

Exam

Name \_\_\_\_\_

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) The term "gross income" means the total of all income from any source, but after reduction for exclusions.

Answer:  True  False

2) Although exclusions are usually not reported on an individual's income tax return, interest income on state and local government bonds must be reported on the tax return.

Answer:  True  False

3) Generally, deductions for (not from) adjusted gross income are personal expenses specifically allowed by tax law.

Answer:  True  False

4) Generally, itemized deductions are personal expenses specifically allowed by the tax law.

Answer:  True  False

5) Taxpayers have the choice of claiming either deductions for AGI or the standard deduction.

Answer:  True  False

6) Refundable tax credits are allowed to reduce or totally eliminate a taxpayer's tax liability but any credits in excess of the tax liability are lost.

Answer:  True  False

7) Nonrefundable tax credits are allowed to reduce or totally eliminate a taxpayer's tax liability but any credits in excess of the tax liability are lost.

Answer:  True  False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

8) Taxable income for an individual is defined as

- A) AGI reduced by itemized deductions and tax credits.
- B) AGI reduced by tax credits.
- C) AGI reduced by the greater of the standard deduction or itemized deductions.
- D) gross income reduced by itemized deductions.

Answer: C

9) All of the following items are generally excluded from income except

- A) child support payments.
- B) interest on state and local government bonds.
- C) interest on corporate bonds.
- D) life insurance proceeds paid by reason of death.

Answer: C

10) All of the following items are included in gross income except

- A) interest earned on a bank account.
- B) pension benefits received.
- C) child support payments received.
- D) rent income.

Answer: C

- 11) All of the following items are deductions for adjusted gross income except
- A) state and local income taxes.
  - B) trade or business expenses.
  - C) charitable contributions made.
  - D) rent and royalty expenses.

Answer: A

- 12) All of the following items are deductions for adjusted gross income except
- A) unreimbursed employee business expenses.
  - B) one-half of self-employment taxes on year's earnings.
  - C) qualifying contributions to individual retirement accounts.
  - D) interest on student loans.

Answer: A

- 13) Which of the following credits is considered a refundable credit?
- A) adoption expense credit
  - B) credit for elderly and disabled
  - C) earned income credit
  - D) lifetime learning credit

Answer: C

- 14) A single taxpayer provided the following information for 2018:

Salary	\$80,000
Interest on local government bonds (qualifies as a tax exclusion)	4,000
Allowable itemized deductions	13,000

What is taxable income?

- A) \$71,000
- B) \$62,950
- C) \$67,000
- D) \$80,000

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 15) Hannah is single with no dependents and has a salary of \$102,000 for 2018, along with tax exempt interest income \$3,000 from a municipality. Her itemized deductions total \$12,600.

Required: Compute her taxable income.

Answer:

Salary	\$102,000
(Interest income is excluded)	
Less:	
Itemized deductions	<u>( 12,600)</u>
Taxable income	<u>\$ 89,400</u>

- 16) Kadeisha is single with no dependents and has a salary of \$102,000 for 2018, along with tax exempt interest income \$3,000 from a municipality. Her itemized deductions total \$11,600.

Required: Compute her taxable income.

Answer:

Salary	\$102,000
(Interest income is excluded)	
Less:	
Standard deduction	<u>( 12,000)</u>
Taxable income	<u>\$ 90,000</u>

17) The following information is available for Bob and Brenda Horton, a married couple filing a joint return, for 2018. Bob and Brenda are age 32 and have no dependents.

Salaries	\$200,000
Interest income	12,000
Deductible IRA contributions	11,000
Itemized deductions	25,600
Withholding	31,000

- What is the amount of their gross income?
- What is the amount of their adjusted gross income?
- What is the amount of their taxable income?
- What is the amount of their tax liability (gross tax), rounded to the nearest dollar?
- What is the amount of their tax due or (refund due)?

Answer:	<u>Hortons</u>
Salary	\$200,000
Interest	<u>12,000</u>
Gross Income	\$212,000 <sup>a</sup> .
Minus: IRA Contributions	<u>11,000</u>
Adjusted gross income	\$201,000 <sup>b</sup> .
Minus: Itemized deductions	<u>( 25,600)</u>
Taxable Income	<u>\$175,400</u> <sup>c</sup> .
Tax liability (using Rate Schedule) *	\$30,675 <sup>d</sup> .
Minus: Withholding	<u>- 31,000</u>
Tax due (refund)	<u>( \$ 325)</u> <sup>e</sup> .
* $\$28,179 + [.24 (175,400 - 165,000)]$	

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

18) The standard deduction is the maximum amount of itemized deductions which may be claimed by a taxpayer and is based on an individual's filing status, age, and vision.

Answer: True  False

19) Nonresident aliens are allowed a full standard deduction.

Answer: True  False

20) The standard deduction may not be claimed by one married taxpayer filing a separate return if the other spouse itemizes deductions.

Answer:  True  False

21) A qualifying child of the taxpayer must meet the gross income test.

Answer: True  False

22) For purposes of the dependency exemption, a qualifying child must be under age 19, a full-time student under age 24, or a permanently and totally disabled child.

Answer:  True  False

- 23) For purposes of the dependency criteria, a qualifying child may not provide more than one-half of his or her own support during the year.  
Answer:  True       False
- 24) Parents must provide more than half the support of their child under the age of 19 in order for the child to be considered as a dependent *qualifying child*.  
Answer:  True       False
- 25) A daughter or son may not satisfy the criteria to be considered a qualifying child but may still qualify as a dependent.  
Answer:  True       False
- 26) One requirement for claiming a dependent as a qualifying relative is that the taxpayer provides more than 50 percent of the dependent's support (assuming it is not a multiple support agreement situation).  
Answer:  True       False
- 27) When two or more people qualify to claim the same person as a dependent, a taxpayer who is entitled to the exemption through the qualified child rules has priority over a taxpayer who meets the requirements for other relatives.  
Answer:  True       False
- 28) The person claiming a dependent under a multiple support declaration must provide more than 25% of the dependent's support.  
Answer:  True       False
- 29) Generally, in the case of a divorced couple, the parent who has physical custody of a child for the greater part of the year is entitled to claim the child as a dependent.  
Answer:  True       False
- 30) A child credit is a partially refundable credit.  
Answer:  True       False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 31) In 2018, the standard deduction for a married taxpayer filing a joint return and who is 67 years old with a spouse who is 65 years old is  
A) \$24,000.      B) \$25,300.      C) \$26,600.      D) \$27,200.  
Answer: C
- 32) In 2018, Brett and Lashana (both 50 years old) file a joint tax return claiming as a dependent their son who is blind. Their standard deduction is  
A) \$25,600.      B) \$13,600.      C) \$24,000.      D) \$25,300.  
Answer: C
- 33) Annisa, who is 28 and single, has adjusted gross income of \$55,000, itemized deductions of \$5,000 and a lifetime learning credit of \$1,000. In 2018, Annisa will have taxable income of  
A) \$42,000.      B) \$43,000.      C) \$50,000.      D) \$55,000.  
Answer: B



- 42) Ben, age 67, and Karla, age 58, have two children who live with them and for whom they provide total support. Their daughter is 21 years old, blind, is not a full-time student and has no income. Her twin brother is 21 years old, has good sight, is a full-time student and has income of \$4,800. Which of the following statements is correct regarding Ben and Karla's ability to claim the twins as dependents?
- A) The couple can only claim the son as a dependent.
  - B) The couple can only claim the daughter as a dependent.
  - C) The couple can claim both twins as dependents.
  - D) The couple cannot claim either twin as a dependent.

Answer: C

- 43) Sarah, who is single, maintains a home in which she, her 15-year-old brother, and her 21-year-old niece live. Sarah provides the majority of the support for her brother, her niece, and her cousin, age 18, who is enrolled full-time at the university and lives in an apartment. While the niece and cousin have no income, her brother has a part-time job and earns \$4,500 per year. How many dependents may Sarah claim?
- A) 1
  - B) 2
  - C) 3
  - D) None

Answer: B

- 44) Anita, who is divorced, maintains a home in which she and her 16-year-old daughter live. Anita provides the majority of the support for her daughter and for a son, age 23, who is enrolled part-time at the university and lives in the dorm. The son also works in the campus bookstore and earns spending money of \$4,500. Which of the following statements is correct regarding the number of dependents Anita can claim?
- A) Anita can claim her daughter, but not her son, as a dependent.
  - B) Anita can claim her son, but not her daughter, as a dependent.
  - C) Both the son and daughter qualify as Anita's dependents.
  - D) Neither the daughter nor the son qualify as Anita's dependent.

Answer: A

- 45) John supports Kevin, his cousin, who lived with him throughout 2018. John also supports three other individuals not live with him:

Donna, who is John's mother  
Melissa, who John's stepsister  
Morris, who is Kevin's brother

Assume that Donna, Melissa, Morris, and Kevin each earn less than \$4,150. How many dependents can John claim?

- A) 1
- B) 2
- C) 3
- D) 4

Answer: C

- 46) Julia provides more than 50 percent of the support for three individuals: Theresa, an unrelated child who lives with Julia all year long; Margaret, Julia's cousin, who lives in another city; and Emma, Julia's daughter, who lives in her own home. Each of the potential dependents earned less than \$4,150. How many dependents can Julia claim?
- A) 0
  - B) 1
  - C) 2
  - D) 3

Answer: C

- 47) David's father is retired and receives \$14,000 per year in Social Security benefits. David's father saves \$4,000 of the benefits and spends the remaining \$10,000 for his support. How much support must David provide for his father to meet the dependent support requirement?
- A) \$14,000
  - B) \$14,001
  - C) \$10,001
  - D) \$10,000

Answer: C

48) Which of the following is not considered support for the dependent support test?

- A) clothing
- B) value of services rendered by the taxpayer for the dependent
- C) rental value of lodging
- D) food

Answer: B

49) Juanita's mother lives with her. Juanita purchased clothing for her mother costing \$1,000 and provided her with a room that Juanita estimates she could have rented for \$4,000. Juanita spent \$5,000 on groceries she shared with her mother. Juanita also paid \$700 for her mother's health insurance coverage. How much of these costs is considered support?

- A) \$10,000
- B) \$10,700
- C) \$8,200
- D) \$5,000

Answer: C

50) Anna is supported entirely by her three sons John, James, and Joseph who provide for her support in the following percentages:

John: 10%, James: 40%, Joseph: 50%

Assuming a multiple support declaration exists, which of the brothers may claim his mother as a dependent?

- A) James or Joseph
- B) any of the sons
- C) Joseph only
- D) None of them.

Answer: A

51) Blaine Greer lives alone. His support comes from the following sources:

Buddy (his son)	\$2,600
Ken (his brother)	4,200
Martha (his daughter)	2,300
Natalie (a friend)	<u>1,000</u>
Total support	<u>\$10,100</u>

Assuming a multiple support declaration exists, which of the individuals may claim Blaine as a dependent?

- A) Ken or Martha
- B) Ken, Martha, or Natalie
- C) Buddy, Ken, or Martha
- D) None of them.

Answer: C

52) The child credit is for taxpayers with dependent children under the age of

- A) 24.
- B) 19.
- C) 14.
- D) 17.

Answer: D

53) Steven and Susie Tyler have three children ages 13, 15, and 19. The 19-year-old is in the military and not a dependent. Their modified AGI is \$108,000. What is the amount of the child credit to which they are entitled?

- A) \$2,000
- B) \$0
- C) \$4,000
- D) \$6,000

Answer: C

54) Nate and Nikki have two dependent children ages 12 and 15. Their modified AGI is \$410,000. What is the amount of the child credit to which they are entitled?

- A) \$500
- B) \$0
- C) \$3,500
- D) \$4,000

Answer: C

- 55) Ryan and Edith file a joint return showing \$420,000 of AGI. They have three dependent children ages 7, 9, and 13. What is the amount of their child credit?  
 A) \$2,000                                      B) \$0                                      C) \$5,000                                      D) \$6,000

Answer: C

- 56) Amanda has two dependent children, ages 10 and 12. She earned \$30,000 from her job, and her income tax before credits is \$1,200. How much of her child credit is refundable?  
 A) \$4,000                                      B) \$1,200                                      C) \$1,400                                      D) \$2,800

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 57) Steve Greene, age 66, is divorced with no dependents. In 2018, Steve had income and expenses as follows:

Gross income from salary	\$80,000
Total itemized deductions	5,500

Compute Steve's taxable income for 2018. Show all calculations.

Answer: Adjusted gross income	\$80,000
Less: Standard deduction (\$12,000 + \$1,600)	<u>( 16,600)</u>
Taxable income	<u>\$63,400</u>

The additional standard deduction is for Steve's age.

- 58) Sean and Martha are both over age 65 and Martha is considered blind by tax law standards. Their total income in 2018 from part-time jobs and interest income from a bank savings account is \$80,000. Their itemized deduction is \$25,000.

Required: Compute their taxable income.

Answer: Salary & interest	\$60,000
Less:	
Standard deduction [\$24,000 + (3 × 1,300)]	<u>(27,900)</u>
Taxable income	<u>\$32,100</u>

The standard deduction is increased because of age for both and blindness for Martha.

- 59) Kate is single and a homeowner. In 2018, she has property taxes on her home of \$4,000, pays state income taxes of \$5,000, makes charitable contributions of \$3,000, and pays home mortgage interest of \$6,000. Kate's adjusted gross income for 2018 is \$77,000.

Required: Compute her taxable income for 2018.

Answer: Adjusted gross income	\$77,000
Minus: Itemized deductions:	
Property taxes	\$4,000
State income taxes	5,000
Home mortgage interest	6,000
Charitable contributions	<u>3,000</u>
Taxable income	<u>( 18,000)</u> <u>\$59,000</u>



60) In 2018, Sam is single and rents an apartment for which he pays \$800 per month, pays state income taxes of \$2,000, makes charitable contributions of \$1,000. Sam's adjusted gross income is \$47,000.

Required: Compute his taxable income. Show all calculations.

Answer: Adjusted gross income	\$47,000
Minus: Standard deduction	<u>(12,000)</u>
Taxable income	<u>\$35,000</u>

61) Eliza Smith's father, Victor, lives with Eliza who is a single taxpayer. During the year, Eliza purchased clothing for her father costing \$1,200 and provided him with a room that could have been rented for \$6,000. In addition, Eliza spent \$4,000 for groceries she shared with her father. Eliza purchased a new computer for \$900 which she placed in the room for both her father and her use.

What is the amount of support provided by Eliza to her father?

Answer: Clothing	\$1,200
Rental value of room	6,000
Groceries (1/2 × \$4,000)	<u>2,000</u>
Total support	<u>\$9,200</u>

62) Paul and Hannah, who are married and file a joint return, are in the process of adopting a child who is born in December 2018. The child, a son, comes to live with them a week after his birth on December 12. The adoption is not finalized until February of 2019. What tax issues are present in this situation?

Answer: Are Paul and Hannah able to claim the baby as a dependent in 2018, allowing them to claim a child tax credit?

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

63) A married couple need not live together to file a joint return.

Answer:  True  False

64) A widow or widower whose spouse passed away in the current year may file a joint tax return as long as the surviving spouse does not remarry before the end of the year.

Answer:  True  False

65) An unmarried taxpayer may file as head of household if he maintains a home for his qualifying child.

Answer:  True  False

66) Theo's wife moved overseas in April, and they have not been in touch, although they are still legally married. Theo pays all the costs of the household which includes his 12-year-old son. Because Theo is still married, his only option is to file his tax return as married filing separately.

Answer:  True  False

67) Kelly is age 23 and a full-time student with interest and dividend income of \$2,600 in the current year. The total cost of her support for the year is \$19,000. She is not subject to the kiddie tax.

Answer:  True  False

68) Divya is age 22 and a full-time student with \$8,000 of income from part-time and summer jobs and \$2,600 of interest and dividend income. The total cost of her support for the year is \$15,000. Divya is not subject to the kiddie tax.

Answer:  True  False

69) If a 13-year-old has earned income of \$500 and interest and dividends of \$2,500, all of the income can be reported on the parent's return.

Answer: True  False

70) Suri, age 8, is a dependent of her parents and has unearned income of \$6,000. She must file her own tax return.

Answer: True  False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

71) You may choose married filing jointly as your filing status if you are married and both you and your spouse agree to file a joint return. Which of the following facts would prevent you from being considered married for filing purposes?

- A) You are married but living apart until some problems can be solved.
- B) Your spouse died during the year.
- C) You were married for several years, but your divorce became final in December.
- D) None of the above.

Answer: C

72) Tom and Alice were married on December 31 of last year. What is their filing status for last year?

- A) They file as single for 364 days and married filing jointly for one day.
- B) They file as single.
- C) They file as single for half the year and married filing jointly for the other half.
- D) They file as married filing jointly or married filing separately.

Answer: D

73) When a spouse dies, the surviving spouse for the year of death

- A) must file a tax return using the single filing status.
- B) may file a married filing jointly return only if the death occurred in the last half of the year.
- C) may file a married filing jointly return.
- D) must file a tax return using the head of household filing status.

Answer: C

74) In 2015, Leo's wife died. Leo has two small children, ages 2 and 4, living at home whom he supports entirely. Leo does not remarry and is not claimed as a dependent on another's return during any of this period. In 2016, 2017, and 2018, Leo's most advantageous filing status is, respectively

- A) surviving spouse, surviving spouse, head of household.
- B) single for all three years.
- C) head of household for all three years.
- D) surviving spouse, surviving spouse, single.

Answer: A

75) Edward, a widower whose wife died in 2015, maintains a household for himself and his 10-year-old daughter. Edward's most favorable filing status for 2018 is

- A) single.
- B) surviving spouse.
- C) married filing jointly.
- D) head of household.

Answer: D

- 76) In order to qualify to file as surviving spouse, all of the following criteria must be met by the widow or widower except
- A) he or she must be a U.S. citizen or resident.
  - B) he or she must have at least one dependent child living at home the entire year and pay over half of the expenses of the home.
  - C) he or she must be qualified to file a joint return in the year of death.
  - D) he or she and the decedent must have shared the same household as of date of death.

Answer: D

- 77) Which of the following dependent relatives does not have to live in the same household as the taxpayer who is claiming head of household filing status?
- A) brother
  - B) nephew
  - C) uncle
  - D) father

Answer: D

- 78) Sally divorced her husband three years ago and has not remarried. Since the divorce she has maintained her home in which she and her now sixteen-year-old daughter reside. The daughter is a qualified child. Sally signed the daughter's dependent status over to her ex-spouse by filing the appropriate IRS form. What is Sally's filing status for the current year?

- A) surviving spouse
- B) single
- C) married filing separately
- D) head of household

Answer: D

- 79) Dave, age 59 and divorced, is the sole support of his mother age 83, who is a resident of a local nursing home for the entire year. Dave's mother had no income for the year. Dave's filing status is

- A) married filing separately.
- B) married filing jointly.
- C) head of household.
- D) single.

Answer: C

- 80) The filing status in which the rates increase most rapidly is

- A) surviving spouse.
- B) married filing separately.
- C) married filing jointly.
- D) head of household.

Answer: B

- 81) A married taxpayer may file as head of household under the abandoned spouse provisions if all of the following are met except

- A) the taxpayer pays over half of the cost of maintaining a household in which the taxpayer and a dependent son or daughter live for over half of the year.
- B) the taxpayer lived apart from his or her spouse for the last six months of the year.
- C) the taxpayer must have been married for at least two years.
- D) the taxpayer is a U.S. citizen or resident.

Answer: C

- 82) To qualify as an abandoned spouse, the taxpayer is not required to

- A) be a U.S. citizen or resident.
- B) have a son or daughter in the home for the entire year.
- C) live apart from the spouse for the last six months of the year.
- D) pay more than half the cost of maintaining the home.

Answer: B

- 83) In October 2018, Joy and Paul separated and have not lived with each other since, but they are still legally married. They do not file a joint return. Joy supports their children after the separation and pays the cost of maintaining their home. Joy's filing status in 2018 and 2019 is, respectively
- A) married filing separately and head of household.
  - B) married filing separately for both years.
  - C) head of household and single.
  - D) single for both years.

Answer: A

- 84) The oldest age at which the "Kiddie Tax" could apply to a dependent child is
- A) 20.
  - B) 23.
  - C) 17.
  - D) 18.

Answer: B

- 85) Tobe is a 22-year-old college student with \$5,000 of interest income and \$6,000 of earned income. Kiddie tax will apply to him if
- A) he is a part-time student and the cost of his support exceeds \$12,000.
  - B) he is a full-time student and the cost of his support exceeds \$12,000.
  - C) he is a part-time student and the cost of his support is \$12,000 or less.
  - D) he is a full-time student and the cost of his support is \$12,000 or less.

Answer: B

- 86) Elise, age 20, is a full-time college student with earned income from wages of \$4,400 and interest income of \$500. Elise's parents provide more than half of her support. Elise's 2018 taxable income is
- A) \$150.
  - B) \$3,850.
  - C) \$0.
  - D) \$500.

Answer: A

- 87) Michelle, age 20, is a full-time college student with earned income from wages of \$5,200 and interest income of \$700. Michelle's parents provide more than half of Michelle's support. Michelle's 2018 taxable income is
- A) \$350.
  - B) \$4,850.
  - C) \$700.
  - D) \$0.

Answer: A

- 88) Satish, age 11, is a dependent of his parents. His only source of income in 2018 is \$8,000 of interest income on bonds given him by his grandparents, resulting in taxable income of \$6,950. Under kiddie tax rules, calculation of tax requires dividing taxable income between net unearned income and earned taxable income. Satish's taxable income will be divided as follows:
- A) net unearned income - \$6,950 and earned taxable income - \$0.
  - B) net unearned income - \$0 and earned taxable income - \$6,950.
  - C) net unearned income - \$8,000 and earned taxable income - \$1,050.
  - D) net unearned income - \$5,900 and earned taxable income - \$1,050.

Answer: D

- 89) Yusef, age 15, is a dependent of his parents. In 2018 he earned \$5,000 from a part-time job and \$8,000 of interest income on bonds given him by his grandparents, resulting in taxable income of \$7,650. Under kiddie tax rules, calculation of tax requires dividing taxable income between net unearned income and earned taxable income. Yusef's taxable income will be divided as follows:
- A) net unearned income - \$7,650 and earned taxable income - \$0.
  - B) net unearned income - \$1,750 and earned taxable income - \$5,900.
  - C) net unearned income - \$0 and earned taxable income - \$7,650.
  - D) net unearned income - \$5,900 and earned taxable income - \$1,750.

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

90) The following information for 2018 relates to Emma Grace, a single taxpayer, age 18:

Salary	\$6,500
Interest income	1,200
Itemized deductions	500

- Compute Emma Grace's taxable income assuming she is self-supporting.
- Compute Emma Grace's taxable income assuming she is a dependent of her parents.

Answer: a.

Salary	\$ 6,500
Interest	<u>1,200</u>
Adjusted gross income	\$7,700
Minus: Standard deduction	<u>(12,000)</u>
Taxable income	<u><u>0</u></u>

b.

Salary	\$ 6,500
Interest	<u>1,200</u>
Adjusted gross income	\$ 7,700
Minus: Standard deduction (\$6,500 + 350)	<u>( 6,850)</u>
Taxable income	<u><u>\$ 850</u></u>

91) Indicate for each of the following the most favorable filing status for the 2018 tax year.

- Kenny died on March 2, 2017. Marge, his wife, and Bart, their son, survive. Marge filed a joint return in 2017. Marge's son, Marge, age 18 in 2018, is a full-time college student and continues to live at home with his mother. He works part-time, earning \$3,200. What is Marge's filing status in 2018?
- Alan Spaulding is single and provides over 50% support of his niece Alicia who lives with him all year long. Alan maintains the household and claims Alicia as a dependent. Alicia makes \$3,600 at a part-time job. She is a full-time student, age 18. What is Alan's filing status?
- Lily, who was divorced on July 27, 2018, provides 100% of the support for her parents who live in a nursing home in Kansas and have no income. What is Lily's filing status?
- Holly was abandoned by her husband Fletcher in September of the current year. She has not seen or communicated with him since then. What is Holly's filing status?
- Rick, whose wife died in December 2015, filed a joint tax return for 2015. He did not remarry, but has continued to maintain his home in which his two dependent children live. What is Rick's filing status for 2018?

- Answer: a. surviving spouse  
b. head of household  
c. head of household  
d. married filing separately  
e. head of household

92) Gina Lewis, age 16, is claimed as a dependent on her parent's return. She is their only child. She earned \$4,300 from a summer job. She also earned interest of \$3,750. Her parents' marginal tax rate is 37 percent.

Required:

a. Compute the amount of Gina's tax liability for 2018. The following schedule of tax brackets will be helpful.

Marginal Rate	Portion of TI over ETI Plus	But Not Over ETI Plus
10%		\$2,550
24%	\$2,550	\$9,150
35%	\$9,150	\$12,500
37%	\$12,500	

b. Can Gina's parents take a child tax credit for her?

Answer: Adjusted gross income (\$4,300 + \$3,750)	\$8,050
Less: Standard deduction [greater of \$1,050 or (\$4,300 + 350)]	(4,650)
Allowable exemption (None-dependent of another)	<u>0</u>
Taxable income	<u>\$3,400</u>

Gina's net unearned income:

Unearned income: Interest	\$ 3,750
Less: Statutory deduction of \$1,050	( 1,050)
Less: Standard deduction	<u>( 1,050)</u>
Net unearned income	<u>\$ 1,650</u>

Gina's earned taxable income (ETI):

Taxable income	\$3,400
Less net unearned income	<u>-1,650</u>
Earned taxable income	<u>\$1,750</u>

Tax calculation:

Gina's relevant tax bracket- 10% = \$1,750 ETI + \$2,550 per table = \$4,300 for top of 10% bracket  
 \$3,400 taxable income × 10% = \$340 tax liability

b. She is under age 17 and their qualifying child so she qualifies for the child credit. The credit will be phased out because the parents' marginal tax rate is 37% so their AGI will be beyond the phaseout range.

- 93) For each of the following taxpayers, indicate the applicable filing status and the number of children who qualify for child credit.
- Jeffrey is a widower, age 71, who receives a pension of \$10,000, nontaxable social security benefits of \$12,000 and interest of \$2,000. He has no dependents.
  - Selma is a single, full-time college student, age 20, who earned \$6,800 working part-time. She has \$1,700 of interest income and received \$1,000 support from her parents.
  - Olivia is married, but her husband left her three years ago and she has not seen or heard from him since. She supports herself and her six-year-old daughter. She paid all the household expenses. Her income consists of salary of \$18,500 and interest of \$800.
  - Ruben is a single, full-time college student, age 20, who earned \$6,800 working part-time. He has \$250 of interest income and received \$10,000 support from his parents.
  - Cathy is divorced and received \$12,000 alimony from her former husband and earned \$35,000 working as an administrative assistant. She also received \$2,500 of child support for her daughter who lives with her. Cathy filed the appropriate IRS form and gave up the dependency exemption to her former husband.

Answer:

	Filing Status	Child Credit
a.	Single	0
b.	Single	0
c.	Head-of-Household	1
d.	Single	0
e.	Head-of-Household	0

- 94) Mary Ann pays the costs for her Aunt Hazel to live in a nursing home. Aunt Hazel receives Social Security benefits of \$7,000 a year which are turned over to the nursing home. Mary Ann pays the remaining cost of \$33,000. Hazel has no other income. Mary Ann visits Hazel twice a week and meets with doctors and nurses regarding Hazel's medical care. What tax issues should Mary Ann consider?

Answer: Can Mary Ann file as head of household? Would Mary Ann be able to claim Hazel as a dependent?

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 95) The only business entity that pays federal income taxes is the C corporation.

Answer:  True  False

- 96) The annual tax reporting form filed with the IRS by C corporations is the Schedule C.

Answer:  True  False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 97) A corporation has revenue of \$350,000 and deductible business expenses of \$240,000. What is the federal income tax, before credits?

A) \$26,400                      B) \$38,500                      C) \$23,100                      D) \$22,000

Answer: C

- 98) Ray is starting a new business and trying to decide between a C corporation, S corporation, and partnership. Which of the following statements regarding his decision is correct?

- S corporations pay taxes on their current year income.
- A partner in a partnership is taxed on his or her share of partnership income.
- A shareholder in a C corporation is taxed on his or her share of corporate income.
- An S corporation owner must pay income taxes only on the salary received.

Answer: B

- 99) Artco Inc. is a C corporation. This year it earned \$50,000 of taxable income and paid a \$10,000 distribution (dividend) to Lily, its sole shareholder. Lily has a marginal tax rate of 24%. Due to the corporation's results and the distribution paid, the IRS will receive total taxes of
- A) \$10,500.                      B) \$12,000.                      C) \$13,500.                      D) \$12,900.

Answer: B

- 100) Silver Inc. is an S corporation. This year it earned \$60,000 of taxable income and paid a \$10,000 distribution to Daisy, its sole shareholder. Daisy has a marginal tax rate of 24%. Due to the corporation's results and the distribution paid, the IRS will receive total taxes of
- A) \$9,000.                      B) \$14,100.                      C) \$14,400.                      D) \$27,000.

Answer: C

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 101) Paige is starting Paige's Poodle Parlor and is considering alternative organizational forms. She anticipates the business will earn \$100,000 from operating before compensating her for her services and before charitable contributions. Page, who is single, has \$6,000 of income from other sources and other itemized deductions of \$12,000. Her compensation for services will be \$50,000. Charitable contributions to be made by the business are expected to be \$5,000. Other distributions (dividends) to her from the business are expected to be \$14,000.

Required: Compare her 2018 income tax assuming she operates the business as a proprietorship, an S corporation, and a C corporation. Ignore payroll and other taxes.

Answer:

	<u>Proprietorship</u>	<u>S Corporation</u>	<u>C Corporation</u>
Business income:			
Operating income	<u>\$100,000</u>	\$100,000	\$100,000
Compensation paid to Paige		<u>( 50,000)</u>	( 50,000)
Charitable contributions			<u>( 5,000)</u>
Net business income	<u>\$100,000</u>	<u>\$ 50,000</u>	<u>\$ 45,000</u>
Corporate income tax			<u>\$ 9,450</u>
Paige's income:			
Business income (above)	\$100,000	\$ 50,000	
Compensation (above)		50,000	\$ 50,000
Dividends			14,000
Other income	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>
Adjusted gross income	<u>\$106,000</u>	<u>\$106,000</u>	<u>\$ 70,000</u>
Charitable contributions	5,000	5,000	
Other itemized deductions	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
Taxable income	<u>\$ 89,000</u>	<u>\$ 89,000</u>	<u>\$ 58,000</u>
Individual income tax	<u>\$ 15,650*</u>	<u>\$ 15,650*</u>	<u>\$ 7,826**</u>
Total tax	<u>\$ 15,650</u>	<u>\$ 15,650</u>	<u>\$ 14,576</u>

\*\$14,089.50 + [.24 × (\$89,000 - 82,500)] rounded

\*\*Tax on dividends: \$14,000 × .15 = \$2,100 plus

Tax on taxable income of \$58,000 - 14,000 or \$44,000: \$4,453.50 + [.22 × (\$44,000 - 38,700)] = \$5,620 (rounded). The total is \$7,720.





109) Ivan Trent, age five, receive \$2,900 of dividends per year from a mutual fund he owns; it is his only source of taxable income. Ivan's parents plan to gift a corporate bond they currently own to him. The bond pays \$4,100 of interest income per year. Ivan's parents are in the 37% tax bracket. The individual income tax rate schedule that generally applies to a single taxpayer indicates a 10% tax rate until taxable income of \$9,525. Ivan's family will save tax at the rate of 27% (37% - 10% tax rates) on the bond interest income if the parents transfer the bond to Ivan.

Answer: True  False

110) Generally, when a married couple files a joint return, each spouse is liable for one-half of the entire tax and any penalties incurred.

Answer: True  False

111) A taxpayer is able to change his filing status from married filing jointly to married filing separately by filing an amended return.

Answer: True  False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

112) In order to shift the taxation of dividend income from a parent to a child

- A) the parent must direct the corporation to pay the dividend to the child.
- B) the parent can deposit the dividend in the child's bank account.
- C) the parent must transfer ownership of the stock to the child.
- D) all of the above will result in shifting the taxation to the child.

Answer: C

113) Married couples will normally file jointly. Identify a situation where a married couple may prefer to file separately.

- A) A couple is separated and contemplating divorce.
- B) One spouse can be held responsible for the entire tax liability.
- C) The spouse with lower income has substantial medical expenses.
- D) All of the above.

Answer: D

114) A taxpayer can receive innocent spouse relief if

- A) under the circumstances, it would be inequitable to hold the innocent spouse liable for the understated tax.
- B) the understated tax is attributable to erroneous items of the other spouse.
- C) the innocent spouse did not know and had no reason to know that there was an understatement of tax.
- D) All of the above conditions apply.

Answer: D

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

115) Kelsey is a cash-basis, calendar-year taxpayer. Her salary is \$60,000, and she is single. She plans to purchase a residence in 2019. She anticipates her property taxes and interest will total \$11,000 in 2019. Each year, Kelsey contributes approximately \$1,500 to charity. Her other itemized deductions total \$2,000. For purposes of this problem, assume the 2018 standard deduction amount remains in effect for 2019.

- a. What will be her deductions from AGI in 2018 and 2019 if she contributes \$1,500 to charity in each year?
- b. What will be her deductions from AGI in 2018 and 2019 if she contributes \$3,000 to charity in 2018 but makes no contribution in 2019?
- c. What will be her deductions from AGI in 2018 and 2019 if she makes no contribution in 2018 but contributes \$3,000 to charity in 2019?
- d. Why does option C yield the largest deductions over time?

Answer:

	2018	2019
a. Potential itemized deduction	\$ 3,500	\$14,500
Standard deduction	12,000	12,000
Deduction from AGI (larger of above)	<u>\$12,000</u>	<u>\$ 14,500</u>
Deductions across two years		<u>\$ 26,500</u>
b. Potential itemized deduction	\$ 5,000	\$13,000
Standard deduction	12,000	13,000
Deduction from AGI (larger of above)	<u>\$12,000</u>	<u>\$ 13,000</u>
Deductions across two years		<u>\$ 25,000</u>
c. Potential itemized deduction	\$ 2,000	\$16,000
Standard deduction	12,000	12,000
Deduction from AGI (larger of above)	<u>\$12,000</u>	<u>\$ 16,000</u>
Deductions across two years		<u>\$ 28,000</u>

- d. The contributions have no tax benefit in 2018 because the standard deduction is taken and charitable contributions are itemized deductions.

116) Discuss reasons why a married couple may choose not to file a joint return.

- Answer:
1. One spouse incurs most of medical expenses and itemized deductions can be maximized.
  2. They may not want joint tax liability.
  3. Casualty losses may be deductible on a separate return but not on a joint return because of the 10% floor.

117) Discuss why Congress passed the innocent spouse provision and detail the requirements to be met in order to qualify as an innocent spouse and be relieved of liability for tax on unreported income.

Answer: The provision was passed because each spouse is liable for the entire tax on a joint return as well as penalty imposed. This would not be fair if one spouse concealed information regarding income or deductions from other spouse.

An innocent spouse is relieved of liability when

1. The amount is attributable to grossly erroneous items of the other spouse.
2. The innocent spouse did not know of and had no reason to know that there was such an understatement tax.
3. To hold the innocent spouse liable for the understatement would be inequitable.
4. The innocent spouse elects relief within two years after the IRS begins collection activities.

118) Oscar and Diane separated in June of this year although they continue to live in the same town. They have twin sons, Blake and Cliff, who remain in the family home with Diane. Oscar's income this year was \$45,000 while Diane worked only part-time and made \$15,000. Oscar also gambles heavily but told Diane that he had no winnings this year. What tax issues should they consider?

Answer: Oscar and Diane have several choices for filing status. Since they are still married on December 31, the last day of the tax year, they could file jointly. That will probably result in the lowest overall tax liability. However, they should consider joint and several liabilities, especially if Diane fears that Oscar may be hiding income. If Diane is maintaining the home in which at least one dependent child lives, she may be able to file as head of household. Of course, they could file separately which would result in the highest overall tax liability.

119) Alexis and Terry have been married five years and file joint tax returns. Alexis began embezzling funds from her employer during the third year of their marriage. Last year, Alexis suddenly left the country and Terry does not know where she is. In the current year, Terry learned that the IRS had assessed him \$27,000 in unpaid taxes due to Alexis's embezzlement. What tax issue(s) are present in Terry's situation? What questions would you ask Terry to determine his appropriate response to the IRS?

Answer: Is Terry eligible for innocent spouse relief? Did Terry benefit financially from Alexis's embezzlement? Did Terry have reason to know of the embezzlement?

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

120) The requirement to file a tax return is based on the individual's adjusted gross income.

Answer: True  False

121) Tax returns from individual and C corporate taxpayers are due on the 15th day of the third month following the close of the tax year.

Answer: True  False

122) Tax returns from individual taxpayers and partnerships are due on the 15th day of the fourth month following the close of the tax year.

Answer: True  False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 123) Assuming a calendar tax year and the conventional 15th of the month due date, all of the following business entities must file their 2018 tax returns by the March 15, 2019 except
- A) the partnership.
  - B) the C corporation.
  - C) the S corporation.
  - D) All of the above entities must file their 2018 tax returns by March 15, 2019.

Answer: B

- 124) Form 4868, a six-month extension of time to file, allows a taxpayer to
- A) avoid interest on underpayment of taxes due.
  - B) extend the filing date of the return but the estimated amount of tax due must still be paid by the original due date of the return.
  - C) extend the filing date only at the discretion of the IRS.
  - D) extend the filing date of the return as well as payment of the tax due.

Answer: B

- 125) Lester, a widower qualifying as a surviving spouse, has \$209,000 of salary, five personal and dependency exemptions and itemizes deductions. Lester must use which form to report his taxable income?

A) Form 1040A                      B) Form 1040                      C) Form 1040ES                      D) Form 1040EZ

Answer: B