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***Pearson's Federal Taxation 2026: Corp., 39e* (Franklin et al.)**
Chapter C1: Tax Research

LO1: Overview of Tax Research

1) Tax planning is not an integral part of open-fact situations.
Answer: FALSE
Explanation: It is integral.
Page Ref.: C:1-2
Objective: 1

2) When a taxpayer contacts a tax advisor requesting advice as to the most advantageous way to dispose of a stock, the tax advisor is faced with
A) a restricted-fact situation.
B) a closed-fact situation.
C) an open-fact situation.
D) a recognized-fact situation.
Answer: C
Explanation: Advice before transaction is open fact situation.
Page Ref.: C:1-2
Objective: 1

3) Investigation of a tax problem that involves a closed-fact situation means that
A) the client's transactions have already occurred and the tax questions must now be resolved.
B) the client's tax return has yet to be filed.
C) future events may be planned and controlled.
D) research is primarily concerned with applying the law to the facts as they exist.
Answer: A
Explanation: After the fact request is a closed fact situation.
Page Ref.: C:1-2
Objective: 1

4) Explain the difference between a closed-fact and open-fact situation.
Answer: In a closed-fact situation, the transaction has occurred and the facts are not subject to change. In an open-fact situation, the transaction is in the formative or projected stage, and the taxpayer is able to structure the facts so that the tax consequences of the transaction can be more favorable.
Page Ref.: C:1-2
Objective: 1

5) In all situations, tax considerations are of primary importance. Do you agree or disagree? Support your answer.
Answer: It is important to consider nontax objectives as well as tax objectives. For instance, if a wealthy client wants to minimize her estate taxes while passing the greatest value possible to her descendants, you would not suggest that she leave the majority of her estate to charity and only a few hundred thousand dollars to her descendants. Although this would reduce her estate tax liability to zero, it would be inconsistent with her objective of allowing her descendants to receive as much after-tax wealth as possible.
Page Ref.: C:1-3
Objective: 1

LO2: Steps in the Tax Research Process

1) Identify which of the following statements is <u>true</u>.
A) Tax planning is an integral part of both closed-fact situations and open-fact situations.
B) The first step in conducting tax research is to clearly understand the issues involved.
C) The <u>Statements on Standards for Tax Services</u> recommend that only written tax advice be provided to the client in all situations.
D) All of the above are false.
Answer: D
Explanation: Although oral advice may serve a taxpayer's needs appropriately in routine matters or in well-defined areas, written communications are recommended in important, unusual, substantial dollar value, or complicated transactions. The member may use professional judgment about whether, subsequently, to document oral advice.
Page Ref.: C:1-3 through C:1-5
Objective: 2

2) Describe the format of a client memo.
Answer: A client memo should include a statement of the facts, a list of issues, a discussion of relevant authority, analysis, and recommendations of appropriate actions to the client based on the research results.
Page Ref.: See Additional Comment page C:1-4
Objective: 2

3) Outline and discuss the tax research process.
Answer: 1) The facts must be determined. However, some facts may not have occurred in an open-fact situation. Where facts have not yet occurred, it is useful to review tax research material to determine which facts would produce the most favorable outcome.
2) The issues must be determined. The issues may not always be clear and may be different than the client believes. Thus, only a thorough understanding of the facts permits an adequate formulation of the issues.
3) Determine which authorities are applicable.
4) Evaluate the authorities. Choose the ones to follow when there are conflicting authorities.
5) Communicate the result to the client. The communication with the client should not result in a misunderstanding. While discussions with the client may be suitable, it is recommended by the AICPA's <u>Statements on Standards for Tax Services</u> that the communication be written where issues are important, unusual or complicated. Many firms require that conclusions be communicated in writing.
Page Ref.: C:1-4
Objective: 2

4) A client approaches you regarding the tax implications of an acquisition of a competitor's business. Describe the six basic steps of tax research process to assist the client.
Answer: In both open- and closed-fact situations, the tax research process involves six basic steps:
1. Determine the facts.
2. Identify the issues (questions).
3. Locate the applicable authorities.
4. Evaluate the authorities and choose those to follow where the authorities conflict.
5. Analyze the facts in terms of the applicable authorities.
6. Communicate conclusions and recommendations to the client.
Page Ref.: C:1-3
Objective: 2

5) When should oral client communications be followed up in writing?
Answer: Written communications are recommended in important, unusual, substantial dollar value, or complicated transactions.
Page Ref.: C:1-5
Objective: 2

6) Explain the difference between tax compliance versus tax consulting.
Answer: Tax compliance is assisting taxpayers in preparing and filing necessary tax forms and often includes responding to communications from tax authorities. Tax consulting is research and analysis, often referred to as tax planning, that addresses various scenarios to determine the best tax outcome given the law and the underlying facts in the case. Tax consulting will vary depending if the facts are closed or open. Closed facts generally involve tax compliance. Open facts allow for the flexibility to structure transactions for the best possible outcome.
Page Ref.: C:1-5
Objective: 2

LO3: Importance of the Facts to the Tax Consequences

1) The tax consultant can give an opinion on a tax fact pattern without all the facts.
Answer: FALSE
Explanation: Tax practitioner should not provide an opinion without all relevant facts.
Page Ref.: C:1-6
Objective: 3

2) Tax compliance is the biggest component of a tax practice.
Answer: FALSE
Explanation: Tax consulting is the biggest component of tax practice.
Page Ref.: C:1-6
Objective: 3

LO4: The Sources of Tax Law

1) The Internal Revenue Code of 1986 contains the current version of the tax law.
Answer: TRUE
Explanation: The last major overhaul was 1986.
Page Ref.: C:1-8
Objective: 4

2) Regulations issued prior to the latest tax legislation dealing with a specific Code section are still effective to the extent they do not conflict with the provisions in the new legislation.
Answer: TRUE
Explanation: Per IRC this remains accurate.
Page Ref.: C:1-9
Objective: 4

3) Final regulations have almost the same authoritative weight as the IRC.
Answer: TRUE
Explanation: The Courts have followed this concept.
Page Ref.: C:1-10
Objective: 4

4) A revenue ruling is issued by the Internal Revenue Service only in response to a verbal inquiry by a taxpayer.
Answer: FALSE
Explanation: The IRS may voluntarily issue a revenue ruling.
Page Ref.: C:1-12
Objective: 4

5) Taxpayers must pay the disputed tax prior to filing a case with the Tax Court.
Answer: FALSE
Explanation: Tax Court is the only court available in which taxpayer does not have to prepay the tax.
Page Ref.: C:1-14 and C:1-15
Objective: 4

6) Appeals from the U.S. Tax Court are to the Court of Appeals for the Federal Circuit.
Answer: FALSE
Explanation: Appeals from the US Tax Court are to the Court of Appeals for the respective circuit.
Page Ref.: C:1-14 and C:1-15
Objective: 4

7) Appeals from the Court of Appeals go to the Supreme Court under a writ of certiorari. The Supreme Court decides whether or not they will hear the case.
Answer: TRUE
Explanation: USSC reviews requests before acceptance.
Page Ref.: C:1-14 and C:1-15
Objective: 4

8) When the Tax Court follows the opinion of the circuit court of appeals to which the case is appealable, the court is following the
A) Golsen rule.
B) Acquiescence rule.
C) Forum shopping rule.
D) Conformity rule.
Answer: A
Explanation: Since 1970 the Tax Court has followed the Golsen rule.
Page Ref.: C:1-21
Objective: 4

9) Which of the following citations denotes a regular decision of the Tax Court?
A) 41 TCM 1272
B) 35 T.C. 1083 (2003)
C) 39 AFTR 2d 77-640
D) 41 USSC 1099
Answer: B
Explanation: T.C. is Tax Court citation.
Page Ref.: C:1-17
Objective: 4

10) The primary citation for a federal circuit court of appeals case would be
A) 40 AFTR 2d 78-1234.
B) 44 F.Supp. 403.
C) 3 F.3d 134.
D) 79-2 USTC & 9693.
Answer: C
Explanation: Citation for federal circuit.
Page Ref.: C:1-20
Objective: 4

11) You have the following citation: Joel Munro, 92 T.C. 71 (1989). Which of the following statements is true?
A) The taxpayer, Joel Munro, won the case because there is no reference to the IRS.
B) The case appears on page 71 in Volume 92 of the official Tax Court of the United States Reports and the case was decided in 1989.
C) This citation refers to a taxpayer conference between the IRS and the taxpayer.
D) The case was tried in 1989 and was appealed in 1992.
Answer: B
Explanation: Citation locator is correct.
Page Ref.: C:1-17
Objective: 4

12) The term "tax law" includes
A) Ways and Means Committee Report.
B) IRS Instructions.
C) third-party tax advice websites.
D) legislation, treasury regulations & judicial decisions.
Answer: D
Explanation: Each of these have value of tax law.
Page Ref.: C:1-7
Objective: 4

13) Identify which of the following statements is false.
A) When tax advisors speak of the "tax law," they usually have in mind just the Internal Revenue Code.
B) Members from both the House and the Senate are on the Conference Committee.
C) Records of committee hearings are helpful in determining Congressional intent.
D) All of the above are false.
Answer: A
Explanation: IRC is the main source document but tax law refers to legislation, treasury regulations & judicial decisions.
Page Ref.: C:1-7
Objective: 4

14) The committee that is responsible for holding hearings on tax legislation for the House of Representatives is the
A) Finance Committee.
B) Joint Committee on Taxation.
C) Conference Committee.
D) Ways and Means Committee.
Answer: D
Explanation: The Ways and Means is responsible for holding hearings on tax legislation.
Page Ref.: C:1-7
Objective: 4

15) A tax bill introduced in the House of Representatives is then
A) referred to the House Ways and Means Committee for hearings and approval.
B) referred to the entire House for hearings.
C) voted upon by the entire House.
D) forwarded to the Senate Finance Committee for consideration.
Answer: A
Explanation: Tax bills are referred to the Ways and Means Committee.
Page Ref.: C:1-7
Objective: 4

16) The Senate equivalent of the House Ways and Means Committee is the Senate
A) Finance Committee.
B) Ways and Means Committee.
C) Tax Committee.
D) Joint Conference Committee.
Answer: A
Explanation: Senate committee is Finance Committee.
Page Ref.: C:1-7
Objective: 4

17) Which of the following steps, related to a tax bill, occurs first?
A) signature or veto by the President of the United States
B) consideration by the Senate Finance Committee
C) consideration by the entire Senate
D) consideration by the House Ways and Means Committee
Answer: D
Explanation: Tax bill is considered by House Ways and Means Committee.
Page Ref.: C:1-7
Objective: 4

18) When the House and Senate versions of a tax bill are not in agreement, the disagreements are resolved by the
A) Ways and Means Committee.
B) Mediation Committee.
C) Revenue Committee.
D) Joint Conference Committee.
Answer: D
Explanation: Joint Conference Committee resolves disagreements.
Page Ref.: C:1-7
Objective: 4

19) Identify which of the following statements is <u>true</u>.
A) Paragraph references are most commonly used when citing or referring to the tax statutes.
B) Title 26 of the United States Code and the Internal Revenue Code of 1986 are synonymous.
C) Before 1939, tax statutes were codified or compiled into one document.
D) The Internal Revenue Code contains chapters, which are further subdivided into titles.
Answer: B
Explanation: IRC is Title 26 of the USC.
Page Ref.: C:1-8
Objective: 4

20) Title 26 of the U.S. Code includes
A) income tax legislation only.
B) gift tax and estate tax legislation only.
C) alcohol and tobacco tax legislation only.
D) all of the tax legislation mentioned above.
Answer: D
Explanation: Title 26 covers tax legislation.
Page Ref.: C:1-8
Objective: 4

21) The tax statutes with the popular name "The Internal Revenue Code of 1986" are contained in which Title of the Code?
A) 20
B) 25
C) 26
D) 301
Answer: C
Explanation: Title 26 covers tax legislation.
Page Ref.: C:1-8
Objective: 4

22) Which of the following statements regarding proposed regulations is <u>not</u> correct?
A) Proposed regulations expire after three years.
B) Practitioners and other interested parties may comment on proposed regulations.
C) Proposed and temporary regulations are generally issued simultaneously.
D) Proposed regulations do not provide any insight into the IRS's interpretation of the tax law.
Answer: D
Explanation: Proposed regulations provide insight into the IRS's interpretation of the tax law.
Page Ref.: C:1-9
Objective: 4

23) Final regulations can take effect on any of the following dates <u>except</u>
A) the effective date of the statutory language they interpret, provided they are issued within 18 months of the date of the change to the statute.
B) the date on which final regulations were proposed.
C) the date on which related temporary regulations were first published in the Federal Register.
D) the date on which they were issued in final form.
Answer: A
Explanation: Once finalized, regulations can be effective the earliest of (1) the date they were filed with the *Federal Register*, a daily publication that contains federal government pronouncements; (2) the date temporary regulations preceding them were first published in the *Federal Register*; or (3) the date on which a notice describing the expected contents of the regulation was issued to the public. For changes to the IRC enacted after July 29, 1996, the Treasury Department generally cannot issue regulations with retroactive effect.
Page Ref.: C:1-10
Objective: 4

24) When Congress passes a statute with language such as, "The Secretary shall prescribe such regulations as he may deem necessary," the regulations ultimately issued for that statute are
A) congressional regulations.
B) statutory regulations.
C) interpretative regulations.
D) legislative regulations.
Answer: D
Explanation: Whenever the IRC contains language such as "The Secretary shall prescribe such regulations as he may deem necessary" or "under regulations prescribed by the Secretary," the regulations interpreting the IRC provision are legislative.
Page Ref.: C:1-10
Objective: 4

25) Final regulations are
A) equal in authority to legislation.
B) equal in authority to legislation if statutory.
C) presumed to be valid and to have almost the same weight as the IRC.
D) equal in authority to legislation if interpretative.
Answer: C
Explanation: Final Treasury Regulations are presumed to be valid and have almost the same authoritative weight as the IRC.
Page Ref.: C:1-10
Objective: 4

26) Identify which of the following statements is <u>true</u>.
A) If regulations are issued prior to the latest tax legislation dealing with a specific Code section, the regulations are no longer effective to the extent they conflict with the provisions in the new legislation.
B) Legislative regulations are more likely to be invalidated by the courts than are interpretative regulations.
C) Regulations have more authoritative weight than tax statutes.
D) All of the above are false.
Answer: A
Explanation: Because of frequent IRC changes, the Treasury Department does not always update the regulations in a timely manner. Consequently, when consulting a regulation, a tax advisor should check its introductory or end note to determine when the regulation was adopted. If the regulation was adopted before the most recent revision of the applicable IRC section, the regulation should be treated as authoritative to the extent consistent with the revision. Thus, for example, if a regulation issued before the passage of an IRC amendment specifies a dollar amount, and the amendment changed the dollar amount, the regulation should be regarded as authoritative in all respects except for the dollar amount.
Page Ref.: C:1-9
Objective: 4

27) Identify which of the following statements is false.
A) The number "5" in the citation Reg. Sec. 1.166-5 refers to the paragraph number.
B) The Cumulative Bulletin is issued semiannually while the Internal Revenue Bulletin is issued weekly.
C) The citation Rev. Rul. 2006-5, I.R.B. 2006-1, 33, indicates that the revenue ruling can be found on page 33 of the 1st I.R.B. for 2006.
D) All of the above are false.
Answer: A
Explanation: #5 references the fifth regulation of IRC 166.
Page Ref.: C:1-11
Objective: 4

28) The number appearing immediately following the decimal place in a regulation citation refers to the
A) general subject matter of the regulation.
B) Code section being interpreted.
C) sequential number of the regulation.
D) subsection of the Code section being interpreted.
Answer: B
Explanation: The number appearing after decimal refers to code section.
Page Ref.: C:1-11
Objective: 4

29) The citation "Reg. Sec. 1.199-2" refers to
A) the first regulation issued in 1999.
B) the second regulation issued in 1999.
C) a regulation that interprets Code Section 199.
D) a regulation that can be found on page 199.
Answer: C
Explanation: Number appearing after decimal refers to code section.
Page Ref.: C:1-11
Objective: 4

30) Which regulation deals with Code Section 165?
A) Reg. Sec. 1.165-5
B) Reg. Sec. 165.183-5
C) Reg. Sec. 1.5-165
D) Reg. Sec. 165-5
Answer: A
Explanation: Number appearing after decimal refers to code section.
Page Ref.: C:1-11
Objective: 4

31) Which regulation deals with the gift tax?
A) Reg. Sec. 1.165-5
B) Reg. Sec. 20.2014-5
C) Reg. Sec. 25.2518-5
D) Reg. Sec. 301.7002-5
Answer: C
Explanation: Code section 2518 is a gift tax matter. Prefix 25 indicates Gift Tax subject matters.
Page Ref.: C:1-11
Objective: 4

32) Which of the following best describes the weight of a revenue ruling?
A) Revenue rulings carry more weight than regulations.
B) Revenue rulings carry more weight than federal court decisions.
C) Regulations carry more weight than revenue rulings.
D) Revenue rulings should never be used as authority since they only apply to the taxpayer requesting the ruling.
Answer: C
Explanation: Regulations carry more weight than revenue rulings.
Page Ref.: C:1-12
Objective: 4

33) The citation "Rev. Rul. 2006-8, 2006-1 C.B. 541" refers to
A) the eighth ruling of 2006 found on page 541 in Vol. 1 of the 2006 Cumulative Bulletin.
B) the eighth ruling of 2006 found on page 541 in the 2006 volume of the Cumulative Bulletin.
C) the 541st ruling of 2006 found on page eight in Vol. 1 of the 2006 Cumulative Bulletin.
D) the 1st ruling of 2006 found on page 541 in the 2006 volume of the Cumulative Bulletin.
Answer: A
Explanation: This is the 8th ruling of 2006, it appears on page 541 of Volume 1 of the 2006 Cumulative Bulletin
Page Ref.: C:1-12
Objective: 4

34) Which of the following documents is issued by the IRS to a specific taxpayer?
A) regulation
B) revenue procedure
C) letter ruling
D) information release
Answer: C
Explanation: Letter rulings are addressed to specific taxpayer.
Page Ref.: C:1-12
Objective: 4

35) Identify which of the following statements is false.
A) A revenue ruling is issued by the Internal Revenue Service only in response to a written inquiry by a taxpayer.
B) Rev. Proc. 2006-19 is a revenue procedure that was published in 2006.
C) The citation Ltr. Rul. 200611075 usually indicates the ruling was made public in the 11th week of 2006.
D) A technical advice memorandum is made available as a letter ruling.
Answer: A
Explanation: Letter rulings are only issued in response to written taxpayer request.
Page Ref.: C:1-11 through C:1-13
Objective: 4

36) Identify which of the following statements is false.
A) Letter rulings are not published by the U.S. Government Printing Office.
B) Technical advice memoranda are issued by the Internal Revenue Service's National Office to provide an answer to a technical question that arises in an audit.
C) The citation Ann. 2006-12, I.R.B. 2006-51, 22 refers to an annotation of an Internal Revenue Service release.
D) Announcements are more technical than information releases.
Answer: C
Explanation: Citation references Announcement not Annotation.
Page Ref.: C:1-13
Objective: 4

37) A Technical Advice Memorandum is usually
A) an internal IRS document describing alternative legislative proposals.
B) part of a Tax Court decision.
C) requested by the taxpayer before entering into a taxable transaction.
D) issued by the national office in response to an audit request.
Answer: D
Explanation: TAMs are usually issued to address request from IRS auditors.
Page Ref.: C:1-13
Objective: 4

38) Which of the following courts is not a trial court for tax cases?
A) U.S. Bankruptcy Court
B) U.S. District Court
C) U.S. Tax Court
D) U.S. Court of Federal Claims
Answer: A
Explanation: Bankruptcy Court does not have jurisdiction for tax matters.
Page Ref.: C:1-14 and C:1-15
Objective: 4