

PRACTICE EXAM 27: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

Total Questions: 50 | **Time Limit:** 140 Minutes | **Passing Score:** 73% (37/50)

1. A contractor operating as a sole proprietorship has gross receipts of \$830,000 and net earnings of \$108,000. The contractor's tax advisor says the business owes franchise and excise tax. Is the advisor correct?

- A. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies in Tennessee
- B. Yes, because all business entities with gross receipts exceeding \$500,000 owe franchise and excise tax
- C. No, because sole proprietorships are exempt from all Tennessee state-level business taxes
- D. Yes, because all businesses with net earnings exceeding \$100,000 owe excise tax regardless of structure

2. A contractor has total assets of \$980,000, total liabilities of \$635,000, current assets of \$370,000, and current liabilities of \$235,000. The contractor wants to bid on a \$1,400,000 project. Can the monetary limit support this bid?

- A. No, because the monetary limit is ten times the lesser of net worth (\$345,000) or working capital (\$135,000) — the limit is \$1,350,000, which falls below \$1,400,000
- B. Yes, because the net worth of \$345,000 supports a limit of \$3,450,000
- C. Yes, because total assets of \$980,000 support any project under \$2,000,000
- D. No, because the Board requires a minimum current ratio of 2.0 for projects above \$1,000,000

3. A general contractor on a private commercial project issues a \$55,000 progress payment check to a plumbing subcontractor. The subcontractor signs an unconditional lien waiver and delivers it. Three days later, the general contractor's business bank account is frozen by the IRS for unpaid payroll taxes. The subcontractor's check never clears. What is the status of the waiver?

- A. The waiver is void because the general contractor committed fraud by issuing a check on a frozen account
- B. The unconditional waiver is effective immediately upon signing — the subcontractor has released lien rights regardless of whether the payment is actually received
- C. The unconditional waiver converts to a conditional waiver when the bank account is frozen
- D. The waiver is suspended until the IRS releases the bank account and the check clears

4. A contractor operating as a C-corporation has net earnings of \$380,000, net worth of \$460,000, and tangible property valued at \$520,000 in Tennessee. What is the company's Tennessee franchise tax liability?

- A. \$1,300, calculated at \$0.25 per \$100 of tangible property of \$520,000 because it is the greater of net worth or tangible property
- B. \$1,150, calculated at \$0.25 per \$100 of the net worth of \$460,000
- C. \$100, the minimum franchise tax for all Tennessee corporations regardless of size
- D. \$2,450, calculated at \$0.25 per \$100 of the combined net worth and tangible property

5. A contractor enters into a cost-plus-percentage contract with a 13% fee for a \$600,000 estimated renovation. The owner approves an upgrade adding \$24,000 to the project cost. What is the contractor's fee on the upgrade portion, and what structural problem does this contract create?

- A. \$0 on the upgrade because the fee percentage applies only to the original estimate
- B. \$3,120 on the upgrade, and the structural problem is that the contractor has a financial incentive to encourage cost increases because each additional dollar generates 13 cents in fee income

- C. \$3,120 on the upgrade with no structural problem because the owner approved the upgrade
- D. \$2,400 on the upgrade because the fee is reduced to 10% on change order work

6. A subcontractor furnishes labor and materials to a state-funded prison construction project. The general contractor has not paid the subcontractor for \$110,000. The subcontractor wants to file a mechanic's lien against the prison. Is this viable?

- A. Yes, because state prison projects exceeding \$100,000 are subject to mechanic's lien provisions
- B. Yes, but only if the subcontractor files within 30 days of the last day of furnishing
- C. No, and no alternative remedy exists because state correctional facilities have sovereign immunity
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

7. An employer with 10 employees in Tennessee terminates a worker who recently announced a pregnancy. The worker believes the termination was pregnancy-related. Under which law can the worker file a complaint?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and prohibits pregnancy-based discrimination
- B. Title VII and the Pregnancy Discrimination Act, which apply to employers with 15 or more employees
- C. The ADEA, which covers pregnancy discrimination for employers with 10 or more employees
- D. No federal or state law covers pregnancy discrimination for employers with only 10 employees

8. A contractor enters into a \$1,250,000 stipulated-sum contract for a commercial office. After completing 55% of the work, the owner terminates for convenience. The contractor has incurred \$618,750 in costs and earned \$68,750 in profit on completed work. The contractor claims \$62,500 in anticipated profit on the unperformed 45%. What does the contractor receive?

- A. \$1,250,000, the full contract price, because the owner terminated without contractor fault
- B. \$750,000, consisting of costs plus earned profit plus anticipated profit on unperformed work
- C. \$618,750, consisting of only the direct costs with no profit on any portion of the work
- D. \$687,500, consisting of costs (\$618,750) plus profit earned on completed work (\$68,750), with no recovery of anticipated profit on unperformed work

9. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, acceptance, consideration, and legal purpose. The property owner is a corporation whose Tennessee charter has been administratively dissolved for failure to file annual reports. What element is at issue?

- A. Legal capacity — a dissolved corporation may lack the legal ability to enter into binding contracts until its charter is reinstated
- B. Consideration — dissolved corporations cannot provide valid consideration for construction agreements
- C. Offer — a dissolved corporation cannot make or accept valid offers under Tennessee corporate law
- D. Legal purpose — contracts with dissolved corporations are prohibited under Tennessee law

10. A contractor wants to hire a plumbing subcontractor for a \$24,800 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate license?

- A. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value

B. No, because the \$24,800 scope falls below the \$25,000 threshold — the BC classification excludes plumbing exceeding \$25,000, and this scope does not exceed it

C. No, because the general contractor's BC-B license covers all subcontractor trades on the project

D. Yes, because plumbing subcontractors must be licensed for any work exceeding \$10,000

11. A contractor is excavating a sanitary sewer trench that reaches 5 feet 9 inches deep in soil classified as Type A. The excavation superintendent says Type A soil is the most cohesive classification and no protective system is needed at this depth. Is the superintendent correct?

A. Yes, because Type A soil allows unprotected excavation up to 8 feet with competent person oversight

B. Yes, because a competent person's field assessment overrides the standard OSHA depth requirements

C. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil classification, unless the excavation is entirely in stable rock — Type A soil is not stable rock

D. No, because Type A soil requires protection at all depths regardless of the 5-foot threshold

12. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,100,000. The contractor currently has a reviewed financial statement. Does this meet the Board's requirements?

A. Yes, because reviewed statements are acceptable for limits up to \$5,000,000

B. No, because monetary limits exceeding \$3,000,000 require an audited financial statement

C. Yes, because the Board requires audited statements only when limits exceed \$4,000,000

D. No, because all limits above \$2,500,000 require an audited financial statement

13. A contractor enters into a unit-price contract to install 2,400 linear feet of copper water line at \$68 per linear foot. During installation, the engineer reduces the quantity to 1,900 linear feet due to a design revision. What is the financial outcome?

- A. The contractor receives the full 2,400 linear feet payment because the contract quantity is guaranteed
- B. The owner pays for the 1,900 linear feet actually installed at \$68 per foot, totaling \$129,200, because the owner bears the quantity risk
- C. The cost difference is split equally between the owner and contractor
- D. The contractor receives 1,900 feet plus a cancellation fee on the uninstalled 500 feet

14. A contractor operating as a limited partnership has gross receipts of \$2,200,000, net earnings of \$275,000, net worth of \$350,000, and tangible property valued at \$310,000. What is the combined franchise and excise tax liability?

- A. \$875 in franchise tax only, because limited partnerships are exempt from excise tax
- B. \$17,875 in excise tax only, because limited partnerships are exempt from franchise tax
- C. \$0, because limited partnerships are pass-through entities exempt from both taxes
- D. \$18,750, consisting of \$875 in franchise tax based on net worth of \$350,000 plus \$17,875 in excise tax at 6.5% of net earnings

15. A contractor holds a Tennessee license with a monetary limit of \$2,200,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$500,000 meets the \$501,000–\$1,500,000 tier requirement
- B. Yes, because GL requirements are based on individual project values, not the monetary limit
- C. No, because all contractors with limits above \$2,000,000 must carry GL equal to the monetary limit

D. No, because the \$2,200,000 limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL

16. An employer with 55 employees at a single Nashville location has a worker employed for 11 months who requests 12 weeks of FMLA leave for a personal serious health condition. Is the worker eligible?

A. No, because FMLA requires the employee to have worked for the employer for at least 12 months, and this worker has only 11 months of service

B. Yes, because the employer has 50+ employees and a serious health condition is a qualifying event

C. Yes, because the 12-month tenure requirement is waived for workers with documented serious conditions

D. No, because FMLA leave for personal health conditions is limited to 6 weeks maximum

17. A contractor purchases \$36,000 in roofing materials for a commercial project. The combined state and local sales tax rate is 9.5%. The building owner is a nonprofit religious organization with a valid tax exemption. Can the contractor avoid paying sales tax?

A. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.5% sales tax of \$3,420 at purchase regardless of the owner's exempt status

B. Yes, because materials installed in tax-exempt buildings inherit the owner's exemption at purchase

C. Yes, if the contractor provides the supplier with the organization's exemption certificate

D. No, but the contractor can file a quarterly refund with the Tennessee Department of Revenue

18. A contractor wants to apply for a BC-A/r restricted residential classification. Which combination of restrictions accurately describes this classification?

- A. Projects under \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited
- B. Projects under \$100,000, no trade exam, joint ventures prohibited, subcontractors prohibited
- C. Projects under \$125,000, no trade exam required (community college course substitutes), joint ventures prohibited, subcontractors permitted
- D. Projects under \$125,000, trade exam required, joint ventures permitted, subcontractors permitted

19. A masonry subcontractor is bidding on a \$106,000 scope of masonry work for a new fire station. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. No, because the LMC threshold is \$125,000 for government construction projects
- B. Yes, because the LMC license is required when masonry work reaches \$100,000 or more, and \$106,000 exceeds that threshold
- C. No, because the general contractor's license covers all masonry subcontractor work
- D. Yes, because all masonry subcontractors must hold an LMC license regardless of value

20. A contractor licensed in Ohio wants to obtain a Tennessee license. The contractor holds a valid Ohio license and has passed the Ohio trade exam. What testing requirements apply?

- A. The trade exam may be waived through reciprocity with Ohio, but the Tennessee Business and Law exam must still be passed
- B. Both exams are fully waived because Ohio has comprehensive reciprocity with Tennessee
- C. No reciprocity exists between Tennessee and Ohio, requiring both exams independently
- D. The Business and Law exam is waived through reciprocity, but the trade exam must be taken

21. A roofing subcontractor wants to bid on a \$39,000 re-roofing project for a residential property. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work?

A. Yes, because residential roofing projects under \$50,000 are exempt from subcontractor licensing

B. No, because Tennessee has required all roofing subcontractors to be licensed since January 1, 2014, regardless of project value

C. Yes, because the general contractor's license covers roofing subcontractor work on residential projects

D. No, but only because the project exceeds \$25,000 — roofing under \$25,000 is license-exempt

22. A contractor enters into a cost-plus-fixed-fee contract with a \$48,000 fixed fee for a \$580,000 estimated commercial renovation. Material prices drop, bringing actual costs to \$520,000. What fee does the contractor receive?

A. \$43,034, reduced proportionally because actual costs came in below the estimate

B. \$52,000, recalculated at 10% of actual costs because the fee adjusts when costs change

C. \$48,000, plus a \$6,000 bonus for delivering the project under the estimated cost

D. \$48,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease

23. A contractor's employee suffers a fatal fall from an unguarded roof edge at 10:15 AM on Thursday. The project superintendent calls the contractor's office at 10:40 AM. By what time must the employer report this fatality to OSHA?

A. By 10:40 AM on Friday, which is within 24 hours of the employer learning about the fatality

B. By 10:15 AM on Friday, which is within 24 hours of the time the fatality occurred

C. By 6:40 PM on Thursday, which is within 8 hours of the employer learning about the fatality

D. By 10:40 AM the following Thursday, which is within 5 working days of the employer's knowledge

24. A contractor with 62 employees is hiring new workers. The HR director requires I-9 forms but has not enrolled in E-Verify. Is this compliant?

A. Yes, because E-Verify is a voluntary federal program with no state mandate in Tennessee

B. No, because Tennessee requires E-Verify for employers with 50 or more employees — both I-9 and E-Verify are required

C. No, because E-Verify is required for all Tennessee employers regardless of employee count

D. Yes, because E-Verify is mandatory only for employers holding government contracts

25. A contractor is building a commercial warehouse using the percentage-of-completion method. Contract price is \$1,400,000, costs incurred to date are \$490,000, and total estimated costs are \$1,120,000. What revenue should be recognized?

A. \$490,000, matching revenue to costs incurred without applying a completion ratio

B. \$700,000, calculated as 50% of the contract price because the project appears half complete

C. \$612,500, calculated as costs to date (\$490,000) divided by total estimated costs (\$1,120,000) multiplied by the contract price (\$1,400,000)

D. \$1,400,000, because revenue is fully recognized once the project surpasses 35% completion

26. A contractor operating as an S-corporation has net earnings of \$260,000, net worth of \$330,000, and tangible property valued at \$300,000. The controller says S-corporations are exempt from Tennessee franchise and excise tax. Is this correct?

A. Yes, because S-corporations receive the same state tax treatment as sole proprietorships

- B. Yes, because all pass-through entities are exempt from franchise and excise tax
- C. No, but only excise tax applies — S-corporations are exempt from franchise tax
- D. No, because S-corporations are subject to both franchise and excise tax in Tennessee despite their federal pass-through classification

27. A contractor has a net worth of \$320,000 and working capital of \$295,000. The contractor applies for an unlimited license. Does the contractor qualify?

- A. Yes, because the net worth exceeds \$300,000 and that is the only requirement for unlimited
- B. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$295,000 falls short
- C. Yes, because the average of the two values exceeds \$300,000
- D. No, because unlimited requires a minimum net worth of \$500,000

28. A contractor wants to hire an electrical subcontractor for a \$24,500 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the electrical subcontractor need a separate license?

- A. No, because the \$24,500 scope falls below the \$25,000 threshold — the BC classification excludes electrical exceeding \$25,000, and this scope does not exceed it
- B. Yes, because all electrical work on commercial buildings requires a separate license regardless of value
- C. No, because the general contractor's BC-B license covers all electrical work on the project
- D. Yes, because electrical subcontractors must be licensed for any work exceeding \$10,000

29. A contractor enters into a \$580,000 lump-sum contract for a dental clinic. During construction, the contractor discovers a buried concrete foundation from a previously

demolished building, requiring \$34,000 for removal. The contract contains no differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because abandoned foundations are pre-existing property conditions
- B. The cost is split equally between owner and contractor under the implied risk-sharing principle
- C. The contractor can file a mechanic's lien for the removal cost without providing notice
- D. The contractor bears the cost because in a lump-sum contract without a differing site conditions clause, the contractor assumes the risk of unforeseen subsurface conditions

30. A project owner terminates a contractor for cause on a \$1,600,000 commercial project after documented quality failures and two written cure notices. The contractor completed 50% of the work. A replacement contractor charges \$950,000 to complete the remaining 50%. The original remaining balance was \$800,000. What does the original contractor receive?

- A. \$800,000, representing 50% of the contract price for all completed work
- B. The value of acceptably completed work with no offset for the replacement contractor's cost
- C. \$800,000 plus a 10% termination fee for early contract dissolution
- D. The value of acceptably completed work, reduced by the \$150,000 difference between the replacement cost (\$950,000) and the remaining contract balance (\$800,000)

31. An employer with 22 employees wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. The policy includes pre-employment, reasonable suspicion, and post-accident testing but omits random testing. Does this qualify?

- A. Yes, because three of four components satisfy the minimum requirement for the premium credit
- B. Yes, because random testing is an optional enhancement that increases the credit amount

- C. No, because all four components are required — pre-employment, reasonable suspicion, post-accident, and random — and omitting any one disqualifies the program
- D. No, because the program must also include annual testing of all current employees

32. A contractor wants to determine whether a home office addition project requires a Tennessee contractor license. The project includes: framing materials \$11,400, drywall and paint \$3,800, electrical materials \$2,600, labor \$5,800, and profit \$1,900. Does this project require a license?

- A. No, because home office additions are classified as home improvements exempt from licensing
- B. Yes, because the total cost is \$25,500 (all components), exceeding the \$25,000 threshold
- C. No, because the labor cost of \$5,800 is under \$25,000 and the threshold applies only to labor
- D. Yes, because any project involving electrical work automatically requires a license

33. A contractor licensed in Alabama wants to obtain a Tennessee license. The contractor has passed the Alabama trade exam and holds an active Alabama license. What testing requirements apply?

- A. Both exams are fully waived because Alabama has comprehensive reciprocity with Tennessee
- B. No reciprocity exists between Tennessee and Alabama, requiring both exams independently
- C. The trade exam may be waived through reciprocity with Alabama, but the Tennessee Business and Law exam must still be passed
- D. The Business and Law exam is waived through reciprocity, but the trade exam must be taken

34. A contractor holds a Tennessee license with a monetary limit of \$490,000. The contractor carries \$100,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because the \$490,000 limit falls in the up-to-\$500,000 tier, which requires \$100,000 minimum GL
- B. No, because all Tennessee contractors must carry \$250,000 minimum GL insurance
- C. No, because the GL minimum is 25% of the monetary limit, requiring \$122,500
- D. Yes, because GL requirements are based on individual project values, not the monetary limit

35. A contractor operating as a general partnership has two partners and 3 employees. The partnership earns gross receipts of \$440,000 and net earnings of \$62,000. The contractor's CPA says the partnership owes excise tax at 6.5%. Is the CPA correct?

- A. Yes, because all partnerships with employees owe excise tax regardless of structure
- B. Yes, because all business entities with net earnings exceeding \$50,000 owe excise tax
- C. No, because general partnerships owe excise tax only when net earnings exceed \$100,000
- D. No, because general partnerships are exempt from both franchise and excise tax — only business tax on gross receipts applies

36. A contractor signs a conditional lien waiver in exchange for a \$36,000 progress payment. The owner issues a check. The contractor deposits the check and it clears three business days later. What is the status of the conditional waiver?

- A. The waiver remains conditional for 30 days after deposit regardless of whether the check clears
- B. The waiver converts to unconditional only after a separate written confirmation is signed by both parties
- C. The conditional waiver is now effective because the condition — actual receipt of payment — has been satisfied

D. The waiver is effective only after 90 days of the payment remaining cleared without reversal

37. A contractor enters into a guaranteed maximum price (GMP) contract for \$2,100,000 on a conference center project. The contract includes a 60/40 shared savings clause with 60% to the owner. Actual costs total \$1,980,000. How are the savings distributed?

A. The contractor receives the entire \$120,000 as an efficiency bonus

B. The owner receives \$72,000 (60%) and the contractor receives \$48,000 (40%) of the \$120,000 savings

C. The owner receives the full \$120,000 because the GMP ceiling exists solely for the owner's benefit

D. The savings are held in joint escrow until all warranty obligations expire

38. A contractor is reviewing the standard order of precedence for a \$2,800,000 commercial project. The specifications require Grade 60 rebar throughout. The addenda changed the requirement to Grade 40 rebar for the non-structural retaining walls only. The drawings show Grade 80 rebar for the retaining walls. Which rebar grade should be installed in the retaining walls?

A. Grade 60, because specifications always take precedence over addenda and drawings

B. Grade 80, because the drawings provide the most detailed location-specific material information

C. Grade 40, because addenda modify all previously issued documents and represent the most current design intent

D. The contractor may choose any grade and document the selection in the project submittal log

39. A contractor's employee is killed in an electrical accident on a commercial jobsite at 2:30 PM on Wednesday. The site superintendent calls the office at 2:55 PM. By what time must the employer report this fatality to OSHA?

- A. By 2:55 PM on Thursday, which is within 24 hours of the employer learning about the death
- B. By 2:30 PM on Thursday, which is within 24 hours of the actual time of the fatality
- C. By 2:55 PM the following Wednesday, which is within 5 working days
- D. By 10:55 PM on Wednesday, which is within 8 hours of the employer learning about the fatality

40. A contractor has total assets of \$1,200,000, total liabilities of \$780,000, current assets of \$460,000, and current liabilities of \$148,000. Does the contractor qualify for unlimited license status?

- A. Yes, because both net worth (\$420,000) and working capital (\$312,000) each independently exceed the \$300,000 threshold
- B. No, because the working capital of \$312,000 does not meet the \$350,000 minimum for unlimited
- C. Yes, because the net worth of \$420,000 alone exceeds \$300,000, which is the only requirement
- D. No, because unlimited requires both values to exceed \$500,000

41. A contractor wants to hire an HVAC subcontractor for a \$27,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate license?

- A. No, because the general contractor's BC-B license covers all mechanical trades on commercial projects
- B. No, because HVAC subcontractor licensing is required only for scopes exceeding \$50,000
- C. Yes, because the BC classification excludes HVAC work exceeding \$25,000, and the \$27,000 scope exceeds that threshold

D. Yes, because all HVAC work on commercial buildings requires a separate license regardless of value

42. A contractor is excavating a water main trench that reaches 5 feet 2 inches deep in soil classified as Type C. The foreman says the trench barely exceeds the threshold and no protective system is needed. Is the foreman correct?

A. Yes, because a competent person can authorize unprotected entry for depths barely over 5 feet

B. Yes, because Type C soil at shallow depths has sufficient cohesion without physical protection

C. No, because Type C soil requires protective systems at all depths regardless of the OSHA threshold

D. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil type unless entirely in stable rock — there is no "barely over" exception

43. A contractor operating as an LLC has gross receipts of \$1,600,000. The company paid \$1,100,000 to properly licensed subcontractors and \$160,000 to an unlicensed demolition crew. What is deductible from gross receipts for Tennessee business tax?

A. \$1,100,000, because only payments to properly licensed subcontractors qualify for the deduction

B. \$1,260,000, because all payments to subcontractors and crews are deductible regardless of licensing

C. \$0, because Tennessee does not permit deductions from gross receipts for business tax purposes

D. \$550,000, because the deduction is capped at 50% of total subcontractor and crew payments

44. A contractor enters into a \$750,000 lump-sum contract for a dental office. During construction, the owner verbally approves a \$14,000 upgrade to the sterilization room ventilation. The contractor completes the work immediately. Three weeks later, the owner disputes the charge. What is the core procedural issue?

- A. The verbal approval is enforceable because the owner accepted the benefit of the work
- B. The change order should have been written and signed by both parties before the work began — the lack of documentation weakens the contractor's ability to recover the cost
- C. The architect must authorize all change orders before the owner or contractor can approve them
- D. The owner cannot dispute work that has been physically completed and integrated into the building

45. A material supplier delivers \$66,000 in custom cabinetry to a private residential project. The supplier has no direct contract with the homeowner — the contract is exclusively with the general contractor. The general contractor has not paid. What must the supplier do to preserve mechanic's lien rights?

- A. File a mechanic's lien directly within 90 days — no prior notice is required for material suppliers
- B. Send a demand letter to the general contractor by certified mail within 30 days of the invoice
- C. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery, and file a mechanic's lien within 90 days of the last furnishing date
- D. File a breach of contract lawsuit within one year, which automatically creates a lien

46. A contractor completes all work on a private commercial project on September 15. The owner withholds \$48,000. The contractor files a mechanic's lien on December 11, which is 87 days after last furnishing. Is the filing timely, and what is the enforcement deadline?

- A. No, because commercial liens must be filed within 60 days of the last day of furnishing
- B. Yes, but enforcement must be filed within 90 days of the lien filing date

- C. Yes, the filing is within the 90-day period, and enforcement must be filed within one year of the filing date
- D. No, because the 90-day period begins from the date the retainage was contractually due

47. An employer with 19 employees wants to know which federal employment discrimination laws apply. Which combination is correct?

- A. Title VII, ADA, and ADEA all apply because all three have a 15-employee threshold
- B. Only Title VII applies at 15+ employees — ADA and ADEA both require 25+ employees
- C. None apply because the minimum threshold for any federal discrimination law is 20+ employees
- D. Title VII and ADA apply at 15+ employees, but ADEA does not apply because it requires 20+ employees

48. A contractor wants to determine whether a carport construction project requires a Tennessee contractor license. The project includes: steel materials \$13,200, concrete footings \$2,100, labor \$8,300, and profit \$1,900. Does this project require a license?

- A. Yes, because the total cost is \$25,500 (materials + footings + labor + profit), exceeding the \$25,000 threshold
- B. No, because carports are classified as accessory structures exempt from licensing requirements
- C. No, because the labor cost of \$8,300 is under \$25,000 and the threshold applies only to the labor
- D. Yes, because all projects involving concrete footings require a license regardless of total cost

49. An employer with 9 employees in Tennessee terminates a 48-year-old worker who has a documented hearing disability. Under which laws can the worker file discrimination claims?

- A. Both the federal ADA and ADEA, because both apply to employers with 5 or more employees
- B. Title VII only, because it covers all forms of discrimination for employers with 9 or more employees
- C. The Tennessee Human Rights Act, which applies to employers with 8 or more employees — the federal ADA requires 15+ and the ADEA requires 20+, so neither federal law applies
- D. No federal or state law covers disability or age claims for employers with only 9 employees

50. A contractor operating as a C-corporation has net earnings of \$310,000, net worth of \$380,000, and tangible property valued at \$440,000. What is the combined franchise and excise tax liability?

- A. \$1,100 in franchise tax only, because C-corporations are exempt from excise tax in Tennessee
- B. \$20,150 in excise tax only, because franchise tax applies only to LLCs and limited partnerships
- C. \$21,250, consisting of \$1,100 in franchise tax based on tangible property of \$440,000 plus \$20,150 in excise tax at 6.5% of net earnings
- D. \$0, because C-corporations with net earnings under \$500,000 are exempt from both taxes

Practice Exam 27: Answer Key and Explanations

1. A. Sole proprietorship taxes — Exempt from franchise and excise tax. Only business tax applies.

2. A. Monetary limit — Net worth = \$345,000. Working capital = \$370,000 – \$235,000 = \$135,000. Limit = $10 \times \$135,000 = \$1,350,000$. Below \$1,400,000.

3. B. Unconditional waiver — Effective immediately upon signing regardless of payment status.

4. A. Franchise tax — $\$0.25$ per $\$100$ of greater value ($\$520,000$ tangible vs. $\$460,000$ net worth). $\$520,000 \div 100 \times \$0.25 = \$1,300$.

5. B. Cost-plus-percentage — $13\% \times \$24,000 = \$3,120$. Structural incentive to encourage cost increases.

6. D. Public property — Liens cannot be filed against public property. Remedy is payment bond claim.

7. A. Pregnancy discrimination — Title VII/PDA requires 15+ (doesn't apply at 10). THRA at 8+ covers pregnancy.

8. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$618,750 + \$68,750 = \$687,500$.

9. A. Legal capacity — A dissolved corporation may lack capacity to enter binding contracts.

10. B. Plumbing licensing — BC excludes plumbing exceeding $\$25,000$. $\$24,800$ below threshold.

11. C. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. Type A is not stable rock.

12. B. Financial statements — Limits exceeding $\$3,000,000$ require audited statement.

13. B. Unit-price quantity risk — Owner bears risk. $1,900 \times \$68 = \$129,200$.

14. D. Limited partnership taxes — Franchise = $\$0.25$ per $\$100$ of $\$350,000 = \875 . Excise = $6.5\% \times \$275,000 = \$17,875$. Combined = $\$18,750$.

15. D. GL tiers — $\$2,200,000$ exceeds $\$1,501,000$. Highest tier requires $\$1,000,000$. $\$500,000$ insufficient.

16. A. FMLA — Requires 12 months employment. Worker has 11 months. Not eligible.

17. A. Sales tax — Contractor is end user. $\$36,000 \times 9.5\% = \$3,420$. Owner's exemption doesn't transfer.

18. C. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.

19. B. LMC threshold — Required at \$100,000+. \$106,000 exceeds threshold.

20. A. Ohio reciprocity — Trade exam waived. Business and Law exam always required.

21. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.

22. D. Cost-plus-fixed-fee — \$48,000 fee constant regardless of actual costs.

23. C. Fatality reporting — 8 hours from employer learning. 10:40 AM + 8 = 6:40 PM Thursday.

24. B. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 62.

25. C. Percentage of completion — Revenue = $(\$490,000 \div \$1,120,000) \times \$1,400,000 = 0.4375 \times \$1,400,000 = \$612,500$.

26. D. S-corporation taxes — Subject to both franchise and excise tax despite pass-through status.

27. B. Unlimited license — Both must each exceed \$300,000. Working capital (\$295,000) falls short.

28. A. Electrical licensing — BC excludes electrical exceeding \$25,000. \$24,500 below threshold.

29. D. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.

30. D. Termination for cause — Value of acceptable work offset by \$150,000 additional completion cost.

31. C. Drug-Free Workplace — All four components required. Omitting random disqualifies.

32. B. Licensing threshold — Total = $\$11,400 + \$3,800 + \$2,600 + \$5,800 + \$1,900 = \$25,500$. Exceeds \$25,000.

33. C. Alabama reciprocity — Trade exam waived. Business and Law exam always required.

34. A. GL tiers — \$490,000 in up-to-\$500,000 tier. \$100,000 minimum. Policy meets requirement.

35. D. General partnership taxes — Exempt from franchise and excise tax. Only business tax applies.

36. C. Conditional waiver — Effective when payment actually received. Check cleared. Condition satisfied.

37. B. GMP shared savings — \$120,000 split 60/40: owner \$72,000, contractor \$48,000.

38. C. Addenda — Modify previously issued documents. Grade 40 in addenda controls for retaining walls.

39. D. Fatality reporting — 8 hours from employer learning. 2:55 PM + 8 = 10:55 PM Wednesday.

40. A. Unlimited license — Net worth = \$420,000, working capital = \$312,000. Both exceed \$300,000. Qualifies.

41. C. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$27,000 exceeds threshold.

42. D. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. No "barely over" exception.

43. A. Business tax deduction — Only licensed subcontractor payments (\$1,100,000) deductible.

44. B. Change order — Should be written and signed before work. Lack of documentation weakens position.

45. C. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.

46. C. Lien timing — 87 days after last furnishing, within 90 days. Timely. Enforcement within one year.

47. D. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.

48. A. Licensing threshold — Total = $\$13,200 + \$2,100 + \$8,300 + \$1,900 = \$25,500$. Exceeds \$25,000.

49. C. Disability discrimination — THRA at 8+ covers disability. ADA requires 15+ and ADEA requires 20+, so neither federal law applies at 9 employees.

50. C. Corporate taxes — Franchise = $\$0.25$ per \$100 of \$440,000 tangible property = \$1,100. Excise = $6.5\% \times \$310,000 = \$20,150$. Combined = \$21,250.