

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. 1) _____

Answer: True ☒ False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

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

Answer: ☒ True False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 3) A tax is intended to deter or punish unacceptable behavior. 3) _____

Answer: True ☒ False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 4) A tax is a payment to support the cost of government. 4) _____

Answer: ☒ True False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

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

Answer: ☒ True False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

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

Answer: True ☒ False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

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

Answer: ☒ True False

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 8) The U.S. government has jurisdiction to tax individuals who are not U.S. citizens but who are permanent U.S. residents. 8) _____
Answer: ☒ True ☐ False
Topic: Some Basic Terminology
Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.
- 9) A tax with a graduated rate structure must have at least two brackets of tax base. 9) _____
Answer: ☒ True ☐ False
Topic: The Relationship between Base, Rate, and Revenue
Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.
- 10) A sales tax is an example of a transaction-based tax. 10) _____
Answer: ☒ True ☐ False
Topic: The Relationship between Base, Rate, and Revenue
Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.
- 11) A tax on net income is an example of a transaction-based tax. 11) _____
Answer: ☐ True ☒ False
Topic: The Relationship between Base, Rate, and Revenue
Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.
- 12) A sales tax is an example of an activity-based tax. 12) _____
Answer: ☐ True ☒ False
Topic: The Relationship between Base, Rate, and Revenue
Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.
- 13) Ad valorem property taxes are the major source of revenue for local governments. 13) _____
Answer: ☒ True ☐ False
Topic: Local Taxes
Learning Objective: 01-03 Describe the taxes levied by local governments.
- 14) Taxes on personal property are more difficult to administer and enforce than taxes on real property. 14) _____
Answer: ☒ True ☐ False
Topic: Local Taxes
Learning Objective: 01-03 Describe the taxes levied by local governments.
- 15) A state government may levy either a sales tax or a use tax on consumers but not both. 15) _____
Answer: ☐ True ☒ False
Topic: Retail Sales, Use, and Excise Taxes
Learning Objective: 01-04 Describe the taxes levied by state governments.
- 16) Sellers of retail goods are responsible for collecting sales tax from their customers and remitting the tax to the state government. 16) _____
Answer: ☒ True ☐ False
Topic: Retail Sales, Use, and Excise Taxes
Learning Objective: 01-04 Describe the taxes levied by state governments.

- 17) 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. 17) _____
Answer: ☒ True ☐ False
Topic: Retail Sales, Use, and Excise Taxes
Learning Objective: 01-04 Describe the taxes levied by state governments.
- 18) The majority of state governments raise revenue from both personal and corporate income taxes. 18) _____
Answer: ☒ True ☐ False
Topic: Retail Sales, Use, and Excise Taxes
Learning Objective: 01-04 Describe the taxes levied by state governments.
- 19) The federal government imposed the first income tax to raise money to fight the War of 1812. 19) _____
Answer: ☐ True ☒ False
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.
- 20) The U.S. Constitution gives the federal government the power to impose a tax on income from whatever source derived. 20) _____
Answer: ☒ True ☐ False
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.
- 21) The federal government collects more revenue from the corporate income tax than from the individual income tax. 21) _____
Answer: ☐ True ☒ False
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.
- 22) The federal government does not levy property taxes or a general sales tax. 22) _____
Answer: ☒ True ☐ False
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.
- 23) 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. 23) _____
Answer: ☐ True ☒ False
Topic: Jurisdictional Competition
Learning Objective: 01-07 Summarize why different jurisdictions compete for revenues from the same taxpayer.
- 24) The potential for conflict among taxing jurisdictions is greatest for businesses operating on a global scale. 24) _____
Answer: ☒ True ☐ False
Topic: Jurisdictional Competition
Learning Objective: 01-07 Summarize why different jurisdictions compete for revenues from the same taxpayer.

25) Fewer than half of the state governments depend on gambling as a source of revenue. 25) _____

Answer: True ☒ False

Topic: Dynamic Nature of Taxation

Learning Objective: 01-08 Discuss the reasons why governments modify their tax systems.

26) Businesses that sell over the Internet must collect sales tax only from purchasers living in a state in which the business has a physical presence. 26) _____

Answer: ☒ True False

Topic: Dynamic Nature of Taxation

Learning Objective: 01-08 Discuss the reasons why governments modify their tax systems.

27) The Internal Revenue Code is written by the Internal Revenue Service. 27) _____

Answer: True ☒ False

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

28) Treasury regulations are tax laws written by the Treasury Department. 28) _____

Answer: True ☒ False

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

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

29) Which of the following is not characteristic of a tax? 29) _____

- A) A tax is intended to punish unacceptable behavior.
- B) A tax is compulsory.
- C) A tax is levied by a government.
- D) All of the above are characteristics of a tax.

Answer: A

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

30) 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): 30) _____

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

Answer: C

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

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

Answer: D

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 32) The property tax on a rent 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? 32) _____
- A) Mr. Janey
B) Ms. Lacey
C) Both Mr. Janey and Ms. Lacey
D) Neither Mr. Janey nor Ms. Lacey

Answer: C

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 33) Acme Inc.'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? 33) _____
- A) Acme Inc.
B) Acme's customers
C) Acme's employees
D) Acme's shareholders

Answer: D

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 34) Acme Inc.'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? 34) _____
- A) Acme Inc.
B) Acme's customers.
C) Acme's employees.
D) Acme's shareholders.

Answer: B

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 35) Acme Inc.'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? 35) _____
- A) Acme Inc.
B) Acme's customers.
C) Acme's employees.
D) Acme's shareholders.

Answer: C

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 36) Mr. Bilboa is a citizen of Portugal. Which of the following statements is **true**? 36) _____
- 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 B and C are true.

Answer: D

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 37) Mrs. King is a U.S. citizen who permanently resides in South Africa. Which of the following statements is **true**? 37) _____
- A) The U.S. government has no jurisdiction to tax Mrs. King because she does not live in the United States.
 - B) Mrs. King can elect whether to pay tax to the United States or to South Africa.
 - C) The U.S. government has jurisdiction to tax Mrs. King.
 - D) 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.

Answer: C

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 38) Mrs. Renfru is a Brazilian citizen who permanently resides in Houston, Texas. Which of the following statements is **true**? 38) _____
- A) The U.S. government has no jurisdiction to tax Mrs. Renfru because she is not a U.S. citizen.
 - B) Mrs. Renfru can elect whether to pay tax to the United States or to Brazil.
 - C) The U.S. government has jurisdiction to tax Mrs. Renfru.
 - D) The U.S. government has jurisdiction to tax Mrs. Renfru only on income that she earns from a source within the United States.

Answer: C

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 39) Which of the following statements regarding tax systems is **false**? 39) _____
- A) When designing a tax, governments try to identify tax bases that taxpayers can easily avoid or conceal.
 - B) A single percentage that applies to the entire tax base is described as a flat rate.
 - C) With regard to tax systems, the term revenue refers to the total tax collected by the government.
 - D) A tax base is an item, occurrence, transaction, or activity with respect to which a tax is levied.

Answer: A

Topic: The Relationship between Base, Rate, and Revenue

Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.

- 40) Which of the following is an example of a transaction-based tax? 40) _____
- A) A tax on net business income
 - B) An excise tax
 - C) An estate tax on the transfer of assets at death
 - D) Both B and C

Answer: D

Topic: The Relationship between Base, Rate, and Revenue

Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.

- 41) Which of the following is an example of an activity-based tax? 41) _____
- A) A tax on business's net income
 - B) A gift tax on the transfer of assets by gift
 - C) An excise tax
 - D) Both A and C

Answer: A

Topic: The Relationship between Base, Rate, and Revenue

Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.

- 42) Which of the following is an earmarked tax? 42) _____
- A) A tax that generates revenues that the government can spend only to build more National Parks
 - B) A tax imposed on the purchase of specific items such as liquor or cigarettes
 - C) A tax that generates revenues that the government can spend for any purpose
 - D) A tax imposed only on individuals who earn more than \$1 million annually

Answer: A

Topic: The Relationship between Base, Rate, and Revenue

Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.

- 43) Which of the following characterizes a good tax base? 43) _____
- A) The base can be easily expressed in monetary terms.
 - B) Taxpayers cannot easily move the base from one jurisdiction to another.
 - C) Taxpayers cannot easily avoid or conceal the base.
 - D) All of the above characterize a good tax base.

Answer: D

Topic: The Relationship between Base, Rate, and Revenue

Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.

- 44) 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. 44) _____
- A) \$11,230
 - B) \$10,230
 - C) \$11,730
 - D) None of the above

Answer: A

Topic: Local Taxes

Learning Objective: 01-03 Describe the taxes levied by local governments.

- 45) 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. 45) _____
- A) \$39,100
 - B) \$29,100
 - C) \$14,100
 - D) None of the above

Answer: B

Topic: Local Taxes

Learning Objective: 01-03 Describe the taxes levied by local governments.

- 46) Which of the following taxes is not a significant source of revenue for local governments? 46) _____
- A) Personal property tax
 - B) Employment tax
 - C) Real property tax
 - D) All of the above

Answer: B

Topic: Local Taxes

Learning Objective: 01-03 Describe the taxes levied by local governments.

- 47) Which of the following taxes is a significant source of revenue for local governments? 47) _____
- A) Real property tax
 - B) Income tax
 - C) Employment tax
 - D) None of the above

Answer: A

Topic: Local Taxes

Learning Objective: 01-03 Describe the taxes levied by local governments.

- 48) Which of the following statements concerning property taxes is **false**? 48) _____
- A) Property taxes are the primary source of revenue for local governments.
 - B) Property taxes can be levied on realty or personalty.
 - C) Property taxes are ad valorem taxes.
 - D) None of the above is false.

Answer: D

Topic: Local Taxes

Learning Objective: 01-03 Describe the taxes levied by local governments.

- 49) A sales tax can best be described as a(n): 49) _____
- A) Consumption tax
 - B) Income tax
 - C) Ad valorem tax
 - D) Activity tax

Answer: A

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

- 50) Which of the following statements concerning sales taxes is **false**? 50) _____
- A) Sales taxes are collected by the seller when the sale is made.
 - B) Sales taxes imposed on the purchaser of retail items are consumption taxes.
 - C) Sales taxes apply to the purchase of most types of consumer goods.
 - D) Sales taxes apply to the purchase of most types of consumer services.

Answer: D

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

- 51) The incidence of a state sales tax levied on the purchase of retail goods is: 51) _____
- A) Borne by the seller who must collect and remit the tax.
 - B) Borne by the ultimate consumer of the goods.
 - C) Borne by the manufacturer of the goods.
 - D) Borne by the government that levies the tax.

Answer: B

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

- 52) Mr. Dodd resides in a state with a 6% sales and use tax. He recently traveled to another state to buy a sailboat and paid that state's 4% sales tax. Which of the following statements is **true**? 52) _____
- A) Mr. Dodd's use tax liability to his home state equals 6% 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 2% of the purchase price of the furniture.
 - D) None of the above is true.

Answer: C

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

53) 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**? 53) _____

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

Answer: A

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

54) Which of the following statements about sales and use taxes is **true**? 54) _____

- A) Many states that impose a sales tax do not impose a complementary use tax.
- B) An individual must pay both a sales tax and a use tax on the taxable purchase of an item.
- C) 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.
- D) None of the above is true.

Answer: D

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

55) Which of the following taxes is a significant source of revenue for state governments? 55) _____

- A) Corporate income tax
- B) Individual income tax
- C) General sales tax
- D) All of the above

Answer: D

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

56) Which of the following is not characteristic of an excise tax? 56) _____

- A) Purchasers of luxury items are responsible for paying any excise tax directly to the government.
- B) An excise tax is levied on the retail sale of specific goods.
- C) Excise tax rates typically are higher than general sales tax rates.
- D) All of the above are characteristics of an excise tax.

Answer: A

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

- 57) What is the major difference between a sales tax and an excise tax? 57) _____
- A) 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.
 - B) Sales taxes are levied by state governments, while excise taxes are levied only by the federal government.
 - 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.
- Answer: A
Topic: Retail Sales, Use, and Excise Taxes
Learning Objective: 01-04 Describe the taxes levied by state governments.
- 58) Which of the following is not an advantage of state conformity to federal corporate income tax laws? 58) _____
- A) Conformity eases the compliance burden of corporate taxpayers.
 - B) States have control over their corporate income tax revenues.
 - C) States do not have to enact comprehensive corporate income tax statutes.
 - D) All of the above are advantages of state conformity.
- Answer: B
Topic: Retail Sales, Use, and Excise Taxes
Learning Objective: 01-04 Describe the taxes levied by state governments.
- 59) Which tax raises the most revenue for the federal government? 59) _____
- A) Transfer taxes
 - B) Individual income tax
 - C) Excise taxes
 - D) Corporate income tax
- Answer: B
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.
- 60) Which of the following federal taxes is earmarked for a specific purpose? 60) _____
- A) Corporate income tax
 - B) Employment taxes
 - C) Unemployment taxes
 - D) Both B and C are earmarked taxes.
- Answer: D
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.
- 61) Which of the following federal taxes is not earmarked for a specific purpose? 61) _____
- A) Unemployment taxes
 - B) Transfer taxes
 - C) Employment taxes
 - D) All of the above are earmarked taxes.
- Answer: B
Topic: Federal Income Taxes
Learning Objective: 01-05 Describe the taxes levied by the federal government.

62) What gives the federal government the right to impose a tax on individual and corporate income? 62) _____

- A) Revenue Act of 1913
- B) Bill of Rights
- C) Sixteenth Amendment to the U.S. Constitution
- D) Internal Revenue Code of 1986

Answer: C

Topic: Federal Income Taxes

Learning Objective: 01-05 Describe the taxes levied by the federal government.

63) When did the federal income tax become a permanent tax? 63) _____

- A) In 1939 when Congress enacted the first Internal Revenue Code
- B) In 1913 when the Sixteenth Amendment to the U.S. Constitution was ratified
- C) Immediately after the Revolutionary War
- D) During the Civil War

Answer: B

Topic: Federal Income Taxes

Learning Objective: 01-05 Describe the taxes levied by the federal government.

64) Which of the following does not characterize federal transfer taxes? 64) _____

- A) The tax is imposed on the value of wealth transferred because of the death of an individual.
- B) The tax is imposed on the value of wealth transferred by an individual to charity.
- C) The tax is imposed on the value of wealth transferred by an individual as a gift.
- D) All of the above characterize federal transfer taxes.

Answer: B

Topic: Federal Income Taxes

Learning Objective: 01-05 Describe the taxes levied by the federal government.

65) Which of the following does not characterize federal transfer taxes? 65) _____

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

Answer: D

Topic: Federal Income Taxes

Learning Objective: 01-05 Describe the taxes levied by the federal government.

- 66) 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**? 66) _____
- A) Because Company D must pay income tax to North Carolina, it is not required to pay federal income tax.
 - B) Because Company D must pay income tax to the United States, it is not required to pay tax to Canada or Mexico.
 - C) Because Company D must pay income tax to North Carolina, it is not required to pay tax to any other state.
 - D) None of the above is true.

Answer: D

Topic: Jurisdictional Competition

Learning Objective: 01-07 Summarize why different jurisdictions compete for revenues from the same taxpayer.

- 67) SJF Inc., 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**? 67) _____
- 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 may be required to pay income tax to either the United States or to Canada, but not to both.
 - D) SJF must pay income tax only to Idaho, Oregon, California, and the United States.

Answer: B

Topic: Jurisdictional Competition

Learning Objective: 01-07 Summarize why different jurisdictions compete for revenues from the same taxpayer.

- 68) Which type of tax is not levied by the federal government? 68) _____
- A) Employment taxes
 - B) General sales tax
 - C) Individual income tax
 - D) Corporate income tax

Answer: B

Topic: Jurisdictional Competition

Learning Objective: 01-07 Summarize why different jurisdictions compete for revenues from the same taxpayer.

69) 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**? 69) _____

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

Answer: C

Topic: Jurisdictional Competition

Learning Objective: 01-07 Summarize why different jurisdictions compete for revenues from the same taxpayer.

70) Which of the following does not contribute to the dynamic nature of the tax law? 70) _____

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

Answer: D

Topic: Dynamic Nature of Taxation

Learning Objective: 01-08 Discuss the reasons why governments modify their tax systems.

71) Which of the following statements regarding the political process of creating tax law is **false**? 71) _____

- A) Changes in political philosophy often reflect shifts in the public attitude about the proper role of taxes in society.
- B) The political process contributes to the dynamic nature of the tax law.
- 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) Special interest groups have little effect on the tax legislative process.

Answer: D

Topic: Dynamic Nature of Taxation

Learning Objective: 01-08 Discuss the reasons why governments modify their tax systems.

72) Which of the following is/are not a primary source of authority for the tax law? 72) _____

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

Answer: D

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

- 73) Which of the following statements about the Internal Revenue Code is **false**? 73) _____
- A) The Internal Revenue Code is part of federal statutory law.
 - B) The Internal Revenue Code consists of numerically organized sections.
 - C) Only Congress has the authority to amend the Internal Revenue Code.
 - D) The Internal Revenue Code has not been amended since 1986.

Answer: D

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

- 74) How often does Congress amend the Internal Revenue Code? 74) _____
- A) Regularly (at least once every five years)
 - B) Constantly (usually once a year)
 - C) Rarely (the Internal Revenue Code has not been amended since 1986)
 - D) Occasionally (perhaps once every decade)

Answer: B

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

- 75) Which of the following statements about Treasury regulations is **false**? 75) _____
- A) Treasury regulations are part of the statutory law.
 - B) A federal court can invalidate a Treasury regulation if the court concludes that the regulation incorrectly interprets the Internal Revenue Code.
 - C) Treasury regulations are written to interpret and explain the Internal Revenue Code.
 - D) None of the above is false.

Answer: A

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

- 76) Revenue rulings and revenue procedures are written by: 76) _____
- A) The United States Congress
 - B) The Supreme Court
 - C) The Department of the Treasury
 - D) The Internal Revenue Service

Answer: D

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

- 77) Which of the following is not considered administrative authority? 77) _____
- A) Revenue rulings
 - B) Treasury regulations
 - C) Tax Court decisions
 - D) All of the above are administrative authorities

Answer: C

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

78) A revenue ruling is an example of:

78) _____

- A) Editorial authority
- C) Judicial authority

- B) Administrative authority
- D) Legislative authority

Answer: B

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

79) Which of the following statements concerning judicial authority is **false**?

79) _____

- A) Supreme Court decisions are the equivalent of law.
- B) Supreme Court decisions have more authority than appellate court decisions.
- C) Appellate court decisions have more authority than trial court decisions.
- D) None of the above statements is false.

Answer: D

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80) Which of the following sources of tax law carries the most authority?

80) _____

- A) Supreme Court decision
- B) Treasury regulation
- C) Revenue procedure
- D) The three sources of tax law have equal authority

Answer: A

Topic: Sources of Federal Tax Law

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81) Which of the following sources of tax law carries the least authority?

81) _____

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

Answer: A

Topic: Sources of Federal Tax Law

Learning Objective: 01-09 Identify the three primary sources of federal tax law.

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

- 82) Ms. Penser resides in the city of Lanock, Tennessee. She owns 100% of the stock of PSW Inc., 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.

Answer: A. Ms. Penser is an individual taxpayer, and PSW Inc. is a corporate taxpayer. The city of Lanock, the state of Tennessee, and the United States have jurisdiction to tax Ms. Penser.

B. The six local jurisdictions, the state of Tennessee, and the United States have jurisdiction to tax PSW Inc.

Topic: Some Basic Terminology

Learning Objective: 01-01 Define tax, taxpayer, incidence, and jurisdiction.

- 83) 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.

Answer: Mildred's property tax is \$17,870 ($\$4,200 [\$300,000 * 1.4\%] + \$13,670 [\$683,500 * 2\%]$).

Topic: The Relationship between Base, Rate, and Revenue

Learning Objective: 01-02 Express the relationship between tax base, rate, and revenue as a formula.

- 84) 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.

Answer: Richton must pay \$50,330 sales tax to Jurisdiction W ($\$1,438,000 * 3.5\%$), and \$35,950 use tax to Jurisdiction H ($\$86,280 [\$1,438,000 * 6\%] - \$50,330$).

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.

- 85) 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.

Answer: Grant is potentially liable for federal, state, and local income taxes. He will also be liable for federal employment taxes. Market Enterprises will pay federal employment taxes and federal and state unemployment taxes based on compensation paid to Grant.

Topic: Retail Sales, Use, and Excise Taxes

Learning Objective: 01-04 Describe the taxes levied by state governments.