

Accounting Education Associates, LLC
(www.accounting-education.com)
PO Box 4192, Greensboro, NC 27404
Email Address: info@accounting-education.com
Phone: (800) CPE-Exam; Fax: (800) 645-1099

QUARTERLY CPE EXAM ON THE *Journal of Accountancy*
Third Quarter (Jul – Sep), 2023 (Course # 2303)
A Formal CPE Course using the *JoA* as Reference Material
Recommended CPE Credit: 8 Hours (Category: Interactive Self Study)
Subject division: Audit 3, Ethics 1, IT 1, Tax 3

INSTRUCTIONS:

1. Complete but do not submit all the assignments in the **Supplementary Study Guide** with **Course objectives** available at our Web site: www.accounting-education.com
2. Answer the 50 multiple-choice questions by selecting the one **best** answer.
Blacken the letter; do **not** circle. A score of 70 or better is required.
3. Unless prepaid, please submit a Payment Voucher with your completed Exam.
4. **Scan/email**, fax or snail mail your answer sheet to AEA for grading by deadline below.
5. For CPE credit, please be sure your name and email address are legible.
6. **For faster response, please provide your email address below.**

COURSE EVALUATION:

On a scale of A (highest) to F (lowest), please evaluate the following:

1. The course met the objectives described in the promotional material?
2. Any stated prerequisites were necessary or desirable?
3. The course was timely and effective?
4. The course met your professional education needs?
5. The course materials were understandable and helpful?

On my honor as a CPA or CMA, I have neither given nor received assistance on this Exam.

(Signed) _____ (Dated) _____

Please print your full name: _____

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To which state boards or agencies do you report CPE? _____

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Please leave this space blank for your Certificate of Completion.

****For CPE credit, this exam must be submitted to AEA by
1/29/2025.****

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Date completed: _____

“Congress can raise taxes because it can persuade a sizable fraction of the populace that somebody else will pay.”

... **Milton Friedman, Economist**

This is a formal Interactive self-study CPE course using the *Journal of Accountancy* as reference material designed to keep you abreast of the latest changes affecting our profession. Our course consists of a Supplementary Study Packet (available at our Web site: www.accounting-education.com) and this Final Exam; it is divided into sections, each corresponding to selected articles appearing in the JoA. This series of **quarterly** formal self-study programs can be completed in the convenience of your home or office. New courses normally appear on our Web site around the beginning of each quarter.

LEARNING OBJECTIVES:

The specific learning objectives are stated in the individual sections of the **Supplementary Study Guide** associated with this Quarterly CPE Exam available at www.accounting-education.com

PREREQUISITES: None.

LEVEL: Basic.

COURSE NUMBER: The course number we assign to each quarterly CPE Exam is derived from the Year and Quarter, YYQQ.

COURSE SPONSOR:

Accounting Education Associates (“AEA”) has offered **Quarterly CPE Exams** on the *Journal of Accountancy* every quarter since 1982. Courses were prepared by either:
James H. Ogburn, MBA, CPA, founder of AEA. Jim's experience includes public accounting, finance and 18 years as Director of Graduate Programs in Accounting and Business at the University of North Carolina at Greensboro and 36 years developing AEA courses.
Keith A. Pearson, CPA. Keith's experience includes “Big 4” public accounting, industry as a CFO and controller and managing a CPA firm serving closely-held businesses and individuals.

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IMPORTANT !!! - To receive credit, each exam MUST BE SUBMITTED on or before the expiration date noted at the bottom of the exam.

RECOMMENDED CPE CREDIT:

We recommend CPE credit of ten (8) hours is based on a 50-minute hour for Interactive Self-Study CPE courses. The estimated completion time of 8 hours is based on pilot tests of our Study Packet, reference material readings and final exam and are likely to vary from quarter to quarter. A few state boards still use the old standard of awarding CPE credit of only 50% of the estimated completion time. **For further guidance, please check with your own state board or agency.**

SUBJECT DIVISIONS OF CPE CREDIT:

The recommended subject division is shown on the Final Exam answer sheet, applies to this quarter only and is likely to vary from quarter to quarter.

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Check with your Board. AEA's courses are accepted by many but not all state boards of accountancy. We do not have a sponsor agreement with the CFP Board, the IRS, NASBA or QAS.

PRICES:

The price of a **Quarterly CPE Exam** is \$49, with lower prices when an order involves four or more courses:

Price per course for orders of 1 to 3 courses:	\$49
Price per course for orders of 4 to 7 courses:	\$46
Price per course for orders of 8 to 23 courses:	\$43
Price per course for orders of 24 or more:	\$40

TWO PAYMENT OPTIONS:

Credit card: Click the secure PayPal link on our Web site and at the “PayPal Guest Checkout” option, enter your credit card information. Please do not send us credit card information as AEA no longer accepts or processes credit cards.

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Exams will be graded when received regardless of payment method.

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Source of referral if applicable: _____

I am submitting _____ completed Exam(s) on the *JofA* that I've downloaded from www.accounting-education.com

Quantity _____ Year _____

_____ First Quarter (January - March), 20 _____

_____ Second Quarter (April - June), 20 _____

_____ Third Quarter (July - September), 20 _____

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_____ Third Quarter (July - September), 20 _____

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_____ Total Quantity times Unit price of \$ _____ = \$ _____ Total charge

Unit price depends on total number of Exams:

1 – 3 Exams: \$49 8 – 23 Exams: \$43

4 – 7 Exams: \$46 24 and over: \$40

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PLEASE DO NOT SEND CREDIT CARD# TO AEA.

Optional: Please estimate your course completion time. _____

Thank you for your business and referrals.

The learning objectives of this course are in the Study Guide at www.accounting-education.com

Sections I-III and exam questions 1-25 Relate to the Journal of Accountancy – July, 2023

Section I. Mitigating Risk of Large FBAR and International Claims (page 6)

1. What is the primary reason for the increase in the frequency and severity of malpractice claims related to tax services provided by CPA firms?
 - a. Changes in tax laws
 - b. Errors and omissions in international tax filings.
 - c. Increase in the number of CPA firms.
 - d. Errors in new accelerated depreciation laws.
 - e. Increase in the number of taxpayers.
2. What are the penalties for not complying with international tax filing obligation?.
 - a. Penalties start at \$1,000 and can quickly rise to over \$10,000.
 - b. Penalties start at \$10,000 and can quickly rise to over \$1,000,000.
 - c. Penalties start at \$100 and can quickly rise to over \$1,000.
 - d. Penalties start at \$10,000 and can quickly rise to over \$10,000,000.
 - e. Penalties start at \$100,000 and can quickly rise to over \$10,000,000.
3. What is the purpose of Form 3520?
 - a. To report certain transactions with foreign trusts.
 - b. To report balances in foreign bank accounts.
 - c. To report receipts of certain foreign gifts.
 - d. a, b and c.
 - e. a and c only.
4. A taxpayer who has foreign bank accounts or other financial accounts would need to file:
 - a. Form 3520-A.
 - b. Form 5471.
 - c. FinCEN Form 5472.
 - d. FinCEN Form 114.
 - e. Form 8858.
5. The article provided a case where a CPA discovered a failure to file required certain forms reporting foreign accounts and transactions on prior year tax returns prepared for a client. What evidence should have prompted the CPA to pursue those filings?
 - a. The FBAR questions in the tax organizer were not answered by the client.
 - b. The client paid the tax preparation fees from a foreign bank account.
 - c. The workpapers contained bank statements from a foreign trust account.
 - d. a, b and c.
 - e. a and c only.

Section II. A Guide on When, Where and How to blow the Whistle Safely (Page 8)

6. The ethics rules discussed by the authors in this article apply to:
 - a. CPAs in public practice.
 - b. CPAs offering tax preparation services.
 - c. CPAs working in business, not in a public practice.
 - d. CPAs offering audit and other attest services.
 - e. All CPAs.
7. When there is potential fraud or other noncompliance, the CPA:
 - a. Must Immediately report the violation to the proper authorities.
 - b. Can only report the issue if it occurs in area under their responsibility.
 - c. Should report the violation to a company officer, but there is no need to follow the progress.
 - d. Must first investigate and escalate the issue to try to resolve it internally.
 - e. Has no obligation to resolve or report the issue.
8. If management has been informed of a potential NOCLAR issue and does nothing the CPA:
 - a. Must Immediately report the violation to the proper authorities.
 - b. Is disallowed from reporting or taking further action.
 - c. May report only if confidential information is not disclosed.
 - d. Should resign.
 - e. May choose to report the issue to the proper authorities to protect the public interest.
9. A CPA intends to report a violation that would require disclosure of confidential information of the employer, the CPA:
 - a. Is allowed to disclose confidential information to public authorities
 - b. Is allowed to disclose confidential information when required by law.
 - c. Is allowed to disclose confidential information when required professional responsibilities.
 - d. a, b and c.
 - e. b and c only.
10. According to the article, often whistleblowers:
 - a. Are rewarded by their employers.
 - b. Face retaliation in the workplace.
 - c. Receive job promotions.
 - d. Face public criticism.
 - e. Are suspected by authorities of being complicit in the scheme.
11. Which of the following entities offer a whistleblower programs?
 - a. Securities and Exchange Commission.
 - b. Commodities Futures Trading Commission.
 - c. Internal Revenue Service.
 - d. a, b and c.
 - e. a and b only.

12. In addition to securities law violations, the SEC also enforces the anti-bribery law for publicly traded companies found in:
 - a. The Foreign Corrupt Practices Act.
 - b. The Internal Revenue Code.
 - c. The Treasury Department's Financial Crimes Enforcement Act
 - d. The Securities Exchange Act of 1933
 - e. The False Claims Act.
13. For which whistleblower program must the whistleblower actually first file a lawsuit in court?
 - a. The Securities and Exchange Commission.
 - b. The Internal Revenue Service.
 - c. The False Claims Act.
 - d. FinCEN.
 - e. The Treasury Department's Financial Crimes Enforcement Act .
14. Which of the following types of claims from a whistleblower will the IRS accept?
 - a. Offshore tax shelters, transfer-pricing schemes and failure to report income.
 - b. Money laundering.
 - c. Bribes to foreign officials.
 - d. a and b.
 - e. a, b and c.
15. Which of the following types of claims from a whistleblower will the does FinCEN handle?
 - a. Money laundering.
 - b. Failure to have an effective anti-money laundering compliance plan.
 - c. Failure to file suspicious activity reports.
 - d. a and b.
 - e. a, b and c.

Section III. A Taxonomy for Classifying Digital Assets (Page 24)

16. Digital assets exist:
 - a. Solely on a storage device owned by the asset owner.
 - b. On hardware or cloud storage owned by the issuer, generally a financial institution.
 - c. On blockchains.
 - d. Within the internet search engine software.
 - e. Within a digital vault.
17. Blockchains are:
 - a. Distributed ledgers maintained by the digital asset owner or designated provider.
 - b. Distributed ledgers maintained by a network of participants (known as "nodes.")
 - c. Distributed ledgers generally maintained by a central bank or other institution.
 - d. The name of the process by which digital assets are bought and sold.
 - e. Security software that helps detect computer viruses.

18. A “node” is usually a separate electronic device connected to a network that:
- a. Maintains a full or partial copy of a blockchain.
 - b. Allows the digital asset owner to check their balance by logging into the node.
 - c. Participates in the process of compiling and validating updates to the digital asset.
 - d. a, b and c.
 - e. a and c only.
19. The author classifies digital assets into three major categories:
- a. Central Bank digital Currency, Fungible Cryptoassets and Nonfungible tokens.
 - b. Central Bank digital Currency, Fungible Cryptoassets and Nonfungible Cryptoassets.
 - c. Central Bank Cryptoassets, Fungible Cryptoassets and Nonfungible Cryptoassets.
 - d. Commercial, Retail and Private Issuers.
 - e. Centralized, Decentralized and Other.
20. A retail central bank digital currency (CBDC) would be:
- a. Intended for citizen use similar to currency.
 - b. Could easily be exchanged for cash.
 - c. On blockchains and the transactions visible to government officials.
 - d. a, b and c.
 - e. a and c only.
21. One advantage (or controversy) related to retail CBDCs is?
- a. The ability to control expenditures of government grants, aid and programs.
 - b. The digital currency is not backed by any commodity (such as gold or silver).
 - c. The blockchain nodes are located outside of central bank nodes, subject to hackers.
 - d. The general resistance of the public to digital currency issued by a central bank.
 - e. All of the above.
22. It is important to determine whether a cryptoasset is fully decentralized or issuer-controlled because:
- a. Issuer-controlled assets are **not** subject to significant influence from a single entity.
 - b. Fully decentralized assets are subject to significant influence from a single entity.
 - c. Issuer-controlled assets may affect the assessment of risk and internal controls.
 - d. Issuer-controlled assets have greater acceptance in the marketplace.
 - e. Issuer-controlled assets are subject to less scrutiny from regulators.
23. Native tokens have parallels to _____ and are excluded for the issuer from FASB crypto standards:
- a. Cash.
 - b. Amortizable assets.
 - c. Equity.
 - d. Debt.
 - e. Impaired assets.

24. Nonfungible tokens (NFTs) are:
- a. Digital assets that are tied to a particular currency value.
 - b. Digital assets that can earn interest income.
 - c. Asset backed tokens.
 - d. Tokens that prove ownership of physical or digital assets.
 - e. Similar to bitcoin.
25. The largest category of NFTs is:
- a. Authentication.
 - b. Ownership.
 - c. Perpetuals.
 - d. Real estate.
 - e. Reusables.

Sections IV-V and exam questions 26-40 Relate to the Journal of Accountancy – August, 2023

Section IV. Peer Review Findings in Audits of Not-for-Profits: What auditors need to know (Pg. 19)

26. Peer reviews noted examples of when a firm or its personnel:
- a. Did not have enough professional training to perform GAGAS audits.
 - b. Did not satisfy CPE requirements of Government Auditing Standards.
 - c. Had a undisclosed conflict of interest.
 - d. a and b.
 - e. a, b and c.
27. One expert noted challenges to having sufficient, capable staff to conduct GAGAS audits including:
- a. A general lack of educational resources to train staff of GAGAS audits.
 - b. A failure of firms to aggressively recruit potential staff.
 - c. A jump in demand for GAGAS audits resulting from COVID-19 relief programs.
 - d. a, b and c.
 - e. a and b only.
28. Which of the following shortcomings were noted when reviewing the auditor's processes?
- a. The firm used out of date work programs and disclosure checklists.
 - b. The firm did not sufficiently plan for or document items required by professional standards.
 - c. New client considerations were not documented, including communications with prior auditor.
 - d. The representation letter was missing some key elements.
 - e. All of the above.
29. To address the process-related failures, the article recommends:
- a. Outsourcing key planning and testing design to a qualified third party.
 - b. Use of standardized workpapers, third party practice aids tailored to the client engagement.
 - c. Engaging the peer reviewer to review all the audit documentation and report before issuance.
 - d. Increasing the audit area client base as time and experience will result in improved processes.
 - e. Use of various AI products that help plan and document the audit.

30. There are unique GAGAS rules for related nonaudit services, including:
- The requirement for a separate engagement letter and representation letter for these services.
 - The auditor is not allowed to perform any nonaudit services.
 - Any nonaudit services must be disclosed in a special footnote.
 - Nonaudit services cannot be performed by a member of the audit team.
 - Preparation of financial statements is presumed to create a significant threat.
31. Some of the benefits of audit planning and risk assessment include:
- Compliance with professional standards.
 - More efficient engagements.
 - Reduced professional liability risks.
 - a, b and c.
 - a and c only.
32. Some of the insufficient planning issues noted during peer reviews were linked to:
- Lack of adequate partner involvement.
 - Lack of firm experience with the not-for-profit (NFP) sector.
 - Lack of access to resources.
 - Lack of client cooperation.
 - All of the above.
33. Regarding documentation, an expert noted it was often not clear whether:
- Planning had been performed.
 - An engagement letter had been signed.
 - Procedures were performed or how conclusions were reached.
 - The auditor established a threshold for materiality.
 - All of the above.
34. Uniform guidance single audits (generally for entities receiving federal grants) have challenges beyond those of traditional not-for-profits. One area that requires more judgment is that a material instance of noncompliance:
- Requires a qualified opinion.
 - Must be resolved through additional testing and documentation.
 - Disqualifies the entity from receiving federal grant awards.
 - Is not the same as a material error in the financial statements.
 - Must be disclosed in the financial statements.
35. The author noted a unique situation during and after COVID as donations decreased and government relief ran out:
- Due to the layoff of certain officers, audit planning and execution was severely hindered.
 - The difficulty of the audit lessened as a number of programs were cancelled.
 - Due to some staffing reductions, the audit team had to update certain accounting records.
 - NFPs grew tremendously due to demand for their services.
 - Auditors were required to evaluate and document going concern issues.

Section V. Preventing Fraud with Internal Controls: A Refresher (Page 28)

36. "Inherent risks" are:
 - a. Risks that remain after controls have been put in place.
 - b. Risks that originate from within the entity.
 - c. Risks identified during the risk assessment.
 - d. Risks that exceed the cost of preventive measures.
 - e. Unique to cash businesses.
37. Once identified through an assessment, the risks are ranked according to:
 - a. The likelihood of occurrence.
 - b. The magnitude of potential loss or damage to the entity.
 - c. Degree of difficulty and expense to develop controls.
 - d. a, b and c.
 - e. a and b only.
38. Preventive controls include:
 - a. Passwords and access codes.
 - b. Segregation of duties.
 - c. Physical inventory checks.
 - d. a and b.
 - e. a, b and c.
39. Residual risk is:
 - a. The acceptable level of risk remaining after controls have been put in place.
 - b. Risk associated with secondary controls.
 - c. The amount of risk the insurance policy will not cover.
 - d. The risk remaining after completing the risk assessment.
 - e. Risk that can never be eliminated.
40. Reconciling a checking account to the general ledger balance is an example of:
 - a. A preventive control.
 - b. A defective control.
 - c. A detective control.
 - d. A risk assessment.
 - e. A corrective control.

Sections VI and exam questions 41-50 Relate to the Journal of Accountancy – September, 2023

Section VI. Passive Loss Limitations on Rental Real Estate (Page 20)

41. A passive activity is any trade or business:
 - a. In which the taxpayer owns a minority interest.
 - b. That is engaged only in real estate rentals.
 - c. In which the taxpayer works parttime.
 - d. That earns investment income (dividend or interest) rather than "active" income for labor.
 - e. In which the owner does not materially participate.

42. Passive activity losses (PALs):
- Are always deductible in the year incurred.
 - Are only deductible to the extent there is passive income.
 - Are never deductible.
 - Are deductible to the extent there is other income of any type.
 - Can be deducted to the extent of other income, plus \$3,000.
43. PALs that cannot be deducted due to a limitation are suspended passive losses, which:
- Can be deducted by carrying it back to a prior year with income (by filing an amended return).
 - Can never be deducted until the trade or business is sold or closes.
 - Are carried forward for up to five years, then expire.
 - Are carried forward indefinitely until they can be deducted against passive income.
 - Are carried forward indefinitely and can be deducted against passive income, plus \$3,000.
44. Some activities are deemed a passive activity, regardless of material participation. These include:
- Real estate activities.
 - Real estate sales.
 - Real estate rentals.
 - Real estate development.
 - All rental activities.
45. Assume a taxpayer qualifies to deduct some PALs under the "Active Participation" rule. Assume the taxpayer's adjusted gross income (AGI) is \$120,000 and has \$20,000 of passive rental loss. How much of the loss could the taxpayer deduct?
- \$0.
 - \$5,000.
 - \$10,000.
 - \$15,000.
 - \$20,000.
46. Which of the following are true about short-term rentals?
- The average rental period must be 7 days or less, or 30 days or less.
 - Significant personal services must be provided.
 - Short term rentals qualify for the \$25,000 loss deduction allowance.
 - a and b.
 - a, b and c.
47. What is the tax significance of the self-rental rule?
- The owner rents to a business in which he participates, often as an owner.
 - The owner must pay tax on the rent collected from the business.
 - The amount of rent the owner is allowed to charge the business is limited.
 - The net rental income is recharacterized as nonpassive to prevent the owner from inflating the rent to offset passive losses.
 - The net rental income can reduce the \$25,000 active participation allowance.

48. To qualify as a real estate professional, a person must have:
- a. Spent over 50% of all personal services in real property trades with material participation.
 - b. Worked more than 750 hours in real property trades with material participation.
 - c. At least 5% ownership in the real property business.
 - d. a, b and c.
 - e. a and b only.
49. Assume you own one rental property for which you spend just over 100 hours per year performing maintenance and upkeep. You pay for certain other services, usually specialty trades for certain tasks. Which test would likely allow you to qualify for material participation status?
- a. Test 2.
 - b. Test 3.
 - c. Test 5.
 - d. Test 6.
 - e. Test 7.
50. A taxpayer owns a rental property that has accumulated over several years a total of \$100,000 of nondeductible passive activity losses. The taxpayer also plans to withdraw substantial IRA funds in the future that would be taxable and would like to be able to use the suspended PAL in the same tax year to reduce taxable income. Knowing the suspended PAL can be freed by disposing the property, your advice would be to:
- a. Donate the property to charity.
 - b. Sell the property and receive another property in a Sec. 1031 Like Kind Exchange.
 - c. Sell the property to an unrelated third party.
 - d. Transfer the property to a nonrevocable trust.
 - e. Any of the above.