following apply:

- The business pays employees.
- The business operates as a corporation, exempt organization, trust, estate, or partnership.
- The business files any of these tax returns:
    - Employment
    - Excise
    - Alcohol, Tobacco, and Firearms
- The business withholds taxes paid to a nonresident alien.
- The business establishes a pension, profit sharing, or retirement plan.

73. Question ID: 758501722 (Topic: Employer Identification Number)
Which type of tax return filing necessitates a sole proprietor to have an EIN?

- **A. Individual income tax**wrong
- B. Employment taxes (payroll taxes)correct
- C. Self-employment tax
- D. Property tax

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 89% of students.

Incorrect Answer Explanation for A:

A business must have an EIN if it hires employees and files employment tax forms (payroll taxes).

Correct Answer Explanation for B:

A business must have an EIN if it hires employees and files employment tax forms (payroll taxes).

Show Other Explanations

74. Question ID: 758501720 (Topic: Employer Identification Number)
Which of the following entities must apply for an EIN?

- **A. A business changing its location to another state**wrong

- B. A sole proprietorship that converts to a partnershipcorrect
- C. An individual taxpayer with a side business
- D. A sole proprietor with no employees

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 93% of students.

Incorrect Answer Explanation for A:

Partnerships, (along with corporations, exempt organizations, trusts, and estates), must apply for an EIN.

Correct Answer Explanation for B:

Partnerships, (along with corporations, exempt organizations, trusts, and estates), must apply for an EIN.

Show Other Explanations

75. Question ID: 94850580 (Topic: Reporting Requirements)
Jardine Technical College is an educational institution that has to file information returns for various expenditures incurred during the year. Which of the following payments should the college report on a Form 1099-NEC? (Assume all the payments were made by cash or check).

- **A. $15,000 in rents paid to an outside company for the rent of a temporary office building.** wrong
- B. $1,900 paid to a self-employed graphic designer for the design of a new logo. correct
- C. A $6,000 educational grant paid to a graduate student that is paid for teaching at Jardine Technical College.
- D. A $1,000 cash prize that was paid to a participant in a creative writing competition.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 86% of students.

Correct Answer Explanation for B:

The $1,900 paid to a self-employed graphic designer for the design of a new logo would be reported on Form 1099-NEC, Nonemployee Compensation. None of the other payments would be reported on Form 1099-NEC.

- The $15,000 in rents would be reported on Form 1099-MISC, not Form 1099-NEC.

- The $6,000 educational grant paid to a graduate student that is paid for teaching, research, or other services would be reported to the student on Form W-2, not Form 1099-NEC.
- The $1,000 cash prize would not be reported on Form 1099-NEC, because "prizes and awards" are reported on Form 1099-MISC.

76. Question ID: 94850325 (Topic: Reporting Requirements)
What is the purpose of Form W-4? How is the form used by employers?

- **A. Employers use Form W-4 to determine how much corporate tax to withhold for a corporation.**wrong
- B. Employers use Form W-4 to determine how much income tax to withhold from employee pay.correct
- C. Employers use Form W-4 to determine an employee's federal tax liability.
- D. Employers use Form W-4 to determine how much Social Security tax to withhold from employee pay.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 82% of students.

Correct Answer Explanation for B:

Employers are required to withhold payroll taxes and income tax from employees' pay. Employers use Form W-4 to determine how much income tax to withhold from employee pay.

78. Question ID: 98894354 (Topic: Reporting Requirements)
Raymond owns a delivery truck and delivers bread to retailers locally for the Gourmet Bread Bakery. He owns his delivery route. Raymond received a W-2 with gross wages of $30,000 in Box 1. Raymond's Federal income tax rate is 15%. Raymond is classified as what type of employee, and what amount was withheld for Federal income tax (FIT)?

- A. Common-law employee, Federal withholding: $4,500
- **B. Statutory non-employee, Federal withholding: $4,500**wrong
- C. Statutory employee, Federal withholding: $0correct
- D. Independent contractor, Federal withholding: $0

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 44% of students.

Correct Answer Explanation for C:

Raymond would be classified as a statutory employee. He would have withholding on his W-2 for Social Security and Medicare taxes, but NOT income taxes. A statutory employee is defined as an employee by law under a specific statute. Statutory employees include certain agent-drivers or commission-drivers, full-time insurance salespersons, certain home workers, and certain traveling salespersons that sell to business customers. (Based on a released EA exam question)

79. Question ID: 94850409 (Topic: Reporting Requirements)
Which of the following items would NOT be reported on an employee's Form W-2?

- A. Amounts paid for employer-sponsored health coverage
- B. Reimbursements to the employee made under an accountable plan.correct
- **C. Taxes withheld from the employee's pay**wrong
- D. Wages paid.

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 81% of students.

Correct Answer Explanation for B:

Reimbursements to the employee made under an accountable plan would not be included on an employee's Form W-2. Wages paid and taxes withheld by the employer would be reported on the Form W-2, as well as amounts paid for employer-sponsored health coverage (in box 12, Code DD). For more information, see the IRS Instructions for Forms W-2.

80. Question ID: 94850428 (Topic: Reporting Requirements)
Which of the following payments made to employees is required to be reported on Form W-2 by the employer?

- A. Distributions from a qualified plan.
- **B. Reimbursements made to employees under the accountable plan.**wrong
- C. Deceased employee wages paid after the year of death.
- D. Taxable prizes and awards paid to employees.correct

Study Unit 1: Business Entities and Requirements covers the information for this question.

This question is answered correctly on the first attempt by 50% of students.

Correct Answer Explanation for D: