

AICPA Released Questions from the 2023 Uniform CPA Exam - Released April 2023 -

REGULATION



2023 AICPA Released Questions for REG

The Key gives the correct letter answer for each question.

Key: A

The numbering system indicates the AICPA Blueprint Representative Task and Skill Level for each question.

REG.CSO.20190701: REG.001.003.001

REG.SSO.20190701: Application:2

MULTIPLE CHOICE - MODERATE

Which of the following statements is correct regarding the use of preparer tax identification numbers (PTINs) by tax return preparers?

- A. An individual who prepares income tax returns for compensation must include the individual's PTIN on the tax returns.
- B. An accounting firm may use the same PTIN for all of its CPAs.
- C. An individual may use the individual's continuing authorization file (CAF) number in lieu of a PTIN.
- D. An individual who prepares tax returns for an immediate family member free of charge must include the individual's PTIN on the tax returns.

Item ID: 69225

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.001.002

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.001.002

Skill: Remembering and Understanding

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

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

Item ID: 89202

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.001.002

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.001.002

Skill: Remembering and Understanding

Who is responsible for auditing a CPA's compliance with applicable continuing professional education requirements?

- A. The National Association of State Boards of Accountancy.
- B. The state board of accountancy of the state in which the CPA practices.
- C. The American Institute of Certified Public Accountants.
- D. The CPA firm that employs the CP

Item ID: 69931

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.002.000

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.002.000

Skill: Remembering and Understanding

Which of the following is a function of state boards of accountancy?

- A. To oversee the registration of public companies.
- B. To write the Uniform CPA Examination.
- C. To censure CPAs for violations of the Code of Professional Conduct.
- D. To oversee the audits of accounting firms auditing public companies within the board's state.

Item ID: 70559

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.002.000

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.002.000

Skill: Remembering and Understanding

Under the Uniform Accountancy Act, which of the following factors does a state board of accountancy consider when determining whether a CPA licensed in another state has met licensing requirements substantially equivalent to the requirements of this state?

- A. Whether the Uniform CPA Examination was completed within the past seven years.
- B. Whether the continuing education requirements of the other state are comparable to or exceed the requirements of this state.
- C. Whether the education, examination, and experience requirements of the other state are comparable to or exceed the requirements of this state.
- D. Whether the CPA has held the license from the other state for at least three years.

Item ID: 72629

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.002.000

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.002.000

Skill: Remembering and Understanding

Barton and Pallack agreed in writing that Barton would act as Pallack's agent to sell Pallack's prize-winning poodle. The dog died before the sale could be completed. Which of the following statements is correct regarding termination of the agency relationship?

- A. The relationship terminated automatically at the time of the dog's death.
- B. The relationship terminated at the time of the dog's death only if Barton had actual knowledge of the death.
- C. The relationship could only be terminated by written notice from Pallack to Barton.
- D. Barton's written acknowledgement of the dog's death was necessary to terminate the relationship.

Item ID: 60875

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.002.001.001

Uniform CPA Examination Blueprints effective January 1, 2024: REG.002.001.001

Skill: Application

Morland told a friend, Syms, that Morland had been looking for a vintage car to restore and was willing to pay \$2,000 to \$3,000 for one. The next day, Syms saw a vintage car, like Morland had described, for sale by a neighbor. Syms entered into a written contract to purchase the car for \$2,500 and signed the contract "Syms, agent for Morland." Which of the following statements best describes the relationship of Morland and Syms?

- A. Syms was an agent by express agreement because Morland had told Syms that Morland was looking for this type of car.
- B. Syms was an implied agent because Morland had told Syms that Morland was looking for this type car.
- C. There was **no** agency agreement, either express or implied, between Morland and Syms.
- D. Under the statute of frauds, Morland had to personally sign the contract because it was for goods worth more than \$500.

Item ID: 61383

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.002.001.001

Uniform CPA Examination Blueprints effective January 1, 2024: REG.002.001.001

Skill: Application

A company instructed Smith, its computer software salesperson, to make presentations to prospective customers. Smith was not supposed to leave the demonstration copy (demo) of the software with customers, but on one occasion a customer insisted on keeping the demo. If this customer were to purchase the software, the sale would be very lucrative for Smith and the company. After Smith's repeated attempts to reach a supervisor failed, Smith decided to allow the customer to keep the demo. Smith obtained a large deposit from the customer and a written agreement that the customer would not attempt to reproduce the demo. The customer reproduced the demo. The company sued Smith for breach of duty. What is Smith's best defense to the action?

- A. An agent has discretion in carrying out the duties assigned.
- B. The agent acted in good faith and in a reasonable manner.
- C. The instructions of the principal were **not** appropriate by industry standards.
- D. The needs of the customer supersede instructions to an agent when in the best interests of both parties.

Item ID: 61145

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.002.001.002

Uniform CPA Examination Blueprints effective January 1, 2024: REG.002.001.002

Skill: Application

The owner of a small city building with land with an adjusted basis of \$145,000 (\$161,000 cost, \$16,000 accumulated depreciation) traded the property for a larger, rural property with a fair market value of \$125,000. What is the treatment and amount of the deductible loss, if any, to the owner resulting from this trade?

- A. No loss.
- B. \$4,000 capital loss.
- C. \$20,000 capital loss.
- D. \$20,000 ordinary loss.

Item ID: 60883

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.002

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.001.000

Skill: Application

A client wants to know how best to avoid gift taxes when contributing to an adult daughter's support. The daughter cannot be claimed as a dependent on the client's return. The client intends to provide the following items of support.

<u>Item of support</u>	<u>Amount</u>
Cash	\$10,000
Tuition	\$25,000
Medical bills	\$3,000
Apartment rent at college	\$2,000

Assuming that the applicable gift tax annual inclusion is \$12,000, the client can avoid gift tax by paying which of the following items directly?

- A. Medical expenses to the hospital and rent to the landlord.
- B. Tuition to the college and medical expenses to the hospital.
- C. Tuition to the college and rent to the landlord.
- D. Tuition to the college.

Item ID: 70189

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.003.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.003.000

Skill: Application

A husband and wife filed for divorce and entered into a written agreement as part of a pending divorce settlement that the husband would transfer to the wife the following property: a house valued at \$500,000 and jewelry valued at \$10,000. Eighteen months later, the couple obtained a final divorce decree. Which of the following statements is correct concerning the transfer of the property?

- A. Only personal property transferred as part of a divorce settlement is subject to the gift tax.
- B. Both real and personal property transferred as part of the divorce settlement are subject to the gift tax.
- C. Only real property transferred as part of a divorce settlement is subject to the gift tax.
- D. None of the transferred property is subject to the gift tax.

Item ID: 72791

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.003.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.003.000

Skill: Remembering and Understanding

A taxpayer plans to give a substantial gift to a charity. The taxpayer holds 500 shares of stock in a publicly held corporation. The taxpayer's basis is \$5,000, and the fair market value is \$4,000. Which of the following is the best alternative and reflects correct tax reporting?

- A. Sell the stock, contribute the \$4,000 proceeds, and report a \$5,000 charitable deduction.
- B. Sell the stock, contribute the \$4,000 proceeds, and report a \$4,000 charitable deduction and a \$1,000 capital loss.
- C. Give the stock to the charity and report a \$5,000 charitable deduction.
- D. Give the stock to the charity and report a \$4,000 charitable deduction and a \$1,000 investment expense.

Item ID: 76321

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.004.003.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.001.000

Skill: Application

Albert is a partner with a one-third interest in a partnership. The partnership reported the following balance sheet information at December 31, year 2:

Cash	\$25,000
Capital, Albert	8,000
Capital, Crane	9,000
Capital, Barry	8,000

Albert's tax basis in the partnership interest is \$8,000. If the partnership distributed \$7,500 cash in complete liquidation of Albert's partnership interest on December 31, year 2, what amount would Albert recognize as a gain or loss?

- A. \$500 capital loss.
- B. \$500 ordinary loss.
- C. \$7,500 capital gain.
- D. \$7,500 ordinary income.

Item ID: 73707

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.001.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.003.003

Skill: Application

Company A owns 100% of the stock of Company B and the AB group files a calendar year consolidated federal income tax return. In the current year, A had a \$4,000 loss from operations and a capital gain of \$500; and B had \$10,000 of income from operations and a capital loss of \$2,000. B also paid A \$1,000 in dividends in the current year. What is the group's consolidated taxable income?

- A. \$5,000
- B. \$5,500
- C. \$6,000
- D. \$7,500

Item ID: 66515

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.003.004

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.001.003

Skill: Application

Orchid, Inc. and Yarrow, Inc. have filed consolidated tax returns for several calendar years. At the close of business on September 30, Orchid sold all of Yarrow's stock to an unrelated party. For the current year, what portion of Yarrow's corporate income should be included in the consolidated return, assuming that the income is earned evenly throughout the year?

- A. 0%
- B. 25%
- C. 75%
- D. 100%

Item ID: 501393

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.003.004

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.001.003

Skill: Application

Which of the following statements is correct regarding shareholders in an S corporation?

- A. Qualified IRAs can be included as shareholders.
- B. Nonresident aliens can be included as shareholders.
- C. C corporations formed after December 31, 2004, can be shareholders.
- D. Spouses, children, and grandchildren can be treated as one shareholder.

Item ID: 85144

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.004.001

Uniform CPA Examination Blueprints effective January 1, 2024: REG.005.003.001

Skill: Remembering and Understanding

After a corporation terminates its S corporation election, what is the minimum number of years that the corporation must wait before a new, valid S corporation election is effective?

- A. Two.
- B. Three.
- C. Four.
- D. Five.

Item ID: 95668

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.004.001

Uniform CPA Examination Blueprints effective January 1, 2024: REG.005.003.001

Skill: Remembering and Understanding

Which of the following elections must be made at the partnership level?

- A. Exclusion of income from discharge of indebtedness.
- B. Election for foreign taxes paid.
- C. Election of an inventory method.
- D. Cost or percentage depletion for oil and gas wells.

Item ID: 63259

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.005.003

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.003.002

Skill: Remembering and Understanding

A taxpayer has a \$78,000 adjusted basis in an interest in a partnership prior to any distributions. At the end of the year, the partnership distributed cash of \$35,000 and mutual fund shares with a fair market value of \$28,000 and a basis of \$19,000 in a nonliquidating distribution to the taxpayer. What amount of gain, if any, is the taxpayer required to recognize on the distribution?

- A. \$0
- B. \$9,000
- C. \$35,000
- D. \$63,000

Item ID: 72553

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.005.006

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.003.003

Skill: Application

MULTIPLE CHOICE - HARD

Which regulatory body coordinates the state boards of accountancy in their role of licensing and regulation for CPAs?

- A. The National Association of State Boards of Accountancy.
- B. The Financial Accounting Standards Board.
- C. The Public Company Accounting Oversight Board.
- D. The American Institute of Certified Public Accountants.

Item ID: 69949

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.002.000

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.002.000

Skill: Remembering and Understanding

Under the Uniform Accountancy Act, a CPA may receive a contingent fee for which of the following services?

- A. Expedited preparation of an original return reflecting a large refund.
- B. Successfully concluding an Internal Revenue Service examination.
- C. Preparing a covered tax opinion in connection with a transaction that an audit client plans to undertake.
- D. Compiling a financial statement that is included in an offering document.

Item ID: 72639

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.002.000

Uniform CPA Examination Blueprints effective January 1, 2024: REG.001.002.000

Skill: Remembering and Understanding

A principal hired an agent to sell several parcels of land. The two signed a document that empowered the agent to enter contracts binding the principal for whatever price the agent thought would be reasonable, as long as sales were in cash. The principal boasted to friends that the agent had complete authority to make all sales. A friend heard the boast and later agreed with the agent to buy a parcel on an installment contract. The principal attempted to void the installment-contract agreement. Which of the following events made the agreement binding?

- A. The principal's boast to the friends.
- B. The written document between the principal and the agent.
- C. The continued authority of the agent to act.
- D. The disclosure of the principal's identity.

Item ID: 61313

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.002.001.001

Uniform CPA Examination Blueprints effective January 1, 2024: REG.002.001.001

Skill: Application

A taxpayer acquired a building for use in a business on January 1, year 2. On July 1, year 3, the building was severely damaged by a storm. The taxpayer elected to treat the damage to the building as an involuntary conversion, used the insurance proceeds to construct a new building on the same site, and started construction on the new building on October 1, year 3. The new building was completed on April 1, year 4. When does the taxpayer's holding period in the new building begin?

- A. January 1, year 2.
- B. July 1, year 3.
- C. October 1, year 3.
- D. April 1, year 4.

Item ID: 68617

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.001

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.001.000

Skill: Application

A taxpayer gifted stock held for two years to the taxpayer's adult child. The taxpayer's basis and the fair market value of the stock at the time of the gift was \$120,000, and the taxpayer paid a gift tax of \$30,000 on this gift. Six months later, the taxpayer's child sold the stock for \$110,000. What is the amount and character of the gain (loss), if any, to be reported on the child's tax return?

- A. \$10,000 long-term capital loss.
- B. No gain and **no** loss.
- C. \$40,000 short-term capital loss.
- D. \$40,000 long-term capital loss.

Item ID: 76263

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.001

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.002.000

Skill: Application

A taxpayer acquired a 50% interest in a partnership by contributing property with an adjusted basis of \$60,000 and outstanding liability on the property of \$10,000. The property had a fair market value of \$80,000 at the date of contribution. What amount is the partnership's basis for the property?

- A. \$50,000
- B. \$60,000
- C. \$70,000
- D. \$80,000

Item ID: 507660

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.001

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.003.003

Skill: Application

Spouses A and B divorced on December 30 of year 1. In March, year 2, pursuant to the divorce, A transferred property held for three years to B for \$150,000 cash. A's basis in the property was \$100,000. B sold the property six months later for \$300,000. As a consequence, B has a

- A. Short-term capital gain of \$200,000.
- B. Long-term capital gain of \$200,000.
- C. Short-term capital gain of \$150,000.
- D. Long-term capital gain of \$150,000.

Item ID: 70263

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.003

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.002.000

Skill: Application

Five unrelated individuals plan to invest \$150,000 each to form a corporation for purposes of operating a restaurant. All individuals file a joint return with their spouses. Which of the following is a reason for structuring the investment as small business stock under Code Section 1244?

- A. Loss on the sale of the stock can be treated as an ordinary loss up to \$150,000 for each shareholder in any one year.
- B. Losses incurred by the corporation are deductible by each shareholder up to \$50,000 in any one year.
- C. Loss on the sale of the stock can be treated as an ordinary loss up to \$50,000 on each shareholder's joint return in any one year.
- D. Loss on the sale of the stock can be treated as an ordinary loss up to \$100,000 on each shareholder's joint return in any one year.

Item ID: 72353

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.003

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.002.000

Skill: Application

Anders, an accrual-basis taxpayer, borrowed money from Wilson, a related party. Wilson is a cash-basis taxpayer. During year 1, Anders accrued \$10,000 of interest expense related to the loan. Anders paid \$10,000 to Wilson in year 2. What is the proper year to report the amounts on the taxpayers' income tax returns?

- A. Year 1 deduction for Anders, and year 1 income for Wilson.
- B. Year 1 deduction for Anders, and year 2 income for Wilson.
- C. Year 2 deduction for Anders, and year 1 income for Wilson.
- D. Year 2 deduction for Anders, and year 2 income for Wilson.

Item ID: 65765

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.004

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.003.000

Skill: Application

A taxpayer places property into a trust with income payable to a niece, until she reaches 21 years of age. Under the terms of the trust, both the principal and income may be expended by the trustee for the benefit of the niece. When the niece reaches 21 years of age, any accumulated income and principal must be paid to her or to whomever she designates in her will, if she dies before reaching 21. The transfer of property to the trust is subject to

- A. The gift tax, but **not** to the generation-skipping tax.
- B. Both the gift and the generation-skipping tax.
- C. The generation-skipping transfer tax, but **not** to the gift tax.
- D. The income tax, but **not** to the gift or generation-skipping tax.

Item ID: 71133

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.003.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.003.000

Skill: Application

A sole shareholder's initial investment in an S corporation's stock was \$30,000 and no increases in basis have occurred since. Losses incurred since inception of the corporation have totaled \$50,000. The stockholder sold the stock for \$20,000 in the current year. What is the amount and character of the shareholder's gain or loss on the stock sale?

- A. \$10,000 capital loss.
- B. No gain and **no** loss.
- C. \$20,000 capital gain.
- D. \$20,000 ordinary gain.

Item ID: 76235

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.004.001.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.002.000

Skill: Application

A taxpayer participated in two separate business activities. Business A is the taxpayer's principal business in whose day-to-day operations the taxpayer is regularly involved. The taxpayer did not materially participate in Business B. The taxpayer had the following income (loss) and deductions in the tax year:

<u>Description</u>	<u>Amount</u>
Business A	\$40,400
Business B	(\$8,000)
Disposition of royalty-producing asset	(\$2,500)
Salary	\$110,000
Dividends	\$5,800

What is the amount of total losses from passive activities for the year that will be carried forward for future use?

- A. \$2,500
- B. \$4,700
- C. \$8,000
- D. \$10,500

Item ID: 66759

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.004.004.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.002.000

Skill: Application

Last year, Patel received wages of \$80,000 and realized a passive activity loss of \$25,000 from activity A. In the current year, due to Patel's increased participation in activity A, it is not considered a passive activity. Patel realized a \$10,000 loss from activity A, earned \$20,000 income from passive activity B, and received wages of \$90,000. What is the passive loss activity carryover to the following year?

- A. \$0
- B. \$5,000
- C. \$15,000
- D. \$25,000

Item ID: 70033

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.004.004.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.002.000

Skill: Application

An individual taxpayer has ownership interests in three separate passive activities. In year 2, the passive activities generated the following income or losses: Activity 1 (\$40,000) loss; Activity 2 \$90,000 income; Activity 3 (\$80,000) loss; net passive loss (\$30,000). What amount of the net passive loss, if any, is allocated to Activity 3 as a suspended passive activity loss?

- A. \$0
- B. \$10,000
- C. \$20,000
- D. \$30,000

Item ID: 71861

Key: C

Uniform CPA Examination Blueprints effective July 1, 2021: REG.004.004.000

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.001.002.000

Skill: Application

Alpha, a C corporation, is the parent of a consolidated tax group that includes its two wholly owned subsidiaries, Beta and Delta, also C corporations. Beta and Delta each own 45% of a limited liability company, Fox. Alpha licenses technology to Fox and charges a royalty for the use of the technology. Upon tax audit, the IRS increased Alpha's royalty income gained from the technology licensing from \$1 million to \$1.5 million for the tax year. Which of the following impacts, if any, will this adjustment have on Alpha and its subsidiaries' taxable income?

- A. \$450,000 decrease.
- B. \$50,000 increase.
- C. \$500,000 increase.
- D. No impact.

Item ID: 69037

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.003.004

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.001.003

Skill: Application

For the purpose of computing the base erosion and anti-abuse tax (BEAT), which of the following payments by a domestic corporation qualifies as a base erosion payment?

- A. The corporation paid an unrelated foreign corporation for inventory.
- B. The corporation paid its foreign parent corporation for depreciable property.
- C. The corporation paid accrued interest expense to its wholly owned domestic subsidiary.
- D. The corporation paid interest expense to an unrelated bank based in the Cayman Islands.

Item ID: 504459

Key: B

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.003.005

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.001.004

Skill: Remembering and Understanding

The global intangible low-taxed income (GILTI) inclusion can apply to a

- A. U.S. partner in a foreign partnership.
- B. Non-U.S. partner in a domestic partnership.
- C. Non-U.S. shareholder of a domestic corporation.
- D. U.S. shareholder of a controlled foreign corporation.

Item ID: 504497

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.003.005

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.001.004

Skill: Remembering and Understanding

Rafferty is a 50% partner in the RS partnership. Upon the formation of RS, Rafferty contributes land worth \$30,000, which had a basis of \$20,000. In year 1, RS sells the land for \$38,000. What gain should Rafferty recognize on the sale of the land?

- A. \$4,000
- B. \$9,000
- C. \$10,000
- D. \$14,000

Item ID: 70019

Key: D

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.005.004

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.003.003

Skill: Application

A partnership converted to an LLC that is taxed as a partnership in order to limit the partners' liability. How is the conversion treated for tax purposes?

- A. As a nontaxable event, without an interim closing of the tax year.
- B. As a taxable liquidation of the partnership followed by the formation of a new LLC.
- C. As a continuation of the original business, but if appreciated assets are sold, built-in gains taxes could apply.
- D. As a continuation of the original business, but net unrealized gains on the appreciation of the partnership are taxed to the partners in the year of conversion.

Item ID: 92513

Key: A

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.006.000

Uniform CPA Examination Blueprints effective January 1, 2024: REG.005.005.000

Skill: Remembering and Understanding

TASK BASED SIMULATIONS

Item: 500761_01

Natalia Chekov, CPA, prepared the year 5 Form 1120, *U.S. Corporation Income Tax Return*, for Maple Corp. In year 8, a court order required Natalia to disclose certain tax calculations to an unrelated third party. These calculations were used in the preparation of Maple's year 5 tax return. What section and subsection of the Internal Revenue Code provides that Natalia can avoid being fined and/or imprisoned when disclosure of the information is made to the unrelated third party pursuant to the court order?

Enter your response in the answer fields below. Guidance on correctly structuring your response appears above and below the answer fields.

Type the subsection here.

A correctly formatted IRC subsection is a lower case letter.

IRC§ 7216 (b)

i Examples of correctly formatted IRC responses are IRC§1(a), IRC§56(a), IRC§25A(a), IRC§162(a), IRC§263A(a), IRC§1245(a), IRC§2032A(a) and IRC§1400Z-1(a).

Exhibits Information

There are no exhibits for this item.

Blueprint Information

Uniform CPA Examination Blueprints effective July 1, 2021: REG.001.004.002

Skill: Application

Item: 510260_01








Scroll down to complete all parts of this task.

Nick Leitner files Form 1040, *U.S. Individual Income Tax Return*, as a single taxpayer, and in the past reported only income from wages earned from his work as an attorney.

In year 2, Nick had several sales transactions and sent an email to Rosa Navarro, CPA, inquiring about the potential impact of the transactions on his year 2 tax return. A copy of the email can be found in the exhibit above.

For each sales transaction listed in the table below, enter in column B the amount of tax gain (loss), if any, that will be included in the calculation of Nick's year 2 adjusted gross income. Enter gains as positive, whole values and losses as negative, whole values. If a response is zero, enter a zero (0).

In column C, select from the option list the appropriate characterization of any gain (loss) recognized. An option may be used once, more than once, or not at all.

	A	B	C
1	Sales transaction	Tax gain (loss) recognized for the purpose of calculating adjusted gross income on Form 1040	Characterization of recognized tax gain (loss)
2	Sale of automobile	\$6,500 ¹²³	Long-term capital gain (loss) 
3	Sale of personal residence	\$20,000 ¹²³	Long-term capital gain (loss) 
4	Sale of dining room furniture	\$0 ¹²³	No gain and no loss 
5	Sale of Borough of Harbor Springs bond	\$200 ¹²³	Short-term capital gain (loss) 
6	Sale of Lilac Corp. stock	\$7,500 ¹²³	Long-term capital gain (loss) 
7	Sale of Coriander Corp. stock	(\$700) ¹²³	Short-term capital gain (loss) 
8	Sale of cryptocurrency	\$150 ¹²³	Short-term capital gain (loss) 

-- Option List Details --

Characterization of recognized tax gain (loss) List

- ☐ Long-term capital gain (loss)
- ☐ Short-term capital gain (loss)
- ☐ No gain and no loss

END OF CONTENT -----

Exhibits Information

Exhibits included in this item

1. Client Email
2. Closing Statement

Exhibit 1: Client Email

Client Email

To: Rosa Navarro, CPA
From: Nick Leitner
Date: August 18, year 2
Subject: Questions related to year 2 transactions

Dear Rosa:

In the past four months, I had several transactions involving the sale of personal assets. Could you please tell me if I need to make estimated tax payments for the third and fourth quarters, so that I won't be in a position of underpayment of tax. The relevant transactions are listed below.

- On April 2, year 2, I sold a used automobile for \$10,000 to one of my colleagues. I originally purchased the automobile on January 15, year 1, for \$500. The purchase price was low because the engine was not functional, and the automobile would not start. I spent 80 hours replacing the engine. The new engine cost \$3,000, and the estimated value of my labor to replace the engine was \$700. The automobile was fully operational and ready for sale on March 1, year 2.
- On April 25, year 2, I sold my personal residence to my brother for its fair market value. I purchased this home six years ago for \$300,000, and it served as my principal residence during that time. I attached a copy of the Closing Statement as evidence of the sale. I did not make any capital improvements while I owned the residence. In a separate transaction, I sold the antique dining room furniture in the home to my brother for \$11,000. I purchased the furniture four years earlier at a cost of \$13,000.
- On April 30, year 2, I received \$10,200 from the sale of a municipal bond issued by the Borough of Harbor Springs. The face value of the bond was \$10,000, which I purchased on December 15, year 1, for \$10,000.
- On January 3, year 1, I purchased 50 shares of Lilac Corp. common stock, at a cost of \$50 per share. On January 15, year 2, Lilac announced a 2-for-1 stock split. On May 2, year 2, I sold 100 shares of Lilac for \$10,000. On May 9, year 2, I used the proceeds from the sale of this stock to repurchase 100 shares of Lilac stock for \$9,000.
- On October 15, year 1, I purchased 700 shares of Coriander Corp. common stock at a cost of \$21 per share, then sold the 700 shares for \$14,000 on May 12, year 2. On June 6, year 2, I used the proceeds from the sale of this stock to purchase 1,000 shares of Oak Tree Corp. common stock for a total cost of \$14,000.
- On January 5, year 2, I purchased 70 units of cryptocurrency at a cost of \$10 per unit as an investment, and subsequently sold all of the cryptocurrency on July 26, year 2, for \$850.

Please let me know if you need any additional information.

Nick

Exhibit 2: Closing Statement

Closing Statement

Combined Closing Statement
Midway Title Group, Inc.

NOTE: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown.

NAME OF BUYER: Peter Leitner
ADDRESS OF BUYER: 302 Valley Road
Pleasant Point, MI 49500

NAME OF SELLER: Nick Leitner
ADDRESS OF SELLER: 412 Hanover Street
Pleasant Point, MI 49500

PROPERTY LOCATION: 412 Hanover Street
Pleasant Point, MI 49500

SETTLEMENT DATE: April 25, year 2

SUMMARY OF BUYER'S TRANSACTION		SUMMARY OF SELLER'S TRANSACTION	
100. GROSS AMOUNT DUE FROM BUYER		400. GROSS AMOUNT DUE TO SELLER	
101. Contract sales price	600,000	401. Contract sales price	600,000
102. Personal property		402. Personal property	
103.		403.	
Adjustment for items paid by seller in advance		Adjustment for items paid by seller in advance	
104. City/town taxes	4,000	404. City/town taxes	4,000
105. County taxes		405. County taxes	
106. Assessments		406. Assessments	
107.		407.	
120. GROSS AMOUNT DUE FROM BUYER	604,000	420. GROSS AMOUNT DUE TO SELLER	604,000

200. AMOUNTS PAID BY OR ON BEHALF OF BUYER		500. REDUCTIONS IN AMOUNT DUE TO SELLER	
201. Deposit or earnest money	60,000	501. Deposit or earnest money	60,000
202. Principal amount of new loan	480,000	502. Settlement charges to seller	
203. Existing loan taken subject to		503. Existing loan taken subject to	
204.		504. Payoff of first mortgage loan	280,000
205.		505. Payoff of second mortgage	
206.		506. Real estate agent commission	30,000
Adjustment for items unpaid by seller		Adjustment for items unpaid by seller	
207. City/town taxes		507. City/town taxes	
208. County taxes		508. County taxes	
209. Assessments		509. Assessments	
210.		510.	
220. TOTAL AMOUNTS PAID BY OR ON BEHALF OF BUYER	540,000	520. TOTAL REDUCTIONS IN AMOUNT DUE SELLER	370,000
300. CASH AT SETTLEMENT FROM/TO BUYER		600. CASH AT SETTLEMENT TO/FROM SELLER	
301. Gross amount due from buyer (line 120)	604,000	601. Gross amount due to seller (line 420)	604,000
302. Less amounts paid by/for buyer (line 220)	540,000	602. Less reductions in amount due to seller (line 520)	370,000
303. CASH FROM BUYER	64,000	603. CASH TO SELLER	234,000

Blueprint Information

Uniform CPA Examination Blueprints effective July 1, 2021: REG.003.001.003

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.004.002.000

Skill: Analysis

Item: 510774_01

Scroll down to complete all parts of this task.

Review each of the independent scenarios listed in column A in the table below and, in response to the question posed in each scenario, enter the appropriate amount in column B. Enter all amounts as positive, whole values. If a response is zero, enter a zero (0).

Assume for all scenarios that eligible members have always been part of the controlled group and that a consolidated federal Form 1120, *U.S. Corporation Income Tax Return*, will be filed. Consider each scenario in column A independently of the others.

	A	B
1	Scenario	Amount
2	<p>On April 12, year 4, Coriander, Inc. sold inventory with a cost of \$70,000 to Fennel, Inc., a 100%-owned domestic subsidiary, for total proceeds of \$100,000. Fennel sold 60% of that inventory to outside customers for \$65,000 during year 4.</p> <p>What amount of income, if any, should be included in the corporations' year 4 consolidated federal income tax return?</p>	<div>123</div> <p>\$23,000</p>
3	<p>During year 4, Lavender, Inc. received a \$100,000 dividend from Spearmint, Inc., a 100%-owned domestic subsidiary. Spearmint received a \$25,000 dividend from a U.S. company in which it owned 9% of the outstanding common stock. The consolidated group's taxable income before the dividends-received deduction was \$10,000,000.</p> <p>What amount of dividend income, if any, should be included as taxable income in the corporations' year 4 consolidated federal income tax return?</p>	<div>123</div> <p>\$12,500</p>
4	<p>Basil, Inc. owns 100% of Rosemary, Inc. In year 4, Basil had net capital gains of \$4,000, and Rosemary had net capital gains of \$21,000. The consolidated group had a capital loss carryover of \$10,000 from year 3, which was generated by Basil.</p> <p>What amount of capital gain, if any, should be included in the calculation of the corporations' consolidated year 4 taxable income?</p>	<div>123</div> <p>\$15,000</p>

5	<p>Sapphire, Inc. owns 100% of Topaz, Inc. On February 26, year 2, Sapphire purchased a piece of undeveloped land for \$75,000.</p> <p>On June 4, year 3, Sapphire sold the land to Topaz for its fair market value of \$80,000. On November 30, year 4, Topaz sold the land to an unrelated third party for \$95,000.</p> <p>What amount of income, if any, should be included in the calculation of the corporations' consolidated year 4 taxable income?</p>	<div>123</div> <p>\$20,000</p>
6	<p>Maple, Inc. owns 100% of Elm, Inc. In year 4, the two corporations reported the following separate activity related to charitable contributions:</p> <ul style="list-style-type: none"> • Maple reported pre-contribution taxable income of \$5,000,000 and charitable contributions of \$100,000. • Elm reported pre-contribution taxable income of \$200,000 and charitable contributions of \$60,000. <p>What amount of charitable contributions, if any, can be taken as a deduction in the calculation of the corporations' consolidated year 4 taxable income?</p>	<div>123</div> <p>\$160,000</p>
7	<p>During year 4, Lemon, Inc. held a licensing agreement for a trademark worth \$10,000,000 and charged to each of its 100%-owned domestic operating subsidiaries the following royalties:</p> <ul style="list-style-type: none"> • Lime, Inc. - 5% on \$1,000,000 sales • Grapefruit, Inc. - 7.5% on \$2,000,000 sales • Kiwi, Inc. - 10% on \$4,000,000 sales <p>What amount of royalty revenue from the licensing agreement, if any, should be included in the calculation of the corporations' consolidated year 4 taxable income?</p>	<div>123</div> <p>\$0</p>

END OF CONTENT -----

Exhibits Information

There are no exhibits for this item.

Blueprint Information

Uniform CPA Examination Blueprints effective July 1, 2021: REG.005.003.004

Uniform CPA Examination Blueprints effective January 1, 2024: TCP.002.001.003

Skill: Application