

Chapter 1: The Individual Income Tax Return

1. A corporation is a reporting entity but not a tax-paying entity.

True False

2. Partnership capital gains and losses are allocated separately to each of the partners.

True False

3. Married taxpayers may double their standard deduction amount by filing separate returns.

True False

4. An item is not included in gross income unless the tax law specifies that the item is subject to taxation.

True False

5. For taxpayers who do not itemize deductions, the standard deduction amount is subtracted from the taxpayer's adjusted gross income.

True False

6. A taxpayer with self-employment income of \$600 must file a tax return.

True False

7. A dependent child with earned income in excess of the available standard deduction amount must file a tax return.

True False

8. A single taxpayer, who is not blind and who is under age 65, with income of \$8,750 must file a tax return.

True False

9. If a taxpayer is due a refund, it will be mailed to the taxpayer regardless of whether he or she files a tax return.

True False

10. Taxpayers with self-employment income of \$400 or more must file a tax return.

True False

11. If your spouse dies during the tax year and you do not remarry, you must file as single for the year of death.

True False

12. Taxpayers who do not qualify for married, head of household, or qualifying widow or widower filing status must file as single.

True False

13. If an unmarried taxpayer paid more than half the cost of keeping a home which is the principal place of residence of a nephew, who is not her dependent, she may use the head of household filing status.

True False

14. The maximum official individual income tax rate for 2012 is 35 percent.

True False

15. All taxpayers may use the tax rate schedule to determine their tax liability.

True False

16. The head of household tax rates are higher than the rates for a single taxpayer.

True False

17. Most states are community property states.

True False

18. If taxpayers are married and living together at the end of the year, they must file a joint tax return.

True False

19. A taxpayer who maintains a household with an unmarried child may qualify to file as head of household even if the child is not the taxpayer's dependent.

True False

20. A married person with a dependent child may choose to file as head of household if it reduces his or her tax liability.

True False

21. A taxpayer who is living alone and is legally separated from his or her spouse under a separate maintenance decree at year-end should file as single.

True False

22. An individual, age 22, enrolled on a full-time basis at a trade school, is considered a student for purposes of determining whether a dependency exemption is permitted.

True False

23. A dependency exemption may be claimed by the supporting taxpayer in the year of death of a dependent.

True False

24. For 2012, personal and dependency exemptions are \$3,800 each.

True False

25. Scholarships received by a student may be excluded for purposes of the support test for determining the availability of the dependency exemption.

True False

26. The two types of exemptions are the personal exemption and the dependency exemption.

True False

27. A child for whom a dependency exemption is claimed on the parents' tax return may also claim a personal exemption on his or her own tax return.

True False

28. If a taxpayer's adjusted gross income exceeds certain threshold amounts, he or she may be required to reduce the amount of the otherwise allowable deductions for itemized deductions and personal and dependency exemptions in 2012.

True False

29. Most taxpayers may deduct the standard deduction amount or the amount of their itemized deductions, whichever is higher.

True False

30. An individual taxpayer with a net capital loss may deduct up to \$3,000 per year against ordinary income.

True False

31. Taxpayers can download tax forms from the IRS Internet site.

True False

32. Which of the following is not a goal of the tax law?

- A. Encouraging certain social goals such as contributions to charity.
- B. Encouraging certain economic goals such as a thriving business community.
- C. Encouraging smaller families.
- D. Raising revenue to operate the government.
- E. None of the above are goals of the tax law.

33. Which one of the following provisions was passed by Congress to meet a social goal of the tax law?

- A. The deduction for job hunting expenses
- B. The charitable deduction
- C. The moving expense deduction for adjusted gross income
- D. The deduction for soil and water conservation costs available to farmers
- E. None of the above

34. Wesley owns and operates the Cheshire Chicken Ranch in Turpid, Nevada. The income from this ranch is \$49,000. Wesley wishes to use the easiest possible tax form. He may file:

- A. Form 1040EZ
- B. Form 1040A
- C. Form 1040
- D. Form 1065
- E. None of the above.

35. Which of the following forms may be filed by individual taxpayers?

- A. Form 1040
- B. Form 1041
- C. Form 1065
- D. Form 1120
- E. None of the above

36. Partnerships:

- A. Are not taxable entities
- B. Are taxed in the same manner as individuals
- C. File tax returns on Form 1120
- D. File tax returns on Form 1041

37. Which of the following is correct?

- A. An individual is a reporting entity but not a taxable entity
- B. A partnership is a taxable entity and a reporting entity
- C. A corporation is a reporting entity but not a taxable entity
- D. A partnership is a reporting entity but not a taxable entity

38. Form 1040 allows a taxpayer to report which of the following items that are not allowed for taxpayers who file form 1040A.

- A. Salary income
- B. Joint return status
- C. Withholding on wages
- D. Self-employment income

39. Partnership income is reported on:

- A. Form 1040PTR
- B. Form 1120S
- C. Form 1040X
- D. Form 1065

40. Amended returns are filed on:

- A. Form 1040X
- B. Form 1120S
- C. Form 1041
- D. Form 1040Amend

41. Depending on the amounts of income and other tax information, some individuals may report their income on:

- A. Form 1040A
- B. Form 1065
- C. Form 1120
- D. Form 1041

42. If an individual wishes to amend his individual tax return, he will make the amendment using what form?

- A. Form 1040A
- B. Form 1040X
- C. Form 1120
- D. Schedule K-1
- E. None of the above

43. Eugene and Velma are married. For 2012, Eugene earned \$25,000 and Velma earned \$30,000. They have decided to file separate returns and are each entitled to claim one personal exemption. They have no deductions for adjusted gross income. Eugene's itemized deductions are \$11,200 and Velma's are \$4,000. Assuming Eugene and Velma do not live in a community property state, what is Velma's taxable income?

- A. \$14,300
- B. \$20,350
- C. \$26,000
- D. \$22,200
- E. None of the above

44. An individual is a head of household. What is her standard deduction?

- A. \$11,900
- B. \$5,950
- C. \$14,600
- D. \$8,700
- E. None of the above

45. Eugene and Velma are married. For 2012, Eugene earned \$25,000 and Velma earned \$30,000. They have decided to file separate returns and are each entitled to claim one personal exemption. They have no deductions for adjusted gross income. Eugene's itemized deductions are \$11,200 and Velma's are \$4,000. Assuming Eugene and Velma do not live in a community property state, what is Eugene's taxable income?

- A. \$25,000
- B. \$13,800
- C. \$13,600
- D. \$10,000
- E. None of the above

46. Oscar and Mary have no dependents and file a joint income tax return for 2012. They have adjusted gross income of \$145,000 and itemized deductions of \$32,000. What is the amount of taxable income that Oscar and Mary must report on their 2012 income tax return?

- A. \$113,000
- B. \$109,200
- C. \$125,500
- D. \$129,300
- E. \$105,400

47. Which of the following taxpayers does *not* have to file a tax return for 2012?

- A. A single taxpayer who is under age 65, with income of \$10,000.
- B. Married taxpayers (ages 45 and 50 years), filing jointly, with income of \$21,000.
- C. A student, age 22, with unearned income of \$1,200 who is claimed as a dependent by her parents.
- D. A qualifying widow (age 67) with a dependent child and income of \$14,500.
- E. All of the above taxpayers must file a return.

48. In which of the following situations is the taxpayer not required to file an income tax return?

- A. When an individual has a 2012 income tax refund and would like to obtain it.
- B. When the taxpayer is a single 67-year-old with wages of \$9,800 in 2012.
- C. When the taxpayer is a 35-year-old head of household with wages of \$16,800 in 2012.
- D. When the taxpayer is a 79-year-old widow with wages of \$16,500 in 2012.
- E. When the taxpayers are a married couple with both spouses under 65 years old with wages of \$19,800 in 2012.

49. All of the following factors are important in determining whether an individual is required to file an income tax return, *except*:

- A. The taxpayer's filing status
- B. The taxpayer's gross income
- C. The taxpayer's total itemized deductions
- D. The availability of the additional standard deduction for taxpayers who are elderly
- E. None of the above

50. John, age 25, is a full-time student at a state university. John lives with his sister, Ann, who provides over half of his support. His only income is \$4,000 of wages from a part-time job at the college book store. What is Ann's filing status for 2012?

- A. Single
- B. Head of household
- C. Married, filing separately
- D. Qualifying widow(er)
- E. None of the above

51. Robert is a single taxpayer who has AGI of \$145,000 in 2012; his taxable income is \$122,000. What is his federal tax liability for 2012?

- A. \$34,160
- B. \$27,087
- C. \$27,621
- D. \$22,750
- E. \$42,449

52. William is a divorced taxpayer who provides a home for his dependent child, Edward. What filing status should William indicate on his tax return?

- A. Head of household
- B. Married, filing separately
- C. Single
- D. Qualifying widow(er)
- E. None of the above.

53. Irma, widowed in 2011, pays all costs related to the home in which she and her unmarried son live. Her son does not qualify as her dependent. What is her filing status for 2012?

- A. Single
- B. Married, filing separate
- C. Head of household
- D. Qualifying widow or widower
- E. None of the above.

54. Alan, whose wife died in 2010, filed a joint tax return for 2010. He did not remarry and continues to maintain his home in which his four dependent children live. In the preparation of his tax return for 2012, Alan should file as:

- A. A single individual
- B. Qualifying widow(er)
- C. Head of household
- D. Married, filing separately
- E. None of the above

55. During 2012, Howard maintained his home in which he and his 16-year-old son resided. The son qualifies as his dependent. Howard's wife died in 2011. What is his filing status for 2012?

- A. Single
- B. Head of household
- C. Married, filing separately
- D. Qualifying widow or widower
- E. None of the above.

56. An unmarried taxpayer who maintains a household for a dependent child and whose spouse died 4 years ago should file as:

- A. Single
- B. Head of household
- C. Qualifying widow or widower
- D. Married, filing separately
- E. None of the above

57. John, 45 years old and unmarried, contributed \$1,000 monthly in 2012 to the support of his parents' household. The parents lived alone and their income for 2012 consisted of \$500 from dividends and interest. What is John's filing status and how many exemptions should he claim on his 2012 tax return?

- A. Single and 1 exemption
- B. Head of household and 1 exemption
- C. Single and 3 exemptions
- D. Head of household and 3 exemptions
- E. None of the above.

58. During 2012, Murray, who is 60 years old and unmarried, provided all of the support of his elderly mother. His mother was a resident of a home for the aged for the entire year and had no income. What is Murray's filing status for 2012, and how many exemptions should he claim on his tax return?

- A. Head of household and 2 exemptions
- B. Single and 2 exemptions
- C. Head of household and 1 exemption
- D. Single and 1 exemption
- E. None of the above.

59. During 2012, Anita was entirely supported by her three sons, Dudley, Carlton, and Isidore, who provided support for her in the following percentages:

Dudley	8 percent
Carlton	45 percent
Isidore	47 percent

Which of the brothers may be allowed to claim his mother as a dependent, assuming a multiple support agreement exists?

- A. Dudley
- B. Dudley or Carlton
- C. Carlton or Isidore
- D. Dudley, Carlton, or Isidore
- E. None of the above.

60. Ronald is 92 years old and in poor health. Clever investing earlier in his life has left him with a sizeable income. He is able to support his son Ed. Ed is 67 years old and a bit "confused," so he lives in a nursing home. Ed's income is less than \$2,000. How many exemptions should Ronald claim on his tax return?

- A. 1
- B. 2
- C. 3
- D. 4
- E. None of the above

61. Which of the following is a true statement with respect to the gross income test for the qualifying relative dependency exemption?

- A. The relative must receive less than \$3,800 of gross income in order to qualify.
- B. The gross income test does not have to be met provided the relative is under age 19 at the end of the tax year.
- C. The gross income test does not have to be met provided the relative is under age 24 at the end of the tax year.
- D. The gross income test does not have to be met provided the relative is a student.
- E. All of the above statements are true.

62. Albert and Louise, ages 66 and 64 respectively, filed a joint return for 2012. They provided all of the support for their blind 19-year-old son, who had no gross income. They also provided the total support of Louise's father, who is a citizen and life-long resident of Peru. How many exemptions may they claim on their 2012 tax return?

- A. 2
- B. 3
- C. 4
- D. 5
- E. None of the above.

63. Which of the following relatives will not satisfy the relationship test for the dependency exemption?

- A. Sister
- B. Adopted child
- C. Aunt
- D. Parent
- E. All of the above satisfy the test

64. Which of the following is not a test that must be met for a child to be considered a dependent?

- A. Age test
- B. Domicile test
- C. Citizenship test
- D. Relationship test
- E. Blood test

65. Mr. and Mrs. Vonce, both age 62, file a joint return for 2012. They provided all the support for their daughter who is 19, legally blind, and who earns no income. Their son, age 21 and a full-time student at a university, had \$4,200 of income and provided 70 percent of his own support during 2012. How many exemptions may Mr. and Mrs. Vonce claim on their 2012 tax return?

- A. 2
- B. 3
- C. 4
- D. 5
- E. None of the above.

66. Taxpayers who are blind get the benefit of:

- A. An extra exemption
- B. An additional amount added to their standard deduction
- C. Two standard deductions
- D. None of the above

67. Martin, a 50-year-old single taxpayer, paid the full cost of maintaining his dependent mother in a home for the aged for the entire year. What is the amount of Martin's standard deduction for 2012?

- A. \$5,950
- B. \$8,700
- C. \$9,950
- D. \$10,600
- E. None of the above.

68. Jill is a 16-year-old child who is claimed as a dependent by her parents. Jill's only income is \$1,400 from her bank savings account. What is the amount of Jill's standard deduction for 2012?

- A. \$1,200
- B. \$950
- C. \$3,800
- D. \$5,950
- E. None of the above

69. Your standard deduction will be \$5,950 in 2012 if you are:

- A. Single and 67 years old.
- B. Single and 45 years old.
- C. Single, 27 years old and blind.
- D. A nonresident alien.
- E. A married individual filing a separate return and your spouse itemizes his deductions.

70. Brian (60 years old) is single and legally blind. Brian supports his father, who is 88 years old and blind, by paying the rent and other costs of his father's residence. What is the total standard deduction amount that Brian should claim on his 2012 tax return?

- A. \$7,250
- B. \$13,050
- C. \$10,150
- D. \$12,050
- E. None of the above.

71. Clay purchased Elm Corporation stock 20 years ago for \$10,000. In 2012, he sells the stock for \$29,000. What is Clay's gain or loss?

- A. \$19,000 long-term
- B. \$19,000 short-term
- C. \$19,000 ordinary
- D. \$3,000, with the excess carried forward
- E. No gain or loss is recognized on this transaction

72. Alexis has a long-term capital loss of \$13,000 on the sale of stock in 2012. Her taxable income without this transaction is \$60,000. What is her taxable income considering this capital loss?

- A. \$60,000
- B. \$57,000
- C. \$54,000
- D. \$47,000
- E. Some other amount

73. Which of the following is not a capital asset?

- A. Inventory
- B. Stocks
- C. A personal automobile
- D. Gold
- E. Land

74. Bob owns a rental property that he bought several years ago for \$260,000. He has taken depreciation on the house of \$37,000 since buying it. He sells it in 2012 for \$290,000. His selling expenses were \$12,000 for the year. What was Bob's realized gain on the sale?

- A. \$30,000
- B. \$55,000
- C. \$67,000
- D. \$18,000
- E. None of the above.

75. The IRS:

- A. has a YouTube video site
- B. links to the H & R Block Web site
- C. provides information on how to choose a stock
- D. has a game page

76. Internet users can sign on to <http://www.irs.gov/> and

- A. Download tax forms and publications
- B. Find links to other useful IRS pages
- C. Use a search function to find forms and publications
- D. All of the above

77. Electronic filing (e-filing)

- A. Reduces the chances that the IRS will make mistakes when inputting tax return information
- B. Generally results in a slower refund
- C. Can be done only by telephone
- D. Requires the services of a professional

78. Electronically filed tax returns:

- A. May not be transmitted from a taxpayer's home computer
- B. Constitute more than 90 percent of the returns filed with the IRS
- C. Have error rates similar to paper returns
- D. Offer faster refunds than paper returns

79. Mark a “Yes” to each of the following if it is an objective of the tax code. Otherwise mark with a “No”.

- a. To provide a car to each American
- b. To promote giving to charities
- c. To encourage taxpayers to send their children to college
- d. To raise money to operate the government
- e. To promote the use of solar energy

80. List two general objectives of the tax code.

81. Mark each of the following as a taxable entity or as a reporting entity:

- a. Individuals
- b. Corporations
- c. Partnerships

82. List if a form is used for an individual, a corporation, or a partnership tax return.

- a. Form 1065
- b. Schedule A, Itemized Deductions
- c. Form 1040
- d. Form 1120
- e. Schedule B, Interest and Dividends

83. Barry (age 45) is a single taxpayer. In 2012, he has gross income of \$15,000 and itemized deductions of \$6,500. If Barry claims one exemption on his 2012 income tax return, calculate the following amounts:

- a. His personal exemption amount
- b. Barry's taxable income

84. What is the formula for computing taxable income, as summarized in the text?

85. Mary (age 33) is a single taxpayer with adjusted gross income for 2012 of \$21,040. Mary maintains a home for two dependent children and has itemized deductions of \$3,000. Calculate the following amounts for Mary's 2012 income tax return:

- a. The number of exemptions claimed
- b. Mary's standard or itemized deduction amount
- c. Mary's taxable income

86. Kenzie is a research scientist in Tallahassee, Florida. Her husband Gary stays home to take care of their two young children. Kenzie's total wages for 2012 were \$60,000 from which \$6,500 of federal income tax was withheld.

Calculate the income tax due with, or refund receivable from, Kenzie and Gary's 2012 individual income tax return. Use the tax formula for individuals and show your work.

87. Betty (age 39) and Steve (age 50) are married with two dependent children. They file a joint return for 2012. Their income from salaries totals \$155,400; they receive \$1,000 in taxable interest and \$2,000 in royalties. Their deductions for adjusted gross income amount to \$3,200; they have itemized deductions totaling \$40,000. Calculate the following amounts:

- a. Gross income
- b. Adjusted gross income
- c. Itemized deduction or standard deduction amount
- d. Deduction for exemptions
- e. Taxable income
- f. Regular income tax liability from rate schedules

88. Melissa is a 35-year-old single taxpayer with adjusted gross income of \$49,000. She uses the standard deduction and has no dependents.

- a. Calculate Melissa's taxable income. Please show your work.
- b. When you calculate Melissa's tax liability, are you required to use the tax tables or the tax rate schedules, or does it matter?
- c. What is Melissa's tax liability?

89. Steven, age 35, is a single commodities broker. His salary for 2012 is \$110,000 and he has taxable interest income of \$40,000. He has no deductions for adjusted gross income. His itemized deductions are \$30,000. Steven does not have any dependents.

- a. What is the amount of his adjusted gross income?
- b. What are his allowable itemized deductions?
- c. What is his deduction for personal exemptions?
- d. What is his taxable income?
- e. What is his regular tax liability from the tax rate schedules?

90. Nathan is 24 years old and works as an accountant in a salmon cannery in Alaska. His total wages for 2012 were \$32,000. Federal income tax of \$4,500 was withheld from his wages. His only other income was \$210 of interest and he had no deductible expenses.

Calculate the income tax due with, or refund receivable from, Nathan's 2012 individual income tax return. Use the tax formula for individuals and show your work.

91. In 2012, Len has a salary of \$40,000 from his job. He also has interest income of \$300. Len is single and has no dependents. During the year, Len sold stock held as an investment for a \$10,000 loss. Calculate the following amounts for Len.

- a. Adjusted gross income
- b. Standard deduction
- c. Exemption
- d. Taxable income
- e. Tax liability
- f. Explain the tax treatment of the loss from the stock sale.

92. Roger (age 39) and Lucy (age 37) are married taxpayers who file a joint income tax return for 2012. They have gross income of \$25,400. Their deductions for adjusted gross income are \$550 and they have itemized deductions of \$5,300. If Roger and Lucy claim two personal exemptions and no dependency exemptions for 2012, calculate the following amounts:

- a. Their adjusted gross income
- b. The amount of their standard deduction or itemized deductions
- c. Their taxable income

93. Hansel and Gretel are married taxpayers who file a joint income tax return for 2012. They have no dependents. On their 2012 income tax return, they have adjusted gross income of \$62,000 and total itemized deductions of \$4,000. What is their taxable income?

94. Rod (age 50) and Ann (age 49) are married taxpayers who file a joint return for 2012. They have gross income of \$150,000. Their deductions for adjusted gross income are \$5,000 and they have itemized deductions of \$12,000, consisting of \$7,000 in state income taxes and \$5,000 in mortgage interest expense. If they claim two personal exemptions and no dependency exemptions for 2012, calculate the following amounts:

- a. Their adjusted gross income
- b. The amount of their standard deduction or itemized deductions
- c. Their taxable income

95. Theodore (age 74) and Maureen (age 59) are married taxpayers with two dependents. Their adjusted gross income for the 2012 tax year is \$43,000, and they have itemized deductions of \$7,750. Determine the following for Theodore and Maureen's 2012 income tax return:

- a. The number of exemptions
- b. The amount of their standard deduction or itemized deductions
- c. Their taxable income

96. George (age 67) and Linda (age 60) are married taxpayers with two dependent children. Their adjusted gross income for the 2012 tax year is \$138,000. They have itemized deductions of \$24,000. Determine the following for their joint tax return for 2012:

- a. The number of exemptions
- b. Exemption deduction amount
- c. The amount of their standard deduction or itemized deductions
- d. Taxable income

97. Monica is a maid in a San Francisco hotel. Monica received \$500 in unreported tips during 2012 and owes Social Security taxes on these tips. Her total income for the year, including tips, is \$4,500. Is Monica required to file an income tax return for 2012?

Why?

98. For each of the following situations, indicate whether the taxpayer(s) is(are) required to file a tax return for 2012. Explain your answer.

- a. Debra (age 68) and Jerry (age 70) are married and file a joint return. They received \$22,000 in interest income from a savings account.
- b. Margie is a single taxpayer with wages in 2012 of \$8,400 and interest income of \$200.
- c. Janie (age 30) and Scott (age 28) are married and file a joint tax return. They had \$17,000 in earnings from wages.
- d. Kim, age 20, is a single college student who is claimed as a dependent by her parents. She earned \$2,000 from a part-time job and has \$450 in interest income.
- e. Stefanie, a 25-year-old single taxpayer, has wages of \$1,500, from which \$80 of federal income tax was withheld.

99. Norman and Linda are married taxpayers with taxable income of \$125,000.

- a. When you calculate their tax liability are you required to use the tax tables or the tax rate schedules, or does it matter?
- b. What is their tax liability?

100. Curt and Linda were married on December 31, 2012. What are their options for filing status for their 2012 taxes?

101. Madeline is single and supports her 85-year-old parents who live in a senior home paid for by Madeline and have no income. What is Madeline's filing status and why?

102. List each alternative filing status available to unmarried individual taxpayers.

103. Determine from the tax table or the tax rate schedule, whichever is appropriate, the amount of the income tax for each of the following taxpayers for 2012.

<u>Taxpayer(s)</u>	<u>Filing Status</u>	<u>Taxable Income</u>	<u>Income Tax</u>
Macintosh	Single	\$35,680	
Hindmarsh	MFS	\$62,100	
Kinney	MFJ	\$142,000	
Rosenthal	H of H	\$91,350	
Wilk	Single	\$21,130	

104. Jeri is single and supports her 45-year-old son who has income of \$350 from working in a pumpkin patch during October and lives in his own apartment.

- a. Can she claim him as a dependent?
- b. Can she claim head of household filing status? Why or why not?

105. If Jessica, a 17-year-old guitarist in a successful band, earns \$100,000 a year and is completely self-supporting although she lives with her parents, can her parents claim her as a dependent? Why or why not?

106. Karl's father, Vronsky, who is a 60-year-old Russian citizen, lived in Russia for the full year. Karl supported Vronsky while he looked for work. Vronsky had no income. Can Karl claim Vronsky as a dependent?

107. Calculate the amount of the standard deduction the taxpayers should claim on their 2012 income tax returns.

- a. Kelly and Glenn are married with one dependent child. They file a joint return, are in good health, and both of them are under 65 years of age. They also support her aging father.
- b. Fran is 24 years old, in good health, and single.
- c. George and Georgina are married and file a joint return. George is 64 years old and Georgina is 63.
- d. Norm is 62, single and blind.
- e. Kimberly qualifies for head of household filing status, is 42 years old, and is in good health.
- f. Lizzie is 11 years old and her only income is \$3,200 of interest on a savings account. She is claimed as a dependent on her parents' tax return.

108. How should a taxpayer decide whether to take the standard deduction or claim itemized deductions?

109. Mike purchased stock in MDH corporation 5 years ago for \$15,250. This year he sold it for \$12,800 and then paid a \$150 sales commission to his broker.

- a. What is Mike's amount realized?
- b. What is Mike's adjusted basis?
- c. What is Mike's *realized* gain or loss?
- d. What is Mike's *recognized* gain or loss?
- e. How much of the gain or loss can Mike report in his tax return?

110. Fran bought stock in the FCM corporation 4 years ago at a price of \$18,000. She sold it this year for \$22,500 and paid her broker \$225 from the proceeds of the sale.

- a. What is Fran's amount realized?
- b. What is Fran's adjusted basis?
- c. What is Fran's *realized* gain or loss?
- d. What is Fran's *recognized* gain or loss?
- e. How much of the gain or loss should be included in her tax return?

111. Mark a "Yes" to each of the following that can be found on the IRS Web site. If not, mark with a "No".

- a. A list of IRS forms
- b. A search function
- c. Advice on how to avoid paying taxes
- d. Ways to contact the IRS

112. State two reasons why a person would want to e-file their return instead of mailing it.

113. Distinguish between reporting entities and taxable entities and give examples of each.

114. What is the difference between the standard deduction and itemized deductions?

Chapter 1: The Individual Income Tax Return **Key**

1. A corporation is a reporting entity but not a tax-paying entity.

FALSE

2. Partnership capital gains and losses are allocated separately to each of the partners.

TRUE

3. Married taxpayers may double their standard deduction amount by filing separate returns.

FALSE

4. An item is not included in gross income unless the tax law specifies that the item is subject to taxation.

FALSE

5. For taxpayers who do not itemize deductions, the standard deduction amount is subtracted from the taxpayer's adjusted gross income.

TRUE

6. A taxpayer with self-employment income of \$600 must file a tax return.

TRUE

7. A dependent child with earned income in excess of the available standard deduction amount must file a tax return.

TRUE

8. A single taxpayer, who is not blind and who is under age 65, with income of \$8,750 must file a tax return.

FALSE

9. If a taxpayer is due a refund, it will be mailed to the taxpayer regardless of whether he or she files a tax return.

FALSE

10. Taxpayers with self-employment income of \$400 or more must file a tax return.

TRUE

11. If your spouse dies during the tax year and you do not remarry, you must file as single for the year of death.

FALSE

12. Taxpayers who do not qualify for married, head of household, or qualifying widow or widower filing status must file as single.

TRUE

13. If an unmarried taxpayer paid more than half the cost of keeping a home which is the principal place of residence of a nephew, who is not her dependent, she may use the head of household filing status.

FALSE

14. The maximum official individual income tax rate for 2012 is 35 percent.

TRUE

15. All taxpayers may use the tax rate schedule to determine their tax liability.

FALSE

16. The head of household tax rates are higher than the rates for a single taxpayer.

FALSE

17. Most states are community property states.

FALSE

18. If taxpayers are married and living together at the end of the year, they must file a joint tax return.

FALSE

19. A taxpayer who maintains a household with an unmarried child may qualify to file as head of household even if the child is not the taxpayer's dependent.

FALSE

20. A married person with a dependent child may choose to file as head of household if it reduces his or her tax liability.

FALSE

21. A taxpayer who is living alone and is legally separated from his or her spouse under a separate maintenance decree at year-end should file as single.

TRUE

22. An individual, age 22, enrolled on a full-time basis at a trade school, is considered a student for purposes of determining whether a dependency exemption is permitted.

TRUE

23. A dependency exemption may be claimed by the supporting taxpayer in the year of death of a dependent.

TRUE

24. For 2012, personal and dependency exemptions are \$3,800 each.

TRUE

25. Scholarships received by a student may be excluded for purposes of the support test for determining the availability of the dependency exemption.

TRUE

26. The two types of exemptions are the personal exemption and the dependency exemption.

TRUE

27. A child for whom a dependency exemption is claimed on the parents' tax return may also claim a personal exemption on his or her own tax return.

FALSE

28. If a taxpayer's adjusted gross income exceeds certain threshold amounts, he or she may be required to reduce the amount of the otherwise allowable deductions for itemized deductions and personal and dependency exemptions in 2012.

FALSE

29. Most taxpayers may deduct the standard deduction amount or the amount of their itemized deductions, whichever is higher.

TRUE

30. An individual taxpayer with a net capital loss may deduct up to \$3,000 per year against ordinary income.

TRUE

31. Taxpayers can download tax forms from the IRS Internet site.

TRUE

32. Which of the following is not a goal of the tax law?

- A. Encouraging certain social goals such as contributions to charity.
- B. Encouraging certain economic goals such as a thriving business community.
- C.** Encouraging smaller families.
- D. Raising revenue to operate the government.
- E. None of the above are goals of the tax law.

33. Which one of the following provisions was passed by Congress to meet a social goal of the tax law?

- A. The deduction for job hunting expenses
- B.** The charitable deduction
- C. The moving expense deduction for adjusted gross income
- D. The deduction for soil and water conservation costs available to farmers
- E. None of the above

34. Wesley owns and operates the Cheshire Chicken Ranch in Turpid, Nevada. The income from this ranch is \$49,000. Wesley wishes to use the easiest possible tax form. He may file:

- A. Form 1040EZ
- B. Form 1040A
- C.** Form 1040
- D. Form 1065
- E. None of the above.

35. Which of the following forms may be filed by individual taxpayers?

- A.** Form 1040
- B. Form 1041
- C. Form 1065
- D. Form 1120
- E. None of the above

36. Partnerships:

- A.** Are not taxable entities
- B. Are taxed in the same manner as individuals
- C. File tax returns on Form 1120
- D. File tax returns on Form 1041

37. Which of the following is correct?

- A. An individual is a reporting entity but not a taxable entity
- B. A partnership is a taxable entity and a reporting entity
- C. A corporation is a reporting entity but not a taxable entity
- D.** A partnership is a reporting entity but not a taxable entity

38. Form 1040 allows a taxpayer to report which of the following items that are not allowed for taxpayers who file form 1040A.

- A. Salary income
- B. Joint return status
- C. Withholding on wages
- D.** Self-employment income

39. Partnership income is reported on:

- A. Form 1040PTR
- B. Form 1120S
- C. Form 1040X
- D.** Form 1065

40. Amended returns are filed on:

- A.** Form 1040X
- B. Form 1120S
- C. Form 1041
- D. Form 1040Amend

41. Depending on the amounts of income and other tax information, some individuals may report their income on:

- A.** Form 1040A
- B. Form 1065
- C. Form 1120
- D. Form 1041

42. If an individual wishes to amend his individual tax return, he will make the amendment using what form?

- A. Form 1040A
- B.** Form 1040X
- C. Form 1120
- D. Schedule K-1
- E. None of the above

43. Eugene and Velma are married. For 2012, Eugene earned \$25,000 and Velma earned \$30,000. They have decided to file separate returns and are each entitled to claim one personal exemption. They have no deductions for adjusted gross income. Eugene's itemized deductions are \$11,200 and Velma's are \$4,000. Assuming Eugene and Velma do not live in a community property state, what is Velma's taxable income?

- A. \$14,300
- B. \$20,350
- C. \$26,000
- D.** \$22,200
- E. None of the above

44. An individual is a head of household. What is her standard deduction?

- A. \$11,900
- B. \$5,950
- C. \$14,600
- D.** \$8,700
- E. None of the above

45. Eugene and Velma are married. For 2012, Eugene earned \$25,000 and Velma earned \$30,000. They have decided to file separate returns and are each entitled to claim one personal exemption. They have no deductions for adjusted gross income. Eugene's itemized deductions are \$11,200 and Velma's are \$4,000. Assuming Eugene and Velma do not live in a community property state, what is Eugene's taxable income?

- A. \$25,000
- B. \$13,800
- C. \$13,600
- D.** \$10,000
- E. None of the above

46. Oscar and Mary have no dependents and file a joint income tax return for 2012. They have adjusted gross income of \$145,000 and itemized deductions of \$32,000. What is the amount of taxable income that Oscar and Mary must report on their 2012 income tax return?

- A. \$113,000
- B. \$109,200
- C. \$125,500
- D. \$129,300
- E.** \$105,400

47. Which of the following taxpayers does *not* have to file a tax return for 2012?

- A. A single taxpayer who is under age 65, with income of \$10,000.
- B. Married taxpayers (ages 45 and 50 years), filing jointly, with income of \$21,000.
- C. A student, age 22, with unearned income of \$1,200 who is claimed as a dependent by her parents.
- D.** A qualifying widow (age 67) with a dependent child and income of \$14,500.
- E. All of the above taxpayers must file a return.

48. In which of the following situations is the taxpayer not required to file an income tax return?

- A. When an individual has a 2012 income tax refund and would like to obtain it.
- B.** When the taxpayer is a single 67-year-old with wages of \$9,800 in 2012.
- C. When the taxpayer is a 35-year-old head of household with wages of \$16,800 in 2012.
- D. When the taxpayer is a 79-year-old widow with wages of \$16,500 in 2012.
- E. When the taxpayers are a married couple with both spouses under 65 years old with wages of \$19,800 in 2012.

49. All of the following factors are important in determining whether an individual is required to file an income tax return, *except*:

- A. The taxpayer's filing status
- B. The taxpayer's gross income
- C.** The taxpayer's total itemized deductions
- D. The availability of the additional standard deduction for taxpayers who are elderly
- E. None of the above

50. John, age 25, is a full-time student at a state university. John lives with his sister, Ann, who provides over half of his support. His only income is \$4,000 of wages from a part-time job at the college book store. What is Ann's filing status for 2012?

- A.** Single
- B. Head of household
- C. Married, filing separately
- D. Qualifying widow(er)
- E. None of the above

51. Robert is a single taxpayer who has AGI of \$145,000 in 2012; his taxable income is \$122,000. What is his federal tax liability for 2012?

- A. \$34,160
- B. \$27,087
- C.** \$27,621
- D. \$22,750
- E. \$42,449

52. William is a divorced taxpayer who provides a home for his dependent child, Edward. What filing status should William indicate on his tax return?

- A.** Head of household
- B. Married, filing separately
- C. Single
- D. Qualifying widow(er)
- E. None of the above.

53. Irma, widowed in 2011, pays all costs related to the home in which she and her unmarried son live. Her son does not qualify as her dependent. What is her filing status for 2012?

- A.** Single
- B. Married, filing separate
- C. Head of household
- D. Qualifying widow or widower
- E. None of the above.

54. Alan, whose wife died in 2010, filed a joint tax return for 2010. He did not remarry and continues to maintain his home in which his four dependent children live. In the preparation of his tax return for 2012, Alan should file as:

- A. A single individual
- B.** Qualifying widow(er)
- C. Head of household
- D. Married, filing separately
- E. None of the above

55. During 2012, Howard maintained his home in which he and his 16-year-old son resided. The son qualifies as his dependent. Howard's wife died in 2011. What is his filing status for 2012?

- A. Single
- B. Head of household
- C. Married, filing separately
- D.** Qualifying widow or widower
- E. None of the above.

56. An unmarried taxpayer who maintains a household for a dependent child and whose spouse died 4 years ago should file as:

- A. Single
- B.** Head of household
- C. Qualifying widow or widower
- D. Married, filing separately
- E. None of the above

57. John, 45 years old and unmarried, contributed \$1,000 monthly in 2012 to the support of his parents' household. The parents lived alone and their income for 2012 consisted of \$500 from dividends and interest. What is John's filing status and how many exemptions should he claim on his 2012 tax return?

- A. Single and 1 exemption
- B. Head of household and 1 exemption
- C. Single and 3 exemptions
- D.** Head of household and 3 exemptions
- E. None of the above.

58. During 2012, Murray, who is 60 years old and unmarried, provided all of the support of his elderly mother. His mother was a resident of a home for the aged for the entire year and had no income. What is Murray's filing status for 2012, and how many exemptions should he claim on his tax return?

- A.** Head of household and 2 exemptions
- B. Single and 2 exemptions
- C. Head of household and 1 exemption
- D. Single and 1 exemption
- E. None of the above.

59. During 2012, Anita was entirely supported by her three sons, Dudley, Carlton, and Isidore, who provided support for her in the following percentages:

Dudley	8 percent
Carlton	45 percent
Isidore	47 percent

Which of the brothers may be allowed to claim his mother as a dependent, assuming a multiple support agreement exists?

- A. Dudley
- B. Dudley or Carlton
- C. Carlton or Isidore**
- D. Dudley, Carlton, or Isidore
- E. None of the above.

60. Ronald is 92 years old and in poor health. Clever investing earlier in his life has left him with a sizeable income. He is able to support his son Ed. Ed is 67 years old and a bit "confused," so he lives in a nursing home. Ed's income is less than \$2,000. How many exemptions should Ronald claim on his tax return?

- A. 1
- B. 2**
- C. 3
- D. 4
- E. None of the above

61. Which of the following is a true statement with respect to the gross income test for the qualifying relative dependency exemption?

- A. The relative must receive less than \$3,800 of gross income in order to qualify.**
- B. The gross income test does not have to be met provided the relative is under age 19 at the end of the tax year.
- C. The gross income test does not have to be met provided the relative is under age 24 at the end of the tax year.
- D. The gross income test does not have to be met provided the relative is a student.
- E. All of the above statements are true.

62. Albert and Louise, ages 66 and 64 respectively, filed a joint return for 2012. They provided all of the support for their blind 19-year-old son, who had no gross income. They also provided the total support of Louise's father, who is a citizen and life-long resident of Peru. How many exemptions may they claim on their 2012 tax return?

- A. 2
- B. 3**
- C. 4
- D. 5
- E. None of the above.

63. Which of the following relatives will not satisfy the relationship test for the dependency exemption?

- A. Sister
- B. Adopted child
- C. Aunt
- D. Parent
- E. All of the above satisfy the test**

64. Which of the following is not a test that must be met for a child to be considered a dependent?

- A. Age test
- B. Domicile test
- C. Citizenship test
- D. Relationship test
- E.** Blood test

65. Mr. and Mrs. Vonce, both age 62, file a joint return for 2012. They provided all the support for their daughter who is 19, legally blind, and who earns no income. Their son, age 21 and a full-time student at a university, had \$4,200 of income and provided 70 percent of his own support during 2012. How many exemptions may Mr. and Mrs. Vonce claim on their 2012 tax return?

- A. 2
- B.** 3
- C. 4
- D. 5
- E. None of the above.

66. Taxpayers who are blind get the benefit of:

- A. An extra exemption
- B.** An additional amount added to their standard deduction
- C. Two standard deductions
- D. None of the above

67. Martin, a 50-year-old single taxpayer, paid the full cost of maintaining his dependent mother in a home for the aged for the entire year. What is the amount of Martin's standard deduction for 2012?

- A. \$5,950
- B.** \$8,700
- C. \$9,950
- D. \$10,600
- E. None of the above.

68. Jill is a 16-year-old child who is claimed as a dependent by her parents. Jill's only income is \$1,400 from her bank savings account. What is the amount of Jill's standard deduction for 2012?

- A. \$1,200
- B.** \$950
- C. \$3,800
- D. \$5,950
- E. None of the above

69. Your standard deduction will be \$5,950 in 2012 if you are:

- A. Single and 67 years old.
- B.** Single and 45 years old.
- C. Single, 27 years old and blind.
- D. A nonresident alien.
- E. A married individual filing a separate return and your spouse itemizes his deductions.

70. Brian (60 years old) is single and legally blind. Brian supports his father, who is 88 years old and blind, by paying the rent and other costs of his father's residence. What is the total standard deduction amount that Brian should claim on his 2012 tax return?

- A. \$7,250
- B. \$13,050
- C.** \$10,150
- D. \$12,050
- E. None of the above.

71. Clay purchased Elm Corporation stock 20 years ago for \$10,000. In 2012, he sells the stock for \$29,000. What is Clay's gain or loss?

- A.** \$19,000 long-term
- B. \$19,000 short-term
- C. \$19,000 ordinary
- D. \$3,000, with the excess carried forward
- E. No gain or loss is recognized on this transaction

72. Alexis has a long-term capital loss of \$13,000 on the sale of stock in 2012. Her taxable income without this transaction is \$60,000. What is her taxable income considering this capital loss?

- A. \$60,000
- B.** \$57,000
- C. \$54,000
- D. \$47,000
- E. Some other amount

73. Which of the following is not a capital asset?

- A.** Inventory
- B. Stocks
- C. A personal automobile
- D. Gold
- E. Land

74. Bob owns a rental property that he bought several years ago for \$260,000. He has taken depreciation on the house of \$37,000 since buying it. He sells it in 2012 for \$290,000. His selling expenses were \$12,000 for the year. What was Bob's realized gain on the sale?

- A. \$30,000
- B. \$55,000**
- C. \$67,000
- D. \$18,000
- E. None of the above.

75. The IRS:

- A. has a YouTube video site**
- B. links to the H & R Block Web site
- C. provides information on how to choose a stock
- D. has a game page

76. Internet users can sign on to <http://www.irs.gov/> and

- A. Download tax forms and publications
- B. Find links to other useful IRS pages
- C. Use a search function to find forms and publications
- D. All of the above**

77. Electronic filing (e-filing)

- A. Reduces the chances that the IRS will make mistakes when inputting tax return information**
- B. Generally results in a slower refund
- C. Can be done only by telephone
- D. Requires the services of a professional

78. Electronically filed tax returns:

- A. May not be transmitted from a taxpayer's home computer
- B. Constitute more than 90 percent of the returns filed with the IRS
- C. Have error rates similar to paper returns
- D. Offer faster refunds than paper returns**

79. Mark a “Yes” to each of the following if it is an objective of the tax code. Otherwise mark with a “No”.

- a. To provide a car to each American
- b. To promote giving to charities
- c. To encourage taxpayers to send their children to college
- d. To raise money to operate the government
- e. To promote the use of solar energy

- a. No
- b. Yes
- c. Yes
- d. Yes
- e. Yes

80. List two general objectives of the tax code.

The tax code promotes social goals and economic goals.

81. Mark each of the following as a taxable entity or as a reporting entity:

- a. Individuals
 - b. Corporations
 - c. Partnerships
-
- a. Taxable entity
 - b. Taxable entity
 - c. Reporting entity

82. List if a form is used for an individual, a corporation, or a partnership tax return.

- a. Form 1065
 - b. Schedule A, Itemized Deductions
 - c. Form 1040
 - d. Form 1120
 - e. Schedule B, Interest and Dividends
-
- a. Partnership
 - b. Individual
 - c. Individual
 - d. Corporation
 - e. Individual

83. Barry (age 45) is a single taxpayer. In 2012, he has gross income of \$15,000 and itemized deductions of \$6,500. If Barry claims one exemption on his 2012 income tax return, calculate the following amounts:

- a. His personal exemption amount
- b. Barry's taxable income

- a. \$3,800
- b. $\$4,700 = \$15,000 - 6,500 - 3,800$

84. What is the formula for computing taxable income, as summarized in the text?

Gross income
- Deductions for adjusted gross income
= Adjusted gross income
- Greater of itemized deductions or standard deduction
- Exemptions
= Taxable income

85. Mary (age 33) is a single taxpayer with adjusted gross income for 2012 of \$21,040. Mary maintains a home for two dependent children and has itemized deductions of \$3,000. Calculate the following amounts for Mary's 2012 income tax return:

- a. The number of exemptions claimed
- b. Mary's standard or itemized deduction amount
- c. Mary's taxable income

- a. 3
- b. \$8,700
- c. $\$940 = \$21,040 - 8,700 - 11,400$

86. Kenzie is a research scientist in Tallahassee, Florida. Her husband Gary stays home to take care of their two young children. Kenzie's total wages for 2012 were \$60,000 from which \$6,500 of federal income tax was withheld.

Calculate the income tax due with, or refund receivable from, Kenzie and Gary's 2012 individual income tax return. Use the tax formula for individuals and show your work.

Gross income	\$60,000
Deductions for adjusted gross income	<u>-0-</u>
Adjusted gross income	\$60,000
Standard deduction	(11,900)
Personal exemptions (4)	<u>(15,200)</u>
Taxable income	<u>\$32,900</u>
Gross tax liability (from tax table)	\$ 4,069
Tax withheld	<u>(6,500)</u>
Refund due	<u>\$ (2,431)</u>

87. Betty (age 39) and Steve (age 50) are married with two dependent children. They file a joint return for 2012. Their income from salaries totals \$155,400; they receive \$1,000 in taxable interest and \$2,000 in royalties. Their deductions for adjusted gross income amount to \$3,200; they have itemized deductions totaling \$40,000. Calculate the following amounts:

- Gross income
 - Adjusted gross income
 - Itemized deduction or standard deduction amount
 - Deduction for exemptions
 - Taxable income
 - Regular income tax liability from rate schedules
-
- $\$158,400 = \$155,400 + \$1,000 + \$2,000$
 - $\$155,200 = \$158,400 - \$3,200$
 - $\$40,000$
 - $\$15,200 = 4 \times \$3,800$
 - $\$100,000 = \$155,200 - \$40,000 - \$15,200$
 - $\$17,060$ (tax rate schedule: $\$9,735 + 25\% (\$100,000 - \$70,700)$)

88. Melissa is a 35-year-old single taxpayer with adjusted gross income of \$49,000. She uses the standard deduction and has no dependents.

- Calculate Melissa's taxable income. Please show your work.
 - When you calculate Melissa's tax liability, are you required to use the tax tables or the tax rate schedules, or does it matter?
 - What is Melissa's tax liability?
-
- $\$39,250 = \$49,000 - \$5,950 - \$3,800$
 - Taxpayers with income less than \$100,000 must use the tax tables.
 - \$5,849

89. Steven, age 35, is a single commodities broker. His salary for 2012 is \$110,000 and he has taxable interest income of \$40,000. He has no deductions for adjusted gross income. His itemized deductions are \$30,000. Steven does not have any dependents.

- What is the amount of his adjusted gross income?
- What are his allowable itemized deductions?
- What is his deduction for personal exemptions?
- What is his taxable income?
- What is his regular tax liability from the tax rate schedules?

- $\$150,000 = \$110,000 + \$40,000$
- $\$30,000$
- $\$3,800$
- $\$116,200 = \$150,000 - \$30,000 - \$3,800$
- $\$25,997$ [tax rate schedule: $\$17,443 + .28 (\$116,200 - \$85,650)$]

90. Nathan is 24 years old and works as an accountant in a salmon cannery in Alaska. His total wages for 2012 were \$32,000. Federal income tax of \$4,500 was withheld from his wages. His only other income was \$210 of interest and he had no deductible expenses.

Calculate the income tax due with, or refund receivable from, Nathan's 2012 individual income tax return. Use the tax formula for individuals and show your work.

Gross income	\$32,210
Deductions for adjusted gross income	<u>-0-</u>
Adjusted gross income	\$32,210
Standard deduction	(5,950)
Personal exemption	<u>(3,800)</u>
Taxable income	<u>\$22,460</u>
Gross tax liability (from tax table)	\$ 2,936
Tax withheld	<u>(4,500)</u>
Refund due	<u>\$ (1,564)</u>

91. In 2012, Len has a salary of \$40,000 from his job. He also has interest income of \$300. Len is single and has no dependents. During the year, Len sold stock held as an investment for a \$10,000 loss. Calculate the following amounts for Len.

- Adjusted gross income
- Standard deduction
- Exemption
- Taxable income
- Tax liability
- Explain the tax treatment of the loss from the stock sale.

- a. $\$37,300 = \$40,000 + \$300 - \$3,000$
- b. $\$5,950$
- c. $\$3,800$
- d. $\$27,550 = \$37,300 - \$5,950 - \$3,800$
- e. $\$3,701$ (tax table)
- f. Up to \$3,000 of capital loss per year can be deducted from ordinary income; any unused portion can be carried forward.

92. Roger (age 39) and Lucy (age 37) are married taxpayers who file a joint income tax return for 2012. They have gross income of \$25,400. Their deductions for adjusted gross income are \$550 and they have itemized deductions of \$5,300. If Roger and Lucy claim two personal exemptions and no dependency exemptions for 2012, calculate the following amounts:

- a. Their adjusted gross income
- b. The amount of their standard deduction or itemized deductions
- c. Their taxable income

- a. $\$24,850 = \$25,400 - \$550$
- b. $\$11,900$
- c. $\$5,350 = \$24,850 - \$11,900 - \$7,600$

93. Hansel and Gretel are married taxpayers who file a joint income tax return for 2012. They have no dependents. On their 2012 income tax return, they have adjusted gross income of \$62,000 and total itemized deductions of \$4,000. What is their taxable income?

$$\$42,500 = \$62,000 - \$11,900 - \$7,600$$

94. Rod (age 50) and Ann (age 49) are married taxpayers who file a joint return for 2012. They have gross income of \$150,000. Their deductions for adjusted gross income are \$5,000 and they have itemized deductions of \$12,000, consisting of \$7,000 in state income taxes and \$5,000 in mortgage interest expense. If they claim two personal exemptions and no dependency exemptions for 2012, calculate the following amounts:

- a. Their adjusted gross income
- b. The amount of their standard deduction or itemized deductions
- c. Their taxable income

- a. $\$145,000 = \$150,000 - \$5,000$
- b. $\$12,000$
- c. $\$125,400 = \$145,000 - \$12,000 - \$7,600$

95. Theodore (age 74) and Maureen (age 59) are married taxpayers with two dependents. Their adjusted gross income for the 2012 tax year is \$43,000, and they have itemized deductions of \$7,750. Determine the following for Theodore and Maureen's 2012 income tax return:

- a. The number of exemptions
- b. The amount of their standard deduction or itemized deductions
- c. Their taxable income

- a. 4
- b. $\$13,050 = \$11,900 + \$1,150$
- c. $\$14,750 = \$43,000 - \$13,050 - \$15,200$

96. George (age 67) and Linda (age 60) are married taxpayers with two dependent children. Their adjusted gross income for the 2012 tax year is \$138,000. They have itemized deductions of \$24,000. Determine the following for their joint tax return for 2012:

- a. The number of exemptions
- b. Exemption deduction amount
- c. The amount of their standard deduction or itemized deductions
- d. Taxable income

- a. 4
- b. $\$15,200 = 4 \times \$3,800$
- c. \$24,000
- d. $\$98,800 = \$138,000 - \$24,000 - \$15,200$

97. Monica is a maid in a San Francisco hotel. Monica received \$500 in unreported tips during 2012 and owes Social Security taxes on these tips. Her total income for the year, including tips, is \$4,500. Is Monica required to file an income tax return for 2012?

Why?

Yes. Monica must file a return and pay Social Security taxes on the unreported tips.

98. For each of the following situations, indicate whether the taxpayer(s) is(are) required to file a tax return for 2012. Explain your answer.

- a. Debra (age 68) and Jerry (age 70) are married and file a joint return. They received \$22,000 in interest income from a savings account.
 - b. Margie is a single taxpayer with wages in 2012 of \$8,400 and interest income of \$200.
 - c. Janie (age 30) and Scott (age 28) are married and file a joint tax return. They had \$17,000 in earnings from wages.
 - d. Kim, age 20, is a single college student who is claimed as a dependent by her parents. She earned \$2,000 from a part-time job and has \$450 in interest income.
 - e. Stefanie, a 25-year-old single taxpayer, has wages of \$1,500, from which \$80 of federal income tax was withheld.
-
- a. Yes. The standard deduction of \$11,900 plus \$7,600 in personal exemptions plus 2 additional standard deductions of \$1,150 each add up to \$21,800, less than the income of \$22,000.
 - b. No. Income of \$8,600 is less than the sum of the \$3,800 personal exemption plus the \$5,950 standard deduction.
 - c. No. The income of \$17,000 is less than the sum of the \$7,600 personal exemptions plus the \$11,900 standard deduction.
 - d. Yes. Gross income is more than the larger of \$950 or \$2,300 (earned income of \$2,000 plus \$300).
 - e. No. Stefanie is not required to file a tax return, but she must file if she wishes to receive a refund of the income tax withheld.

99. Norman and Linda are married taxpayers with taxable income of \$125,000.

- a. When you calculate their tax liability are you required to use the tax tables or the tax rate schedules, or does it matter?
- b. What is their tax liability?

- a. Taxpayers with incomes of \$100,000 or more must use the tax rate schedules.
- b. Tax liability: $\$23,310 = \$9,735 + .25(\$125,000 - \$70,700)$

100. Curt and Linda were married on December 31, 2012. What are their options for filing status for their 2012 taxes?

They may file either as married filing joint or married filing separately. Even though they were married on the last day of the year, they must file as if they were married for the full year.

101. Madeline is single and supports her 85-year-old parents who live in a senior home paid for by Madeline and have no income. What is Madeline's filing status and why?

Head of household. Madeline is single, and Madeline's parents meet the tests to qualify as her dependents. Parents are the only exception to the requirement that dependents must live in the same household as the taxpayer to qualify the taxpayer for head of household status.

102. List each alternative filing status available to unmarried individual taxpayers.

Single.

Head of household.

Qualifying widow(er).

103. Determine from the tax table or the tax rate schedule, whichever is appropriate, the amount of the income tax for each of the following taxpayers for 2012.

<u>Taxpayer(s)</u>	<u>Filing Status</u>	<u>Taxable Income</u>	<u>Income Tax</u>
Macintosh	Single	\$35,680	
Hindmarsh	MFS	\$62,100	
Kinney	MFJ	\$142,000	
Rosenthal	H of H	\$91,350	
Wilk	Single	\$21,130	

Macintosh, \$4,949 (tax table)

Hindmarsh, \$11,561 (tax table)

Kinney, \$27,560 [tax rate schedule: $\$9,735 + .25(\$142,000 - \$70,700)$]

Rosenthal, \$17,489 (tax table)

Wilk, \$2,734 (tax table)

104. Jeri is single and supports her 45-year-old son who has income of \$350 from working in a pumpkin patch during October and lives in his own apartment.

a. Can she claim him as a dependent?

b. Can she claim head of household filing status? Why or why not?

a. Yes, her son qualifies as a dependent

b. No. Her son must live in the same household with Jeri in order for Jeri to be able to file as head of household.

105. If Jessica, a 17-year-old guitarist in a successful band, earns \$100,000 a year and is completely self-supporting although she lives with her parents, can her parents claim her as a dependent? Why or why not?

Because Jessica is self-supporting, her parents may not claim her as a dependent. The self-support test is applied to both children and relatives who otherwise qualify, so Jessica is disqualified.

106. Karl's father, Vronsky, who is a 60-year-old Russian citizen, lived in Russia for the full year. Karl supported Vronsky while he looked for work. Vronsky had no income. Can Karl claim Vronsky as a dependent?

Vronsky can not be claimed as a dependent because he is not a U.S. citizen.

107. Calculate the amount of the standard deduction the taxpayers should claim on their 2012 income tax returns.

- a. Kelly and Glenn are married with one dependent child. They file a joint return, are in good health, and both of them are under 65 years of age. They also support her aging father.
- b. Fran is 24 years old, in good health, and single.
- c. George and Georgina are married and file a joint return. George is 64 years old and Georgina is 63.
- d. Norm is 62, single and blind.
- e. Kimberly qualifies for head of household filing status, is 42 years old, and is in good health.
- f. Lizzie is 11 years old and her only income is \$3,200 of interest on a savings account. She is claimed as a dependent on her parents' tax return.

- a. \$11,900
- b. \$5,950
- c. \$11,900
- d. \$7,400. An additional \$1,450 is allowed due to blindness.
- e. \$8,700
- f. \$950. She is claimed as a dependent on her parents' tax return

108. How should a taxpayer decide whether to take the standard deduction or claim itemized deductions?

A taxpayer should claim the larger of the standard deduction or the total allowed itemized deductions since the amount reduces the taxpayer's income subject to tax.

109. Mike purchased stock in MDH corporation 5 years ago for \$15,250. This year he sold it for \$12,800 and then paid a \$150 sales commission to his broker.

- a. What is Mike's amount realized?
 - b. What is Mike's adjusted basis?
 - c. What is Mike's *realized* gain or loss?
 - d. What is Mike's *recognized* gain or loss?
 - e. How much of the gain or loss can Mike report in his tax return?
-
- a. Amount realized: $\$12,650 = \$12,800 - \$150$
 - b. Adjusted basis: $\$15,250$
 - c. Realized loss: $\$12,800 - \$150 - \$15,250 = \$2,600$
 - d. Recognized loss: $\$12,800 - \$150 - \$15,250 = \$2,600$
 - e. \$2,600. Up to \$3,000 of capital loss can be written off each year.

110. Fran bought stock in the FCM corporation 4 years ago at a price of \$18,000. She sold it this year for \$22,500 and paid her broker \$225 from the proceeds of the sale.

- a. What is Fran's amount realized?
- b. What is Fran's adjusted basis?
- c. What is Fran's *realized* gain or loss?
- d. What is Fran's *recognized* gain or loss?
- e. How much of the gain or loss should be included in her tax return?

a. Amount realized: $\$22,275 = \$22,500 - \$225$

b. Adjusted basis: \$18,000

c. Realized gain: $\$22,500 - \$225 - \$18,000 = \$4,275$

d. Recognized gain: $\$22,500 - \$225 - \$18,000 = \$4,275$

e. \$4,275. There is no limit on the amount of capital gain to be included in tax returns.

111. Mark a "Yes" to each of the following that can be found on the IRS Web site. If not, mark with a "No".

- a. A list of IRS forms
- b. A search function
- c. Advice on how to avoid paying taxes
- d. Ways to contact the IRS

a. Yes

b. Yes

c. No

d. Yes

112. State two reasons why a person would want to e-file their return instead of mailing it.

A return that is e-filed has a smaller error rate than paper-filed returns. (Less than 1 percent versus more than 20 percent). E-filing also offers a faster refund by direct depositing the refund into the taxpayer's bank account.

113. Distinguish between reporting entities and taxable entities and give examples of each.

A partnership is an example of a reporting entity. It pays no tax, but must report partnership income or loss and the allocation of income or loss to partners. Individuals, corporations, estates, and trusts are examples of taxable entities whose income is subject to federal income taxation.

114. What is the difference between the standard deduction and itemized deductions?

The standard deduction is a flat amount, varying based on a taxpayer's filing status (single, married, head of household, etc.), age, and vision, which is deducted from adjusted gross income (AGI) along with a taxpayer's exemptions to arrive at taxable income.

Itemized deductions are expenses paid by a taxpayer including medical expenses (over the 7.5 percent of AGI limit), various taxes, home mortgage interest and investment interest, charitable contributions, personal casualty losses and miscellaneous deductions (over the 2 percent of AGI limit). If the total itemized deductions are larger than the taxpayer's standard deduction the taxpayer should complete Schedule A, listing all itemized deductions, and use this amount instead of the standard deduction. By itemizing deductions when they are larger than the standard deduction, taxpayers may reduce their taxable income and pay less tax.