

Fundamentals of Taxation 2019 Edition, 12e (Cruz)

Chapter 1 Introduction to Taxation, the Income Tax Formula, and Form 1040EZ

1) The U.S. individual income tax system is an example of a progressive tax rate structure.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

2) A proportional tax rate structure is a tax where the tax rate remains at the same rate regardless of the tax base.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

3) Under a flat tax, the marginal tax rate and the average tax rate are different.

Answer: FALSE

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

4) State and local taxes levied on either property or sales are examples of progressive taxes.

Answer: FALSE

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

5) With a regressive tax, the tax rate decreases as the tax base gets larger.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

6) The marginal tax rate is the total tax liability divided by the taxable income.

Answer: FALSE

Explanation: The marginal tax rate represents the proportion of tax that is paid on the next dollar of taxable income.

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

7) The average tax rate is the total tax liability divided by the taxable income.

Answer: TRUE

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

8) All individual income tax returns follow the basic structure of the simplified tax formula.

Answer: TRUE

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

9) With a progressive rate structure, the average tax rate is always smaller than the marginal tax rate.

Answer: FALSE

Explanation: If the tax rate structure is progressive, the average tax rate is either smaller than or is equal to the marginal tax rate. Since the two can be equal, the average is not always smaller.

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

10) At high levels of taxable income, the average tax rate and the marginal tax rate will always be the same.

Answer: FALSE

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

11) Wages, salaries, and tips are compensation for services rendered. However, commissions, bonuses, and severance pay are not taxable.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

12) Federal unemployment compensation benefits are not taxable.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

13) A single taxpayer cannot file a Form 1040 if she is age 65 or older.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

14) One of the criteria to file a Form 1040 is that the total taxable income of the taxpayer cannot exceed \$100,000.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

15) Employers report wage income to employees on a Form W-3.

Answer: FALSE

Explanation: Wage income is reported on Form W-2.

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

16) Individuals who file a Form 1040 should determine their tax liability with reference to a tax rate schedule.

Answer: FALSE

Explanation: The tax liability for 1040 filers is determined by using a tax table if taxable income is less than \$100,000 or a tax rate schedule if taxable income is \$100,000 or more.

Difficulty: 1 Easy

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

17) Taxpayers normally pay almost all of their tax liability when they file their income tax return.

Answer: FALSE

Explanation: Commonly, taxpayers pay most of their tax liability through income tax withholding or quarterly estimated tax payments.

Difficulty: 1 Easy

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

18) The amount of tax liability is affected by the filing status of the taxpayer.

Answer: TRUE

Difficulty: 1 Easy

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

19) The tax liability of a single individual with taxable income of \$89,542 is \$15,776.

Answer: TRUE

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

20) Tax liability is calculated using taxable income. A standard deduction is then subtracted from the tax liability.

Answer: FALSE

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

21) The Affordable Care Act requires all individuals to have health care insurance coverage.

Answer: FALSE

Explanation: Individuals must either have coverage, or qualify for an exemption, or make a shared responsibility payment.

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

22) If a taxpayer is covered by Medicare, they are deemed to have qualifying health care insurance coverage.

Answer: TRUE

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

23) There are two types of primary tax authority: statutory and judicial.

Answer: FALSE

Explanation: There are three types of primary tax authority: statutory, administrative, and judicial.

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

24) Typically, federal tax legislation is introduced in the Senate Finance Committee.

Answer: FALSE

Explanation: Typically, federal tax legislation begins in the Ways and Means Committee of the House of Representatives.

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

25) IRS Regulations are by far the strongest administrative authority.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

26) A Private Letter Ruling is considered to be tax authority only to the taxpayer to whom it is issued.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

27) One major disadvantage the taxpayer has when filing a petition with the Tax Court is that the IRS's proposed tax assessment must be paid prior to trial.

Answer: FALSE

Difficulty: 2 Medium

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

28) All paid tax preparers must follow the rules provided in Circular 230.

Answer: TRUE

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

29) Circular 230 applies only to Certified Public Accountants and Enrolled Agents.

Answer: FALSE

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

30) Paid preparers must obtain a preparer tax identification number.

Answer: TRUE

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

31) The Sixteenth Amendment to the U.S. Constitution provides the legal and statutory authority for the administration and enforcement of income taxes.

Answer: TRUE

Difficulty: 1 Easy

Topic: Introduction to Taxation

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

32) The U.S. individual income tax system is an example of a proportional tax rate structure.

Answer: FALSE

Difficulty: 1 Easy

Topic: Introduction to Taxation

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

33) The marginal tax rate is the proportion of tax paid on the first dollar of taxable income.

Answer: FALSE

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

34) The simplified tax formula can only be used by individuals with simple income tax returns.

Answer: FALSE

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

35) To be eligible to file a Form 1040, the taxpayer can only have taxable wages.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

36) The definition of wages includes tips received.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

37) Individuals with taxable income of \$50,000 who file a Form 1040 should determine their tax liability with reference to the tax tables.

Answer: TRUE

Difficulty: 1 Easy

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

38) For equivalent amounts of gross income, a single person will have a higher tax liability than will married persons filing jointly.

Answer: TRUE

Difficulty: 1 Easy

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

39) The courts issue Private Letter Rulings when a taxpayer requests a ruling on a certain tax situation.

Answer: FALSE

Explanation: The IRS issues Private Letter Rulings.

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

40) Rev. Proc. 87-56 was the 56th Revenue Procedure issued in 1987.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

41) Circular 230 applies only to paid tax preparers.

Answer: TRUE

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

42) A paid tax preparer who violates the provisions of Circular 230 can be subject to civil, but not criminal, penalties.

Answer: FALSE

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

43) The tax rate is applied against the tax base to determine the amount of tax liability.

Answer: TRUE

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

44) The average tax rate is the taxable income divided by the total tax liability.

Answer: FALSE

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

45) Joe is an employee of Adams Company. Joe properly completed his Form 1040 tax return and was required to pay the IRS \$1,372 at the time of filing. Joe's tax liability for the year must be \$1,372.

Answer: FALSE

Difficulty: 2 Medium

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

46) The amount of tax liability calculated using the tax tables will always be the same as the amount calculated using the tax rate schedules.

Answer: FALSE

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

47) Legislative regulations do not have the full effect of law.

Answer: FALSE

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

48) A tax rate that increases as the tax base increases is an example of what kind of tax rate structure?

A) Proportional.

B) Recessive.

C) Regressive.

D) Progressive.

Answer: D

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

49) A tax rate that remains the same as the tax base increases is an example of what kind of tax rate structure?

- A) Proportional.
- B) Recessive.
- C) Regressive.
- D) Progressive.

Answer: A

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

50) A tax rate that increases as the tax base decreases is an example of what kind of tax rate structure?

- A) Proportional.
- B) Recessive.
- C) Regressive.
- D) Progressive.

Answer: C

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

51) A tax rate structure where the tax rate remains at the same rate regardless of the tax base is:

- A) A regressive rate structure.
- B) A proportional rate structure.
- C) A progressive rate structure.
- D) None of these.

Answer: B

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

52) Which of the following is an example of a regressive tax?

- A) Social security tax.
- B) State and local taxes levied on property.
- C) Federal income tax.
- D) Sales tax.

Answer: A

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

53) The federal income tax is an example of a:

- A) Flat tax structure.
- B) Proportional rate structure.
- C) Regressive rate structure.
- D) Progressive rate structure.

Answer: D

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

54) Jake earned \$15,000 and paid \$1,500 of income tax, while Jill earned \$40,000 and paid \$3,000 of income tax. The structure of the tax their income is subject to is:

- A) Regressive.
- B) Progressive.
- C) Proportional.
- D) Flat.

Answer: A

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

55) Jordan and Paul, a married couple, have taxable income of \$85,475, which is taxed as follows:

$\$19,050 \times 10\% =$	\$ 1,905.00
$(\$77,400 - \$19,050) \times 12\% =$	7,002.00
$(\$85,475 - \$77,400) \times 22\% =$	<u>1,776.50</u>
Total tax liability	<u>\$ 10,683.50</u>

Their marginal tax rate is:

- A) 10%.
- B) 12%.
- C) 12.5%.
- D) 22%.

Answer: D

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

56) Jordan and Paul, a married couple, have taxable income of \$85,475, which is taxed as follows:

$\$19,050 \times 10\% =$	\$ 1,905.00
$(\$77,400 - \$19,050) \times 12\% =$	7,002.00
$(\$85,475 - \$77,400) \times 22\% =$	<u>1,776.50</u>
Total tax liability	<u>\$ 10,683.50</u>

Their average tax rate is:

- A) 10%.
- B) 12%.
- C) 12.5%.
- D) 22%.

Answer: C

Explanation: $10,683.50 / 85,475 = 12.5\%$

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

57) Which statement is correct with respect to marginal and average tax rates under a progressive tax structure?

- A) At very high levels of taxable income, a taxpayer's marginal and average tax rates will be the same.
- B) At very low levels of taxable income, a taxpayer's marginal and average tax rates will be the same.
- C) For most taxpayers, the average tax rate is larger than the marginal tax rate.
- D) Generalizations cannot be made. The question can only be answered with reference to the tax situation of a specific taxpayer.

Answer: B

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

58) With respect to the income tax formula, which of the following statements is correct?

- A) The simplified income tax formula is only applicable to taxpayers with taxable income less than \$100,000.
- B) Tax liability is determined by applying an appropriate tax rate to total income.
- C) Certain deductions from income are permitted before calculating tax liability.
- D) Tax payments are ignored when calculating the tax refund or tax due with the return.

Answer: C

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

59) Which of the following statements is true with respect to marginal and average tax rates under a progressive tax structure?

- A) Marginal rates are always larger than average rates.
- B) Marginal rates are always smaller than average rates.
- C) Average rates can only be calculated for taxpayers with income over \$100,000.
- D) Average rates are never more than marginal rates.

Answer: D

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

60) Which of the following are permitted filing statuses for taxpayers filing a Form 1040?

- A) Married filing jointly.
- B) Single.
- C) Head of household.
- D) All of the above are permitted.

Answer: D

Difficulty: 2 Medium

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

61) Employers report wage income to employees on a:

- A) Form W-2.
- B) Form W-3.
- C) Form 1099-E.
- D) Form 1099-G.

Answer: A

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

62) Interest payers (banks, savings and loans, insurance companies, etc.) report interest earnings to taxpayers on a:

- A) Form W-2-INT.
- B) Form 1099-INT.
- C) Form 1099-INC.
- D) Form 4070.

Answer: B

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

63) On Form 1040, the standard deduction from income for a single taxpayer is:

- A) \$0.
- B) \$1,500.
- C) \$12,000.
- D) \$24,000.

Answer: C

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

64) On Form 1040, the standard deduction from income for a married taxpayer is:

- A) \$0.
- B) \$1,500.
- C) \$12,000.
- D) \$24,000.

Answer: D

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

65) In terms of dollars, wage-earning taxpayers will normally pay the majority of their tax liability:

- A) When they file their tax return.
- B) Through withholding from their wages.
- C) In the following tax year.
- D) In advance in January.

Answer: B

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

66) Victoria determined her tax liability was \$6,145. Her employer withheld \$6,451 from her paychecks during the year. Victoria's tax return would show:

- A) A refund of \$306.
- B) A refund of \$6,451.
- C) Tax due of \$306.
- D) Tax due of \$6,145.

Answer: A

Difficulty: 2 Medium

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

67) The tax liability for a single individual with taxable income of \$67,293 is:

- A) \$7,692.
- B) \$9,349.
- C) \$10,740.
- D) \$10,744.

Answer: C

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

68) The tax liability for a married couple filing jointly with taxable income of \$55,747 is:

- A) \$8,199.

- B) \$6,808.
- C) \$6,310.
- D) \$6,306.

Answer: D

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

69) For equivalent amounts of taxable income, the total tax liability of a single individual:

- A) Will be less than married filing jointly.
- B) Will be more than married filing jointly.
- C) Will be more than married filing separately.
- D) Cannot be determined with the information provided.

Answer: B

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

70) Hamad is an employee of Mountain Company. He properly completed his Form 1040 tax return and was required to pay the IRS \$1,374 at the time of filing. He had income tax withholding during the year of \$4,429. His tax liability for the year was:

- A) \$5,803.
- B) \$4,429.
- C) \$3,055.
- D) \$1,374.

Answer: A

Explanation: Total liability is equal to the combination of withholding plus extra paid at the time of filing or minus the refund received.

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

71) Alice is an employee of Valley Company. She properly completed her Form 1040 tax return and received a refund from the IRS of \$1,293. Alice had income tax withholding during the year of \$4,881. Her tax liability for the year was:

- A) \$6,174.
- B) \$4,881.
- C) \$3,588.
- D) \$1,293.

Answer: C

Explanation: Total liability is equal to the combination of withholding plus extra paid at the time of filing or minus the refund received.

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

72) Peter and Penelope are married and have combined W-2 income of \$76,861. They paid an additional \$529 when they filed their taxes. How much income tax did their employers withhold during the year?

- A) \$5,435.
- B) \$6,493.
- C) \$8,315.
- D) Cannot be determined with the information provided.

Answer: A

Explanation: Subtract \$24,000 permitted deduction from W-2 income to get taxable income of \$52,861. Tax liability is \$5,964. Subtract \$529 additional tax payment from liability to get withholding.

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

73) Taxpayers who do not have qualifying health care insurance coverage can receive an exemption. Which of the following is NOT a permitted exemption?

- A) Gross income greater than \$12,000 for single taxpayers.
- B) The cost of the lowest-cost coverage exceeds 8% of household income.
- C) If the taxpayer went without coverage for one month during the year.
- D) Income is below the level required to file an income tax return.

Answer: A

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

74) Carla is age 64 and Xavier is age 66. They file their tax return as married filing jointly. During all of 2018 they did not have qualifying health coverage nor were they eligible for an exemption. Their household income was \$84,900. What is the amount of shared responsibility payment they must report on their 2018 income tax return?

- A) \$695
- B) \$1,390
- C) \$1,490
- D) \$2,085

Answer: C

Explanation: The payment is the greater of:

- $[\$84,900 - \$25,300] \times .025 = \$1,490$
- \$1,390

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

75) Which of the following trial courts hear tax cases?

- A) U.S. Tax Court.
- B) U.S. District Court.
- C) U.S. Court of Federal Claims.
- D) All of these.

Answer: D

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

76) Which court hears most of the litigated tax disputes between the IRS and taxpayers?

- A) U.S. Tax Court.
- B) U.S. District Court.
- C) U.S. Court of Federal Claims.
- D) None of these.

Answer: A

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

77) Which of the following are primary sources of tax authority?

- A) Statutory sources.
- B) Administrative sources.
- C) Judicial sources.
- D) All of these.

Answer: D

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

78) Which of the following is a statutory source of tax authority?

- A) Internal Revenue Code.
- B) IRS Regulation.
- C) Revenue Ruling.
- D) Tax Court decision.

Answer: A

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

79) Which of the following is an administrative source of tax law?

- A) Revenue Ruling.
- B) IRS Regulation.
- C) Private Letter Ruling.
- D) All of these.

Answer: D

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

80) Which of the following types of Regulations is the strongest tax authority?

- A) Final.
- B) Legislative.
- C) Temporary.
- D) Proposed.

Answer: B

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

81) Which of the following refers to an income tax regulation?

- A) Reg. §1.162-5.
- B) Reg. §20.2032-1.
- C) Reg. §25.2503-4.
- D) Reg. §31.3301-1.

Answer: A

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

82) Which of the following is correct with respect to Private Letter Rulings?

- A) Issued when a taxpayer wants to know the tax treatment of a specific tax situation.
- B) Can be relied upon by all taxpayers in a similar tax situation.
- C) Provides tax authority only to the taxpayer to whom it is issued.
- D) Both issued when a taxpayer wants to know the tax treatment of a specific tax situation and provides tax authority only to the taxpayer to whom it is issued.

Answer: D

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

83) Which of the following courts has the highest tax validity?

- A) Court of Appeals for the Fifth Circuit.
- B) U.S. Court of Federal Claims.
- C) U.S. District Court.
- D) U.S. Tax Court.

Answer: A

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

84) Under the provisions of Circular 230, paid tax preparers must:

- A) Pass a competency examination.
- B) Inform the client if the client has made an error in a document submitted to the IRS.
- C) Provide a covered opinion.
- D) Be an Enrolled Agent.

Answer: B

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

85) Paid tax preparers must comply with all of the following EXCEPT:

- A) Sign all tax returns they prepare.
- B) Comply with the provisions of Circular 230.
- C) Charge a contingent fee.
- D) Pass a competency examination.

Answer: C

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

86) Circular 230:

- A) Establishes penalties for failure to comply with its provisions.
- B) Applies only to preparation of tax returns by paid preparers.
- C) Applies to all individuals who do not use the services of a paid tax preparer.
- D) States that paid preparers can be paid for tax services by cashing a client's IRS refund check.

Answer: A

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

87) A tax rate that remains the same as the tax base increases is an example of what kind of tax rate structure?

- A) Progressive.
- B) Proportional.
- C) Regressive.
- D) Recessive.

Answer: B

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

88) Sallie earned \$25,000 and paid \$2,000 of income tax; Theodore earned \$35,000 and paid \$2,900 of income tax. The tax rate structure they are subject to is:

- A) Progressive.
- B) Proportional.
- C) Regressive.
- D) Recessive.

Answer: A

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

89) Sallie earned \$85,000 and paid \$5,950 of income tax; Theodore earned \$33,000 and paid \$2,310 of income tax. The tax rate structure they are subject to is:

- A) Progressive.
- B) Proportional.
- C) Regressive.
- D) Recessive.

Answer: B

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

90) Yvonne earned \$75,000 and paid \$4,500 of income tax; Jasmine earned \$43,000 and paid \$3,000 of income tax. The tax rate structure they are subject to is:

- A) Progressive.
- B) Proportional.
- C) Regressive.
- D) Recessive.

Answer: C

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

91) Which of the following is not an example of a proportional tax?

- A) Federal income tax.
- B) State and local taxes levied on property.
- C) Sales tax.
- D) Medicare taxes.

Answer: A

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

92) With respect to the income tax formula, which of the following statements is correct?

- A) Taxable income is multiplied by a single tax rate to determine tax liability.
- B) It is almost always the case that the tax return will either show a tax refund or an additional tax liability.
- C) Total income and taxable income are the same number.
- D) Tax credits are not used when making tax refund or tax due (with return) calculations.

Answer: B

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

93) Which of the following statements is false with respect to marginal and average tax rates?

- A) For most taxpayers, the average rate is larger than the marginal rate.
- B) For taxable income greater than the lowest tax bracket, the average rate is always greater than the lowest marginal rate and less than the highest marginal rate.
- C) The average rate is the percentage of tax paid on the entire amount of taxable income.
- D) The marginal rate is the proportion of tax paid on the next dollar of taxable income.

Answer: A

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

94) Tameka has taxable income of \$95,175 that is taxed as follows:

$\$9,525 \times 10\% =$	\$ 952.50
$(\$38,700 - \$9,525) \times 12\% =$	3,501.00
$(\$82,500 - \$38,700) \times 22\% =$	9,636.00
$(\$95,175 - \$82,500) \times 24\% =$	<u>3,042.00</u>
Total tax liability	<u>\$ 17,131.50</u>

Her marginal tax rate is:

- A) 24%.
- B) 22%.
- C) 18%.
- D) 12%.

Answer: A

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

95) Tameka has taxable income of \$95,175 that is taxed as follows:

$\$9,525 \times 10\% =$	\$ 952.50
$(\$38,700 - \$9,525) \times 12\% =$	3,501.00
$(\$82,500 - \$38,700) \times 22\% =$	9,636.00
$(\$95,175 - \$82,500) \times 24\% =$	<u>3,042.00</u>
Total tax liability	<u>\$ 17,131.50</u>

Her average tax rate is:

- A) 24%.
- B) 22%.
- C) 18%.
- D) 12%.

Answer: C

Explanation: $(\$17,131.50 / \$95,175) = 18\%$ average rate.

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

96) Taxpayers can file a Form 1040 if they file using which of the following:

- A) Married filing separately.
- B) Head of household.
- C) Married filing jointly.
- D) All of the above

Answer: D

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

97) Unemployment compensation income is reported to a taxpayer on a Form:

- A) W-2.
- B) 1099-G.
- C) 1099-U.
- D) 1099-INT.

Answer: B

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

98) On Form 1040, the standard deduction from income for a married filing jointly taxpayer is:

- A) \$1,500.
- B) \$12,000.
- C) \$23,000.
- D) None of these.

Answer: D

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

99) Which of the following statements is true?

- A) Compensation for services includes bonuses and severance pay.
- B) Taxpayers who use a Form 1040 are not required to report any interest income in excess of \$1,500.
- C) If income tax withholding is less than the calculated tax liability, there will be tax due with the return.
- D) Gross income is the "tax base" used to determine the amount of tax.

Answer: A

Difficulty: 2 Medium

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

100) The tax liability for a single individual with taxable income of \$68,312 is:

- A) \$10,971.
- B) \$10,968.
- C) \$9,580.
- D) \$7,818.

Answer: A

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

101) Horace properly completed his Form 1040 tax return and received a refund from the IRS of \$649. Horace had income tax withholding during the year of \$2,985. His tax liability for the year was:

- A) \$649
- B) \$2,336
- C) \$2,985
- D) \$3,634

Answer: B

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

102) Which of the following refers to an income tax regulation?

- A) Reg. §1.162-1.
- B) Reg. §20.2032-1.
- C) Reg. §25.2503-4.
- D) Reg. §31.3301-1.

Answer: A

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

103) Which of the following types of Regulations take the place of the Internal Revenue Code and have the full effect of law?

- A) Final.
- B) Legislative.
- C) Temporary.
- D) Proposed.

Answer: B

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

104) Which of the following courts hears only tax cases?

- A) U.S. Court of Appeals.
- B) U.S. Court of Federal Claims.
- C) U.S. Tax Court.
- D) U.S. District Court.

Answer: C

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

105) Which of the following statements is correct?

- A) The Internal Revenue Code pertains only to income taxes.
- B) Private Letter Rulings are issued by the IRS and are considered to be general tax authority.
- C) Temporary Regulations expire three years after issuance.
- D) Upon deciding a tax case, the court will issue a Revenue Ruling.

Answer: C

Difficulty: 2 Medium

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

106) Which of the following statements is correct?

- A) Individuals who prepare their own tax returns are subject to Circular 230.
- B) Under Circular 230, contingent fees are permitted if disclosed in writing.
- C) Paid preparers must inform the client if the client has made an error in a document submitted to the IRS.
- D) All of the statements are correct.

Answer: C

Difficulty: 1 Easy

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

107) A state or local sales tax is an example of a:

- A) Progressive rate structure.
- B) Proportional rate structure.
- C) Regressive rate structure.
- D) Recessive tax structure.

Answer: B

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

108) A tax rate that increases as the tax base increases is an example of what kind of tax rate structure?

- A) Progressive.
- B) Proportional.
- C) Regressive.
- D) Recessive.

Answer: A

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

109) Jake earned \$15,000 and paid \$1,500 of income tax, while Jill earned \$40,000 and paid \$6,000 of income tax. The tax rate structure they are subject to is:

- A) Progressive.
- B) Proportional.
- C) Regressive.
- D) Recessive.

Answer: A

Difficulty: 2 Medium

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

110) Xavier is single and has taxable income of \$58,025. His average tax rate is:

- A) 10%.
- B) 12%.
- C) 15%.
- D) 22%.

Answer: C

Explanation: $(\$8,705 / \$58,025) = 15\%$ average rate.

Difficulty: 3 Hard

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

111) Xavier is single and has taxable income of \$47,375. His marginal tax rate is:

- A) 10%.
- B) 12%.
- C) 15%.
- D) 22%.

Answer: D

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

112) With respect to the income tax formula, which of the following statements is incorrect?

- A) The simplified income tax formula is only applicable to taxpayers with taxable income less than \$100,000.
- B) Taxpayers are allowed certain deductions from income.
- C) For many taxpayers, the simple income tax formula is sufficient to determine tax liability.
- D) When calculating the tax refund or tax due with the return, taxpayers need to subtract tax payments and tax credits from their tax liability.

Answer: A

Difficulty: 2 Medium

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

113) On Form 1040, the standard deduction from income for married taxpayers is:

- A) \$1,500.
- B) \$12,000.
- C) \$24,000.
- D) \$36,000.

Answer: C

Difficulty: 1 Easy

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

114) Victoria determined her tax liability was \$6,451. Her employer withheld \$6,145 from her paychecks during the year. Victoria's tax return would show

- A) A refund of \$306.
- B) A refund of \$6,451.
- C) Tax due of \$306.
- D) Tax due of \$6,145.

Answer: C

Difficulty: 2 Medium

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

115) For equivalent amounts of taxable income, the total tax liability of a couple using the married filing jointly status:

- A) Will be less than single filing status.
- B) Will be more than single filing status.
- C) Will be more than married filing separately status.
- D) Cannot be determined with the information provided.

Answer: A

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

116) Alice is an employee of Valley Company. Alice properly completed her Form 1040 tax

return and received a refund from the IRS of \$1,244. Alice had income tax withholdings during the year of \$4,782. Alice's tax liability for the year was:

- A) \$1,244.
- B) \$3,538.
- C) \$4,782.
- D) \$6,026.

Answer: B

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

117) The tax liability for a married couple with taxable income of \$73,209 is:

- A) \$12,049.
- B) \$10,658.
- C) \$8,406.
- D) \$8,404.

Answer: C

Difficulty: 2 Medium

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: automatic

118) Which of the following types of Regulations take the place of the Internal Revenue Code and have the full effect of law?

- A) Final.
- B) Legislative.
- C) Temporary.
- D) Proposed.

Answer: B

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

119) The following court hears only tax cases:

- A) U.S. Court of Appeals.
- B) U.S. Court of Federal Claims.
- C) U.S. District Court.
- D) U.S. Tax Court.

Answer: D

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

120) Federal tax legislation generally originates in which body?

- A) Senate Finance Committee.
- B) Supreme Court.
- C) Internal Revenue Service.
- D) House Ways and Means Committee.

Answer: D

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: automatic

121) Which type of tax rate structure is each of the following types of tax: sales, federal income, social security, flat, Medicare?

Answer: Sales tax is proportional, federal income tax is progressive, social security is regressive, flat tax is proportional, Medicare tax is proportional.

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

122) What is the definition of a proportional tax?

Answer: A proportional tax is a tax where the tax rate remains the same regardless of the tax base.

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

123) What is the definition of a regressive tax?

Answer: A regressive tax is one in which the tax rate decreases as the tax base increases.

Difficulty: 1 Easy

Topic: Tax Rate Structures

Learning Objective: 01-01 Understand progressive, proportional, and regressive tax structures.

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

124) What is the average tax rate and how is it determined?

Answer: The average tax rate is the proportion of tax that is assessed, on average, on the total taxable income of a taxpayer. It is determined by dividing the total tax liability by the total taxable income (or tax base).

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

125) What is the marginal tax rate and how is it determined?

Answer: The marginal tax rate is the tax rate that is applied to the next dollar of income that a taxpayer earns. It is determined with reference to the tax rate schedules published by the IRS.

Difficulty: 1 Easy

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

126) A married couple has taxable income of \$85,475. Determine their marginal tax rate and their average tax rate. (Round your answers to 2 decimal places)

Answer: Their marginal tax rate is 22%. Their average tax rate is 12.50%.

$(\$10,684 / \$85,475) = 12.50\%$ average rate.

Difficulty: 3 Hard

Topic: Average Tax Rate

Learning Objective: 01-02 Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

127) Your friend works as a salaried employee of a large local corporation. She told you that she paid \$2,592 when she filed her tax return, so her tax liability was equal to that amount. What is the fallacy in her statement?

Answer: In many respects, a tax return is the document that represents the "settling up" between the taxpayer and the government. The taxpayer lists all appropriate income and deductions, calculates tax liability and subtracts amounts already paid. At that point, the taxpayer may owe additional tax (total tax liability is greater than amounts paid) or may be entitled to a refund (amounts paid exceed the total tax liability). The liability of your friend is actually equal to the \$2,592 she paid with her tax return plus the amount she paid as withholding taxes from her paycheck.

Difficulty: 2 Medium

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: manual

128) Alex is single and had W-2 income of \$59,989 and interest income of \$354. What is his taxable income?

Answer: Alex's taxable income is $\$59,989 + \$354 - \$12,000 = \$48,343$.

Difficulty: 3 Hard

Topic: The Components of Form 1040

Learning Objective: 01-03 Understand the components of a basic Form 1040 income tax return.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: manual

129) Determine the tax liability in each of the following cases.

- a. Single individual, taxable income of \$64,985.
- b. Married couple, taxable income of \$62,717.
- c. Single individual, wage income of \$92,437. No other sources of income.

Answer: Answers are derived from the Tax Tables.

a. \$10,234.

b. \$7,146.

c. \$13,633.

For item c, remember to subtract the \$12,000 standard deduction before going to the Tax Tables.

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: manual

130) The Tax Tables generally provide a slightly different tax liability when compared to the Tax Rate Schedules. For each of the following amounts of taxable income, determine whether the tax calculated using the Tax Tables will be larger, smaller, or the same as the tax calculated using the Tax Rate Schedules.

- a. \$76,880
- b. \$82,225
- c. \$54,711
- d. \$99,201
- e. \$99,198

Answer:

- a. smaller
- b. the same
- c. larger
- d. larger
- e. smaller

For the taxable income amounts in this problem, the Tax Tables determine tax liability using the midpoint of income in \$50 ranges. Thus, tax is determined using taxable income ending in \$25 (for example, \$42,025) or ending in \$75 (for example, \$38,575). If the actual taxable income is less than the respective midpoint, the Tax Tables will give a larger tax than the Tax Rate Schedules. If taxable income exceeds the midpoint, the Tax Tables will give a smaller tax than the Tax Rate Schedules. If taxable income is exactly equal to the midpoint, there will be no difference between the two methods.

Difficulty: 3 Hard

Topic: Marginal Tax Rate; Calculate Tax Liability

Learning Objective: 01-04 Determine tax liability in instances when a Form 1040 return is appropriate.

EA: Yes

Accessibility: Keyboard Navigation

Gradable: manual

131) Describe the legislative process for enacting a new tax law.

Answer: Typically, federal tax legislation is introduced in the House of Representatives Ways and Means Committee (although bills can be introduced in the Senate Finance Committee). The House bill is then voted on by the House of Representatives. Then the Senate Finance Committee generates its own bill which is voted on by the U.S. Senate. The Joint Conference Committee resolves differences between the House and Senate versions (if differences exist). The common Joint Conference Bill is voted on by the House of Representatives and the U.S. Senate. If the Joint Conference Bill passes the House and Senate it is signed or vetoed by the President of the United States. If signed, the legislation is incorporated into the Internal Revenue Code.

Difficulty: 2 Medium

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

132) What are Revenue Rulings and Revenue Procedures?

Answer: Revenue Rulings (Rev. Rul.) and Revenue Procedures (Rev. Proc.) are issued by the IRS and are excellent sources of information for taxpayers and tax preparers. With Revenue Rulings, the IRS is reacting to an area of the tax law that is confusing to many taxpayers and/or has material tax implications to many taxpayers. The Rev. Rul. lists a fact situation, the relevant tax authority, and the IRS's conclusion on the manner in which the item should be treated. A Rev. Proc. is a proactive document and is issued by the IRS to illustrate the manner in which it wants something reported.

Difficulty: 2 Medium

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

133) What is a Private Letter Ruling (PLR)? What tax authority is provided by a PLR?

Answer: The IRS issues a PLR when a taxpayer requests a ruling on a certain tax situation. The PLR is tax authority only to the taxpayer to whom it is issued.

Difficulty: 1 Easy

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

134) Describe the various courts that hear tax cases. Include both trial courts and appellate courts in your discussion.

Answer: Three different trial courts hear tax cases: (1) the U.S. Tax Court; (2) U.S. District Courts; and (3) the U.S. Court of Federal Claims. Decisions by the Tax Court and the District Courts may be appealed to the U.S. Court of Appeals and then to the Supreme Court. U.S. Court of Federal Claims cases can be appealed to the U.S. Court of Appeals - Federal Claims and then to the Supreme Court.

Difficulty: 2 Medium

Topic: Tax Authority

Learning Objective: 01-05 Understand the types of tax authority and how they interrelate (Appendix A).

EA: No

Accessibility: Keyboard Navigation

Gradable: manual

135) Circular 230 applies to paid tax preparers. The Circular provides a list of requirements which paid preparers MUST and MUST NOT do. List five items which paid preparers MUST do and five items which they MUST NOT do.

Answer: Students can pick any five of the following in each category.

MUST DO:

- Sign all tax returns they prepare
- Provide a copy of the returns to clients
- Return records to clients
- Exercise due diligence
- Exercise best practices in preparing submissions to the IRS
- Disclose all non-frivolous tax positions when such disclosure is required to avoid penalties
- Promptly notify clients of any error or omission on a client tax return
- Provide records and information requested by the IRS unless the records or information are privileged
- Inform a client if the client has made an error or omission in a document submitted to the IRS

MUST NOT DO:

- Take a tax position on a return unless there is a "realistic possibility" of the position being sustained
- Charge a fee contingent on the outcome of the return or any position, except in certain limited situations
- Charge an "unconscionable fee"
- Unreasonably delay the prompt disposition of any matter before the IRS
- Cash an IRS check for a client for whom the return was prepared
- Represent a client before the IRS if the representation involves a conflict of interest
- Make false, fraudulent or coercive statements or claims or make misleading or deceptive statements or claims

Difficulty: 2 Medium

Topic: IRS Rules for Paid Tax Preparers

Learning Objective: 01-06 Understand the provisions of IRS Circular 230 for paid tax preparers (Appendix B).

EA: Yes

Accessibility: Keyboard Navigation

Gradable: manual