

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

1. Under the Federal income tax formula for individuals, a choice must be made between claiming deductions *for* AGI and itemized deductions.

- a. True
- b. False

ANSWER: False

RATIONALE: Even though a taxpayer chooses to itemize, deductions *for* AGI can be claimed.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

2. Under the Federal income tax formula for individuals, the determination of adjusted gross income (AGI) precedes that of taxable income (TI).

- a. True
- b. False

ANSWER: True

RATIONALE: The determination of AGI precedes (not follows) the determination of taxable income (TI).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

3. Under the income tax formula, a taxpayer must choose between deductions *for* AGI and the standard deduction.

- a. True
- b. False

ANSWER: False

RATIONALE: The choice is between deductions *from* AGI and the standard deduction.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

4. After Ellie moves out of the apartment she had rented as her personal residence, she recovers her damage deposit of \$1,000. The \$1,000 is *not* income to Ellie.

- a. True
- b. False

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ANSWER: True
RATIONALE: The \$1,000 is a nontaxable return of capital.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
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KEYWORDS: Bloom's: Comprehension
OTHER: Time: 2 min.

5. An “above the line” deduction refers to a deduction *for* AGI.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
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KEYWORDS: Bloom's: Knowledge
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6. Because they appear on page 1 of Form 1040, itemized deductions are also referred to as “page 1 deductions.”

- a. True
- b. False

ANSWER: False
RATIONALE: What is described are deductions *for* AGI. Itemized deductions are also known as deductions *from* AGI and appear on page 2 of Form 1040.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
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KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

7. A decrease in a taxpayer’s AGI could increase the amount of medical expenses that can be deducted.

- a. True
- b. False

ANSWER: True
RATIONALE: A decrease in AGI may increase the medical expense deduction due to the 10% floor imposed.
POINTS: 1
DIFFICULTY: Easy

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KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

8. An increase in a taxpayer's AGI could decrease the amount of charitable contribution that can be claimed.

- a. True
- b. False

ANSWER: False

RATIONALE: An increase in AGI increases the allowable charitable contribution that can be claimed due to the 50% ceiling imposed.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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OTHER: Time: 2 min.

9. Adjusted gross income (AGI) appears at the bottom of page 1 and at the top of page 2 of Form 1040.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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KEYWORDS: Bloom's: Knowledge

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10. All exclusions from gross income are reported on Form 1040.

- a. True
- b. False

ANSWER: False

RATIONALE: Gifts and inheritances are two major exclusions not reported on Form 1040.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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OTHER: Time: 2 min.

11. The filing status of a taxpayer (e.g., single, head of household) must be identified before the applicable standard deduction is determined.

- a. True
- b. False

ANSWER: True

RATIONALE: The filing status is relevant in determining the amount of the standard deduction available.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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OTHER: Time: 2 min.

12. Lee, a citizen of Korea, is a resident of the U.S. Any rent income Lee receives from land he owns in Korea *is not* subject to the U.S. income tax.

- a. True
- b. False

ANSWER: False

RATIONALE: Under the global system of taxation followed by the U.S., foreign-sourced income is subject to tax. Although Lee is not a citizen, he is a resident of the U.S.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

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KEYWORDS: Bloom's: Knowledge

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13. The additional standard deduction for age and blindness is greater for married taxpayers than for single taxpayers.

- a. True
- b. False

ANSWER: False

RATIONALE: For 2017, compare \$1,550 (single) with \$1,250 (married).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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14. The *basic* and *additional* standard deductions both *are* subject to an annual adjustment for inflation.

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- a. True
- b. False

ANSWER: True

RATIONALE: The inflation adjustment is made annually to both the basic standard deduction and the additional standard deduction.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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15. Many taxpayers who previously itemized will start claiming the standard deduction when they purchase a home.

- a. True
- b. False

ANSWER: False

RATIONALE: Just the opposite is the case. The deduction for property taxes and mortgage interest expense usually makes itemizing preferable to the standard deduction.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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16. Once they reach age 65, many taxpayers will switch from itemizing their deductions *from* AGI and start claiming the standard deduction.

- a. True
- b. False

ANSWER: True

RATIONALE: Not only is the additional standard deduction now available but also the mortgage interest deduction on the personal residence has declined (or disappeared).

POINTS: 1

DIFFICULTY: Easy

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17. Claude's deductions *from* AGI exceed the standard deduction allowed for the current year. Under these circumstances, Claude cannot claim the standard deduction.

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- a. True
- b. False

ANSWER: False

RATIONALE: The choice is elective. Claude may wish to avoid the time and trouble of completing Schedule A.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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OTHER: Time: 2 min.

18. As opposed to itemizing deductions *from* AGI, the majority of individual taxpayers choose the standard deduction.

- a. True
- b. False

ANSWER: True

RATIONALE: Approximately two-thirds do so.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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KEYWORDS: Bloom's: Knowledge

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19. Howard, age 82, dies on January 2, 2017. On Howard's final income tax return, the full amount of the basic and additional standard deductions will be allowed even though Howard lived for only 2 days during the year.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

20. In 2017, Ed is 66 and single. If he has itemized deductions of \$7,400, he should *not* claim the standard deduction alternative.

- a. True
- b. False

ANSWER: False

RATIONALE: The standard deduction yields \$7,900 (\$6,350 + \$1,550).

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KEYWORDS: Bloom's: Application
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21. Jason and Peg are married and file a joint return. Both are over 65 years of age and Jason is blind. Their standard deduction for 2017 is \$16,450 (\$12,700 + \$1,250 + \$1,250 + \$1,250).

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
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KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

22. Derek, age 46, is a surviving spouse. If he has itemized deductions of \$12,900 for 2017, Derek *should not* claim the standard deduction.

- a. True
- b. False

ANSWER: True
RATIONALE: The standard deduction would only provide \$12,700.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02
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KEYWORDS: Bloom's: Application
OTHER: Time: 2 min.

23. Buddy and Hazel are ages 72 and 71 and file a joint return. If they have itemized deductions of \$14,600 for 2017, they *should not* claim the standard deduction.

- a. True
- b. False

ANSWER: False
RATIONALE: The standard deduction provides \$15,200 (\$12,700 + \$1,250 + \$1,250).
POINTS: 1

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KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

24. Clara, age 68, claims head of household filing status. If she has itemized deductions of \$10,500 for 2017, she *should* claim the standard deduction.

- a. True
- b. False

ANSWER: True
RATIONALE: The standard deduction yields \$10,900 (\$9,350 + \$1,550).
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02
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KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

25. Monique is a resident of the U.S. and a citizen of France. If she files a U.S. income tax return, Monique *cannot* claim the standard deduction.

- a. True
- b. False

ANSWER: False
RATIONALE: *Either* U.S. citizenship or residency will suffice in order to claim the standard deduction. Monique is **not** a nonresident alien.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02
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KEYWORDS: Bloom's: Knowledge
OTHER: Time: 5 min.

26. Dan and Donna are husband and wife and file separate returns for the year. If Dan itemizes his deductions *from* AGI, Donna *cannot* claim the standard deduction.

- a. True
- b. False

ANSWER: True
RATIONALE: If Dan itemizes, Donna must itemize.
POINTS: 1

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OTHER: Time: 2 min.

27. Benjamin, age 16, is claimed as a dependent by his parents. During 2017, he earned \$850 at a car wash. Benjamin's standard deduction is \$1,400 ($\$1,050 + \350).

- a. True
- b. False

ANSWER: False
RATIONALE: His standard deduction is the greater of \$1,050 or \$1,200 ($\$850 + \350).
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02
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KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

28. Debby, age 18, is claimed as a dependent by her mother. During 2017, she earned \$1,100 in interest income on a savings account. Debby's standard deduction is \$1,450 ($\$1,100 + \350).

- a. True
- b. False

ANSWER: False
RATIONALE: The interest income is unearned income. Therefore, Debby's standard deduction is the minimum allowed of \$1,050.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02
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KEYWORDS: Bloom's: Application
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29. Katrina, age 16, is claimed as a dependent by her parents. During 2017, she earned \$5,600 as a checker at a grocery store. Her standard deduction is \$5,950 ($\$5,600$ earned income + \$350).

- a. True
- b. False

ANSWER: True
RATIONALE: Her standard deduction *cannot* exceed the regular standard deduction available to single persons (or \$6,350 for 2017).

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KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.

30. A dependent *cannot* claim a personal exemption on his or her own return.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03
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KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

31. When separate income tax returns are filed by married taxpayers, one spouse *cannot* claim the other spouse as an exemption.

- a. True
- b. False

ANSWER: False
RATIONALE: An exemption is allowed if the spouse has no gross income and is not claimed as a dependent by another.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03
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KEYWORDS: Bloom's: Knowledge
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32. Butch and Minerva are divorced in December of 2017. Since they were married for more than one-half of the year, they are considered as married for 2017.

- a. True
- b. False

ANSWER: False
RATIONALE: They must be married at the end of the year (unless one spouse dies) in order to be considered married.
POINTS: 1
DIFFICULTY: Easy

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

33. For the year a spouse dies, the surviving spouse is considered married for the entire year for income tax purposes.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

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KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

34. In determining whether the gross income test is met for dependency exemption purposes, only the taxable portion of a scholarship is considered.

- a. True
- b. False

ANSWER: True

RATIONALE: For the support test, *all* of the scholarship is disregarded. Scholarships are treated differently for purposes of the gross income test.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

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35. Albert buys his mother a TV. For purposes of meeting the support test, Albert cannot include the cost of the TV.

- a. True
- b. False

ANSWER: False

RATIONALE: Capital expenditures can be considered in determining support. It is assumed that the TV is largely for the mother's use.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

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36. If an individual does not spend funds that have been received from another source (e.g., interest on municipal bonds), the unexpended amounts are *not* considered for purposes of the support test.

- a. True
- b. False

ANSWER: True
RATIONALE: The funds are counted only if used for support purposes.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04
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37. Using borrowed funds from a mortgage on her home, Leah provides 52% of her own support, while her sons furnished the rest. Leah can be claimed as a dependent under a multiple support agreement.

- a. True
- b. False

ANSWER: False
RATIONALE: The sons do not provide more than half of their mother's support. In this situation, the mother is self-supporting.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04
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38. Roy and Linda were divorced in 2016. The divorce decree awards custody of their children to Linda but is silent as to who is entitled to claim them as dependents. If Roy furnished more than half of their support, he can claim them as dependents in 2017.

- a. True
- b. False

ANSWER: False
RATIONALE: Not unless Linda consents.
POINTS: 1
DIFFICULTY: Easy
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39. In 2017, Hal furnishes more than half of the support of his ex-wife and her father, both of whom live with him. The divorce occurred in 2016. Hal may claim the father-in-law and the ex-wife as dependents.

a. True

b. False

ANSWER: True

RATIONALE: The father-in-law meets the relationship test, but the ex-wife does not. Except in the year of divorce, an ex-wife can be a dependent under the member of the household test.

POINTS: 1

DIFFICULTY: Moderate

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40. After her divorce, Hope continues to support her ex-husband's sister, Cindy, who does not live with her. Hope *can* claim Cindy as a dependent.

a. True

b. False

ANSWER: True

RATIONALE: For purposes of the relationship test, divorce does not change "in-law" status.

POINTS: 1

DIFFICULTY: Easy

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41. Darren, age 20 and not disabled, earns \$4,100 during 2017. Darren's parents *cannot* claim him as a dependent unless he is a full-time student.

a. True

b. False

ANSWER: True

RATIONALE: Being age 20, Darren cannot be a qualifying child unless he is a full-time student. He cannot be a qualifying relative, since he does not meet the gross income test.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

42. Lucas, age 17 and single, earns \$6,000 during 2017. Lucas's parents cannot claim him as a dependent if he does not live with them.

- a. True
- b. False

ANSWER: True

RATIONALE: Lucas does not meet the definition of a qualifying child if the abode test is failed. Lucas also fails the gross income test for a qualifying relative.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

43. Sarah furnishes more than 50% of the support of her son and daughter-in-law who live with her. If the son and daughter-in-law file a joint return, Sarah *cannot* claim them as dependents.

- a. True
- b. False

ANSWER: False

RATIONALE: If certain conditions are satisfied (e.g., they did not have to file but did so to obtain a refund), the son and daughter-in-law can qualify as Sarah's dependents.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

44. Kim, a resident of Oregon, supports his parents who are residents of Canada but citizens of Korea. Kim can claim his parents as dependents.

- a. True
- b. False

ANSWER: True

RATIONALE: The parents are residents of Canada.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

45. Stealth taxes are directed at lower income taxpayers.

- a. True
- b. False

ANSWER: False

RATIONALE: Stealth taxes do not begin until taxpayers reach significant income levels.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

46. In determining the filing requirement based on gross income received, both additional standard deductions (i.e., age and blindness) are taken into account.

- a. True
- b. False

ANSWER: False

RATIONALE: The additional standard deduction for blindness is not taken into account.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

47. For dependents who have income, special filing requirements apply.

- a. True
- b. False

ANSWER: True

RATIONALE: The regular filing requirements do not apply in this situation.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

48. A taxpayer who itemizes must use Form 1040, and cannot use Form 1040EZ or Form 1040A.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

49. An individual taxpayer uses a fiscal year of March 1 to February 28. The due date of this taxpayer's Federal income tax return is May 15 of each tax year.

- a. True
- b. False

ANSWER: False

RATIONALE: The tax return is due on or before the fifteenth day of the fourth month following the end of the fiscal year. Here, the due date is June 15.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

50. Married taxpayers who file a joint return cannot later (i.e., after the filing due date) switch to separate returns for that year.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

51. Married taxpayers who file separately cannot later (i.e., after the due date for filing) change to a joint return.

- a. True
- b. False

ANSWER: False

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

RATIONALE: Such a change is allowed.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

52. Surviving spouse filing status begins in the year in which the deceased spouse died.

- a. True
- b. False

ANSWER: False
RATIONALE: Surviving spouse filing status begins in the year following the year of death.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

53. In January 2017, Jake's wife dies and he does not remarry. For tax year 2017, Jake may *not* be able to use the filing status available to married persons filing joint returns.

- a. True
- b. False

ANSWER: True
RATIONALE: If the executor of his wife's estate does not agree to filing a joint return, Jake's only option is to file using married, filing separate status.
POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 2 min.

54. For tax purposes, married persons filing separate returns are treated the same as single taxpayers.

- a. True
- b. False

ANSWER: False
RATIONALE: Single taxpayers can enjoy many tax benefits that are unavailable to married persons filing separately—e.g., earned income credit, credit for child and dependent care expenses, deduction for interest paid on student loans.
POINTS: 1

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

55. Katelyn is divorced and maintains a household in which she and her daughter, Crissa, live. Crissa, age 22, earns \$11,000 during 2017 as a model. Katelyn does not qualify for head of household filing status.

- a. True
- b. False

ANSWER: True

RATIONALE: Crissa is not Katelyn's dependent. She fails the age test for qualifying child purposes and the gross income test for the qualifying relative category.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

56. Ed is divorced and maintains a home in which he and a dependent friend live. Ed does not qualify for head of household filing status.

- a. True
- b. False

ANSWER: True

RATIONALE: To be head of household, the dependent involved must meet the relationship test. This is not the case with a friend.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

57. In terms of income tax consequences, abandoned spouses *are* treated the same way as married persons filing separate returns.

- a. True
- b. False

ANSWER: False

RATIONALE: An abandoned spouse is treated as a *single* taxpayer. Consequently, an abandoned spouse qualifies for head of household filing status.

POINTS: 1

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

58. Since an abandoned spouse is treated as not married and has one or more dependent children, he or she qualifies for the standard deduction available to head of household.

- a. True
- b. False

ANSWER: True

RATIONALE: One of the advantages of being an abandoned spouse is head of household filing status.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 min.

59. Currently, the top income tax rate in effect is *not* the highest it has ever been.

- a. True
- b. False

ANSWER: True

RATIONALE: The income tax rates in effect in 1944-1945 ranged from 23% to 94%.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

60. In terms of timing as to any one year, the Tax Tables are available before the Tax Rate Schedules.

- a. True
- b. False

ANSWER: False

RATIONALE: Just the reverse is the case.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

61. The kiddie tax does not apply to a child whose earned income is more than one-half of his or her support.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

62. Once a child reaches age 19, the kiddie tax no longer applies.

- a. True
- b. False

ANSWER: False

RATIONALE: The kiddie tax does apply if the child is a full-time student under age 24.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

63. When the kiddie tax applies and the parents are divorced, the applicable parent (for determining the parental tax) is the one with the greater taxable income.

- a. True
- b. False

ANSWER: False

RATIONALE: The applicable parent is the one who has custody.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

64. When the kiddie tax applies, the child need *not* file an income tax return because the child's income will be reported

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

on the parents' return.

- a. True
- b. False

ANSWER: False

RATIONALE: The child need not file only if the parental election (if available) is made and the parent picks up all of the child's income.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

65. A child who has unearned income of \$2,100 or less cannot be subject to the kiddie tax.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

66. A child who is married *cannot* be subject to the kiddie tax.

- a. True
- b. False

ANSWER: False

RATIONALE: If he or she does not file a joint return, the child is not exempt from the kiddie tax.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

67. Frank sold his personal use automobile for a loss of \$9,000. He also sold a personal coin collection for a gain of \$10,000. As a result of these sales, \$10,000 is subject to income tax.

- a. True
- b. False

ANSWER: True

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

RATIONALE: Frank must recognize a collectible gain of \$10,000 on the sale of the coin collection. The \$9,000 loss on the sale of the personal use automobile is nondeductible.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

68. Gain on the sale of collectibles held for more than 12 months always is subject to a tax rate of 28%.

a. True

b. False

ANSWER: False

RATIONALE: If the regular income tax rates are lower, such rates apply.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

69. Stuart has a short-term capital loss, a collectible long-term capital gain, and a long-term capital gain from land held as investment. The short-term loss is first applied to the collectible capital gain.

a. True

b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

70. In terms of the tax formula applicable to individual taxpayers, which, if any, of the following statements is *correct*?

a. In arriving at taxable income, a taxpayer must choose between the standard deduction and deductions *from* AGI.

b. In arriving at AGI, personal and dependency exemptions must be subtracted from gross income.

c. In arriving at taxable income, a taxpayer must choose between the standard deduction and claiming personal and dependency exemptions.

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- d. The formula does not apply if a taxpayer elects to claim the standard deduction.
- e. None of these.

ANSWER: a

RATIONALE: The standard deduction is not an alternative; it is a component of the tax formula (choice d.). Personal and dependency exemptions are subtracted *after* AGI is determined (choice b.). The choice is between the standard deduction and deductions *from* AGI (choice a.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

71. In terms of the tax formula applicable to individual taxpayers, which, if any, of the following statements is correct?
- a. In arriving at AGI, a taxpayer must elect between claiming deductions *for* AGI and deductions *from* AGI.
 - b. In arriving at taxable income, a taxpayer must elect between claiming deductions *for* AGI and deductions *from* AGI.
 - c. If a taxpayer has deductions *for* AGI, the standard deduction is not available.
 - d. In arriving at taxable income, a taxpayer must elect between deductions *for* AGI and the standard deduction.
 - e. None of these.

ANSWER: e

RATIONALE: AGI is computed by claiming deductions *for* and no election is required (choice a.). In arriving at taxable income, deductions *for* AGI are allowed (choice b.) and the election is between deductions *from* AGI and the standard deduction (choices c. and d.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

72. Regarding the tax formula and its relationship to Form 1040, which, if any, of the following statements is *correct*?
- a. Most exclusions from gross income are reported on page 2 of Form 1040.
 - b. An “above the line deduction” refers to a deduction *from* AGI.
 - c. A “page 1 deduction” refers to a deduction *for* AGI.
 - d. The taxable income (TI) amount appears both at the bottom of page 1 and at the top of page 2 of Form 1040.
 - e. None of these.

ANSWER: c

RATIONALE: Most exclusions are not reported on Form 1040, but those that are appear on page 1—not on page 2 (choice a.). A “page 1 deduction” as well as an “above the line deduction” are deductions *for* AGI (choices b. and c.). AGI, not TI, is at the bottom of page 1 and the top of page 2 of Form 1040 (choice d.).

POINTS: 1

DIFFICULTY: Easy

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LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 min.

73. Which of the following items, if any, is deductible?

- a. Parking expenses incurred in connection with jury duty—taxpayer is a dentist.
- b. Substantiated gambling losses (not in excess of gambling winnings) from state lottery.
- c. Contributions to mayor's reelection campaign.
- d. Speeding ticket incurred while on business.
- e. Premiums paid on personal life insurance policy.

ANSWER: b

RATIONALE: All other choices are not deductible —either as *dfor* or *dfrom* AGI.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 min.

74. Which, if any, of the following is a deduction *for* AGI?

- a. Contributions to a traditional Individual Retirement Account.
- b. Child support payments.
- c. Funeral expenses.
- d. Loss on the sale of a personal residence.
- e. Medical expenses.

ANSWER: a

RATIONALE: IRA contributions (choice a.) are deductions *for* AGI. Child support payments (choice b.), funeral expenses (choice c.), and personal capital losses (choice d.) are nondeductible items. Medical expenses are deductions *from* AGI.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

75. Which, if any, of the following is a deduction *for* AGI?

- a. State and local sales taxes
- b. Interest on home mortgage
- c. Charitable contributions

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- d. Unreimbursed moving expenses of an employee
- e. None of these

ANSWER: d

RATIONALE: All other items (choices a., b., and c.) are deductions *from* AGI.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

76. Which, if any, of the statements regarding the standard deduction is correct?

- a. Some taxpayers may qualify for two types of standard deductions.
- b. The standard deduction is not available to taxpayers who choose to deduct their personal and dependency exemptions.
- c. The standard deduction may be taken as a *for* AGI deduction.
- d. The basic standard deduction is indexed for inflation but the additional standard deduction is not.
- e. None of these.

ANSWER: a

RATIONALE: An example of two additional standard deductions would be a taxpayer who is age 65 (or older) and blind (choice a.). Both the basic and the additional standard deductions are subject to indexation (choice d.). Personal and dependency exemptions are deductible in any event (choice b.). The standard deductions are in lieu of deductions *from* AGI—not *for* AGI (choice c.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

77. Which, if any, of the following statements relating to the standard deduction is *correct*?

- a. If a taxpayer dies during the year, his (or her) standard deduction must be prorated.
- b. If a taxpayer is claimed as a dependent of another, his (or her) additional standard deduction is allowed in full (i.e., no adjustment is necessary).
- c. If spouses file separate returns, both spouses must claim the standard deduction (rather than itemize their deductions *from* AGI).
- d. If a taxpayer is claimed as a dependent of another, no basic standard deduction is allowed.
- e. None of these.

ANSWER: b

RATIONALE: In the case of death, no apportionment is required and the full standard deduction is allowed (choice a.). If married taxpayers file separate returns and one spouse itemizes, the other spouse must also itemize. However, there is no requirement that they each claim the standard deduction—although they may do so (choice c.). A basic standard deduction is

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allowed for dependents although its determination is subject to special rules (choice d.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

78. During 2017, Marvin had the following transactions:

Salary	\$50,000
Bank loan (proceeds used to buy personal auto)	10,000
Alimony paid	12,000
Child support paid	6,000
Gift from aunt	20,000

Marvin's AGI is:

- a. \$32,000.
- b. \$38,000.
- c. \$44,000.
- d. \$56,000.
- e. \$64,000.

ANSWER: b

RATIONALE: \$50,000 (salary) – \$12,000 (alimony) = \$38,000. The gift is an exclusion while the child support is nondeductible. Amounts borrowed are not income.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

79. During 2017, Esther had the following transactions:

Salary	\$70,000
Interest income on Xerox bonds	2,000
Inheritance from uncle	40,000
Contribution to traditional IRA	5,500
Capital losses	2,500

Esther's AGI is:

- a. \$62,000.
- b. \$64,000.
- c. \$67,000.

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d. \$102,000.

e. \$104,000.

ANSWER:

b

RATIONALE:

\$70,000 (salary) + \$2,000 (interest) – \$5,500 (IRA contribution) – \$2,500 (capital losses) = \$64,000. The inheritance is a nontaxable exclusion. The capital losses are deductible.

POINTS:

1

DIFFICULTY:

Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 10 min.

80. During 2017, Sarah had the following transactions:

Salary	\$ 80,000
Interest income on City of Baltimore bonds	1,000
Damages for personal injury (car accident)	100,000
Punitive damages (same car accident)	200,000
Cash dividends from Chevron Corporation stock	7,000

Sarah's AGI is:

a. \$185,000.

b. \$187,000.

c. \$285,000.

d. \$287,000.

e. \$387,000.

ANSWER:

d

RATIONALE:

\$80,000 (salary) + \$200,000 (punitive damages) + \$7,000 (cash dividends) = \$287,000. The damages from personal injury and the municipal bond interest are nontaxable exclusions.

POINTS:

1

DIFFICULTY:

Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 10 min.

81. In 2017, Cindy had the following transactions:

Salary	\$90,000
Short-term capital gain from a stock investment	4,000
Moving expense to change jobs	(11,000)
Received repayment of \$20,000 loan she made to her sister in 2013 (includes no interest)	20,000

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State income taxes (5,000)

Cindy's AGI is:

- a. \$114,000.
- b. \$103,000.
- c. \$98,000.
- d. \$94,000.
- e. \$83,000.

ANSWER: e

RATIONALE: \$90,000 (salary) + \$4,000 (gain on stock investment) – \$11,000 (moving expenses) = \$83,000. The loan repayment of \$20,000 is a return of capital and has no effect on gross income. State income taxes paid are a deduction *from* AGI (or a standard deduction) and has no impact on the determination of AGI.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

82. Sylvia, age 17, is claimed by her parents as a dependent. During 2017, she had interest income from a bank savings account of \$2,000 and income from a part-time job of \$4,200. Sylvia's taxable income is:

- a. \$4,200 – \$4,550 = \$0.
- b. \$6,200 – \$5,700 = \$500.
- c. \$6,200 – \$4,550 = \$1,650.
- d. \$6,200 – \$1,000 = \$5,200.
- e. None of these.

ANSWER: c

RATIONALE: Sylvia's standard deduction is \$4,200 (earned income) + \$350 = \$4,550. Thus, her taxable income is \$1,650 (\$6,200 – \$4,550). She is not eligible for a personal exemption.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

IITX.SWFT.LO: 3-02 - LO: 3-02

IITX.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

83. Tony, age 15, is claimed as a dependent by his grandmother. During 2017, Tony had interest income from Boeing Corporation bonds of \$1,000 and earnings from a part-time job of \$800. Tony's taxable income is:

- a. \$1,800.
- b. \$1,800 – \$800 – \$1,050 = (\$50).

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- c. $\$1,800 - \$1,150 = \$650$.
- d. $\$1,800 - \$1,050 = \$750$.
- e. None of these.

ANSWER: c

RATIONALE: Tony's standard deduction of \$1,150 ($\$800 + \350) partially offsets his gross income of \$1,800, resulting in taxable income of \$650.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
IITX.SWFT.LO: 3-02 - LO: 3-02
IITX.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

84. Wilma, age 70 and single, is claimed as a dependent on her daughter's tax return. During 2017, she had interest income of \$2,500 and \$800 of earned income from babysitting. Wilma's taxable income is:

- a. \$700.
- b. \$900.
- c. \$1,750.
- d. \$2,250.
- e. None of these.

ANSWER: e

RATIONALE: $\$3,300$ gross income – greater of \$1,050 or ($\800 earned income + $\$350$) – $\$1,550$ (additional standard deduction for age 65 and older) = $\$600$. She is not eligible for a personal exemption.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
IITX.SWFT.LO: 3-02 - LO: 3-02
IITX.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

85. Kyle and Liza are married and under 65 years of age. During 2017, they furnish more than half of the support of their 19-year old daughter, May, who lives with them. She graduated from high school in May 2016. May earns \$15,000 from a part-time job, most of which she sets aside for future college expenses. Kyle and Liza also provide more than half of the support of Kyle's cousin who lives with them. Liza's father, who died on January 3, 2017, at age 90, has for many years qualified as their dependent. How many personal and dependency exemptions should Kyle and Liza claim?

- a. Two
- b. Three

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- c. Four
- d. Five
- e. None of these

ANSWER: c

RATIONALE: Four (Kyle, Liza, cousin, and the father). May cannot be claimed because she is not a qualifying child and is subject to the gross income test. Kyle's cousin does *not* meet the relationship test but is a member of their household. It is assumed that Liza's father, as was true in the past, qualified as a dependent up to the point of death.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03
IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

86. Evan and Eileen Carter are husband and wife and file a joint return for 2017. Both are under 65 years of age. They provide more than half of the support of their daughter, Pamela (age 25), who is a full-time medical student. Pamela receives a \$5,000 scholarship covering her tuition at college. They furnish all of the support of Belinda (Evan's grandmother), who is age 80 and lives in a nursing home. They also support Peggy (age 66), who is a friend of the family and lives with them. How many dependency exemptions may the Carters claim?

- a. Two
- b. Three
- c. Four
- d. Five
- e. None of these

ANSWER: b

RATIONALE: Three (Pamela, Belinda, and Peggy). Pamela is not a qualifying child—although a full-time student, she is not under age 24. Pamela does meet the qualifying relative category as the type of scholarship aid she receives is nontaxable (the gross income test is satisfied). Belinda is not a member of the household but satisfies the relationship test. Peggy does not satisfy the relationship test but is a member of the household.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03
IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

87. In which, if any, of the following situations may the individual *not* be claimed as a dependent of the taxpayer?

- a. A former spouse who lives with the taxpayer (divorce took place last year).
- b. A stepmother who does not live with the taxpayer.
- c. A married daughter who lives with the taxpayer.
- d. A half-brother who does not live with the taxpayer and is a citizen and resident of Canada.

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e. A cousin who does not live with the taxpayer.

ANSWER: e

RATIONALE: Except in the year of divorce, a former spouse can qualify under the member of the household test (choice a.). The stepmother meets the relationship test (choice b.). A married daughter can be claimed as long as she does not violate the joint return test (choice c.). In the case of the half brother, only Canada or Mexico can satisfy the residency test (choice d.). A cousin does not satisfy the relationship test so must be a member of the household (choice e.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

88. During 2017, Lisa (age 66) furnished more than 50% of the support of the following persons:

- Lisa's current husband who has no income and is not claimed by someone else as a dependent.
- Lisa's stepson (age 19) who lives with her and earns \$6,000 as a dance instructor. He dropped out of school a year ago.
- Lisa's ex-husband who does not live with her. The divorce occurred two years ago.
- Lisa's former brother-in-law who does not live with her.

Presuming all other dependency tests are met, on a *separate* return how many personal and dependency exemptions may Lisa claim?

- a. Two
- b. Three
- c. Four
- d. Five
- e. None of these

ANSWER: b

RATIONALE: All of the persons listed except the ex-husband meet either the relationship or member of the household tests. The current husband qualifies as he has no income and is not claimed as a dependent by someone else. The stepson does not avoid the gross income limitation of a qualifying relative. He is not a qualifying child under 19 years of age.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03

IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

89. A qualifying child *cannot* include:

- a. A nonresident alien.
- b. A married son who files a joint return.

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- c. A daughter who is away at college.
- d. A brother who is 28 years of age and disabled.
- e. A grandmother.

ANSWER: e

RATIONALE: A grandmother does not meet the relationship test (choice e.). A qualifying child can be a nonresident alien under the adopted child exception (choice a.). The filing of a joint return is not fatal if filing is not required and its purpose is to obtain a tax refund (choice b.). A temporary absence is permissible under the domicile test (choice c.). A brother meets the relationship test, and disability waives the age test (choice d.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

90. Ellen, age 12, lives in the same household with her father, grandfather, and uncle. The cost of maintaining the household is provided by her grandfather (40%) and her uncle (60%). Disregarding tie-breaker rules, Ellen is a qualifying child as to:

- a. Only her father.
- b. Only her grandfather and uncle.
- c. Only her uncle.
- d. All parties involved (i.e., father, grandfather, and uncle).
- e. None of these.

ANSWER: d

RATIONALE: Under the abode and relationship tests, Ellen is a qualifying child as to all parties. The amount of support provided by each person is not relevant.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

91. Millie, age 80, is supported during the current year as follows:

	<u>Percent of Support</u>
Weston (a son)	20%
Faith (a daughter)	35%
Jake (a cousin)	25%
Brayden (unrelated close family friend)	20%

During the year, Millie lives in an assisted living facility. Under a multiple support agreement, indicate which parties can qualify to claim Millie as a dependent.

- a. Weston and Faith.
- b. Faith.

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- c. Weston, Faith, Jake, and Brayden.
- d. Faith, Jake, and Brayden.
- e. None of these.

ANSWER: a

RATIONALE: Weston and Faith are the only persons who appear to qualify (choice a.). They qualify because they contribute *more than* 10% of the support. Jake does not qualify because he satisfies neither the relationship nor member of the household tests. (This eliminates choices c. and d.) Brayden does not meet the relationship test, and he does not satisfy the member of the household test. For a multiple support agreement to be effective, the qualifying individuals collectively must provide greater than 50% of the support.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

92. The Hutters filed a joint return for 2017. They provide more than 50% of the support of Carla, Melvin, and Aaron. Carla (age 18) is a cousin and earns \$2,800 from a part-time job. Melvin (age 25) is their son and is a full-time law student. He received from the university a \$3,800 scholarship for tuition. Aaron is a brother who is a citizen of Israel but resides in France. Carla and Melvin live with the Hutters. How many personal and dependency exemptions can the Hutters claim on their Federal income tax return?

- a. Two
- b. Three
- c. Four
- d. Five
- e. None of these

ANSWER: c

RATIONALE: The Hutters can claim two personal exemptions and two dependency exemptions. Carla is a qualifying relative and passes the gross income test. Melvin is not a qualifying child due to age (not under 24) but is a qualifying relative. Melvin also meets the gross income test since this type of scholarship is nontaxable. Aaron meets neither the residency nor citizenship requirement.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03
IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

93. Which of the following characteristics correctly describes the procedure for the phaseout of exemptions?
- a. The threshold amounts are different and depend on filing status (e.g., joint return, single).
 - b. The threshold amounts are indexed for inflation each year.

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- c. The phaseout procedure is known as a “stealth tax.”
- d. For the phaseout procedure to be applied, a taxpayer’s AGI must exceed the threshold amount.
- e. All of these.

ANSWER: e

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

94. Regarding the rules applicable to filing of income tax returns, which, if any, of the following is an *incorrect* statement:
- a. Married persons who file joint returns cannot later (after the due date of the return) substitute separate returns.
 - b. Married persons who file separate returns can later (after the due date of the return) substitute a joint return.
 - c. The usual test as to when a taxpayer must file a return is based on the total of the following: personal exemption + basic standard deduction + both additional standard deductions.
 - d. Special filing requirement rules exist for taxpayers who are claimed as dependents of another.
 - e. None of these.

ANSWER: c

RATIONALE: Choice c. would be correct if it included *only* the additional standard deduction for age, as that for blindness is not considered.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

95. Kyle, whose wife died in December 2014, filed a joint tax return for 2014. He did *not* remarry, but has continued to maintain his home in which his two dependent children live. What is Kyle’s filing status in 2017?
- a. Head of household
 - b. Surviving spouse
 - c. Single
 - d. Married filing separately
 - e. None of these

ANSWER: a

RATIONALE: Kyle, who filed a joint return in 2014, was entitled to file as a surviving spouse in 2015 and 2016. In 2017, he will be entitled to file as a head of household.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

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STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

96. Emily, whose husband died in December 2016, maintains a household in which her dependent mother lives. Which (if any) of the following is her filing status for the tax year 2017? (Note: Emily is the executor of her husband's estate.)

- a. Single
- b. Married, filing separately
- c. Surviving spouse
- d. Head of household
- e. Married, filing jointly

ANSWER: d

RATIONALE: She does not qualify for surviving spouse status in 2017.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

97. Which of the following taxpayers may file as a head of household in 2017?

Ron provides all the support for his mother, Betty, who lives by herself in an apartment in Fort Lauderdale. Ron pays the rent and other expenses for the apartment and properly claims his mother as a dependent.

Tammy provides over one-half the support for her 18-year old brother, Dan. Dan earned \$4,200 in 2017 working at a fast food restaurant and is saving his money to attend college in 2018. Dan lives in Tammy's home.

Joe's wife left him late in December of 2016. No legal action was taken and Joe has not heard from her in 2017. Joe supported his 6-year-old son, who lived with him throughout 2017.

- a. Ron only
- b. Tammy only
- c. Joe only
- d. Ron and Joe only
- e. Ron, Tammy, and Joe

ANSWER: e

RATIONALE: Ron may file as a head of household. His mother is not required to live in his household in order for him to qualify as a head of household. Tammy can claim Dan as a dependent because Dan is a qualifying child and is not subject to the gross income requirement. Joe can file as a head of household under the abandoned spouse rules.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

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KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

98. Nelda is married to Chad, who abandoned her in early June of 2017. She has not seen or communicated with him since then. She maintains a household in which she and her two dependent children live. Which of the following statements about Nelda's filing status in 2017 is correct?

- a. Nelda can use the rates for single taxpayers.
- b. Nelda can file a joint return with Chad.
- c. Nelda can file as a surviving spouse.
- d. Nelda can file as a head of household.
- e. None of these statements is appropriate.

ANSWER: d

RATIONALE: Nelda does meet the "abandoned spouse" rules. Therefore, she can file as a head of household.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

99. Arnold is married to Sybil, who abandoned him in 2016. He has not seen or communicated with her since April of that year. He maintains a household in which their son, Evans, lives. Evans is age 25 and earns over \$6,000 each year. For tax year 2017, Arnold's filing status is:

- a. Married, filing jointly.
- b. Head of household.
- c. Married, filing separately.
- d. Surviving spouse.
- e. Single.

ANSWER: c

RATIONALE: Because Arnold is still treated as being married, his only option is married, filing separately (choice c.). Arnold cannot file jointly without Sybil's consent (choice a.). He is not an abandoned spouse since Evans is not a dependent child. Evans cannot be claimed as a qualifying child (age test) and is not a qualifying relative (gross income test).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

100. Regarding the Tax Tables applicable to the Federal income tax, which of the following statements is *correct*?

- a. For any one year, the Tax Tables are issued by the IRS after the Tax Rate Schedules.

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- b. The Tax Tables will always yield the same amount of tax as the Tax Rate Schedules.
- c. Taxpayers can elect as to whether the use the Tax Tables or the Tax Rate Schedules.
- d. The Tax Tables can be used by an estate but not by a trust.
- e. No correct answer given.

ANSWER: a

RATIONALE: In any one year, the Tax Rate Schedules are issued after the Tax Tables (choice a.). Because of the way the Tables are structured, a minor variation in the tax can occur (choice b.). Where applicable, the Schedules must be used and taxpayers do not have an election (choice c.). The Tax Tables cannot be used by *either* an estate or trust (choice d.).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

101. In which, if any, of the following situations will the kiddie tax *not* apply?

- a. The child is married but does not file a joint return.
- b. The child has unearned income of \$2,100 or less.
- c. The child has unearned income that exceeds more than half of his (or her) support.
- d. The child is under age 24 and a full-time student.
- e. None of these.

ANSWER: b

RATIONALE: Choice c. would be appropriate if the reference was to *earned* (not unearned) income. Choice a. would be correct if a joint return is filed. As to choice d., the kiddie tax could apply if the child was *under* age 24.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

102. Which, if any, of the following is a correct statement relating to the kiddie tax?

- a. If the parents are divorced, the income of the noncustodial parent is used to determine the allocable parental tax.
- b. The components for the application of the kiddie tax are not subject to adjustment for inflation.
- c. If the kiddie tax applies, the parents must include the income of the child on their own income tax return.
- d. The kiddie tax does not apply if both parents of the child are deceased.
- e. None of these.

ANSWER: d

RATIONALE: Adjustments are made to reflect inflation—for 2017 the reduction to arrive at *net unearned income* is \$2,100 (\$1,050 + \$1,050) (choice b.). Choice c. is correct only if the parental election is made. For divorced parents, it is the taxable income of the *custodial* parent that is

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used to arrive at the allocable parental tax (choice a.).

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER:

Time: 5 min.

103. During the year, Kim sold the following assets: business auto for a \$1,000 loss, stock investment for a \$1,000 loss, and pleasure yacht for a \$1,000 loss. Presuming adequate income, how much of these losses may Kim claim?

- a. \$0.
- b. \$1,000.
- c. \$2,000.
- d. \$3,000.
- e. None of these.

ANSWER:

c

RATIONALE:

The loss on the business auto of \$1,000 is an ordinary loss, while the loss on the stock investment of \$1,000 is a capital loss. The loss on the yacht of \$1,000 is personal and, therefore, cannot be deducted.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER:

Time: 5 min.

104. Perry is in the 33% tax bracket. During 2017, he had the following capital asset transactions:

Gain from the sale of a stamp collection (held for 10 years)	\$30,000
Gain from the sale of an investment in land (held for 4 years)	10,000
Gain from the sale of stock investment (held for 8 months)	4,000

Perry's tax consequences from these gains are as follows:

- a. $(15\% \times \$30,000) + (33\% \times \$4,000)$.
- b. $(15\% \times \$10,000) + (28\% \times \$30,000) + (33\% \times \$4,000)$.
- c. $(0\% \times \$10,000) + (28\% \times \$30,000) + (33\% \times \$4,000)$.
- d. $(15\% \times \$40,000) + (33\% \times \$4,000)$.
- e. None of these.

ANSWER:

b

RATIONALE:

Collectibles are taxed at a maximum of 28%, while long-term capital gains are subject to a rate of 15% for taxpayers in the 33% tax bracket. Short-term capital gains are treated the same as ordinary income.

POINTS:

1

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DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

105. Kirby is in the 15% tax bracket and had the following capital asset transactions during 2017:

Long-term gain from the sale of a coin collection	\$11,000
Long-term gain from the sale of a land investment	10,000
Short-term gain from the sale of a stock investment	2,000

Kirby's tax consequences from these gains are as follows:

- $(5\% \times \$10,000) + (15\% \times \$13,000)$.
- $(15\% \times \$13,000) + (28\% \times \$11,000)$.
- $(0\% \times \$10,000) + (15\% \times \$13,000)$.
- $(15\% \times \$23,000)$.
- None of these.

ANSWER: c

RATIONALE: Collectibles and short-term capital gains are taxed at Kirby's regular 15% tax bracket, while long-term capital gains are subject to a rate of 0%.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

106. For the current year, David has wages of \$80,000 and the following property transactions:

Stock investment sales—	
Long-term capital gain	\$ 9,000
Short-term capital loss	(12,000)
Loss on sale of camper (purchased 4 years ago and used for family vacations)	(2,000)

What is David's AGI for the current year?

- \$76,000.
- \$77,000.
- \$78,000.
- \$89,000.
- None of these.

ANSWER: b

RATIONALE: The loss from the sale of the camper is personal and, therefore, is not deductible. Netting the

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

short-term capital loss of \$12,000 against the long-term capital gain of \$9,000 produces a net short-term capital loss of \$3,000. Offsetting the capital loss against ordinary income yields AGI of \$77,000 (\$80,000 – \$3,000).

POINTS: 1
DIFFICULTY: Moderate
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
 IITX.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
 AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 10 min.

107. During 2017, Trevor has the following capital transactions:

LTCG	\$ 6,000
Long-term collectible gain	2,000
STCG	4,000
STCL	10,000

After the netting process, the following results:

- Long-term collectible gain of \$2,000.
- LTCG of \$6,000, Long-term collectible gain of \$2,000, and a STCL of \$6,000.
- LTCG of \$6,000, Long-term collectible gain of \$2,000, and a STCL carryover to 2018 of \$3,000.
- LTCG of \$2,000.
- None of these.

ANSWER: d
RATIONALE: First, the STCG and STCL are combined, resulting in a STCL of \$6,000. Of this STCL, \$2,000 is applied against the collectible gain of \$2,000, and the \$4,000 balance is applied against the LTCG of \$6,000. The result is a LTCG of \$2,000.

POINTS: 1
DIFFICULTY: Moderate
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
 AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 10 min.

108. Emily had the following transactions during 2016:

Salary		\$90,000
Interest income on bonds—		
Issued by City of Nashville	\$4,000	
Issued by Chevron Corporation	<u>5,000</u>	9,000
Alimony received		5,000
Child support received		20,000

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

City and state income taxes paid	(5,000)
Bank loan obtained to pay for car purchase	15,000

What is Emily's AGI for 2017?

ANSWER: \$100,000. \$90,000 (salary) + \$5,000 (interest on Chevron Corporation bonds) + \$5,000 (alimony received). Interest on the City of Nashville bonds is an exclusion from gross income. The bank loan has no tax effect, as Emily is obligated to repay the amount borrowed. City and state income taxes are deductions *from* AGI.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

109. Edgar had the following transactions for 2017:

Salary		\$ 80,000
Alimony paid		(4,000)
Recovery from car accident—		
Personal injury damages	\$40,000	
Punitive damages	<u>70,000</u>	110,000
Gift from parents		20,000
Property sales—		
Loss on sale of boat (used for pleasure and owned 4 years)	(\$4,000)	
Gain on sale of ADM stock (held for 10 months as an investment)	<u>4,000</u>	(-0-)

What is Edgar's AGI for 2017?

ANSWER: \$150,000. \$80,000 (salary) – \$4,000 (alimony paid) + \$70,000 (punitive damage award) + \$4,000 (short-term capital gain on the sale of stock investment). The personal injury recovery and the gift from Edgar's parents are exclusions from gross income. The loss from the sale of the boat is personal and, therefore, nondeductible. The short-term capital gain on the sale of the ADM stock is taxed in full as ordinary income.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

110. Taylor had the following transactions for 2017:

Salary	\$ 85,000
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Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

Moving expenses incurred to change jobs	(12,000)
Inheritance received from deceased uncle	300,000
Life insurance proceeds from policy on uncle's life (Taylor was named the beneficiary)	200,000
Cash prize from church raffle	3,000
Payment of church pledge	(4,500)

What is Taylor's AGI for 2017?

ANSWER: \$76,000. \$85,000 (salary) + \$3,000 (raffle prize) – \$12,000 (moving expenses). The inheritance and life insurance proceeds are exclusions from gross income. The payment by Taylor of her church pledge is a deduction *from* AGI. Thus, it does not enter into the determination of AGI.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

111. In 2017, Tom is single and has AGI of \$50,000. He is age 70, has no dependents, and has itemized deductions (i.e., *from* AGI) of \$7,000. Determine Tom's taxable income for 2017.

ANSWER: \$38,050. Tom's standard deduction is \$6,350 (basic) + \$1,550 (additional) for a total of \$7,900. Consequently, he should select the standard deduction option since it exceeds his itemized deductions of \$7,000. Thus, his taxable income is determined as follows: \$50,000 (AGI) – \$7,900 (standard deduction) – \$4,050 (personal exemption) = \$38,050.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

IITX.SWFT.LO: 3-02 - LO: 3-02

IITX.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

112. Warren, age 17, is claimed as a dependent by his father. In 2017, Warren has dividend income of \$1,500 and earns \$400 from a part-time job.

- What is Warren's taxable income for 2017?
- Suppose Warren earned \$1,200 (not \$400) from the part-time job. What is Warren's taxable income for 2017?

ANSWER:

- \$850. Warren's standard deduction is \$1,050 (the greater of \$400 (earned income) + \$350 *or* \$1,050). Thus, \$1,500 + \$400 – \$1,050 = \$850 taxable income.
- \$1,150. Warren's standard deduction now becomes \$1,550 (\$1,200 + \$350). Thus,

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

$$\$1,500 + \$1,200 - \$1,550 = \$1,150 \text{ taxable income.}$$

POINTS: 1
DIFFICULTY: Moderate
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
IITX.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 10 min.

113. Meg, age 23, is a full-time law student and is claimed by her parents as a dependent. During 2017, she received \$1,400 interest income from a bank savings account and \$6,100 from a part-time job. What is Meg's taxable income for 2017?

ANSWER: \$1,150. Meg's standard deduction is the greater of \$6,100 (earned income) + \$350 or \$1,050. But the \$6,450 is limited to \$6,350 (the standard deduction allowed a single person). Thus, $\$1,400 + \$6,100 - \$6,350 = \$1,150$ taxable income.

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
IITX.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 10 min.

114. Heloise, age 74 and a widow, is claimed as a dependent by her daughter. For 2017, she had income as follows: \$2,500 interest on municipal bonds; \$3,200 Social Security benefits; \$3,000 income from a part-time job; and \$2,800 dividends on stock investments. What is Heloise's taxable income for 2017?

ANSWER: \$900. $\$3,000$ (income from job) + $\$2,800$ (dividends) – $\$3,350$ (basic standard deduction is $\$3,000 + \350 ; this is greater than $\$1,050$) – $\$1,550$ (additional standard deduction for age) = $\$900$. The Social Security benefits of $\$3,200$ and the interest on municipal bonds of $\$2,500$ are not taxable.

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
IITX.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 10 min.

115. Pedro is married to Consuela, who lives with him. Both are U.S. citizens and residents of Nebraska. Pedro furnishes all of the support of his parents, who are citizens and residents of Mexico. He also furnishes all of the support of

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

Consuela's parents, who are citizens and residents of El Salvador. Consuela has no gross income for the year. If Pedro files as a married person filing separately, how many personal and dependency exemptions can he claim on his return?

ANSWER: Four. A personal exemption for Pedro and Consuela and dependency exemptions for Pedro's parents. Consuela can be claimed because she has no income. Presumably she is not being claimed as a dependent by another. Although Pedro's parents are neither U.S. citizens nor residents, they are residents of Mexico. Consuela's parents meet neither the citizenship nor residency tests.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03
IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

116. Homer (age 68) and his wife Jean (age 70) file a joint return. They furnish all of the support of Luther (Homer's 90-year old father), who lives with them. In 2017, they received \$6,000 of interest income on city of Chicago bonds and interest income on corporate bonds of \$48,000. Compute Homer and Jean's taxable income for 2017.

ANSWER: \$20,650. Their gross income is \$48,000 since the \$6,000 interest on municipal bonds is an exclusion. They are entitled to a basic standard deduction of \$12,700 and additional standard deductions of \$1,250 each for being age 65 or older. They can claim a dependency exemption for Luther and two personal exemptions for themselves. Thus, $\$48,000 - \$12,700 - \$2,500 (2 \times \$1,250) - \$12,150 (3 \times \$4,050) = \$20,650$.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
IITX.SWFT.LO: 3-02 - LO: 3-02
IITX.SWFT.LO: 3-03 - LO: 3-03
IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

117. Ellen, age 39 and single, furnishes more than 50% of the support of her parents, who do not live with her; their only source of income are Social Security benefits. Ellen practices as a self-employed interior decorator and has gross income in 2017 of \$120,000. Her deductions are as follows: \$30,000 business and \$8,100 itemized.

a. Can Ellen qualify for head of household filing status? Explain.

b. What is Ellen's taxable income for 2017?

ANSWER:

- Ellen can qualify for head of household filing status if she furnishes more than half of the cost of maintaining her parents' household. Also, at least one of Ellen's parents must qualify as her dependent. Given that her parent's only income is from Social Security (which is an exclusion), they both should qualify as Ellen's dependents.

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

- b. \$68,500. \$120,000 (gross income) - \$30,000 (business deductions *for* AGI) = \$90,000 (AGI) - \$9,350 (standard deduction) - \$4,050 (personal exemption) - \$8,100 (dependency exemptions for parents) = \$68,500 taxable income.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
 IITX.SWFT.LO: 3-02 - LO: 3-02
 IITX.SWFT.LO: 3-03 - LO: 3-03
 IITX.SWFT.LO: 3-04 - LO: 3-04
 IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
 AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

118. In 2017, Ashley earns a salary of \$55,000, has capital gains of \$3,000, and receives interest income of \$5,000. Her husband died in 2016. Ashley has a dependent son, Tyrone, who is age 8. Her itemized deductions are \$9,000.

- a. What is her filing status?
 b. Calculate Ashley's taxable income for 2017.

ANSWER:

a.	Ashley satisfies the requirements for a surviving spouse.	
b.	Salary	\$55,000
	Capital gains	3,000
	Interest	<u>5,000</u>
	AGI	\$63,000
	Less: Standard deduction	(12,700)
	Less: Personal exemption and dependency deduction (\$4,050 × 2)	<u>(8,100)</u>
	Taxable income	<u>\$42,200</u>

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
 IITX.SWFT.LO: 3-02 - LO: 3-02
 IITX.SWFT.LO: 3-03 - LO: 3-03
 IITX.SWFT.LO: 3-04 - LO: 3-04
 IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
 AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

119. During the year, Irv had the following transactions:

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

Long-term loss on the sale of business use equipment	\$7,000
Long-term loss on the sale of personal use camper	6,000
Long-term gain on the sale of personal use boat	3,000
Short-term loss on the sale of stock investment	4,000
Long-term loss on the sale of land investment	5,000

How are these transactions handled for income tax purposes?

ANSWER: Ordinary loss of \$7,000 on the business equipment. The \$6,000 loss on the camper is personal and not deductible. However, the \$3,000 gain on the boat is taxable and is applied against the long-term capital loss on the land, reducing it to \$2,000. The \$4,000 short-term capital loss on the stock offsets ordinary income up to \$3,000. The unused remaining \$1,000 short-term capital loss and the \$2,000 long-term capital loss from the land sale are carried over to future years.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

120. During 2017, Addison has the following gains and losses:

LTCG	\$10,000
LTCL	3,000
STCG	2,000
STCL	7,000

a. How much is Addison's tax liability if she is in the 15% tax bracket?

b. If her tax bracket is 33% (not 15%)?

ANSWER: a. \$0. After the initial netting process, there is a LTCG of \$7,000, and a STCL of \$5,000. The \$5,000 of STCL is applied to the LTCG of \$7,000. The final result is a net LTCG of \$2,000 taxed at 0% for a tax liability of \$0.

b. \$300. See part a. for the netting process. Now the \$2,000 is taxed at 15% for a tax liability of \$300.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

121. During 2017, Jackson had the following capital gains and losses:

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

Gain from the sale of coin collection (held three years)	\$12,000
Gain from the sale of land held as an investment for six years	9,000
Gain from the sale of stock held as an investment (held for 10 months)	3,000

- a. How much is Jackson's tax liability if he is in the 15% tax bracket?
b. If his tax bracket is 33% (not 15%)?

ANSWER:

a. \$2,250. Gain of \$12,000 on the sale of the coin collection is taxed at 15% (lesser of 28% or 15%). The same is true for the short-term gain of \$3,000. The gain of \$9,000 on the sale of the land is taxed at 0%. Thus, $(15\% \times \$15,000) + (0\% \times \$9,000) = \$2,250$.

b. \$5,700. $(33\% \times \$3,000) + (28\% \times \$12,000) + (15\% \times \$9,000) = \$5,700$.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 15 min.

122. During 2017, Madison had salary income of \$80,000 and the following capital transactions:

LTCCG	\$13,000
LTCL	15,000
STCG	13,000
STCL	6,000

How are these transactions handled for income tax purposes?

ANSWER: Combining the long-term transactions yields a net LTCL of \$2,000 (\$13,000 – \$15,000), while the short-term process results in a net STCG of \$7,000 (\$13,000 – \$6,000). A further combination leaves a net STCG of \$5,000 (\$7,000 – \$2,000) which is taxed as ordinary income. Only net LTCCG results in preferential tax treatment.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

123. Mr. Lee is a citizen and resident of Hong Kong, while Mr. Anderson is a citizen and resident of the U.S. In the taxation of income, Hong Kong uses a territorial approach, while the U.S. follows the global system. In terms of effect, explain what this means to Mr. Lee and Mr. Anderson.

ANSWER: Mr. Lee is taxed only on the income he receives from Hong Kong, while Mr. Anderson is taxed on his global income. Under the U.S. approach, a citizen or resident is taxed on a worldwide basis. Since the U.S. system could lead to the same income being taxed twice,

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various relief provisions are necessitated (e.g., foreign tax credit).

POINTS:	1
DIFFICULTY:	Easy
LEARNING OBJECTIVES:	IITX.SWFT.LO: 3-01 - LO: 3-01
NATIONAL STANDARDS:	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS:	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS:	Bloom's: Comprehension
OTHER:	Time: 10 min.

124. The Deweys are expecting to save on their taxes for 2017. Not only have both incurred large medical expenses, but both reached age 65. During the year, they also recognized a \$30,000 loss on some land they sold which was purchased as an investment several years ago. Are the Deweys under a mistaken understanding regarding their tax position? Explain.

ANSWER: The Deweys are expecting to qualify for two additional standard deductions and anticipating a deduction for medical expenses. The two objectives cannot coexist. Claiming a medical deduction requires that they itemize. Taxpayers who itemize, however, cannot claim *any* type of standard deduction. Regarding the capital loss, and presuming no capital gains, only \$3,000 can be deducted against their other income. The balance of \$27,000 must be carried over to future years.

POINTS:	1
DIFFICULTY:	Easy
LEARNING OBJECTIVES:	IITX.SWFT.LO: 3-01 - LO: 3-01 IITX.SWFT.LO: 3-02 - LO: 3-02 IITX.SWFT.LO: 3-08 - LO: 3-08
NATIONAL STANDARDS:	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS:	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS:	Bloom's: Comprehension
OTHER:	Time: 10 min.

125. Deductions *for* AGI are often referred to as “above-the-line” or “page 1” deductions. Explain.

ANSWER: “Above the line” means before the bottom line of page 1 of Form 1040, which is AGI. These deductions appear on page 1 of Form 1040.

POINTS:	1
DIFFICULTY:	Easy
LEARNING OBJECTIVES:	IITX.SWFT.LO: 3-01 - LO: 3-01 IITX.SWFT.LO: 3-02 - LO: 3-02
NATIONAL STANDARDS:	United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS:	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS:	Bloom's: Comprehension
OTHER:	Time: 10 min.

126. Adjusted gross income (AGI) sets the *ceiling* or the *floor* for certain deductions. Explain and illustrate what this statement means.

ANSWER: By a ceiling what is meant is that the deduction cannot exceed a percentage of AGI. Thus, the charitable contribution deduction cannot exceed 50% of a taxpayer’s AGI. By a floor what is

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meant is that a deduction is allowed only if it exceeds a percentage of AGI. Thus, the deduction for medical expenses is limited to the excess of these expenses over 10% of AGI.

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.

127. During the current year, Doris received a large gift from her parents and a sizeable inheritance from an uncle. She also paid premiums on an insurance policy on her life. Doris is confused because she cannot find any place on Form 1040 to report these items. Explain.

ANSWER: Gifts and inheritances are exclusions from gross income. Like most exclusions, they are not reported on Form 1040. Premiums on a personal life insurance policy are nondeductible. Nondeductible items, such as these premiums, are not reported on Form 1040

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.

128. Mel is not quite sure whether an expenditure he made is a deduction *for* AGI or a deduction *from* AGI. Since he plans to choose the standard deduction option for the year, does the distinction matter? Explain.

ANSWER: It makes a great deal of difference if the expenditure is a deduction *for* AGI. If it is, Mel will benefit taxwise. It makes no difference, however, if it is a deduction *from*. The standard deduction is in lieu of itemized deductions.

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.

129. When filing their Federal income tax returns, the Youngs always claimed the standard deduction. After they purchased a home, however, they started to itemize their deductions *from* AGI.

- a. Explain the reason for the change.
- b. Suppose they purchased the home in November 2016, but did not start itemizing until tax

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year 2017. Why the delay as to itemizing?

ANSWER:

- a. The interest on the home mortgage and the property taxes gave the Youngs itemized deductions in excess of the applicable standard deduction.
- b. The home mortgage interest and property taxes for two months (i.e., November and December) may not have been enough to place the Youngs in a position to exceed the applicable standard deduction for 2016. In 2017, however, a full 12 months worth of home mortgage interest and property taxes is involved.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Comprehension

OTHER:

Time: 10 min.

130. The Dargers have itemized deductions that exceed the standard deduction. However, when they file their joint return, they choose the standard deduction option.

- a. Is this proper procedure?
- b. Aside from a possible misunderstanding as to the tax law, what might be the reason for the Darger's choice?

ANSWER:

- a. Yes. The choice between itemizing and claiming the standard deduction is elective and up to the taxpayer.
- b. The excess of the itemized deductions over the standard deduction may be marginal, and the Dargers are willing to forgo the effort of itemizing for a small tax savings. Also, they may not maintain the records (i.e., substantiation) that some itemized deductions require. Additionally, it reduces their adult exposure.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-03 - LO: 3-03

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Comprehension

OTHER:

Time: 10 min.

131. Under what circumstances, if any, may an ex-spouse be claimed as a dependent?

ANSWER:

As an ex-spouse does not meet the relationship test, he or she must be a member of the taxpayer's household. The association cannot be in violation of local law and the year involved cannot be the year of the divorce.

POINTS:

1

DIFFICULTY:

Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

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NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

132. In resolving qualified child status for dependency exemption purposes, why are tiebreaker rules necessary? Can these rules be waived?

ANSWER: A person being claimed as a dependent may satisfy qualified child status as to more than one taxpayer. See Examples 18-20 in the text. The tiebreaker rules can be waived.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

133. In satisfying the support test and the gross income test for claiming a dependency exemption, a scholarship received by the person being claimed is handled the same way for each test. Do you agree or disagree with this statement? Why?

ANSWER: Disagree. For purposes of the support test, all of the scholarship is disregarded. For purposes of the gross income test, only the taxable part is considered (i.e., the nontaxable part is disregarded).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

134. In order to claim a dependency exemption for other than a qualifying child, a taxpayer must meet the support test. Generally, this is done by furnishing more than 50% of a dependent's support. What exceptions exist, if any, where the support furnished need not be more than 50%?

ANSWER: One exception involves the multiple support agreement. Here, family members collectively furnish more than 50% of the support, but no one person does so. For those qualified individuals who contribute more than 10%, the group can designate which person may claim the dependency exemption.

The second exception involves the divorced parents of children. The custodial parent is entitled to the dependency exemptions for the children. If this parent agrees not to claim the exemption(s), then the noncustodial parent may do so.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

135. In applying the gross income test in the case of dependents that are married, could the application of community property laws have any effect? Explain.

ANSWER: Most often, the application of community property laws will impact on the dependency status of the spouse of a qualifying child. Suppose, for example, Roger maintains a household that includes his 18-year-old daughter, Alice, and her husband, Craig. Assume further that Alice earns \$8,200 from a part-time job while Craig has no income. In a common law state, Craig meets the gross income test (i.e., \$0) while Alice's gross income, as a qualifying child, is immaterial. In a community property state, however, Craig now violates the gross income test with \$4,100 ($50\% \times \$8,200$) of income, while Alice remains immune.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

IITX.SWFT.LO: 3-09 - LO: 3-09

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

136. In meeting the criteria of a qualifying child for dependency exemption purposes, when if ever, might the child's income become relevant?

ANSWER: The amount of income earned by the qualifying child normally is of no consequence. If, however, such income is used to make the child self-supporting, then he or she can no longer be a qualifying child. Such child also would not be a qualifying relative due to the gross income and support tests.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

137. Lena is 66 years of age, single, and blind and is not claimed as a dependent. How much gross income must she have before she is required to file a Federal income tax return for 2017?

ANSWER: \$11,950. \$6,350 (basic standard deduction) + \$1,550 (additional standard deduction for age) + \$4,050 (personal exemption). Note that the additional standard deduction for blindness does not come into play in determining the gross income required for filing a tax return.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

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OTHER: Time: 5 min.

138. When can a taxpayer *not use* Form 1040EZ? Form 1040A?

ANSWER: Form 1040EZ cannot be used when the taxpayer claims any dependents; is age 65 or older (or blind); or, has taxable income of \$100,000 or more. Form 1040A cannot be used if the taxpayer itemizes deductions *from* AGI.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

139. Contrast the tax consequences resulting from the following filing status situations:

- a. Married filing jointly versus married filing separately.
- b. Married filing separately versus single.
- c. Married filing separately versus abandoned spouse status.

ANSWER:

- a. Married persons filing jointly have a number of tax elections available to them that cannot be chosen if they file separate returns. For example, the credit for child and dependent care expenses and the earned income credit are not available unless married persons file joint returns.
- b. Married persons filing separately often will not fare as well as the couple that remains single. For one advantage, each single person has full flexibility in choosing between the standard deduction and itemizing and is not bound by what the companion does. A second advantage is the ability of each to apply a full \$3,000 of excess capital losses against ordinary income. For married persons filing separate returns, the ordinary income offset is restricted to \$1,500 each.
- c. Because abandoned spouse status means that the taxpayer is treated as being single, the same advantages mentioned in part a. above exist when compared to married persons filing separate returns. Even more advantageous is that abandoned spouse status permits the use of head of household filing status. Head of household tax rates are lower than those applicable to single persons (and married persons filing separate returns). Also, the standard deduction amount for head of household filing status is larger than that available to single persons (and married persons filing separate returns).

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Analysis

OTHER: Time: 15 min.

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

140. Jayden and Chloe Harper are husband and wife and use the calendar year for tax purposes.

- a. If the Harpers file a joint return for 2017, can they later switch to separate returns for 2017?
- b. If the Harpers file separate returns for 2017, can they later switch to a joint return for 2017?

ANSWER:

- a. Unless the Harpers do so on or before the regular filing date (i.e., April 16, 2018), they cannot switch to separate returns.
- b. Yes, they can unless the statute of limitations has run (usually three years from the filing date).

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

141. When married persons file a joint return, joint and several liability results. What does this mean?

ANSWER: Joint and several liability means that either spouse is fully liable for any income tax due for the year. Thus, if more tax is due, the IRS can pursue *either* spouse for the deficiency.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

142. Regarding head of household filing status, comment on the following:

- a. A taxpayer qualifies even though he maintains a household which he and the dependent *do not* share.
- b. A taxpayer does not qualify even though the person sharing the household *is* a dependent.
- c. The usual eventual filing status of a surviving spouse.

ANSWER:

- a. If the household is that of a dependent parent, it need not be taxpayer's household.
- b. If the household does not include a dependent that meets the relationship test, head of household filing status is unavailable. An example would be a taxpayer who maintains a household for a cousin who lives with her. Even if the cousin is a dependent under the member of the household test, taxpayer does not qualify for head of household filing status. A cousin does not satisfy the relationship test.
- c. Once the two-year surviving spouse period terminates, the taxpayer usually will qualify for head of household filing status if the taxpayer continues to maintain a household for a dependent child..

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POINTS: 1
DIFFICULTY: Moderate
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 15 min.

143. The major advantage of being classified as an abandoned spouse is that the taxpayer is treated for tax purposes as being single and not married. This means that an abandoned spouse can use the more favorable tax rates available to single persons than those available to married persons filing separately. Comment on the accuracy of this conclusion.

ANSWER: The conclusion is incorrect. The classification of abandoned spouse allows the taxpayer to the use of the rates for head of household filing status which are more favorable than married filing separately.

POINTS: 1
DIFFICULTY: Moderate
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.

144. For the past few years, Corey's filing status has been as follows: 2013 (married/joint); 2014 (married/separate); 2015 (surviving spouse); 2016 (surviving spouse); and 2017 (head of household). Explain what probably has happened.

ANSWER: One probable explanation is that Corey's wife died in 2014 and the executor of her estate refused to agree to filing a joint return. As surviving spouse status does not continue beyond two years, Corey is relegated to head of household status in 2017.

POINTS: 1
DIFFICULTY: Easy
LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05
NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.

145. DeWayne is a U.S. citizen and resident. He spends much of each year in the United Kingdom on business. He is married to Petula, a U.K. citizen and resident of London. DeWayne has heard that it is possible that he can file a joint income tax return for U.S. purposes. If this is so, what are the constraints he should consider in making any such decision?

ANSWER: The election to file a joint return has the effect of treating Petula as a U.S. resident. Unfortunately, this places Petula on the U.S. global approach to taxation. If Petula has considerable income of her own, the election makes this income subject to U.S. taxation which may be disadvantageous.

POINTS: 1
DIFFICULTY: Easy

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LEARNING OBJECTIVES: IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Analysis

OTHER: Time: 5 min.

146. For 2017, Tom has taxable income of \$48,005. When he uses the Tax Tables, Tom finds that his tax liability is higher than under the Tax Rate Schedules.

- a. Why is there a difference?
- b. Can Tom use the Tax Rate Schedules?

ANSWER:

- a. Even though the Tax Tables are based on the Tax Rate Schedules, minor differences in the tax liabilities will result. The variance is due to the fact that the tax for any table bracket amount is determined by using the midpoint amount. In Tom's case, the tax on the \$48,000 – \$48,050 bracket is the tax on \$48,025. Because Tom's taxable income (i.e., \$48,005) is below \$48,025, his tax will be higher.
- b. No. Unless taxable income is \$100,000 or more (or in some other special situations), taxpayers must use the Tax Tables.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-06 - LO: 3-06

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

147. List at least three exceptions to the application of the kiddie tax.

ANSWER:

- Unearned income of \$2,100 or less.
- Age 19 (or age 24 if a full-time student) or older.
- Both parents deceased.
- Earned income in excess of 50% of support.
- Married and filing a joint return with spouse.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

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148. The Martins have a teenage son who has become an accomplished bagpiper. With proper promotion and scheduling, the son has good income potential by charging for his services at special events (particularly funerals). However, the Martins are fearful that the income could generate a kiddie tax and cause them the loss of a dependency exemption deduction. Are the Martins' concerns justified? Explain.

ANSWER: The income received by the son would be earned income. Therefore, the kiddie tax is not a problem since it applies only to unearned income. As long as the son is under age 19 (or a full-time student under age 24), he is a dependent as a qualifying child. Under these rules, the amount of the son's income does not matter (unless he becomes self-supporting). If the son is age 19 (or older) and not a student, any dependency exemption must satisfy the qualifying relative rules. Here, not meeting the gross income test would cause the dependency exemption to be lost.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04
IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG: Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

149. In early 2017, Ben sold a yacht, held for 9 months and for pleasure, for a \$5,000 gain. Concerned about offsetting the gain before year-end, Ben is considering selling one of the following—each of which would yield a \$5,000 loss:

- Houseboat used for recreation.
- Truck used in business.
- Stock investment held for 13 months.

Evaluate each choice.

ANSWER: The sale of the houseboat produces no benefit since losses on personal use property are not deductible. The sale of the truck yields an ordinary loss of \$5,000. The ordinary loss result offsets the ordinary income caused by a short-term capital gain. The best choice, however, is the stock investment. A net long-term capital loss can neutralize a net short-term capital gain and prevent ordinary income from materializing. By itself, a net long-term capital loss can only be offset against regular income to the extent of \$3,000. Also, it might obviate long-term capital gains which are taxed at preferential tax rates.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-08 - LO: 3-08

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG: Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Evaluation

OTHER: Time: 5 min.

150. After paying down the mortgage on their personal residence, the Hills have found that their itemized deductions for each year are always slightly less than the standard deduction option.

- a. Explain what has happened.

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b. What remedy do you suggest?

- ANSWER:**
- a. Paying down the mortgage reduced the interest expense deduction. With less interest expense, the Hills' deductions *from* AGI no longer exceed the standard deduction amount.
 - b. The Hills should begin concentrating their other itemized deductions (e.g., charitable contributions) by paying for multiple years in the same year. Being on a cash basis, the timing of the deduction is based on the year of payment. In alternate years, moreover, the standard deduction is claimed.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

IITX.SWFT.LO: 3-05 - LO: 3-05

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Evaluation

OTHER: Time: 5 min.

151. Maude's parents live in another state and she cannot claim them as her dependents. If Maude pays their medical expenses, can she derive any tax benefit from doing so? Explain.

ANSWER: If Maude could otherwise claim her parents as dependents except for not satisfying either the gross income or the joint return tests, she can claim any medical expenses paid on their behalf.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-09 - LO: 3-09

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension
United States - BUSPROG: Technology: Technology: - BUSPROG: Technology

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

Regarding dependency exemptions, classify each statement in one of the four categories:

- a. Could be a qualifying child.
- b. Could be a qualifying relative.
- c. Could be *either* a qualifying child *or* a qualifying relative.
- d. Could be *neither* a qualifying child *nor* a qualifying relative.

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-04 - LO: 3-04

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Application

OTHER: Time: 2 minutes per question.

152. A son lives with taxpayer and earns \$3,000.

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ANSWER: c

POINTS: 1

153. A daughter who does not live with taxpayer.

ANSWER: b

POINTS: 1

154. A granddaughter, who lives with taxpayer, is 19 years old, earns \$5,000, and is not a full-time student.

ANSWER: d

POINTS: 1

155. An uncle who lives with taxpayer.

ANSWER: b

POINTS: 1

156. A nephew who lives with taxpayer.

ANSWER: c

POINTS: 1

157. A niece who lives with taxpayer, is 20 years old, earns \$5,000, and is a full-time student.

ANSWER: a

POINTS: 1

158. A half-brother who lives with taxpayer.

ANSWER: c

POINTS: 1

159. A cousin who does not live with taxpayer.

ANSWER: d

POINTS: 1

160. A stepdaughter who does not live with taxpayer.

ANSWER: b

POINTS: 1

161. A daughter-in-law who lives with taxpayer.

ANSWER: b

POINTS: 1

162. A family friend who is supported by and lives with the taxpayer.

ANSWER: b

POINTS: 1

163. An ex-husband (divorce occurred last year) who lives with taxpayer.

ANSWER: b

POINTS: 1

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Match the statements that relate to each other. Note: Some choices may be used more than once.

- a. Not available to 65-year old taxpayer who itemizes.
- b. Exception for U.S. citizenship or residency test (for dependency exemption purposes).
- c. Largest basic standard deduction available to a dependent who has no earned income.
- d. Considered for dependency exemption purposes.
- e. Qualifies for head of household filing status.
- f. A child (age 15) who is a dependent and has only earned income.
- g. Considered in applying gross income test (for dependency exemption purposes).
- h. Not considered in applying the gross income test (for dependency exemption purposes).
- i. Unmarried taxpayer who can use the same tax rates as married persons filing jointly.
- j. Exception to the support test (for dependency exemption purposes).
- k. A child (age 16) who is a dependent and has only unearned income of \$4,500.
- l. No correct match provided.

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-02 - LO: 3-02
IITX.SWFT.LO: 3-04 - LO: 3-04
IITX.SWFT.LO: 3-05 - LO: 3-05
IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 2 minutes per question

NOTES: A taxpayer who itemizes (claims deductions from AGI) is not eligible for either the basic or additional standard deductions.
Residency in these countries will suffice.
Scholarship funds are not considered when applying the support test. The taxable portion of scholarships are taken into account in applying the gross income test.
This amount could be greater if earned income exists.

164. Surviving spouse

ANSWER: i

POINTS: 1

165. Scholarship funds for tuition

ANSWER: h

POINTS: 1

166. *Additional* standard deduction

ANSWER: a

POINTS: 1

167. Scholarship funds for room and board

ANSWER: g

POINTS: 1

168. Abandoned spouse

ANSWER: e

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POINTS: 1

169. Basic standard deduction

ANSWER: a

POINTS: 1

170. Resident of Canada or Mexico

ANSWER: b

POINTS: 1

171. Age of a qualifying child

ANSWER: d

POINTS: 1

172. \$1,050

ANSWER: c

POINTS: 1

173. Kiddie tax applies

ANSWER: k

POINTS: 1

174. Kiddie tax does not apply

ANSWER: f

POINTS: 1

175. Multiple support agreement

ANSWER: j

POINTS: 1

Match the statements that relate to each other. Note: Choice l. may be used more than once.

- a. Available to a 70-year-old father claimed as a dependent by his son.
- b. Equal to tax liability divided by taxable income.
- c. The highest income tax rate applicable to a taxpayer.
- d. Not eligible for the standard deduction.
- e. No one qualified taxpayer meets the support test.
- f. Taxpayer's ex-husband does not qualify.
- g. A dependent child (age 18) who has only unearned income.
- h. Highest applicable rate is 39.6%.
- i. Applicable rate could be as low as 0%.
- j. Maximum rate is 28%.
- k. Income from foreign sources is not subject to tax.
- l. No correct match provided.

DIFFICULTY: Easy

LEARNING OBJECTIVES: IITX.SWFT.LO: 3-01 - LO: 3-01

IITX.SWFT.LO: 3-02 - LO: 3-02

Chapter 03: Tax Formula and Tax Determination; An Overview of Property Transactions

IITX.SWFT.LO: 3-04 - LO: 3-04

IITX.SWFT.LO: 3-06 - LO: 3-06

IITX.SWFT.LO: 3-07 - LO: 3-07

NATIONAL STANDARDS: United States - BUSPORG: Comprehension - BUSPORG:Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 2 minutes per question

NOTES: A qualified taxpayer is one who satisfies the more-than-10% contribution test and meets all of the other requirements for claiming a dependency exemption.
An ex-husband can qualify as a dependent under the member of the household test but not under the relationship test.

176. Multiple support agreement

ANSWER: e

POINTS: 1

177. Kiddie tax may be imposed

ANSWER: g

POINTS: 1

178. Nonresident alien

ANSWER: d

POINTS: 1

179. Tax Rate Schedule

ANSWER: h

POINTS: 1

180. Gain on collectibles (held more than one year)

ANSWER: j

POINTS: 1

181. Average income tax rate

ANSWER: b

POINTS: 1

182. Marginal income tax rate

ANSWER: c

POINTS: 1

183. Additional standard deduction

ANSWER: a

POINTS: 1

184. Relationship test (for dependency exemption purposes)

ANSWER: f

POINTS: 1

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185. Long-term capital gains

ANSWER: i

POINTS: 1

186. Global system of taxation

ANSWER: l

POINTS: 1

187. Territorial system of taxation

ANSWER: k

POINTS: 1