

PRACTICE EXAM 29: 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 \$920,000 and net earnings of \$118,000. The contractor's CPA says the business owes Tennessee franchise and excise tax. Is the CPA correct?

- A. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies
- 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 \$1,060,000, total liabilities of \$680,000, current assets of \$400,000, and current liabilities of \$268,000. The contractor wants to bid on a \$1,400,000 project. Can the monetary limit support this?

- A. Yes, because the net worth of \$380,000 supports a limit of \$3,800,000
- B. No, because the monetary limit is ten times the lesser of net worth (\$380,000) or working capital (\$132,000) — the limit is \$1,320,000, which falls below \$1,400,000
- C. Yes, because total assets of \$1,060,000 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 contractor enters into a cost-plus-percentage contract with a 11% fee for a \$580,000 estimated commercial renovation. The contractor discovers that a prefabricated staircase at \$15,000 less than the custom-welded staircase specified would meet all design and code requirements. What financial impact does recommending the savings create?

- A. The contractor loses \$1,650 in fee income because 11% of the \$15,000 savings is eliminated, creating a disincentive to recommend cost reductions
- B. No impact because the fee percentage remains constant regardless of cost changes
- C. A positive impact because value engineering credits increase the contractor's fee by 5%

D. The impact is neutral because the owner independently verifies all material substitutions

4. A contractor operating as a C-corporation has net earnings of \$410,000, net worth of \$480,000, and tangible property valued at \$540,000 in Tennessee. What is the excise tax liability?

A. \$1,350, calculated at \$0.25 per \$100 of tangible property of \$540,000

B. \$26,650, calculated at 6.5% of the net earnings of \$410,000

C. \$1,200, calculated at \$0.25 per \$100 of net worth of \$480,000

D. \$0, because C-corporations with tangible property under \$1,000,000 are exempt from excise tax

5. A general contractor on a private commercial project issues a \$72,000 progress payment check to an HVAC subcontractor. The subcontractor signs a conditional lien waiver and deposits the check. Four days later, the bank returns the check for insufficient funds. What is the status of the conditional waiver?

A. The conditional waiver is effective because the contractor demonstrated intent to pay by issuing the check

B. The conditional waiver is not effective because the condition — actual receipt of payment — was never satisfied

C. The conditional waiver becomes effective 10 business days after deposit regardless of clearance

D. The conditional waiver converts to an unconditional waiver once the contractor issues a replacement check

6. A subcontractor furnishes labor and materials to a state-funded highway rest stop project. The general contractor has not paid the subcontractor for \$88,000 in completed work. Can the subcontractor file a mechanic's lien?

A. Yes, because highway rest stops are classified as commercial facilities for lien purposes

B. Yes, but the lien must be filed within 30 days rather than 90 days for state-funded projects

C. No, and no remedy exists because state highway projects 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 9 employees in Tennessee terminates a 55-year-old worker who recently disclosed a back injury requiring accommodation. Under which law can the worker file a discrimination claim?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers both age and disability discrimination
- B. The federal ADA, which applies to all employers with 5 or more employees in the construction industry
- C. Title VII of the Civil Rights Act, which covers disability discrimination for employers with 9+ employees
- D. No federal or state law covers disability or age claims for employers with only 9 employees

8. A contractor enters into a \$1,450,000 stipulated-sum contract for a commercial office building. After completing 50% of the work, the owner terminates for convenience. The contractor has incurred \$652,500 in costs and earned \$72,500 in profit on completed work. The contractor claims \$72,500 in anticipated profit on the unperformed 50%. What does the contractor receive?

- A. \$1,450,000, the full contract price, because the owner terminated without contractor fault
- B. \$797,500, consisting of costs plus earned profit plus anticipated profit on unperformed work
- C. \$652,500, consisting of only the direct costs with no profit on any portion
- D. \$725,000, consisting of costs (\$652,500) plus earned profit (\$72,500), with no recovery of anticipated profit on unperformed work

9. A contractor is reviewing the standard order of precedence for a \$3,000,000 commercial project. The specifications require porcelain floor tile in the lobby. The pre-bid addenda changed the requirement to natural stone tile in the lobby. The drawings show vinyl plank flooring in the lobby. Which material should be installed?

- A. Porcelain tile, because specifications always take precedence over both addenda and drawings
- B. Vinyl plank, because the drawings provide the most location-specific material information
- C. Natural stone tile, because addenda modify all previously issued documents and represent the most current design intent
- D. The contractor may choose the least expensive option and document the selection

10. A contractor files a mechanic's lien on a private residential property on August 5, 2026. The homeowner's attorney initiates settlement discussions in March 2027. By what date must the enforcement lawsuit be filed?

- A. By November 3, 2026, which is 90 days from the date the lien was filed
- B. By February 2, 2027, which is 180 days from the date the lien was filed
- C. By August 5, 2027, which is one year from the filing date — settlement discussions do not toll this deadline
- D. By August 5, 2028, which is two years from the filing date

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

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

12. A contractor operating as an S-corporation has net earnings of \$270,000, net worth of \$340,000, and tangible property valued at \$310,000. The company's bookkeeper 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

13. A contractor wants to hire a plumbing subcontractor for a \$27,500 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. No, because the general contractor's BC-B license covers all subcontractor trades
- B. No, because plumbing subcontractor licensing is required only for scopes exceeding \$50,000
- C. Yes, because the BC classification excludes plumbing work exceeding \$25,000, and the \$27,500 scope exceeds that threshold
- D. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value

14. A contractor has a net worth of \$330,000 and working capital of \$290,000. The contractor applies for an unlimited license. Does the contractor qualify?

- A. Yes, because the net worth exceeds \$300,000 and only one value needs to meet the threshold
- B. Yes, because the average of the two values exceeds \$300,000
- C. No, because unlimited requires a minimum net worth of \$500,000
- D. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$290,000 falls short

15. A contractor wants to obtain a Tennessee license with a monetary limit of \$2,800,000. The contractor has a reviewed financial statement. Does this meet the Board's requirements?

- A. Yes, because reviewed statements are acceptable for monetary limits of \$3,000,000 or less
- B. No, because all limits above \$2,500,000 require an audited financial statement
- C. Yes, because reviewed statements are acceptable for all monetary limit levels
- D. No, because all limits above \$2,000,000 require an audited financial statement

16. An employer with 55 employees at a single location has a worker employed for 10 months who requests 12 weeks of FMLA leave for a personal serious health condition. Is the worker eligible?

- A. Yes, because the employer has 50+ employees and a serious health condition qualifies
- B. Yes, because the 12-month tenure requirement is waived for documented serious conditions
- C. No, because FMLA requires the employee to have worked for at least 12 months, and this worker has only 10 months
- D. No, because FMLA leave for personal health conditions is limited to 6 weeks

17. A contractor purchases \$46,000 in glazing materials for a commercial curtain wall project. The combined state and local sales tax rate is 9.5%. The building owner is a nonprofit university with a valid tax exemption. Can the contractor avoid sales tax?

- A. Yes, because materials for tax-exempt educational facilities inherit the exemption at purchase
- B. No, because the contractor is the end user and must pay the combined 9.5% sales tax of \$4,370 at purchase regardless of the owner's exempt status
- C. Yes, if the contractor provides the supplier with the university's exemption certificate
- D. No, but the contractor can file a quarterly refund with the Tennessee Department of Revenue

18. A contractor is excavating a utility trench that reaches 5 feet 6 inches deep in soil classified as Type C. The superintendent says Type C soil at this depth is manageable without protection. Is the superintendent correct?

- A. Yes, because a competent person can authorize unprotected entry based on field assessment
- B. Yes, because Type C soil requires protection only at depths exceeding 8 feet
- C. No, because Type C soil requires protection 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

19. A contractor's employee is killed in a crane accident on a commercial jobsite at 8:45 AM on Monday. The site foreman calls the office at 9:10 AM. By what time must the employer report this fatality to OSHA?

- A. By 9:10 AM on Tuesday, which is within 24 hours of the employer learning about the death
- B. By 8:45 AM on Tuesday, which is within 24 hours of the actual time of the fatality
- C. By 9:10 AM the following Monday, which is within 5 working days
- D. By 5:10 PM on Monday, which is within 8 hours of the employer learning about the fatality

20. A roofing subcontractor wants to bid on a \$43,000 re-roofing project for a commercial warehouse. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work?

- A. Yes, because roofing subcontractor licensing is required only for projects exceeding \$50,000
- B. Yes, because the general contractor's license covers all roofing subcontractor work
- C. No, because Tennessee has required all roofing subcontractors to be licensed since January 1, 2014, regardless of project value
- D. No, but only because the project exceeds \$25,000 — roofing under \$25,000 is exempt

21. A contractor enters into a guaranteed maximum price (GMP) contract for \$2,000,000 on a hotel renovation. The contract includes a 60/40 shared savings clause with 60% to the owner. Actual costs total \$1,880,000. How are the savings distributed?

- A. The contractor receives the entire \$120,000 as an efficiency bonus
- B. The owner receives the full \$120,000 because the GMP exists solely for owner protection
- C. The owner receives \$72,000 (60%) and the contractor receives \$48,000 (40%)
- D. The savings are held in joint escrow until warranty obligations expire

22. A contractor operating as a general partnership has two partners and 4 employees. One partner wants to exempt both partners from workers' compensation. What is the correct obligation?

- A. Workers' compensation is required for all 4 employees because Tennessee mandates coverage for employers with one or more employees, but the partners can individually exempt themselves by registering with the Secretary of State
- B. Both partners and all employees are automatically exempt because partnerships are not employers
- C. Workers' compensation is required for all workers including partners with no exemption available
- D. Coverage is optional because partnerships with fewer than 10 workers are exempt

23. A contractor wants to determine whether a workshop addition project requires a Tennessee contractor license. The project includes: materials \$12,100, labor \$9,700, concrete slab \$1,800, and profit \$1,900. Does this require a license?

- A. No, because workshop additions are classified as accessory structures exempt from licensing
- B. No, because the labor cost of \$9,700 is under \$25,000 and the threshold applies only to labor
- C. Yes, because the total project cost is \$25,500, exceeding the \$25,000 threshold
- D. Yes, because all projects involving concrete slabs require a license regardless of cost

24. A contractor operating as a limited partnership has gross receipts of \$2,600,000, net earnings of \$320,000, net worth of \$410,000, and tangible property valued at \$370,000. What is the franchise tax liability?

- A. \$1,025, calculated at \$0.25 per \$100 of net worth of \$410,000 because it is the greater value
- B. \$925, calculated at \$0.25 per \$100 of tangible property because franchise tax uses the lesser value
- C. \$100, the minimum franchise tax for all Tennessee limited partnerships
- D. \$0, because limited partnerships are pass-through entities exempt from franchise tax

25. A contractor holds a Tennessee license with a monetary limit of \$1,800,000. 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 \$1,500,000 must carry GL equal to the limit

D. No, because the \$1,800,000 limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL

26. A contractor enters into a cost-plus-fixed-fee contract with a \$62,000 fixed fee for a \$750,000 estimated renovation. Owner cancellations reduce actual costs to \$680,000. What fee does the contractor receive?

- A. \$56,267, reduced proportionally because actual costs decreased from the estimate
- B. \$62,000, because a fixed fee remains constant regardless of whether actual costs change
- C. \$68,000, recalculated at 10% of actual costs because the fee adjusts with cost changes
- D. \$62,000 minus a \$7,000 credit for the reduced management burden

27. A contractor is building a commercial office. A scaffold platform stands 14 feet above ground. The scaffold has a 3.8:1 safety factor and was designed by a superintendent with 20 years of general experience but no specific scaffold design training. Does this scaffold meet OSHA requirements?

- A. Yes, because the 3.8:1 safety factor exceeds the 3:1 minimum for commercial construction
- B. Yes, because 20 years of experience qualifies the superintendent as both competent and qualified
- C. No, because scaffolds above 10 feet require a licensed professional engineer
- D. No, because the safety factor must be at least 4:1 and the scaffold must be designed by a qualified person with specific scaffold design knowledge — both requirements are unmet

28. A contractor operating as an LLC has gross receipts of \$1,900,000. The company paid \$1,350,000 to licensed subcontractors and \$175,000 to an unlicensed crew. What is deductible from gross receipts for business tax?

- A. \$1,350,000, because only payments to properly licensed subcontractors qualify for the deduction
- B. \$1,525,000, because all payments to subcontractors and crews are deductible
- C. \$0, because Tennessee does not permit deductions from gross receipts
- D. \$675,000, because the deduction is capped at 50% of total subcontractor payments

29. 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 random testing but omits post-accident testing. Does this qualify?

- A. Yes, because three of four components satisfy the minimum requirement
- B. No, because all four components are required — pre-employment, reasonable suspicion, post-accident, and random — and omitting any one disqualifies the program
- C. Yes, because post-accident testing is optional and increases the credit to 7.5%
- D. No, because the program must include annual screening of all employees

30. A contractor enters into a \$720,000 lump-sum contract for a dental clinic. During construction, the contractor discovers a buried oil tank requiring \$36,000 for removal. The contract has no differing site conditions clause. Who bears the cost?

- A. 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
- B. The owner bears the cost because buried tanks are environmental liabilities always belonging to the owner
- C. The cost is split equally under the implied shared-risk doctrine
- D. The contractor can suspend work until the owner agrees to fund the removal separately

31. A contractor wants to apply for a BC-A/r restricted residential classification. Which restrictions accurately describe 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

32. A contractor has total assets of \$1,300,000, total liabilities of \$850,000, current assets of \$490,000, and current liabilities of \$155,000. Does the contractor qualify for unlimited status?

- A. Yes, because the net worth of \$450,000 alone exceeds the sole \$300,000 requirement
- B. Yes, because both net worth (\$450,000) and working capital (\$335,000) each independently exceed the \$300,000 threshold
- C. No, because unlimited requires both values above \$500,000
- D. No, because the working capital of \$335,000 does not meet the \$400,000 minimum

33. A contractor operating as a C-corporation has net worth of \$500,000 and tangible property valued at \$460,000. What is the franchise tax liability?

- A. \$1,150, calculated at \$0.25 per \$100 of tangible property because tax uses the lesser value
- B. \$100, the minimum franchise tax for all Tennessee corporations
- C. \$1,250, calculated at \$0.25 per \$100 of net worth of \$500,000 because it is the greater value
- D. \$2,400, calculated at \$0.25 per \$100 of the combined net worth and tangible property

34. A contractor licensed in South Carolina wants to obtain a Tennessee license. The contractor holds a valid SC license, passed the SC trade exam, and holds a NASCLA Accredited Commercial Exam credential. What testing is required?

- A. The trade exam may be waived through reciprocity, the NASCLA credential is accepted for BC-B classification, but the Tennessee Business and Law exam must still be passed
- B. Both exams are fully waived because the NASCLA credential provides complete reciprocity
- C. The NASCLA credential waives the Business and Law exam, but the trade exam must be taken
- D. No reciprocity exists with South Carolina, requiring both exams independently

35. A project owner terminates a contractor for cause on a \$1,900,000 commercial project after documented breaches and two cure notices. The contractor completed 55% of the work. A replacement contractor charges \$1,020,000 to complete the remaining 45%. The original remaining balance was \$855,000. What does the original contractor receive?

- A. \$1,045,000, representing 55% of the contract price for all completed work
- B. The value of acceptably completed work, reduced by the \$165,000 difference between the replacement cost (\$1,020,000) and the remaining contract balance (\$855,000)
- C. \$1,045,000 plus a 10% termination fee for early contract dissolution
- D. The value of acceptably completed work with no offset for the replacement cost

36. A material supplier delivers \$70,000 in custom architectural glass to a private commercial project. The supplier has no direct contract with the building owner. The general contractor has not paid. What must the supplier do to preserve lien rights?

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

37. A contractor enters into a \$650,000 lump-sum contract for a commercial tenant improvement. During construction, the owner verbally approves a \$18,000 upgrade to the conference room finishes. The contractor completes the work immediately. Three weeks later, the owner disputes the charge. What is the core issue?

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

38. A contractor with 56 employees is hiring workers. The HR director requires I-9 forms but has not enrolled in E-Verify. Is this compliant with Tennessee law?

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

39. A contractor is building a commercial warehouse using the percentage-of-completion method. Contract price is \$1,500,000, costs to date are \$525,000, and total estimated costs are \$1,200,000. What revenue should be recognized?

- A. \$525,000, matching revenue to costs incurred without applying a completion ratio
- B. \$750,000, calculated as 50% of the contract price
- C. \$656,250, calculated as costs to date (\$525,000) divided by total estimated costs (\$1,200,000) multiplied by the contract price (\$1,500,000)
- D. \$1,500,000, because revenue is fully recognized once the project surpasses 35% completion

40. A contractor wants to hire an HVAC subcontractor for a \$26,000 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
- B. No, because HVAC licensing is required only for scopes exceeding \$50,000
- C. Yes, because the BC classification excludes HVAC work exceeding \$25,000, and the \$26,000 scope exceeds that threshold
- D. Yes, because all HVAC work on commercial buildings requires a separate license regardless of value

41. A contractor enters into a time-and-materials contract for emergency storm damage repair on a retail building. After two weeks, costs reach \$175,000. The building owner demands a cost cap of \$225,000. What is the fundamental issue?

- A. The owner can unilaterally impose a cost cap because the owner controls the project budget
- B. T&M contracts include an implied ceiling equal to 150% of the initial verbal estimate
- C. The owner should have negotiated a GMP before work began because T&M contracts cannot be modified
- D. T&M contracts have no inherent cost ceiling — any cap requires a written contract modification agreed to by both parties

42. A contractor completes all work on a private commercial renovation on November 12. The owner withholds \$45,000 in retainage. The contractor files a mechanic's lien on February 8, which is 88 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

- A. Yes, the filing is within the 90-day statutory period, and the enforcement lawsuit must be filed within one year of the lien filing date
- B. No, because commercial liens must be filed within 60 days of the last day of furnishing
- C. Yes, but enforcement must be filed within 90 days of the lien filing date
- D. No, because the 90-day period begins from the date the retainage was contractually due

43. A masonry subcontractor is bidding on a \$98,000 scope of masonry work for a new commercial building. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. Yes, because all masonry subcontractors must hold an LMC license regardless of contract value
- B. No, because the LMC license is required only when masonry work reaches \$100,000 or more, and \$98,000 falls below that threshold
- C. Yes, because the LMC threshold is \$75,000 for commercial masonry projects
- D. No, because the general contractor's license covers all masonry subcontractor work

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

45. A contractor operating as a limited partnership has gross receipts of \$2,400,000, net earnings of \$300,000, net worth of \$390,000, and tangible property valued at \$350,000. What is the combined franchise and excise tax liability?

- A. \$20,475, consisting of \$975 in franchise tax based on net worth of \$390,000 plus \$19,500 in excise tax at 6.5% of net earnings
- B. \$975 in franchise tax only, because limited partnerships are exempt from excise tax
- C. \$19,500 in excise tax only, because limited partnerships are exempt from franchise tax
- D. \$0, because limited partnerships are pass-through entities exempt from both taxes

46. A contractor wants to determine whether a screened porch construction project requires a Tennessee contractor license. The project includes: framing lumber \$11,800, screening materials \$2,400, labor \$8,900, concrete footings \$1,200, and profit \$1,400. Does this require a license?

- A. Yes, because the total project cost is \$25,700, exceeding the \$25,000 licensing threshold
- B. No, because screened porches are classified as accessory structures exempt from licensing
- C. No, because the labor cost of \$8,900 is under \$25,000 and the threshold applies only to labor
- D. Yes, because any project involving concrete footings requires licensing regardless of total cost

47. A contractor signs an unconditional lien waiver and delivers it to the project owner before receiving the \$52,000 progress payment. The owner subsequently declares bankruptcy and the payment is never made. What is the legal effect?

- A. The unconditional waiver is void because the owner's bankruptcy constitutes a material breach
- B. The unconditional waiver converts to a conditional waiver upon the bankruptcy filing
- C. The waiver is suspended until the bankruptcy court resolves the payment claim
- D. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received

48. A contractor's employee suffers an amputation injury on a commercial construction site at 1:15 PM on Thursday. The site foreman reports to the office at 1:40 PM. By what time must the employer report this to OSHA?

- A. By 9:40 PM on Thursday, which is within 8 hours of the employer learning about the incident
- B. By 1:15 PM on Friday, which is within 24 hours of the actual time of the amputation
- C. By 1:40 PM the following Thursday, which is within 5 working days

D. By 1:40 PM on Friday, which is within 24 hours of the employer learning about the amputation

49. A contractor holds a Tennessee license with a monetary limit of \$460,000. The contractor carries \$100,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

A. Yes, because the \$460,000 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 \$115,000

D. Yes, because GL requirements are based on individual project values, not the monetary limit

50. A contractor operating as a general partnership earns gross receipts of \$1,200,000 and net earnings of \$150,000. The CPA says the partnership owes franchise and excise tax. Is the CPA correct?

A. Yes, because all business entities with gross receipts exceeding \$1,000,000 owe all three taxes

B. Yes, because all partnerships with employees owe franchise and excise tax

C. No, because general partnerships are exempt from franchise and excise tax — only business tax on gross receipts applies

D. No, because general partnerships are exempt from all Tennessee state-level business taxes

Practice Exam 29: Answer Key and Explanations

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

2. B. Monetary limit — Net worth = \$380,000. Working capital = \$400,000 - \$268,000 = \$132,000. Limit = $10 \times \$132,000 = \$1,320,000$. Below \$1,400,000.

3. A. Cost-plus-percentage — $11\% \times \$15,000 = \$1,650$ lost fee. Percentage structure penalizes savings.

4. B. Excise tax — $6.5\% \times \$410,000 = \$26,650$. Options A and C describe franchise tax.

5. B. Conditional waiver — Effective only when payment actually received. Bounced check = not received.

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

7. A. Discrimination — ADA requires 15+ (doesn't apply at 9). THRA at 8+ covers both disability and age.
8. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$652,500 + \$72,500 = \$725,000$.
9. C. Addenda — Modify previously issued documents. Natural stone in addenda controls.
10. C. Lien enforcement — One year from filing. August 5, 2027. Settlement talks don't toll.
11. D. Arkansas reciprocity — Trade exam waived. Business and Law exam always required.
12. D. S-corporation taxes — Subject to both franchise and excise despite pass-through status.
13. C. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$27,500 exceeds threshold.
14. D. Unlimited license — Both must each exceed \$300,000. Working capital (\$290,000) falls short.
15. A. Financial statements — Reviewed acceptable for limits of \$3,000,000 or less. \$2,800,000 qualifies.
16. C. FMLA — Requires 12 months employment. Worker has 10 months. Not eligible.
17. B. Sales tax — Contractor is end user. $\$46,000 \times 9.5\% = \$4,370$. Owner's exemption doesn't transfer.
18. D. Excavation — OSHA requires protection at 5+ feet unless stable rock. Type C not stable rock.
19. D. Fatality reporting — 8 hours from employer learning. 9:10 AM + 8 = 5:10 PM Monday.
20. C. Roofing licensing — Licensed since January 1, 2014, regardless of value.
21. C. GMP shared savings — \$120,000 split 60/40: owner \$72,000, contractor \$48,000.
22. A. Workers' comp — Required for 1+ employees. Partners can individually exempt via Secretary of State.
23. C. Licensing threshold — Total = $\$12,100 + \$9,700 + \$1,800 + \$1,900 = \$25,500$. Exceeds \$25,000.
24. A. Franchise tax — \$0.25 per \$100 of greater value (\$410,000 net worth vs. \$370,000 tangible). $\$410,000 \div 100 \times \$0.25 = \$1,025$.

25. D. GL tiers — \$1,800,000 exceeds \$1,501,000. Highest tier requires \$1,000,000. \$500,000 insufficient.
26. B. Cost-plus-fixed-fee — \$62,000 fee constant regardless of actual costs.
27. D. Scaffold — 4:1 minimum (3.8:1 fails). Qualified person required (general experience insufficient). Both unmet.
28. A. Business tax deduction — Only licensed subcontractor payments (\$1,350,000) deductible.
29. B. Drug-Free Workplace — All four components required. Omitting post-accident disqualifies.
30. A. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
31. C. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.
32. B. Unlimited license — Net worth = \$450,000, working capital = \$335,000. Both exceed \$300,000. Qualifies.
33. C. Franchise tax — \$0.25 per \$100 of greater value (\$500,000 net worth vs. \$460,000 tangible). $\$500,000 \div 100 \times \$0.25 = \$1,250$.
34. A. SC reciprocity and NASCLA — Trade exam waived. NASCLA for BC-B. Business and Law exam required.
35. B. Termination for cause — Value of acceptable work offset by \$165,000 additional completion cost.
36. B. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
37. D. Change order — Should be written and signed before work. Lack of documentation weakens position.
38. B. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 56.
39. C. Percentage of completion — Revenue = $(\$525,000 \div \$1,200,000) \times \$1,500,000 = 0.4375 \times \$1,500,000 = \$656,250$.
40. C. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$26,000 exceeds threshold.

41. D. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
42. A. Lien timing — 88 days after last furnishing, within 90 days. Timely. Enforcement within one year.
43. B. LMC threshold — Required at \$100,000+. \$98,000 below threshold.
44. B. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.
45. A. Limited partnership taxes — Franchise = $\$0.25$ per $\$100$ of $\$390,000 = \975 . Excise = $6.5\% \times \$300,000 = \$19,500$. Combined = $\$20,475$.
46. A. Licensing threshold — Total = $\$11,800 + \$2,400 + \$8,900 + \$1,200 + \$1,400 = \$25,700$. Exceeds $\$25,000$.
47. D. Unconditional waiver — Effective immediately upon signing regardless of payment or bankruptcy.
48. D. OSHA reporting — Amputations require 24-hour reporting. 1:40 PM + 24 = 1:40 PM Friday.
49. A. GL tiers — $\$460,000$ in up-to- $\$500,000$ tier. $\$100,000$ minimum. Policy meets requirement.
50. C. General partnership taxes — Exempt from franchise and excise. Only business tax applies.

