

2010 - GOING INTO BUSINESS QUIZ

1. T F An activity is presumed to be carried on for profit if it produced a profit in at least 3 out of the last 5 tax years including the current year (except horses)
2. T F Taxpayer may elect to postpone determination of “for profit” and avoid having IRS question profit motive until the 5 years (7 for horses) has passed.
3. T F Election to Postpone Determination of “Profit”, also automatically extends the statute of limitations on any year in the 5 (7) year period.
4. T F When you go into business for yourself you are the ONLY boss!!!
5. T F When you go into business for yourself you can always take time off whenever you want to.
6. Which of the following is an item that should be considered when going into business in the selection of a location?
 - a. Parking
 - b. Zoning
 - c. Space in the building
 - d. Lease terms
 - e. All of the above
7. T F It is not necessary to investigate license and permit regulations before you go into business – just wait and they will catch up with you later.
8. In going into business, arrangements for insurance protection should be made for:
 - a. Shoplifting
 - b. Robbery
 - c. Employee theft
 - d. Liability
 - e. Fire
 - f. All of the above
9. T F If you are buying a going business you need to know the REAL reason the owner wants to sell.
10. T F Establishing a credit plan for customers is a vital part of going into business.
11. T F In estimating start up costs it is advisable to have cash equal to 2-3 times the monthly expense estimated for monthly recurring costs, including salary of the owner or manager.

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- 12.** **T** **F** Start up costs are amortizable over 60 months beginning with the month the start up costs are incurred.
13. T F Costs of acquisition of depreciable property is considered a start up cost if the property is acquired at beginning of business and is amortizable over 60 months.
14. T F Costs of organizing a partnership, corporation or LLC are considered start up costs.
15. T F If start up costs are paid for a partnership business, they are only deductible by the partner who paid them, not the partnership.
16. T F Failure to plan for taxes is a major cause of failure of business.
17. T F Knowing who your customers will be is important in establishing a new business
18. When you begin a new retail business, you need to know
- a. What to buy from whom
 - b. If there are restrictions on pricing
 - c. If customers expect sales at certain times of the year
 - d. When competitors generally have clearance sales
 - e. All of the above
19. T F It is important to consider owner's required salary when figuring the sale price of the product to be sold
20. T F If a new business plans to accept credit card purchases, the owners do not need to worry about cost of the service because the bank pays those costs
21. T F If delivery service will be provided, a new business owner should consider owning or leasing options and whether to charge for delivery service.
22. T F A very MAJOR consideration in going into business is the impact of the Federal, State, and Local taxes and fees imposed on specific business enterprises.
23. T F Consumer protection laws protect the customer and include truth in lending laws
24. T F Federal Trade Commission governs advertising, sales practice and product safety
- 25.** T F Labor relations laws govern economic security

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26. T F Patents, Trademarks and copyright information should be considered if the product is invented or produced by the taxpayer
27. T F Accounting systems should provide information that can be used to meet tax reporting and decision making regarding inventory, unnecessary expenses etc.
28. T F If there is substantial risk involved in a business, the corporate structure may be necessary to provide the shield of protection for the corporate assets.
29. T F Taxpayer and his wife are starting an ice making business. There are just the two of them and they do not need to raise capital by selling any stock. Their best solution to **type of entity** is for them to form a partnership.
30. Which of the following is **not** a consideration when deciding on the **type of entity**?
- a. Legal costs to set up the entity
 - b. Accounting costs to maintain it
 - c. Costs to dissolve it
 - d. Risk factor
 - e. Requirements to raise capital
 - f. Tax consequences
 - g. Control
 - h. Continuity
 - i. Building location.
31. T F In general, a corporate structure is the only type of entity that will survive the death of the owner.
32. Which of the following is the least formal, most basic entity?
- a. Sole proprietorship B. General partnership c. Corporation
33. Which of the following is **not** true in relationship to a sole proprietorship?
- a. Must have state permission to begin a business
 - b. Has the greatest degree of privacy
 - c. Sole proprietor is personally responsible for all debts
 - d. ALL of owners assets (business and personal) can be reached by business creditors.
34. T F A Sole proprietor may establish a qualified pension plan for himself and his employees.

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35. T F If Mr. Jones begins a new business in which he is the sole proprietor and the name of the business is Jones Construction, he must file an assumed business name registration
36. T F Sole proprietor’s taxable income includes all of the business profits, regardless of whether the owner withdraws the profits or leaves them in the business.
37. T F Mr C is a sole proprietor of a mini market. The market is just getting started and only had a profit of \$4,000 this past year. His wife doesn’t work and they have two small children. They knew it would take a while to get the store going so they saved enough funds back to live on for the first two years. If they have no other income, they will not have a tax liability.

38. Ann operates a small clothing store as a sole proprietor. She has two employees (Mary and Jane.) She brings her bookkeeping records to you at year end, all neatly totaled and balanced on a check register disbursements sheet. October “sample” shows:

Date	Ck#	To	Total Check	Net Wages	Supplies Utility
10-1	1111	Ann	\$350.00	\$350.00	
10-1	1112	Mary	\$350.00	\$350.00	
10-1	1113	Jane	\$350.00	\$350.00	
10-1	1114	Supply	\$100.00		\$100.00
10-1	1115	Utility	\$100.00		\$100.00

Ann’s total “net wages” **deduction** for her tax return is:

- a) \$350 b) \$700 c) \$1050
39. T F A partnership is a relationship existing between two or more persons who join together to carry on a trade or business, with each person contributing only money or property and expecting to share in the profits (not the losses) of the venture.
40. T F Co ownership of rental real estate will constitute a partnership
41. T F A general partner’s liability is virtually unlimited in a partnership entity.

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42. 3K Company (A partnership consisting of three partners, Ken, Keith, and Kim) hired a tax consultant to prepare their partnership tax return. The tax consultant failed to attach copies of K1 to the Federal form 1065.
- a. Tax preparer is subject to a \$500 penalty
 - b. Partnership is subject to \$50 per month penalty until the K1s are filed (with a maximum limitation)
 - c. Partnership is subject to \$150 per month penalty until the K1s are filed (with a maximum limit)
43. T F A corporation has unlimited life.
44. T F A corporation is managed by the officers of the corporation
45. T F A corporation (C) is a taxable entity
46. T F Earnings of a corporation may be retained in the corporation as long as the Board of Directors wishes them to be retained and as long as the corporate tax is paid. There are no other restrictions.
47. T F All corporations, other than S corporations are subject to the graduated tax rates set for corporations
48. T F Once the corporation pays the tax on net profits, the cash can be distributed to the officers/owners tax fee
49. T F The officers of a corporation have the power to make major decisions without any other action
50. T F C Corporations that are personal service corporations are taxed at a flat rate of 35%
51. T F There is no tax effect when a sole proprietor takes money out of his business account for personal use.
52. T F A personal holding company pays a flat 15% tax on undistributed PHC income **in addition to other corporate taxes.**
53. T F California franchise tax is imposed on all corporations incorporated in California only.
54. T F California franchise tax on corporations, if applicable is a minimum of \$800
55. T F California franchise tax is measured by income of the **preceding** income year for the **privilege** of doing business in the taxable year.

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56. T F California corporate INCOME tax is imposed on all corporations who derive income from sources within California but are **NOT** doing business in California.
57. T F Washington state has no state corporate tax
58. T F S Corporations do not pay taxes on profits (Federal)
59. T F S Corporation structure provides a means to avoid double taxation
60. T F An “S” Corporation may not have more than 75 shareholders.
61. T F A proper election must be made to form an “S” corporation and this election must be approved by IRS
62. T F An “S” corporation is advantageous (over a partnership) because of the limited liability.
63. T F L.L.C.s are formed under federal law
64. T F There is no limit on the number of members an LLC may have.
65. T F A non resident alien may own an interest in an LLC
66. T F Owners of interest in LLC are referred to as shareholders.
67. T F An LLC must issue stock shares to its members
68. T F If a business will need to retain a lot of earnings for future capital needs, an LLC may be preferable to corporate structure
69. T F Pass through from an LLC is generally subject to Self Employ. Tax whereas passthrough from an S corporation is not subject to SE tax
70. T F If organizers of a business expect to incur net losses, they would be able to deduct more losses under LLC rules than on S corporation rules (generally)
71. T F An LLC may elect to be taxed as an S corporation
72. T F Members in an LLC can **not** participate in a cafeteria plan sponsored by the LLC
73. T F Under LLC, no member is liable personally for debts or obligations of the LLC other than those specifically guaranteed or assumed by the member unless the veil of liability protection can be pierced.

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74. T F Participation in management of limited partners in and Limited Partnership can result in loss of limited liability protection for that limited partner.
75. T F An **LLP** only shields each partner from LLP liabilities for malpractice of another partner in the LLP
76. T F Taxpayer owned a pet store in 1971, was successful until 2001 when losses incurred until 2010. Business was operated by family members and supported by wages from taxpayer and spouse (from other employment). This business will still qualify as a business and not a hobby because it was originally a success.
77. T F Taxpayer is a full time insurance sales manager and he and his spouse grow Christmas trees, raise fish, harvest timber and plant crops in land adjacent to their home. They make substantial improvements and invest much of their time in the businesses. Despite 5 years of losses, the taxpayers may still be deemed to have a business instead of a hobby.
78. T F Taxpayer's illness prevented profit, not lack of profit motive. Generally, losses would be allowed under facts and circumstances.
79. T F Hobby losses are deductible only to the extent of income produced by the activity. However, it is not necessary to **expect** a profit to deduct a loss.
80. T F Taxpayer is a Revenue Agent with the IRS and his spouse is a full time travel agent. They have an Amway distributorship but sell very little to customers and use the distributorship mainly to purchase their own personal products. They spend very little time attending meetings or promoting sales. They will normally be considered to be operating a hobby.
81. T F A substantial deduction for entertainment in Amway distributorship may suggest to IRS that this is a hobby.
82. T F Taxpayer had a real estate business for several years, never made a sale, then became an engineer. Continued with the business (real estate), deducting losses, but still no sales. Taxpayer did not have a business phone or do any advertising. Receipts in support real estate activity were all during Christmas and Labor Day weekend holidays, travel was largely to Indiana where his son lives. Taxpayer insists he had a good faith profit motive because he investigated real estate properties that were for sale while in Indiana and during the holidays to see if he wanted to move there and go into Real Estate sales business. This taxpayer will probably not be allowed real estate deductions.

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83. T F New business entities should be aware that there is a credit for small businesses that pays or incurs expenses to provide access to persons who have disabilities. This is a refundable credit.
84. T F Some new business may be eligible for an empowerment zone employment credit but only if they have employees in certain areas.
85. T F To qualify for Indian employment credit, the employee must perform substantially all of his or her services within an Indian reservation.
86. T F Investment credit is available for expenses incurred to forest or reforest property even if the property is not used for growing trees for sale or use in commercial production of timber products
87. T F Work opportunity credit provides an incentive to hire individuals from targeted groups.
88. T F Welfare to work credit is available for qualified long term family assistance recipients who start to work after December 31, 1998 and before December 31, 1999.
89. T F For Welfare to work credit - long term family assistance recipient must be certified by state employment agency.
90. T F Energy credits apply to certain expenses for wind energy property

TRANSFER YOUR ANSWERS TO THE ANSWER SHEET.
SUBMIT ANSWER SHEET ONLY.

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