Advanced Individual Income Tax Test No. 1.

Summer, 2016. The University of North Carolina at Charlotte.

Name____

INSTRUCTIONS: You may use your textbook and other notes or materials during the test. A question may cover material from more than one chapter. Avoid all appearances of impropriety.

The current tax year is 2016, unless a question specifies another tax year. Ignore additional taxes under the Affordable Care Act (often called ObamaCare). Answer may be rounded to nearest dollar.

Questions:

1. Which of the following is a deduction for AGI?

a. Unreimbursed employee business expense **b.** Cost of having tax return prepared
c. Penalty for early withdrawal from savings **d.** Personal casualty losses.

2. A single executive has salary income of $400,000 and adjusted gross income of $400,000. She has total itemized deductions and exemption of $20,000 (after all phase-outs). There is no state income tax. What is the amount of her federal income tax liability, before considering other taxes, penalties, and credits?

a. $107,198 **b.** $108,258 **c.** $108,929 **d.** $120,251 **e.** Other

3. Continue the preceding problem. Taxpayer has owned Duke Energy stock for 4 years. She paid $40,000 for the stock. The stock has a current value of $70,000. Assume the taxpayer does not incur commissions or other selling costs. If the taxpayer chooses to sell the stock for $70,000, how much additional federal income tax will be paid as a result of the sale? (Assume the additional income will not affect the phase-out provisions for itemized deductions. She has no other sale or other disposal of assets and has no carryover of tax attributes from another year.)

a. $6,000 **b.** $4,000 **c.** $4,500 **d.** $9,900 **e.** $0

4. Continue with the preceding question. Make one change in the information. The stock is now worth $10,000. How much income tax will taxpayer save, if she sells the stock for $10,000?

a. $0 **b.** $450 **c.** $9,900 **d.** $990 **e.** Other

5. Continue the preceding problem. Taxpayer is considering giving the stock to her 30-year old son. Her son's only income is his salary of $10,000. He claims one exemption and the standard deduction. Assume she gives the stock to her son. Her cost was $40,000 and the stock is now worth $70,000. She does not incur a gift tax. Her son sells the stock immediately for $40,000. How much additional income tax will he pay as a result of the sale of the Duke Energy stock?

a. $3,000 **b.** $4,000 **c.** $4,500 **d.** $6,600 **e.** $0

6. Continue the preceding question. Taxpayer's son has total income of $15,000 all from his salary. He claims one exemption and the standard deduction. He has not made another sale or other disposal of property. He has no carryover from a prior year. Taxpayer paid $40,000 for the Duke stock. The stock is now worth $10,000. She will give the stock to her son. He will sell the stock immediately for $10,000. How much federal income tax will her son save, as a result of selling the stock for $10,000?

a. $0 **b.** $450 **c.** $900 **d.** $990 **e.** Other

7. Warren now owns corporate bonds that pay 5% interest. Warren's marginal federal income tax rate is 30%, and there is no state income tax. Warren is considering selling the corporate bonds and buying City of Charlotte bonds. What interest rate would he need to earn on City of Charlotte bond in order to realize the same after-tax income?

a. 0% **b.** 3.5% **c.** 4.2% **d.** 5% **e.** 7.5%

8. Jeremy and Joan (his wife) earned total salaries of $100,000 ($50,000 each).
Joan earned corporate bond interest income of $6,000.
They have one qualifying dependent child who lives with them. The child does not qualify for the child credit. They have total itemized deductions of $17,000, after considering all limits and phase-outs.
What is their income tax liability before credits on a joint federal tax return (nearest dollar)?

a. $11,000 **b.** $12,000 **c.** $10,755 **d.** $12,251 **e.** Other

9. Use information in preceding question. Assume you learn that Jeremy and Joan also had total capital gains of $2,000 in the current year, consisting of a short-term capital gain of $1,000 and a long-term capital gain of $1,000. When you prepare a corrected return (to include the capital gain income), what is the amount of the increase in their income tax liability before credits on a joint federal income tax return?

a. $150 **b.** $300 **c.** $400 **d.** $500 **e.** Other

10. Brenda's husband died on January 3, 2016. Since his death, she has maintained a household for their six-year-old son Frank, her qualifying child.
Which is the most advantageous filing status available to Brenda for 2016?

a. Married filing jointly **b.** Surviving spouse
c. Single **d.** Head of household

11. Continue the preceding question. Assume she does not get married in 2017.
How many exemptions will be claimed on the federal income tax return for 2017?

a. 1 b. 2 c. 3 d. 4 e. Other

12. Mr. and Mrs. White have combined salaries of $70,000. They have two young children whom they support. Mr. and Mrs. White file a joint return. Their only expenditures affecting the tax return are

Deductible IRA contribution	$4,000
State income taxes	$6,000
Deductible\ mortgage interest expense	$7,000
Interest paid on credit cards	$1,000
Deductible real estate taxes	$2,000
Union dues	$3,000

They have <u>taxable income</u> of:

a. Not more than 30,000 **b.** More than $30,000, but not more than $31,000
c. More than $32,000 **d.** More than $31,000, but not more than $32,000

13. Robert bought the land for $50,000, 10 years ago. This year, Robert gave land to his daughter, Roberta. The land had a value of $100,000 on the date of the gift.
Robert paid gift tax of $10,000 on the gift. What is Roberta's basis in the land?

a. $ 50,000 **b.** $ 55,000 **c.** $60,000 **d.** $70,000 **e.** Other

14. Wanda was entirely supported by her daughters, Ann, Betty and Barbara who provided this support:
Ann 40%; Betty 49%; Barbara 11%
Which sister is entitled to claim Wanda as a dependent, assuming a multiple support agreement exists?

a. Ann **b.** Ann or Betty **c.** Betty or Barbara **d.** Ann, Betty or Barbara

15. Clara (single) purchased her home on June 1, 2003. On June 1, 2015, Clara moved out of the home. She rented out the home until July 1, 2016 when she sold the home and realized a $300,000 gain. (Assume none of the gain was attributable to depreciation.)
What amount of the gain will Clara exclude from her 2016 gross income?

a. $250,000 **b.** $207,000 **c.** $225,000 **d.** $230,000 **e.** $300,000

16. Barbara (single) purchased a home on January 1, 2008 for $600,000, and later sold the home for $700,000. Barbara used the property as a vacation home through December 31, 2013.
She then used home as her principal residence from Jan. 1, 2014 until she sold it on Jan. 3, 2016.
What amount of the $100,000 gain on sale does Barbara recognize on the sale of this home?

a. $200,000 **b.** $125,000 **c.** $75,000 **d.** $62,500 **e.** Other

17. Jesse is single. His itemized deductions were $4,000 before considering any real property taxes he paid during the year. Jesse's adjusted gross income was $70,000 (also before considering any property tax deductions). He paid real property taxes of $6,000 on his primary residence and $4,000 of real property taxes on a building he rents to a local manufacturing company. What is his adjusted gross income?

a. $70,000 **b.** $66,000 **c.** $64,000 **d.** Other

18. Taxpayer bought a new residence on **November 30, 2016.** The seller had already paid the property taxes of $7,200 for the year. Property taxes for the calendar year are due on July 1.
What amount of the taxes will be deducted on their 2016 federal income tax return?

a. $600 **b.** $2,400 **c.** $1,200 **d.** $4,800 **e.** Other

19. Jane (who is single) bought a primary home on December 31, 2014 at a cost of $800,000.
She borrowed 100% of the cost. She made "interest only" payments on the loan.
The loan balance was $800,000 and the home value was $1,400,000 on January 1, 2016.
She does not have a second home.
On January 1, 2016, she borrowed $120,000 on the home, giving a second mortgage.
This increased the loan balance to $920,000.
She used the loan proceeds to add an extra bedroom to her primary residence.
The interest rate on both loans is 10%
How much is mortgage interest may she deduct on her 2016 federal income tax return?

a. $70,000 **b.** $90,000 **c.** $91,000 **d.** $92,000 **e.** Other

20. Evelyn (who is married) purchased a home for $2,000,000 on January 1, 2015.
She paid $400,000 cash and borrowed the remaining $1,600,000. The interest rate is 10%.
She made "interest only" loan payments.
This is Evelyn's only residence. [Current loan balance is $1,600,000.]
What is her mortgage interest deduction for 2016 on a joint return?

a. $50,000 **b.** $55,000 **c.** $100,000 **d.** $110,000 **e.** Other

21. Evelyn (who is married) purchased a home for $2,000,000 on January 1, 2016.
She paid $400,000 cash and borrowed the remaining $1,600,000. The interest rate is 10%.
She made "interest only" loan payments. This is Evelyn's only residence.
[The balance of the loan continues to be $1,600,000.] She and her husband file separate returns.
What is her mortgage interest deduction for 2016 on her separate income tax return?

a. $50,000 **b.** $55,000 **c.** $100,000 **d.** $110,000 **e.** Other

22. Anna rented her vacation home for 60 days at a fair rental rate. She lived in the home 30 days. She has provided this information about income and expenses for the vacation home for the year.

Total Income and Expenses	**Total**						
Sue's gross rental income (60 days)	$10,000						
Real estate taxes (total)	$3,650						
Mortgage interest expense (total)	$7,300						
Utilities & maintenance expense (total)	$4,800						
Depreciation (total)	$9,000						

How much depreciation can be deducted on her tax return, using any approved methods most favorable for the taxpayer?

a. $1,000 **b.** $2,200 **c.** $3,000 **d.** $4,000 **e.** $5,000

23. Continue the preceding question. Assume the recession caused fewer families to take vacations in this area. She was only able to rent the home for 10 days (at $100 per day). Other facts are unchanged. How much gross rental income would she report on her 2016 federal income tax return?

a. $0 **b.** $2,200 **c.** $1,871 **d.** $1,000 **e.** $200

24. Ron uses 1 room in his home as primary location for his (Schedule C) business. His business was $23,000 and expenses (other than home office expenses) of $16,000.

		Totals
Revenue		**$23,000**
Expense other than office expenses		**($16,000)**
Net income before home office deduction		**$7,000**
Home has 6 rooms, with total of 2,400 square feet.	**Sq. Ft.**	**2,400**
Office area is 600 square feet	**Sq. Ft.**	**600**
Mortgage interest and real estate taxes for the home.		**$15,000**
Insurance, repairs, & maintenance related to home.		**$8,000**
Depreciation on entire house for the current year.		**$6,000**

How much is her allowable depreciation expense deduction on his income tax return?

a. $1,500 **b.** $1,250 **c.** $440 **d.** $400 **e.** Other

25. Which would you prefer?

(a) A good grade on this test?

(b) A toothache?

Federal IncomeTax Rates-Single. 2016

Taxable income:		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers		Plus	of Taxable Income over:
$0	$9,275	0.00	+	10%	$0
9,275	37,650	927.50	+	15%	9,275
37,650	91,150	5,183.75	+	25%	37,650
91,150	190,150	18,558.75	+	28%	91,150
190,150	413,350	46,278.75	+	33%	190,150
413,350	415,050	119,934.75	+	35%	413,350
$415,050		120,529.75	+	39.6%	415,050

Example: with taxable income of $9,375, rate is 10% on $9,275 and 15% on $100.

Federal Income Tax Rates:Joint - 2016.

Taxable income:		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers		Plus	of Taxable Income over:
$0	$18,550	0.00	+	10%	$0
18,550	75,300	1,855.00	+	15%	18,550
75,300	151,900	10,367.50	+	25%	75,300
151,900	231,450	29,517.50	+	28%	151,900
231,450	413,350	51,791.50	+	33%	231,450
413,350	466,950	111,818.50	+	35%	413,350
$466,950		130,578.50	+	39.6%	466,950

Income Tax Rates - Separate - 2016.

Taxable income:		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers		Plus	of Taxable Income over:
$0	$9,275	0.00	+	10%	$0
9,275	37,650	927.50	+	15%	$9,275
37,650	75,950	5,183.75	+	25%	$37,650
75,950	115,725	14,758.75	+	28%	$75,950
115,725	206,675	25,895.75	+	33%	$115,725
206,675	233,475	55,909.25	+	35%	$206,675
$233,475		65,289.25	+	39.6%	$233,475

	AGI Phase-out Thresholds	
Filing Status	Exemptions	Itemized Deduct.
Married, Joint	311,300	311,300
Head-of-Household	285,350	285,350
Single	259,400	259,400
Married, Separate	155,650	155,650

Exemptions reduced by:
2% for each $2,500 layer above AGI Threshhold above (for married filing separately, layer is $1,250)
Itemized Deductions reduced by:
3% of excess of AGI over AGI Threshhold above

Income Tax Rates - Head of Household - 2016.

Individual taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers		Plus	of Taxable Income over:
$0	$13,250	0.00	+	10%	$0
13,250	50,400	1,325.00	+	15%	13,250
50,400	130,150	6,897.50	+	25%	50,400
130,150	210,800	26,835.00	+	28%	130,150
210,800	413,350	49,417.00	+	33%	210,800
413,350	441,000	116,258.50	+	35%	413,350
$441,000		125,936.00	+	39.6%	441,000

Standard Deduction	Basic	Age/ Blindness
Single	$6,300	$1,550
Married-Joint	$12,600	$1,250
Married - File Separately	$6,300	$1,250
Head of Household	$9,300	$1,550
Standard deduction for child who is a dependent of another	$1,050	
Or: Earned income +	$350	
Personal Exemption Amount	$4,050	

AMT Exemption	Amount	Phase-out	
Joint Return	$83,800	$159,700	$494,900
Separate Return	$41,900	$79,850	$247,450
H-of-H and Single	$53,900	$119,700	$335,300

AMT Rates (Joint, HofH,Single)	Amount	Rate
Rate on AMT base up to	$186,300	26%
Rate on AMT base above	$186,300	28%

FICA rate on salary up to	$118,500	7.65%
FICA rate on excess	Excess	1.45%
Extra FICA rate - .9%. (Single & HH) Wages above		$200,000
Extra FICA rate - .9%. (Joint) Wages above		$250,000
NII tax (3.8%) on lesser of NII or AGI (Single & HH) above		$200,000
NII tax (3.8%) on lesser of NII or AGI (Joint) above		$250,000

Federal Corporate Income Tax Rates

Taxable Income					Of the
over	but not over	The tax is:			amount over:
$0	$50,000	$0	+	15%	$0
50,000	75,000	7,500	+	25%	50,000
75,000	100,000	13,750	+	34%	75,000
100,000	335,000	22,250	+	39%	100,000
335,000	10,000,000	113,900	+	34%	335,000
10,000,000	15,000,000	3,400,000	+	35%	10,000,000
15,000,000	18,333,333	5,150,000	+	38%	15,000,000
18,333,333				35%	