Principles of Taxation for Business and Investment Planning 2025 Edition 1st edition Jones Test Bank

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Chapter 01 Test Bank - Static

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Payment of a tax entitles the payer to a specific good or service from the government.
   - ⊙ true
   - ⊙ false

2) A user fee entitles the payer to a specific good or service from the government.
   - ⊙ true
   - ⊙ false

3) A tax is intended to deter or punish unacceptable behavior.
   - ⊙ true
   - ⊙ false

4) A tax is a payment to support the cost of government.
   - ⊙ true
   - ⊙ false

5) Under U.S. tax law, corporations are entities separate and distinct from their shareholders.
   - ⊙ true
   - ⊙ false

6) The person who pays a tax directly to the government always bears the economic incidence of the tax.
   - ⊙ true
   - ⊙ false

7) In some cases, the payer of a tax can shift the economic incidence of the tax to a third party.
   - ⊙ true
   - ⊙ false

8) The U.S. government has jurisdiction to tax individuals who are not U.S. citizens but who are permanent U.S. residents.
   - ⦾ true
   - ⦾ false

9) The U.S. government has jurisdiction to tax individuals who are not U.S. citizens or permanent U.S. residents but who earn income from a source within the United States.
   - ⦾ true
   - ⦾ false

10) The U.S. government does not have jurisdiction to tax U.S. citizens who are permanent residents of another country.
   - ⦾ true
   - ⦾ false

11) A tax with a graduated rate structure must have at least two brackets of tax base.
   - ⦾ true
   - ⦾ false

12) A sales tax is an example of a transaction-based tax.
   - ⦾ true
   - ⦾ false

13) A tax on net income is an example of a transaction-based tax.
   - ⦾ true
   - ⦾ false

14) A sales tax is an example of an activity-based tax.
   - ⦾ true
   - ⦾ false

15) Ad valorem property taxes are the major source of revenue for local governments.
   - ⊙ true
   - ⊙ false

16) Taxes on personal property are more difficult to administer and enforce than taxes on real property.
   - ⊙ true
   - ⊙ false

17) A state government may levy either a sales tax or a use tax on consumers but not both.
   - ⊙ true
   - ⊙ false

18) Sellers of retail goods are responsible for collecting sales tax from their customers and remitting the tax to the state government.
   - ⊙ true
   - ⊙ false

19) Purchasers of consumer goods through the mail are responsible for paying use tax on goods for which sales tax was not collected by the seller.
   - ⊙ true
   - ⊙ false

20) The majority of state governments raise revenue from both personal and corporate income taxes.
   - ⊙ true
   - ⊙ false

21) The federal government imposed the first income tax to raise money to fight the War of 1812.
   - ⊙ true
   - ⊙ false

22) The U.S. Constitution gives the federal government the power to impose a tax on income from whatever source derived.
- ⊙ true
- ⊙ false

23) The federal government collects more revenue from the corporate income tax than from the individual income tax.
- ⊙ true
- ⊙ false

24) The federal government does not levy property taxes or a general sales tax.
- ⊙ true
- ⊙ false

25) A business that operates in more than one state is required to pay state income tax only to the state in which it is incorporated.
- ⊙ true
- ⊙ false

26) The potential for conflict among taxing jurisdictions is greatest for businesses operating on a global scale.
- ⊙ true
- ⊙ false

27) Fewer than half of the state governments depend on some form of gambling as a source of revenue.
- ⊙ true
- ⊙ false

28) According to the U.S. Supreme Court, states may require businesses to collect sales tax based on the residency of the purchaser.
- ⊙ true
- ⊙ false

29) The Internal Revenue Code is written by the Internal Revenue Service.
- ⊚ true
- ⊚ false

30) The U.S. Constitution requires that federal tax legislation begins in the Senate.
- ⊚ true
- ⊚ false

31) The U. S. House Ways and Means Committee is responsible for drafting new federal tax legislation.
- ⊚ true
- ⊚ false

32) Both the U.S. House of Representatives and the U.S. Senate must vote to approve a new federal tax bill before the bill is signed into law by the President.
- ⊚ true
- ⊚ false

33) Treasury regulations are tax laws written by the Treasury Department.
- ⊚ true
- ⊚ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

34) Which of the following is not characteristic of a tax?
- A) A tax is compulsory.
- B) A tax is intended to punish unacceptable behavior.
- C) A tax is levied by a government.
- D) All of these choices are characteristics of a tax.

35) The state of Virginia charges motorists 50 cents for every trip across a toll bridge over the James River. This charge is an example of a(n):

A) User's fee
B) Transaction-based tax
C) Activity-based tax
D) Excise tax

36) The city of Mayfield charges individuals convicted of DWI (driving while intoxicated) $500 for the first conviction and $2,000 for any subsequent conviction. These charges are an example of a(n):

A) User's fee
B) Transaction-based tax
C) Activity-based tax
D) Government penalty

37) The property tax on a rental house owned by Mr. Janey increased by $1,200 this year. Mr. Janey increased the monthly rent charged to his tenant, Ms. Lacey, by $45. Who bears the incidence of the property tax increase?

A) Mr. Janey
B) Ms. Lacey
C) Both Mr. Janey and Ms. Lacey
D) Neither Mr. Janey nor Ms. Lacey

38) Acme Incorporated's federal income tax increased by $100,000 this year. As a result, Acme reduced the annual dividend paid on its common stock by $100,000. Who bears the incidence of the corporate tax increase?

A) Acme Incorporated
B) Acme's customers
C) Acme's employees
D) Acme's shareholders

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39) Acme Incorporated's property taxes increased by $65,000 this year. As a result, Acme increased the sale prices of its products to generate $65,000 more revenue. Who bears the incidence of the corporate tax increase?

A) Acme Incorporated
B) Acme's customers.
C) Acme's employees.
D) Acme's shareholders.

40) Acme Incorporated's property taxes increased by $19,000 this year. As a result, Acme eliminated $19,000 from its budget for the employee Christmas party. Who bears the incidence of the corporate tax increase?

A) Acme Incorporated
B) Acme's customers.
C) Acme's employees.
D) Acme's shareholders.

41) Mr. Bilboa is a citizen of Portugal. Which of the following statements is **true**?

A) The U.S. government has no jurisdiction to tax Mr. Bilboa because he is not a U.S. citizen.
B) The U.S. government has jurisdiction to tax Mr. Bilboa if he is a permanent resident of the United States.
C) The U.S. government has jurisdiction to tax Mr. Bilboa if he earns income from a business he operates in Florida.
D) Both the U.S. government has jurisdiction to tax Mr. Bilboa if he is a permanent resident of the United States and the U.S. government has jurisdiction to tax Mr. Bilboa if he earns income from a business he operates in Florida are true.

42) Mrs. King is a U.S. citizen who permanently resides in South Africa. Which of the following statements is **true**?

A) The U.S. government has jurisdiction to tax Mrs. King.
B) The U.S. government has no jurisdiction to tax Mrs. King because she does not live in the United States.
C) The U.S. government has no jurisdiction to tax Mrs. King because she does not earn any income from a source within the United States.
D) Mrs. King can elect whether to pay tax to the United States or to South Africa.

43) Mrs. Renfru is a Brazilian citizen who permanently resides in Houston, Texas. Which of the following statements is **true**?

A) The U.S. government has no jurisdiction to tax Mrs. Renfru because she is not a U.S. citizen.
B) The U.S. government has jurisdiction to tax Mrs. Renfru only on income that she earns from a source within the United States.
C) The U.S. government has jurisdiction to tax Mrs. Renfru.
D) Mrs. Renfru can elect whether to pay tax to the United States or to Brazil.

44) Which of the following statements regarding tax systems is **false**?

A) A single percentage that applies to the entire tax base is described as a flat rate.
B) When designing a tax, governments try to identify tax bases that taxpayers can easily avoid or conceal.
C) A tax base is an item, occurrence, transaction, or activity with respect to which a tax is levied.
D) With regard to tax systems, the term revenue refers to the total tax collected by the government.

45) Which of the following is an example of a transaction-based tax?

A) A tax on net business income
B) An excise tax
C) An estate tax on the transfer of assets at death
D) Both an excise tax and an estate tax on the transfer of assets at death.

46) Which of the following is an example of an activity-based tax?

A) A tax on business' net income
B) An excise tax
C) A gift tax on the transfer of assets by gift
D) Both a tax on business' net income and a gift tax on the transfer of assets by gift

47) Which of the following is an earmarked tax?

A) A tax imposed on the purchase of specific items such as liquor or cigarettes
B) A tax that generates revenues that the government can spend only to build more National Parks
C) A tax imposed only on individuals who earn more than $1 million annually
D) A tax that generates revenues that the government can spend for any purpose

48) Which of the following characterizes a good tax base?

A) The base can be easily expressed in monetary terms.
B) Taxpayers cannot easily avoid or conceal the base.
C) Taxpayers cannot easily move the base from one jurisdiction to another.
D) All of these choices characterize a good tax base.

49) The city of Springvale imposes a net income tax on businesses operating within its jurisdiction. The tax equals 1% of income up to $100,000 and 1.5% of income in excess of $100,000. The Springvale Bar and Grill generated $782,000 net income this year. Compute its city income tax.

A) $10,230
B) $11,230
C) $11,730
D) None of these choices are correct

50) Government Q imposes a net income tax on businesses operating within its jurisdiction. The tax equals 3% of income up to $500,000 and 5% of income in excess of $500,000. Company K generated $782,000 net income this year. Compute the income tax that Company K owes to Q.

A) $29,100
B) $14,100
C) $39,100
D) None of these choices are correct

51) Which of the following taxes is not a significant source of revenue for local governments?
  - A) Real property tax
  - B) Personal property tax
  - C) Employment tax
  - D) All of these choices are correct

52) Which of the following taxes is generally the most significant source of revenue for local governments?
  - A) Real property tax
  - B) Employment tax
  - C) Income tax
  - D) None of these choices are correct

53) Which of the following statements concerning property taxes is **false**?
  - A) Property taxes are ad valorem taxes.
  - B) Property taxes are the primary source of revenue for local governments.
  - C) Property taxes can be levied on realty or personalty.
  - D) None of these choices are false.

54) A sales tax can best be described as a(n):
  - A) Consumption tax
  - B) Income tax
  - C) Activity tax
  - D) Ad valorem tax

55) Which of the following statements concerning sales taxes is **false**?
  - A) Sales taxes apply to the purchase of most types of consumer goods.
  - B) Sales taxes apply to the purchase of most types of consumer services.
  - C) Sales taxes are collected by the seller when the sale is made.
  - D) Sales taxes imposed on the purchaser of retail items are consumption taxes.

56) The incidence of a state sales tax levied on the purchase of retail goods is:

- A) Borne by the ultimate purchaser of the goods.
- B) Borne by the seller who must collect and remit the tax.
- C) Borne by the government that levies the tax.
- D) None of these choices are correct.

57) Mr. Dodd resides in a state with a 6% sales and use tax. He recently traveled to another state to buy furniture and paid that state's 4% sales tax. Which of the following statements is **true**?

- A) Mr. Dodd's use tax liability to his home state equals 2% of the purchase price of the furniture.
- B) Mr. Dodd does not owe a use tax to his home state.
- C) Mr. Dodd's use tax liability to his home state equals 6% of the purchase price of the furniture.
- D) None of these choices are true.

58) Mr. Smith resides in a state with a 6% sales and use tax. He recently traveled to another state to buy furniture and paid that state's 7% sales tax. Which of the following statements is **true**?

- A) Mr. Smith is entitled to a refund of 1% of the purchase price of the furniture.
- B) Mr. Smith does not owe a use tax to his home state.
- C) Mr. Smith's use tax liability to his home state equals 6% of the purchase price of the furniture.
- D) None of these choices are true.

59) Which of the following statements about sales and use taxes is **true**?

- A) If an individual pays a sales tax on the purchase of an item, she will not have to pay a use tax on the purchase.
- B) If an individual pays a sales tax on the purchase of an item, she will also have to pay a use tax on the purchase.
- C) Many states that impose a sales tax do not impose a complementary use tax.
- D) None of these choices are true.

60) Which of the following taxes is a significant source of revenue for state governments?
   A) General sales tax
   B) Individual income tax
   C) Corporate income tax
   D) All of these choices are correct

61) Which of the following is not characteristic of an excise tax?
   A) An excise tax is levied on the retail sale of specific goods.
   B) Excise tax rates typically are higher than general sales tax rates.
   C) The purchaser is responsible for paying any excise tax directly to the government.
   D) All of these choices are characteristics of an excise tax.

62) What is the major difference between a sales tax and an excise tax?
   A) Sales taxes are levied by state governments, while excise taxes are levied only by the federal government.
   B) Sales taxes are imposed on the purchase of a wide variety of items, while excise taxes are imposed on the purchase of a few specific items.
   C) Sales taxes must be collected by the seller, while excise taxes must be paid directly by the purchaser.
   D) Sales taxes are imposed on the purchase of tangible goods, while excise taxes are imposed on the purchase of services.

63) Which of the following is not an advantage of state conformity to federal corporate income tax laws?
   A) States have complete control over their corporate income tax revenues.
   B) States do not have to enact comprehensive corporate income tax statutes.
   C) Conformity eases the compliance burden of corporate taxpayers.
   D) All of these choices are advantages of state conformity.

64) Which tax raises the most revenue for the federal government?
   A) Corporate income tax
   B) Individual income tax
   C) Excise taxes
   D) Transfer taxes

65) Which of the following federal taxes is earmarked for a specific purpose?
- A) Corporate income tax
- B) Employment taxes
- C) Unemployment taxes
- D) Both employment taxes and unemployment taxes are earmarked taxes.

66) Which of the following federal taxes is not earmarked for a specific purpose?
- A) Employment taxes
- B) Unemployment taxes
- C) Transfer taxes
- D) All of these choices are earmarked taxes.

67) What gives the federal government the right to impose a tax on individual and corporate income?
- A) Internal Revenue Code of 1986
- B) Revenue Act of 1913
- C) Sixteenth Amendment to the U.S. Constitution
- D) Bill of Rights

68) When did the federal income tax become a permanent tax?
- A) Immediately after the Revolutionary War
- B) During the Civil War
- C) In 1913 when the Sixteenth Amendment to the U.S. Constitution was ratified
- D) In 1939 when Congress enacted the first Internal Revenue Code

69) Which of the following does not characterize federal transfer taxes?
- A) The tax is imposed on the value of wealth transferred by an individual as a gift.
- B) The tax is imposed on the value of wealth transferred because of the death of an individual.
- C) The tax is imposed on the value of wealth transferred by an individual to charity.
- D) All of these choices characterize federal transfer taxes.

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70) Which of the following does not characterize federal transfer taxes?

A) The tax is imposed on individuals but not on corporations.
B) The tax is based on the value of property transferred by gift or at death.
C) The tax is a transaction tax.
D) All of these choices characterize federal transfer taxes.

71) Company D, which has its home office in Raleigh, North Carolina, conducts business in the United States, Canada, and Mexico. Which of the following statements is **true**?

A) Because Company D must pay income tax to North Carolina, it is not required to pay tax to any other state.
B) Because Company D must pay income tax to North Carolina, it is not required to pay federal income tax.
C) Because Company D must pay income tax to the United States, it is not required to pay tax to Canada or Mexico.
D) None of these choices are true.

72) SJF Incorporated, which has its corporate offices in Boise, Idaho, conducts business in Idaho, Oregon, California, and British Columbia, Canada. Which of the following statements is **true**?

A) SJF must pay income tax only to Idaho and the United States.
B) SJF may be required to pay income tax to Idaho, Oregon, California, British Columbia, the United States, and Canada.
C) SJF must pay income tax only to Idaho, Oregon, California, and the United States.
D) SJF may be required to pay income tax to either the United States or to Canada, but not to both.

73) Which type of tax is not levied by the federal government?

A) Corporate income tax
B) Individual income tax
C) Employment taxes
D) General sales tax

74) Company N operates a mail order business out of its headquarters in Tulsa, Oklahoma. This year, it mailed $892,000 worth of product to customers residing in Oklahoma and $489,300 worth of product to customers residing in Missouri. Which of the following statements is **true**?

A) Company N must collect Oklahoma sales tax from its Oklahoma customers. Missouri may require Company N to collect Missouri sales tax from its Missouri customers.
B) Company N must collect Oklahoma sales tax from both its Oklahoma and Missouri customers.
C) Company N is not required to collect Oklahoma sales tax from its Oklahoma customers.
D) Company N is not required to collect sales tax on any mail order sales.

75) Which of the following does not contribute to the dynamic nature of the tax law?

A) The political pressure from professional lobbyists
B) Changes in the economic and social climate
C) Changes in revenue needs of the government
D) All of these choices contribute to the dynamic nature of the tax law

76) Which of the following statements regarding the political process of creating tax law is **false**?

A) The political process contributes to the dynamic nature of the tax law.
B) Special interest groups have little effect on the tax legislative process.
C) When taxpayers devise a new tactic for reducing their tax burdens, governments respond by enacting a new rule to render the tactic ineffective.
D) Changes in political philosophy often reflect shifts in the public attitude about the proper role of taxes in society.

77) Which of the following is/are not a primary source of authority for the tax law?

A) A revenue ruling published by the Internal Revenue Service
B) Section 162 of the Internal Revenue Code
C) Treasury Reg. §1.351-2
D) All of these choices are primary sources of authority

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78) Which of the following statements about the Internal Revenue Code is **false**?
  A) The Internal Revenue Code has not been amended since 1986.
  B) The Internal Revenue Code is part of federal statutory law.
  C) The Internal Revenue Code consists of numerically organized sections.
  D) Only Congress has the authority to amend the Internal Revenue Code.

79) How often does Congress amend the Internal Revenue Code?
  A) Rarely (the Internal Revenue Code has not been amended since 1986)
  B) Occasionally (perhaps once every decade)
  C) Regularly (at least once every five years)
  D) Constantly (at least once a year)

80) Which of the following statements about Treasury regulations is **false**?
  A) Treasury regulations are written to interpret and explain the Internal Revenue Code.
  B) Treasury regulations are part of the statutory law.
  C) A federal court can invalidate a Treasury regulation if the court concludes that the regulation incorrectly interprets the Internal Revenue Code.
  D) None of these choices are false.

81) Revenue rulings and revenue procedures are written by:
  A) The Internal Revenue Service
  B) The Department of the Treasury
  C) The United States Congress
  D) The Supreme Court

82) Which of the following is not considered administrative authority?
  A) Treasury regulations
  B) Revenue rulings
  C) Tax Court decisions
  D) All of these choices are administrative authorities

83) A revenue ruling is an example of:
- A) Judicial authority
- B) Administrative authority
- C) Legislative authority
- D) Editorial authority

84) Which of the following statements concerning judicial authority is **false**?
- A) Appellate court decisions have more authority than trial court decisions.
- B) Supreme Court decisions have more authority than appellate court decisions.
- C) Supreme Court decisions are the equivalent of law.
- D) None of these statements are false.

85) Which of the following sources of tax law carries the most authority?
- A) Revenue procedure
- B) Treasury regulation
- C) Supreme Court decision
- D) The three sources of tax law have equal authority

86) Which of the following sources of tax law carries the least authority?
- A) Revenue ruling
- B) Treasury regulation
- C) Section 736 of the Internal Revenue Code
- D) The three sources of tax law have equal authority

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

87) Ms. Penser resides in the city of Lanock, Tennessee. She owns 100% of the stock of PSW Incorporated, which is incorporated under Tennessee law and conducts business in six different local jurisdictions in Tennessee.
- A. How many taxpayers are identified in the above statement of facts?
- B. Identify the governments with jurisdiction to tax each of these taxpayers.

88) Forrest Township levies a tax on the assessed value of real property located within the town limits. The tax equals 1.4% of the value up to $300,000 plus 2% of any value in excess of $300,000. Mildred Payne owns real estate with a $983,500 assessed value. Compute her property tax.

89) Richton Company operates its business solely in Jurisdiction H, which levies a 6% sales and use tax. This year, Richton paid $1,438,000 to purchase tangible property from a dealer located in Jurisdiction W. This purchase was subject to W's 3.5% sales tax. The property was shipped to Richton's office in Jurisdiction H for use in its business. Compute Richton's sales or use tax with respect to this transaction.

90) Grant Wilson is an employee of Market Enterprises, a corporation operating in State A. Identify the different types of potential taxes to be paid by both Grant and Market Enterprises with respect to this employment relationship.

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Answer Key

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1) FALSE
2) TRUE
3) FALSE
4) TRUE
5) TRUE
6) FALSE
7) TRUE
8) TRUE
9) TRUE
10) FALSE
11) TRUE
12) TRUE
13) FALSE
14) FALSE
15) TRUE
16) TRUE
17) FALSE
18) TRUE
19) TRUE
20) TRUE
21) FALSE
22) TRUE
23) FALSE
24) TRUE
25) FALSE
26) TRUE
27) FALSE
28) TRUE
29) FALSE
30) FALSE
31) TRUE
32) TRUE
33) FALSE
34) B
35) A
36) D
37) C

38) D
39) B
40) C
41) D
42) A
43) C
44) B
45) D
46) A
47) B
48) D
49) B
50) A
51) C
52) A
53) D
54) A
55) B
56) A
57) A
58) B
59) D
60) D
61) C
62) B
63) A
64) B
65) D
66) C
67) C
68) C
69) C
70) D
71) D
72) B
73) D
74) A
75) D
76) B
77) D

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78) A
79) D
80) B
81) A
82) C
83) B
84) D
85) C
86) A
87) Essay
88) Essay
89) Essay
90) Essay