

Chapter 1: The Individual Income Tax Return

Student: _____

1. 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

2. 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

3. 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

4. For 2011, personal and dependency exemptions are worth \$3,700 each.

True False

5. 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

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

True False

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

True False

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

True False

9. 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

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

18. 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

19. 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
20. A dependency exemption may be claimed by the supporting taxpayer in the year of death of a dependent.
True False
21. The maximum official individual income tax rate for 2011 is 35 percent.
True False
22. A dependent child with earned income in excess of the available standard deduction amount must file a tax return.
True False
23. Elderly taxpayers (65 and over) receive an additional standard deduction amount.
True False
24. 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 2011.
True False
25. 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
26. The head of household tax rates are higher than the rates for a single taxpayer.
True False
27. Most taxpayers may deduct the standard deduction amount or the amount of their itemized deductions, whichever is higher.
True False

28. Most states are community property states.

True False

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

True False

30. 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

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

True False

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

True False

33. 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.

34. 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

35. Which of the following taxpayers does *not* have to file a tax return for 2011?
- 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 \$19,500.
 - 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.
36. 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.
37. 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.
38. 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 2011 tax return?
- A. \$7,250
 - B. \$13,050
 - C. \$9,950
 - D. \$12,050
 - E. None of the above.
39. 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 2011?
- A. \$5,800
 - B. \$8,500
 - C. \$9,950
 - D. \$10,600
 - E. None of the above.

40. During 2011, Murray, who is 60 years old and unmarried, provided all of the support of his aged 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 2011, 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.

41. Irma, widowed in 2009, 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 2011?

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

42. Mr. and Mrs. Vonce, both age 62, file a joint return for 2011. 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 2011. How many exemptions may Mr. and Mrs. Vonce claim on their 2011 tax return?

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

43. John, 45 years old and unmarried, contributed \$1,000 monthly in 2011 to the support of his parents' household. The parents lived alone and their income for 2011 consisted of \$500 from dividends and interest. What is John's filing status and how many exemptions should he claim on his 2011 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.

44. During 2011, 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.

45. Albert and Louise, ages 66 and 64 respectively, filed a joint return for 2011. 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 2011 tax return?

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

46. During 2011, 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 2010. What is his filing status for 2011?

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

47. Eugene and Velma are married. For 2011, 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 \$9,400 and Velma's are \$1,700. Assuming Eugene and Velma do not live in a community property state, what is Eugene's taxable income?

- A. \$25,000
- B. \$15,600
- C. \$19,300
- D. \$11,900
- E. None of the above

48. Eugene and Velma are married. For 2011, 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 \$9,400 and Velma's are \$1,700. Assuming Eugene and Velma do not live in a community property state, what is Velma's taxable income?

- A. \$19,300
- B. \$20,650
- C. \$24,300
- D. \$24,600
- E. None of the above

49. 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

50. 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 2011?

- A. \$1,200
- B. \$950
- C. \$3,700
- D. \$5,800
- E. None of the above

51. 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

52. An unmarried taxpayer who maintains a household for a dependent child and whose spouse died in the prior year should file as:

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

53. 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 home for the aged. 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

54. 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 \$3,700 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.

55. 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 2011?

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

56. 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

57. Oscar and Mary have no dependents and file a joint income tax return for 2011. 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 2011 income tax return?

- A. \$113,000
- B. \$109,500
- C. \$129,000
- D. \$130,600
- E. \$105,600

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

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

59. Alan, whose wife died in 2010, filed a joint tax return for 2010. During 2011, he did not remarry and continued to maintain his home in which his four dependent children lived. In the preparation of his tax return for 2011, 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

60. Clay purchased Elm Corporation stock 20 years ago for \$10,000. In 2011, 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

61. Alexis has a long-term capital loss of \$13,000 on the sale of stock in 2011. 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

62. 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

63. 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

64. 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

65. 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

66. 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

67. Partnership income is reported on:

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

68. Amended returns are filed on:

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

69. 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

70. 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

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

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

72. 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

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

- A. \$11,600
- B. \$5,800
- C. \$14,600
- D. \$8,500
- E. None of the above

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

- A. When an individual has a 2011 income tax refund and would like to obtain it.
- B. When the taxpayer is a single 67-year-old who made \$9,800 in 2011.
- C. When the taxpayer is a 35-year-old head of household who made \$15,800 in 2011.
- D. When the taxpayer is a 79-year-old widow who made \$16,500 in 2011.
- E. When the taxpayers are a married couple with both spouses under 65 years old who made \$19,800 in 2011.

75. Robert is a single taxpayer who has AGI of \$145,000 in 2011; his taxable income is \$122,000. What is his federal tax liability for 2011?
- A. \$34,160
 - B. \$27,087
 - C. \$27,777
 - D. \$22,750
 - E. \$42,449
76. 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
77. Your standard deduction will be \$5,800 in 2011 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.
78. 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 2011 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.
79. Barry (age 45) is a single taxpayer. In 2011, he has gross income of \$15,000 and itemized deductions of \$6,500. If Barry claims one exemption on his 2011 income tax return, calculate the following amounts:
- a. His personal exemption amount
 - b. Barry's taxable income

80. Mary (age 33) is a single taxpayer with adjusted gross income for 2011 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 2011 income tax return:

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

81. Roger (age 39) and Lucy (age 37) are married taxpayers who file a joint income tax return for 2011. 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 2011, calculate the following amounts:

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

82. Theodore (age 74) and Maureen (age 59) are married taxpayers with two dependents. Their adjusted gross income for the 2011 tax year is \$43,000, and they have itemized deductions of \$7,750. Determine the following for Theodore and Maureen's 2011 income tax return:

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

83. George (age 67) and Linda (age 60) are married taxpayers with two dependent children. Their adjusted gross income for the 2011 tax year is \$138,000. They have itemized deductions of \$24,000. Determine the following for their joint tax return for 2011:

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

84. For each of the following situations, indicate whether the taxpayer(s) is(are) required to file a tax return for 2011. 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 2011 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.

85. Monica is a maid in a San Francisco hotel. Monica received \$500 in unreported tips during 2011 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 2011?

Why?

86. 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 2011.

<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	

87. Betty (age 39) and Steve (age 50) are married with two dependent children. They file a joint return for 2011. Their income from salaries totals \$155,000; 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. Steven, age 35, is a single commodities broker. His salary for 2011 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?

89. In 2011, 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.

90. Nathan is 24 years old and works as an accountant in a salmon cannery in Alaska. His total wages for 2011 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 2011 individual income tax return. Use the tax formula for individuals and show your work.

91. 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 2011 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 2011 individual income tax return. Use the tax formula for individuals and show your work.

92. 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?

93. 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?

94. Calculate the amount of the standard deduction the taxpayers should claim on their 2011 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.

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

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

97. 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?

98. 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?

99. Curt and Linda were married on December 31, 2011. What are their options for filing status for their 2011 taxes?

100. 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?

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 and the circumstances under which the alternatives can be used.

103. 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?

104. 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?

105. Hansel and Gretel are married taxpayers who file a joint income tax return for 2011. They have no dependents. On their 2011 income tax return, they have adjusted gross income of \$62,000 and total itemized deductions of \$4,000. What is their taxable income?

106. Rod (age 50) and Ann (age 49) are married taxpayers who file a joint return for 2011. 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 2011, calculate the following amounts:

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

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

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

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

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

FALSE

2. 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

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

FALSE

4. For 2011, personal and dependency exemptions are worth \$3,700 each.

TRUE

5. 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

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

TRUE

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

TRUE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

FALSE

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

TRUE

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

TRUE

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

FALSE

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

FALSE

18. 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

19. 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

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

TRUE

21. The maximum official individual income tax rate for 2011 is 35 percent.

TRUE

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

TRUE

23. Elderly taxpayers (65 and over) receive an additional standard deduction amount.

TRUE

24. 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 2011.

FALSE

25. 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

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

FALSE

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

TRUE

28. Most states are community property states.

FALSE

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

FALSE

30. 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

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

TRUE

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

TRUE

33. 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.

34. 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

35. Which of the following taxpayers does *not* have to file a tax return for 2011?

- 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 \$19,500.
- 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.

36. 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.

37. 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.

38. 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 2011 tax return?

- A. \$7,250
- B. \$13,050
- C.** \$9,950
- D. \$12,050
- E. None of the above.

39. 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 2011?

- A. \$5,800
- B.** \$8,500
- C. \$9,950
- D. \$10,600
- E. None of the above.

40. During 2011, Murray, who is 60 years old and unmarried, provided all of the support of his aged 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 2011, 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.

41. Irma, widowed in 2009, 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 2011?

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

42. Mr. and Mrs. Vonce, both age 62, file a joint return for 2011. 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 2011. How many exemptions may Mr. and Mrs. Vonce claim on their 2011 tax return?

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

43. John, 45 years old and unmarried, contributed \$1,000 monthly in 2011 to the support of his parents' household. The parents lived alone and their income for 2011 consisted of \$500 from dividends and interest. What is John's filing status and how many exemptions should he claim on his 2011 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.

44. During 2011, 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.

45. Albert and Louise, ages 66 and 64 respectively, filed a joint return for 2011. 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 2011 tax return?

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

46. During 2011, 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 2010. What is his filing status for 2011?

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

47. Eugene and Velma are married. For 2011, 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 \$9,400 and Velma's are \$1,700. Assuming Eugene and Velma do not live in a community property state, what is Eugene's taxable income?

- A. \$25,000
- B. \$15,600
- C. \$19,300
- D. \$11,900**
- E. None of the above

48. Eugene and Velma are married. For 2011, 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 \$9,400 and Velma's are \$1,700. Assuming Eugene and Velma do not live in a community property state, what is Velma's taxable income?

- A. \$19,300
- B. \$20,650
- C. \$24,300
- D. \$24,600**
- E. None of the above

49. 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**

50. 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 2011?

- A. \$1,200
- B. \$950**
- C. \$3,700
- D. \$5,800
- E. None of the above

51. 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

52. An unmarried taxpayer who maintains a household for a dependent child and whose spouse died in the prior year should file as:

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

53. 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 home for the aged. 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

54. 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 \$3,700 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.

55. 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 2011?

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

56. 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

57. Oscar and Mary have no dependents and file a joint income tax return for 2011. 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 2011 income tax return?

- A. \$113,000
- B. \$109,500
- C. \$129,000
- D. \$130,600
- E. \$105,600**

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

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

59. Alan, whose wife died in 2010, filed a joint tax return for 2010. During 2011, he did not remarry and continued to maintain his home in which his four dependent children lived. In the preparation of his tax return for 2011, 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

60. Clay purchased Elm Corporation stock 20 years ago for \$10,000. In 2011, 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

61. Alexis has a long-term capital loss of \$13,000 on the sale of stock in 2011. 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

62. 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

63. 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

64. 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

65. 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

66. 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

67. Partnership income is reported on:

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

68. Amended returns are filed on:

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

69. 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

70. 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

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

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

72. 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

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

- A. \$11,600
- B. \$5,800
- C. \$14,600
- D.** \$8,500
- E. None of the above

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

- A. When an individual has a 2011 income tax refund and would like to obtain it.
- B.** When the taxpayer is a single 67-year-old who made \$9,800 in 2011.
- C. When the taxpayer is a 35-year-old head of household who made \$15,800 in 2011.
- D. When the taxpayer is a 79-year-old widow who made \$16,500 in 2011.
- E. When the taxpayers are a married couple with both spouses under 65 years old who made \$19,800 in 2011.

75. Robert is a single taxpayer who has AGI of \$145,000 in 2011; his taxable income is \$122,000. What is his federal tax liability for 2011?

- A. \$34,160
- B. \$27,087
- C. \$27,777**
- D. \$22,750
- E. \$42,449

76. 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**

77. Your standard deduction will be \$5,800 in 2011 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.

78. 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 2011 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.

79. Barry (age 45) is a single taxpayer. In 2011, he has gross income of \$15,000 and itemized deductions of \$6,500. If Barry claims one exemption on his 2011 income tax return, calculate the following amounts:

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

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

80. Mary (age 33) is a single taxpayer with adjusted gross income for 2011 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 2011 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. **\$8,500**
- c. **\$1,440** = \$21,040 - 8,500 - 11,100

81. Roger (age 39) and Lucy (age 37) are married taxpayers who file a joint income tax return for 2011. 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 2011, 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. **\$11,600**
- c. **\$5,850** = \$24,850 - 11,600 - 7,400

82. Theodore (age 74) and Maureen (age 59) are married taxpayers with two dependents. Their adjusted gross income for the 2011 tax year is \$43,000, and they have itemized deductions of \$7,750. Determine the following for Theodore and Maureen's 2011 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. **\$12,750**
- c. **\$15,450** = \$43,000 - 12,750 - 14,800

83. George (age 67) and Linda (age 60) are married taxpayers with two dependent children. Their adjusted gross income for the 2011 tax year is \$138,000. They have itemized deductions of \$24,000. Determine the following for their joint tax return for 2011:

- 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. **\$14,800** = 4 x \$3,700
- c. **\$24,000**
- d. **\$99,200** = \$138,000 - 24,000 - 14,800

84. For each of the following situations, indicate whether the taxpayer(s) is(are) required to file a tax return for 2011. 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 2011 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 \$11,600 plus \$7,400 in personal exemptions plus 2 additional standard deductions of \$1,150 each add up to \$21,300, less than the income of \$22,000.
- b. No. Income of \$8,600 is less than the sum of the \$3,700 personal exemption plus the \$5,800 standard deduction.
- c. No. The taxable income of \$17,000 is less than the sum of the \$7,400 personal exemptions plus the \$11,600 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.

85. Monica is a maid in a San Francisco hotel. Monica received \$500 in unreported tips during 2011 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 2011?

Why?

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

86. 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 2011.

<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, **\$5,044** (tax table)
 Hindmarsh, **\$11,656** (tax table)
 Kinney, **\$27,829.50** (tax rate schedule: $\$27,087.50 + \742)
 Rosenthal, **\$17,611** (tax table)
 Wilk, **\$2,744** (tax table)

87. Betty (age 39) and Steve (age 50) are married with two dependent children. They file a joint return for 2011. Their income from salaries totals \$155,000; 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

- \$158,000** = $\$155,000 + \$1,000 + \$2,000$
- \$154,800** = $\$158,000 - \$3,200$
- \$40,000**
- \$14,800** = $4 \times \$3,700$
- \$100,000**
- \$17,250** (tax rate schedule: $\$9,500 + \$7,750$)

88. Steven, age 35, is a single commodities broker. His salary for 2011 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?

- a. **\$150,000** = \$110,000 + \$40,000
- b. **\$30,000**
- c. **\$3,700**
- d. **\$116,300** = \$150,000 - \$30,000 - \$3,700
- e. **\$26,181** (tax rate schedule: \$17,025 + \$9,156)

89. In 2011, 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.

- a. **\$37,300** = \$40,000 + \$300 - \$3,000
- b. **\$5,800**
- c. **\$3,700**
- d. **\$27,800** = \$37,300 - \$5,800 - \$3,700
- e. **\$3,749** (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.

90. Nathan is 24 years old and works as an accountant in a salmon cannery in Alaska. His total wages for 2011 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 2011 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	(5,800)
Personal exemption	<u>(3,700)</u>
Taxable income	<u>\$22,710</u>
Gross tax liability (from tax table)	\$ 2,984
Tax withheld	<u>(4,500)</u>
Refund due	<u>\$ (1,516)</u>

91. 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 2011 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 2011 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	(11,600)
Personal exemptions (4)	<u>(14,800)</u>
Taxable income	<u>\$33,600</u>
Gross tax liability (from tax table)	\$ 4,194
Tax withheld	<u>(6,500)</u>
Refund due	<u>\$ (2,306)</u>

92. 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.

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

- Amount realized: **\$12,650**
- Adjusted basis: **\$15,250**
- Realized loss: $\$12,800 - \$150 - \$15,250 = \mathbf{\$2,600}$
- Recognized loss: $\$12,800 - \$150 - \$15,250 = \mathbf{\$2,600}$
- \$2,600**. Up to \$3,000 of capital loss can be written off each year.

93. 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.

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

- Amount realized: **\$22,275**
- Adjusted basis: **\$18,000**
- Realized gain: $\$22,500 - \$225 - \$18,000 = \mathbf{\$4,275}$
- Recognized gain: $\$22,500 - \$225 - \$18,000 = \mathbf{\$4,275}$
- \$4,275**. There is no limit on the amount of capital gain to be included in tax returns.

94. Calculate the amount of the standard deduction the taxpayers should claim on their 2011 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. **\$11,600**
- b. **\$5,800**
- c. **\$11,600**
- d. **\$7,250**. An additional \$1,450 is allowed due to blindness.
- e. **\$8,500**
- f. **\$950**. She is claimed as a dependent on her parents' tax return

95. 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.

96. 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

97. 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: **\$23,500** = \$9,500 + \$14,000.

98. 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?

a. **\$39,500** = \$49,000 - \$5,800 - \$3,700

b. Taxpayers with income less than \$100,000 must use the tax tables.

c. **\$6,006**

99. Curt and Linda were married on December 31, 2011. What are their options for filing status for their 2011 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.

100. 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.

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 and the circumstances under which the alternatives can be used.

Single. Unmarried, with no dependents

Head of household. Single, with qualifying dependents

Qualifying widow(er). Spouse died within the past 2 years; qualifying dependents

103. 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.

104. 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.

105. Hansel and Gretel are married taxpayers who file a joint income tax return for 2011. They have no dependents. On their 2011 income tax return, they have adjusted gross income of \$62,000 and total itemized deductions of \$4,000. What is their taxable income?

$$\mathbf{\$43,000} = \$62,000 - \$11,600 - \$7,400$$

106. Rod (age 50) and Ann (age 49) are married taxpayers who file a joint return for 2011. 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 2011, calculate the following amounts:

- Their adjusted gross income
- The amount of their standard deduction or itemized deductions
- Their taxable income

a. $\mathbf{\$145,000} = \$150,000 - \$5,000$

b. $\mathbf{\$12,000}$

c. $\mathbf{\$125,600} = \$145,000 - \$12,000 - \$7,400$

Note: Additional tables, rates or other schedules may be required to assist the student in completing this test question.

107. 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.

108. 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.