Advanced Individual Income Tax Test No. 3.
Summer, 2015. The University of North Carolina at Charlotte

Name____

Instructions: You may use your Code Book, (but not your textbook) during the test. You may also use your class notes and lecture materials provided by the instructor. A question may cover material from more than one chapter. Avoid all appearances of impropriety. If you see any sign of impropriety, please prepare an anonymous note and slide it under the instructor's office door.

This test contains 30 Multiple-choice questions. Test score is 100 Points, less 3 for each incorrect answer.

1. Use a soft-lead pencil. 2. Enter name in appropriate space above. Write clearly.

On the Opscan Sheet

3. Enter name (last name first) in the area for "NAME."

4. Blacken the area in the circle containing the appropriate letter for each question.

1. Grace's employer provides each employee with $200,000 of group-term life insurance. Grace received the coverage for the entire year. Grace's employer pays premiums of $700 each year to provide this coverage for Grace. Grace is 51 years old. How much income will be reported on her W-2 form for this group-term life benefit? (See table at end of this test.)

a. $0 b. $180 c. $264 d. $414 e. Other

2. Which of the following is not a requirement of a "qualified employee discount"?

a. The discount relates to goods or services of the employer.
b. The discount on services doesn't exceed 20 percent of the price offered to customers.
c. The discount can be elected up to five times annually.
d. The employee discount on goods is not greater than employer's average gross profit.

3. Which of the following statements concerning cafeteria plans is true?

a. Allows employees to choose from a menu of fringe benefits or to choose cash.
b. Most of the menu choices are nontaxable fringe benefits.
c. Any cash elected is treated at taxable compensation.
d. All of these are true statements.

Use the following information for the next five questions.

Harold started working for Big Corp. three years ago when the company's stock price was $7 per share.
At that time, Harold received 100 non-qualified stock options.
Each option gave him the right to purchase 20 shares of Big Corporation stock for $7 per share.
On June 1, 2014, the options vested, when Big Corporation's share price is $40 per share,
On June 1, 2014, Harold exercised all of his options, acquiring the 2,000 shares.
On June 4, 2015, Harold sold all of the shares, at a price of $60 per share.
Harold is single. Harold's salary is $500,000 per year, and his total deductions are $40,000 per year.

4. How much income or gain does Harold recognize in 2014?

a. $0 b. $14,000 c. $40,000 d. $66,000 e. Other

5. How much income or gain does Harold recognize in 2015?

a. $0 b. $14,000 c. $40,000 d. $66,000 e. Other

6. What is the amount of the tax deduction that will be claimed by Big Corporation?

a. $0 b. $14,000 c. $40,000 d. $66,000 e. Other

7. What income tax rate will apply to the income recognized in 2014?

a. 0% b. 15% c. 20% d. 39.6% e. Other

8. What income tax rate will apply to the income recognized in 2015?

a. 0% b. 15% c. 20% d. 39.6% e. Other

Use the following information for the next three questions.
On June 10, 2010, Hendrick Corp gave 10 ISOs to Mark, when Hendrick's stock was worth $5 per share.
Each option gave Mark the right to purchase 10 shares of Hendrick Corporation stock for $5 per share.
On June 1, 2014, the options vested. On June 1, 2014, the stock was worth $25 per share.
On June 1, 2014, Mark exercised all options by purchasing 100 shares.
On June 5, 2015, Mark sold all of the stock for $35 a share.

9. How much income or gain does Mark recognize when computing regular income tax for 2014?
a. $0 b. $1,000 c. $2,000 d. $3,000 e. Other

10. How much income does Mark recognize when computing alternative minimum taxable income for 2014?
a. $0 b. $1,000 c. $2,000 d. $3,000 e. Other

11. How much income or gain does Mark recognize when computing regular income tax for 2015?
a. $0 b. $1,000 c. $2,000 d. $3,000 e. Other

12. JDD Corporation provides the following benefits to its employee, Ahmed (age 47):

Salary	$300,000	Dependent care	$5,000
Health insurance	$10,000	Professional dues	$500
Dental insurance	$2,000	Personal use of company jet	$200,000
Life insurance	$3,000		

The life insurance is a group-term life insurance policy that provides $200,000 of coverage for Ahmed.
How much income does Ahmed report from for the current year for this pay and the benefit package?
a. $500,270 b. $505,000 c. $507,000 d. $510,000 e. Other

13. Which of the following is false regarding a section 83 (b) election?
a. The election freezes the value of the employee's compensation at the grant date.
b. The election is an important tax planning tool if the stock is expected to increase in value.
c. The election must be made within 30 days of the grant date.
d. If an employee leaves before the vesting date any loss is limited to $3,000.

14. Bob received an annual base salary of $200,000 from Big Corporation. Bob does not own any stock in Big Corporation. On 12-31-2014, Big Corporation notified Bob that his bonus is $30,000 for 2014.
The employer's 2014 compensation deduction related to Bob is:
a. $200,000 if the $30,000 bonus is paid on March 1, 2015.
b. $230,000 if the $30,000 bonus is paid on April 1, 2015.
c. $230,000 if the $30,000 bonus is paid on March 1, 2015.

15. On June 10, 2010, Joan received 2,000 shares of restricted stock from her employer, Independence Corporation, when the share price was $10 per share.
On June 10, 2013, Joan's restricted shares vested, when the market price was $14 per share.
On June 20, 2014, Joan sold all of the stock when the market price was $16 per share.
Assume Joan made a Section 83(b) election. What is the amount of ordinary income did Joan recognize?
a. $12,000 **b.** $20,000 **c.** $28,000. **d.** $4,000

16. On June 1, 2010, Ann received 2,000 shares of restricted stock from her employer, Independence Corporation, when the share price was $10 per share.
On June 1, 2013, Ann's restricted shares vested, when the market price was $14 per share.
On June 3, 2014, Ann sold all of the stock when the market price was $16 per share.
Ann did not make a Section 83(b) election. What is the amount of Ann's gain or loss on the sale?
a. $12,000 **b.** $20,000 **c.** $28,000. **d.** $4,000

17. In 2014, Judy contributes 10% of her $100,000 annual salary to her 401(k) account.
She expects to earn a 7% before-tax rate of return. Assume she leaves this contribution (and any employer contributions) in the account until she retires in 25 years.
What is Judy's total (before tax) accumulation from her 2014 contribution to her 401(k) account?
a. $48,943 b. $54,274 c. $61,202 d. $58,888 e. Other

18. Ken and Barbie (both 45 years old) are married and want to contribute to a Roth IRA for Barbie. In 2014, their AGI is $182,000. Ken and Barbie each earned half of the income.
How much can Barbie contribute to her **Roth IRA** if they file a joint return?
a. $0 b. $3,300 c. $3,500 d. $4,950 e. Other

19. Ken and Barbie (both 45 years old) are married and want to contribute to a Roth IRA for Barbie. In 2014, their AGI is $182,000. Ken and Barbie each earned half of the income.
How much is Barbie's income tax deduction for her contribution to her **Roth IRA** on a joint return?
a. $0 b. $3,300 c. $3,500 d. $4,950 e. Other

20. In 2014, Susan (44 years old) earns a salary of $100,000 and is covered by an employee-sponsored plan. Her husband, Dan (47 years old), is an unemployed Ph.D. student.
What is the maximum deductible IRA contribution for Susan, assuming they file jointly?
a. $0 b. $3,300 c. $4,400 d. $5,500 e. Other

21. In 2014, Susan (44 years old) earns a salary of $100,000 and is covered by an employee-sponsored plan. Her husband, Dan (47 years old), is an unemployed Ph.D. student.
What is the maximum deductible IRA contribution for Dan, assuming they file jointly?
a. $0 b. $3,300 c. $4,400 d. $5,500 e. Other

22. Shirley is not covered by a retirement plan at work. Her husband is also not covered by a retirement plan at work. Both are 62 years old. Their combined AGI is $280,000, all from their salaries. What is the maximum about of deductible contribution that Shirley may make to her traditional IRA in 2014?
a. $0 **b.** $2,200 **c.** $3,500 **d.** $5,500 **e.** $6,500

23. Elvira is a self-employed taxpayer who turns 42 years old at the end of the year (2014). In 2014, her net Schedule C income was $90,000. This was her only source of income. She does not have an employee. What is the maximum amount Elvira may contribute to a SEP IRA?
a. $16,728 **b.** $17,209 **c.** $22,304 **d.** $5,500 **e.** $6,500

24. Elvira is a self-employed taxpayer who turns 42 years old at the end of the year (2014). In 2014, her net Schedule C income was $120,000. This was her only source of income. She does not have an employee. She is considering setting up a SEP IRA or an individual 401(k) plan. Compare Elvira's maximum contribution to a SEP IRA and her maximum contribution to an individual 401(k) plan.
What is the difference between those two amounts?
a. $0 **b.** $5,500 **c.** $6,500 **d.** $17,500 **e.** Other

25. Sarah began making annual contributions to a Roth IRA when she was 42 years of age.
In 2014, when she was <u>52 years old</u>, she received a distribution of $60,000.
Sarah had made contributions of $50,000 before she received the distribution in 2014.
The balance in the account was $150,000 immediately before she received the distribution.
How much of the distribution should be included in her income for 2014?
a. $0 **b.** $10,000 **c.** $50,000 **d.** $60,000 **e.** Other

26. Sarah began making annual contributions to a Roth IRA when she was 42 years of age.
In 2014, when she was 62 years old, she received a distribution of $60,000.
Sarah had made contributions of $50,000 before she received the distribution in 2014.
The balance in the account was $150,000 immediately before she received the distribution.
How much of the distribution should be included in her income for 2014?

a. $0 **b.** $10,000 **c.** $50,000 **d.** $60,000 **e.** Other

27. Sarah began making annual contributions to a traditional non-deductible IRA
when she was 42 years of age.
In 2014, when she was 62 years old, she received a distribution of $60,000.
She had made non-deductible contributions of $50,000.
The balance in the account was $150,000 immediately before she received the distribution.
How much of the distribution should be included in her income for 2014?

a. $0 **b.** $10,000 **c.** $40,000 **d.** $50,000 **e.** Other

28. Shauna received a distribution from her 401(k) account this year.
In which of the following situations will Shauna be subject to an early distribution penalty?

a. Shauna is 60 years of age but not yet retired when she receives the distribution.
b. Shauna is 58 years of age but not yet retired when she receives the distribution.
c. Shauna is 58 years of age and retired when she receives the distribution.
d. Shauna is 69 years of age but not yet retired when she receives the distribution.

29. Shauna received a $100,000 distribution from her 401(k) account this year.
Shauna's marginal tax rate is 25%. She has not yet retired.
Shauna received the distribution on her 57^{th} birthday.
What is the total amount of tax and penalty Shauna will be required to pay?

a. $0. **b.** $10,000. **c.** $25,000. **d.** $35,000. **e.** Other

30. Joe retired a few years ago at the age of 72. He had contributed $200,000 to his deductible IRA.
At the end of 2014, his IRA has a value of $500,000.
His tax advisor informed him that the minimum required distribution for 2014 is $30,000.
However, Joe did not receive any distribution from the IRA in 2014. What is his penalty for 2014?

a. $0. **b.** $1,500. **c.** $3,000. **d.** $15,000. **e.** Other

EXHIBIT 12-10 Uniform Premiums for $1,000 of Group-Term Life Insurance Protection

5-year Age Bracket	Cost per $1,000 of Protection for One Month
Under 25	$0.05
25 to 29	.06
30 to 34	.08
35 to 39	.09
40 to 44	.10
45 to 49	.15
50 to 54	.23
55 to 59	.43
60 to 64	.66
65 to 69	1.27
70 and above	2.06

2014 Tax Rate Schedules

Single—Schedule X

If taxable income is: Over—	But not over—	The tax is:	of the amount over—
$ 0	$ 9,075	.........10%	$ 0
9,075	36,900	$ 907.50 + 15%	9,075
36,900	89,350	5,081.25 + 25%	36,900
89,350	186,350	18,193.75 + 28%	89,350
186,350	405,100	45,353.75 + 33%	186,350
405,100	406,750	117,541.25 + 35%	405,100
406,750	....	118,118.75 + 39.6%	406,750

Head of household—Schedule Z

If taxable income is: Over—	But not over—	The tax is:	of the amount over—
$ 0	$ 12,950	.........10%	$ 0
12,950	49,400	$ 1,295.00 + 15%	12,950
49,400	127,550	6,762.50 + 25%	49,400
127,550	206,600	26,300.00 + 28%	127,550
206,600	405,100	48,434.00 + 33%	206,600
405,100	432,200	113,939.00 + 35%	405,100
432,200	....	123,424.00 + 39.6%	432,200

Married filing jointly or Qualifying widow(er)—Schedule Y–1

If taxable income is: Over—	But not over—	The tax is:	of the amount over—
$ 0	$ 18,150	.........10%	$ 0
18,150	73,800	$ 1,815.00 + 15%	18,150
73,800	148,850	10,162.50 + 25%	73,800
148,850	226,850	28,925.00 + 28%	148,850
226,850	405,100	50,765.00 + 33%	226,850
405,100	457,600	109,587.50 + 35%	405,100
457,600	....	127,962.50 + 39.6%	457,600

Married filing separately—Schedule Y–2

If taxable income is: Over—	But not over—	The tax is:	of the amount over—
$ 0	$ 9,075	.........10%	$ 0
9,075	36,900	$ 907.50 + 15%	9,075
36,900	74,425	5,081.25 + 25%	36,900
74,425	113,425	14,462.50 + 28%	74,425
113,425	202,550	25,382.50 + 33%	113,425
202,550	228,800	54,793.75 + 35%	202,550
228,800	....	63,981.25 + 39.6%	228,800

Basic Standard Deduction Amounts

Filing Status	Standard Deduction Amount 2013	2014
Single	$ 6,100	$ 6,200
Married, filing jointly	12,200	12,400
Surviving spouse	12,200	12,400
Head of household	8,950	9,100
Married, filing separately	6,100	6,200

Amount of Each Additional Standard Deduction

Filing Status	2013	2014
Single	$1,500	$1,550
Married, filing jointly	1,200	1,200
Surviving spouse	1,200	1,200
Head of household	1,500	1,550
Married, filing separately	1,200	1,200

Personal and Dependency Exemption

2013	2014
$3,900	$3,950

Note: for 2014, the maximum amount of self-employment income subject to Social Security tax is $117,000.

No	Ans
1	D

Group Term insurance

Group term life insurance	**$200,000**	**$200,000**
Age of individual	**43**	**51**
Monthly cost per $1,000(from table)	$0.10	$0.23
Months of coverage in tax year	12	12
Cost per thousand for the year	$1.20	$2.76
Number of thousands above $50,000	150	150
Amount included in employee's income	**$180.00**	**$414.00**

No	Ans
2	C
3	D
4	D

	Non-Qualified Stock Option	No. of Shares	Strike Price Per Share	FMV per share	Total Value	Amount Paid	Current Income	Ending Total Cost/basis
	Granted	2,000	**$7**	$7	$14,000		$0	
June 1, 2014	Vest	2,000	**$7**	$40	$80,000		$0	
June 1, 2014	Purchase	2,000	**$7**	$40	$80,000	$14,000	$66,000	$80,000
June 4, 2015	Sold	2,000	**$7**	$60	$120,000		$40,000	N/A

No	Ans
5	C
6	D
7	D
8	C
9	A

	Incentive Stock Option	No. of Shares	Strike Price Per Share	FMV per share	Total Value	Amount Paid	Current AMT Income	Ending Total Cost/basis
June 1, 2010	Granted	100	**$5**	$5	$500		$0	
June 1, 2014	Vest	100	**$5**	$25	$2,500		$0	
June 1, 2014	Purchase	100	**$5**	$25	$2,500	$500	$2,000	$2,500
June 5, 2015	Sold	100	**$5**	$35	$3,500		$1,000	N/A

Section 83(b) election is not mentioned in the problem, so assume the election is not made.

June 1, 2014	Amount of income recognized in 2014 for regular tax purposes	$0
June 1, 2014	Amount of income recognized in 2014 for AMT purposes	$2,000
June 5, 2015	Amount of income recognized in 2015 for regular tax purposes	$3,000

No	Ans
10	C
11	D
12	A
13	D
14	C
15	B

	Restricted Stock	No. of Shares	Strike Price Per Share	FMV per share	Total Value	Amount Paid	(Sec. 83(b)) Income	Ending Total Cost/basis
June 1, 2010	Granted	2,000	**$0**	$10	$20,000		$20,000	
June 1, 2013	Vest	2,000	**$0**	$14	$28,000			
June 1, 2014	Sold	2,000	**$0**	$16	$32,000		$12,000	N/A

Section 83(b) election causes income to be recognized in 2010, before vesting occurs.

No	Ans
16	D

	Restricted Stock	No. of Shares	Strike Price Per Share	FMV per share	Total Value	Amount Paid	Current Income	Ending Total Cost/basis
June 1, 2010	Granted	2,000	**$0**	$10	$20,000			
June 1, 2013	Vest	2,000	**$0**	$14	$28,000		$28,000	
June 1, 2014	Sold	2,000	**$0**	$16	$32,000		$4,000	N/A

17 B

18 D Ken and Barbie (both 45 years old) are married and want to contribute to a Roth IRA for Barbie. In 2014, their AGI is $182,000. Each earned half of the income. How much can Barbie contribute to her Roth IRA if they file a joint return?

Roth IRAs	2014			Wife	Husband	Total
Earned income	Wife	Age 50+ ?	No	$91,000		$91,000
Earned income	Husband	Age 50+ ?	No		$91,000	$91,000
Other income						
Adjusted Gross Income			AGI			$182,000
Earned Income				$91,000	$91,000	219(b)(1))
Deductible Amt. if more than earned income, etc.						219(c) Hutchinson
"Applicable Amount" [i.e. Threshold]				$181,000	$181,000	
Excess AGI, above threshold				1,000	1,000	
Phase-out range ($15,000, $10,000-Joint)				10,000	10,000	
Percent: excess/range (Phase-out %)				10%	10%	
Roth IRA "CONTRIBUTION" limit				$5,500	$5,500	
Catch-up contribution amount						
Total CONTRIBUTION limit including catch-up				5,500	5,500	
Reduction in limit (Phase-out % above)				(550)	(550)	
CONTRIBUTION limit - after phase-out				4,950	4,950	

Note that no amount of a Roth contribution is "deductible."
Here we are computing the reduction in the amount that may be "contributed."

19 A How much is Barbie’s income tax deduction for her contribution to her Roth IRA on a joint return?

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20 C

Traditional IRAs	2014			Wife	Husband	Total
Earned income	Wife	Age 50+ ?	No	$100,000		$100,000
Earned income	Husband	Age 50+ ?	No		$0	$0
Other income						
Adjusted Gross Income			AGI			$100,000
Earned Income				$100,000		219(b)(1))
Deductible Amt. if more than earned income, etc.					$5,500	219(c) Hutchinson
Covered by employer plan?				Yes	No	
Applicable Amount	No spouse participates in Employer Plan			N/A	N/A	
Applicable Amount	Taxpayer particpates in Employer Plan			$96,000		219(g)(2)
Applicable Amount	Only spouse participates in Employer Plan				$181,000	219(g)(7)
"Applicable Amount" [i.e. Threshold]				$96,000	$181,000	219(g)(3)
Excess of AGI over the threshold				4,000	-	219(g)(2)(A)(i)
Phase-out range (Joint = $20,000. Other = $10,000.)				20,000	10,000	219(g)(2)(A)(ii)
Range is $10,000 on joint return, for nonparticipating spouse						219(g)(7)(B)
Phase-out Percent: (AGI excess / range)				20%	0%	
Contribution limit - before Catch-up allowance				$5,500	$5,500	408(a)(1), 219(b)(1)(A)
Deduction limit - before Catch-up and Phase-out				$5,500	$5,500	219(b)(1)(A), (5)
Catch-up contribution allowance (age 50+)						219(b)(5)(B)
Total IRA deduction limit before Phase-out				5,500	5,500	
Reduction in limit (Phase-out % * deduction limit)				1,100	-	219(g)(3)(B)
Deduction limit - after phase-out				4,400	5,500	

21 D
22 E

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23 A

Professional fees	
Salaries	
Rent and other operating expenses	
Net income before pension contributions	
and self-employment tax.	**$90,000**
Pension contribution for employees	
Net income before self-employment tax	$90,000
Adjustment to get self-employment income	92.35%
Net earnings from self-employment	**$83,115**
Self-employment tax rate	15.30%
Self-Employment Tax	$12,717
Percentage of SE tax used here	50.00%
Amount of SE tax deducted in pension computation	$6,358
Net income before self-employment tax	$90,000
Base for SEP-IRA max. contribution	$83,642
Maximum contribution	20%
Contribution to owner's SEP-IRA	**$16,728**

24 D Elective deferral **$17,500**

25 B Sarah began making annual contributions to a Roth IRA when she was 42 years of age.
In 2014, when she was 52 years old, she received a distribution of $60,000.
Sarah had made contributions of $50,000 before she received the distribution in 2014.
The balance in the account was $150,000 immediately before she received the distribution.

Value of Roth Account	$150,000
Amount of distribution	$60,000
Amount contributed to the Roth	$50,000
Excess of distribution over contribution	$10,000

26 A

27 C Sarah began making annual contributions to a traditional non-deductible IRA
when she was 42 years of age.
In 2014, when she was 62 years old, she received a distribution of $60,000.
She had made non-deductible contributions of $50,000.
The balance in the account was $150,000 immediately before she received the distribution.
How much of the distribution should be included in her income for 2014?

Non-deductible Contributions	$50,000
Total Value of IRA	$150,000
Percentage tax-free	33%
Taxable percentage	67%
Distribution	$60,000
Taxable part of distribution	$40,000

28 B

29 D

30 D