Advanced Individual Income Tax

Documents for Lecture on Chapter 4

Individual Income Tax Overview

UNC Charlotte MACC Program

May 23, 2017

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Textbook Homework Problems Assigned

26 Jeremy earned $100,000 in salary and $6,000 in interest income during the year.
Jeremy has two qualifying dependent children who live with him.
He qualifies to file as head of household and has $17,000 in itemized deductions.
Neither of his dependents qualifies for the child tax credit.

- a Use the 2017 tax rate schedules to determine Jeremy's taxes due.
- b Assume that in addition to the original facts, Jeremy has a long-term capital gain of $4,000. What is Jeremy's tax liability including the tax on the capital gain? (Use the tax rate schedules rather than the tax tables.)
- c Assume the original facts except that Jeremy had only $7,000 in itemized deductions. What is Jeremy's total income tax liability (use the tax rate schedules)?

34 John and Tara Smith are married and have lived in the same home for over 20 years.
John's uncle Tim, who is 64 years old, has lived with the Smiths since March of this year.
Tim is searching for employment but has been unable to find any—his gross income for the year is $2,000. Tim used all $2,000 toward his own support.
The Smiths provided the rest of Tim's support.
They provided him with lodging valued at $5,000 and food valued at $2,200.

- a Are the Smiths able to claim a dependency exemption for Tim?
- b Assume the original facts except that Tim earned $10,000 and used all the funds for his own support. Are the Smiths able to claim Tim as a dependent? Assume the original facts except that Tim is a friend of the family and not John's uncle.
- c Assume the original facts except that Tim is a friend of the family and not John's uncle and Tim lived with the Smiths for the entire year.

43 Juan and Bonita are married and have two dependent children living at home.
This year, Juan is killed in an avalanche while skiing.

- a What is Bonita's filing status this year?
- b Assuming Bonita doesn't remarry and still has two dependent children living at home, what will her filing status be next year?
- c Assume Bonita doesn't remarry and doesn't have any dependents next year. What will her filing status be next year?

45 Elroy, who is single, has taken over the care of his mother Irene in her old age.
Elroy pays the bills relating to Irene's home.
He also buys all her groceries and provides the rest of her support.
Irene has no gross income.

- a What is Elroy's filing status?
- b Assume the original facts except that Elroy has taken over the care of his grandmother, Renae, instead of his mother. What is Elroy's filing status?
- c Assume the original facts except that Elroy's mother Irene lives with him and that she receives an annual $5,700 taxable distribution from her retirement account. Elroy still pays all the costs to maintain the household. What is his filing status?

Code		INFO	Gross Income	For A.G.I.	A.G.I.
61	**Gross Income**				
62	**Deductions for AGI**				
	Gross Income →		$0		
	Deductions for AGI →			$0	
	Adjusted Gross Income →				$0

	Itemized Deductions (Schedule A)	INFO	Details	Deduction
213	**Medical Expense**			
	Total medical expenses before limit.			
213(a)	Less: 10% of AGI			
	Total Deduction for Medical Expenses			
164	**State and Local Taxes Paid**			
	State income tax withheld, estimated payments, etc			
	Total Deduction for Taxes			
163	**Interest Paid**			
	Total Deduction for Interest			
170	**Charitable Contributions**			
	Total Deduction for Charitable Contributions			
212, 162	**Miscellaneous Itemized Deductions**			
	Total			
	Less: 2% of AGI			
	Net deductible amount of Misc. Itemized Deductions			
	Total Itemized Deductions: Med. Taxes. Interest, Charity, Misc., before phase-out			

	AGI (Adjusted Gross Income) from above →				
151(b)	**Exemption(s)**	Number:	$4,050		
	Extra exemption(s)				
151(d)(3)	Less Phase-Out of Exemptions (if any)				
	Stand. Deduction (or Itemized deductions: total amount from above)				
68	Less Phase-Out of Itemized Deductions (if any- Sec. 68)				
	Total of Exemption(s) & Std. or Itemized deductions (after phase-out)				
	Taxable income (AGI, less Exemptions & Std. or Itemized Deduct.)				
1(c)	Federal income tax on ordinary income (compute below)				
1(h)	Federal income tax on capital gains (compute below)				
1401	Self-employment tax				
31	Federal income taxes withheld and other tax payments				
	Credits				
	Net Income Tax Due or (Refund)				

Ordinary Income	Base	Rate	Regular Tax		Capital Gain	Cap. Gain Rate	Cap.Gain Tax
First layer(s)				Amount			
Top layer				Amount			
Total							

CPA Exam Problem - Individual Income Tax Deductions

This problem tests a candidate's understanding of the rules for deductions and the basic tax formula (seen in the tax form layout) Therefore, this problem applies to Chapter 4, even though detailed rules are found in other chapters
Tom Moore, CPA is a CPA firm owned by Tom Moore.
Tom is married and files a joint return with his wife, Joan.
In 2017, the events (shown below) took place.
For Items 1 to 12, select the appropriate tax treatment (A through F).
A tax treatment may be selected once, more than once, or not at all

Tax Treatment

A.	Not deductible on Form 1040.
B.	Deductible in full in Schedule A-Itemized Deductions.
C.	Deductible in Schedule A-Itemized Deductions,
	subject to a threshold of 10% of adjusted gross income.
D.	Deductible in Schedule A-Itemized Deductions,
	subject to a limitation of 50% of adjusted gross income.
E.	Deductible in Schedule A-Itemized Deductions, subject to
	a $100 floor and a threshold of 10% of adjusted gross income.
F.	Deductible in Schedule A-Itemized Deductions,
	subject to a threshold of 2% of adjusted gross income

Ans		Transactions	Page	Code, Regs.
	1	On March 23, 2017, Tom sold 50 shares of Zip stock at a $1,200 loss. He repurchased 50 shares of Zip on April 15, 2017.	**7-22**	165, 1091
	2	Payment of a personal property tax based on the value of the Moore's car.	**6-16**	164(B)(1)
	3	Used clothes were donated to church organizations.	**6-19**	170, 67(B)(4)
	4	Premiums were paid covering insurance against Tom's loss of earnings.		
	5	Tom paid for subscriptions to accounting journals.		162, 1.162-6
	6	Interest was paid on a $10,000 home-equity line of credit secured by the Moores' residence. The fair market value of the home exceeded the mortgage by $50,000.Tom used the proceeds to purchase a sailboat.	**14-10**	163(A)(H) 163(h)(3)(A)(ii) 163(h)(3)(C)
	7	Amounts were paid in excess of insurance reimbursement for prescription drugs.	**6-14**	213(a)
	8	Funeral expenses were paid by the Moores for Joan's brother.		
	9	Theft loss was incurred on Joan's jewelry in excess of insurance reimbursement. There were no 2017 personal casualty gains.	**6-23**	165(e), 165(h)
	10	Loss on the sale of the family's sailboat.		165(c)
	11	Interest was paid on the $300,000 acquisition mortgage on the Moores' home. The mortgage is secured by their home.	**14-9+**	163(h)(2)(D)
	12	Tom performed free accounting services for the Red Cross. The estimated value of the services was $500.	**6-19**	1.170A-1(g)

OLD CPA Exam Question. Green is a self-employed, cash basis human resources consultant.
Listed below are Green's business and nonbusiness transactions, as well as possible tax treatments.
Required: For each of Green's transactions (Items 1-25), select the appropriate tax treatment.
A tax treatment may be selected once, more than once, or not at all. ENTER ANSWER IN "AN" COLUMN

AN		Transactions		Tax Treatments
C	1	Retainer fees received from clients.	A	Taxable as other income on Form 1040.
	2	Oil royalties received.	B	Report in Sched. B—Interest & Dividend Income.
	3	Interest income on general obligation	C	Reported in Schedule C as trade or business income.
		state and local government bonds.	D	Reported in Schedule E—Supplemental Income and Loss.
	4	Interest on refund of federal taxes.	E	Not taxable.
	5	Death benefits from term life	F	Fully deductible on Form 1040 to arrive at
		insurance policy on parent of taxpayer.		adjusted gross income.
	6	Interest income on U.S. Treasury bonds.	G	Fifty percent deductible on Form 1040 to
	7	Share of ordinary income from		arrive at adjusted gross income.
		an investment in a limited partnership		
		reported in Form 1065, Schedule K-1.	H	Reported in Schedule A—Itemized Deductions
	8	Taxable income from rental of a		(subject to threshold of 7.5% of AGI).
		townhouse owned by Green.	I	Reported in Schedule A—Itemized Deductions
	9	Prize won as a contestant on a TV quiz show.		(deductibility subject to threshold
	10	Payment received for jury service.		of 2% of adjusted gross income).
	11	Dividends received from mutual funds that	J	Reported in Form 4562 — Depreciation and
		invest in tax-free government obligations.		Amortization and deductible in Schedule A—
	12	Qualifying medical expenses		Itemized Deductions (deductibility subject to
		not reimbursed by insurance.		threshold of 2% of adjusted gross income).
	13	Personal life insurance premiums paid by Green.	K	Reported on Form 4562 — Depreciation and
	14	Expenses for business-related meals		Amortization and deductible in Schedule C
		where clients were present.		Profit or Loss from Business.
	15	Depreciation on personal computer	L	Fully deductible in Schedule C—
		purchased in current year, used for business.		Profit or Loss from Business.
	16	Business lodging expenses,	M	Partially deductible in Sch. C—Profit or Loss from Business.
		while out of town.	N	Reported in Form 2119—Sale of Your Home, and
	17	Subscriptions to professional		deductible in Schedule Capital Gains and Losses.
		journals used for business.	O	Not deductible.
	18	Self-employment taxes paid.		
	19	Qualifying contributions to a		
		simplified employee pension plan.		
	20	Election to expense business		
		equipment purchased in current year.		
	21	Qualifying alimony payments made by Green.		
	22	Subscriptions for investment-related		
		publications.		
	23	Interest expense on a home-equity loan for		
		amount borrowed to finance		
		Green's business.		
	24	Interest expense on a loan for an auto		
		used 75% for business.		
	25	Loss on sale of residence.		

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Code	Consider information in the columns labeled "INFO" Enter applicable information in Columns 4, 5, and 6	INFO	Gross Income	Ded. For A.G.I.	A.G.I.
	Income, Deductions for AGI & AGI				
61	Sue, single with no dependent, earned a salary in 2017 of	$113,000	$113,000		
	Sue's employer pays for a group-term life insurance policy				
79	with face value of $50,000 for Sue. Annual premiums are	$5,000			
61	Sue purchased a lottery ticket this year and she won:	$10,000	$10,000		
102	Sue's mother made a gift to Sue in the amount of:	$20,000			
103	Sue had interest income on City of Charlotte bonds	$5,000			
	Sue's employer does not provide a retirement plan, so				
219	Sue set up an IRA and made a contribution in 2017 of:	$3,000		$3,000	
71, 215	Sue paid alimony to her former spouse in 2017:	$20,000		$20,000	
	Gross Income →		$123,000		
	Deductions for AGI →			$23,000	
	Adjusted Gross Income →				$100,000

Code	**Itemized Deductions (Schedule A)**	INFO	Deduct.	Net Deduct.
	Medical Expense			
213	Sue paid hospitalization insurance premiums:	$11,000	$11,000	
213	She also spent on "Weight-watchers" meals:	$10,000		
	Total medical expenses before limit.			$11,000
213(a)	Less: 10% of AGI	10.0%		$10,000
	Net Medical Expense Deduction			1,000
	State and Local Taxes Paid			
164(a)(3)	Sue had North Carolina income tax withheld from pay in 2017	$8,800	$8,800	
164(a)(3)	Sue paid N.C. income tax for 2016 on April 15, 2017	$200	$200	
164(a)	Sue paid real estate taxes on her home	$1,000	$1,000	
164(a)(1)	NC sales taxes on purchases of clothing, furniture, etc.	$500		
	Total Taxes Paid & Amount of Deduction for Taxes	$10,500		$10,000
	Interest Paid			
163(h)	Sue paid Interest on her home mortgage	$9,000	$9,000	
163(h)(3)	Sue paid interest paid on her credit cards	$3,000		
	Total Interest Paid and Amount Deductible	$12,000		$9,000
	Charitable Contributions			
170	Sue made gifts to her church	$7,800	$7,800	
170(c)	Sue made gifts to a neighbor whose uninsured house burned	$1,000		
	Total Contributions and Amount Deductible	$8,800		$7,800
	Miscellaneous Itemized Deductions			
212	Tax preparation fees for 2016 return paid 4/15/2017	$1,000	$1,000	
262	Cost of business suits (dresses)	$5,000		
162	Dues paid to a professional organization	$500	$500	
	Total	$6,500	$1,500	
	Less: 2% of AGI		(2,000)	
	Net deductible amount of Misc. Itemized Deductions			0
	Total Itemized Deductions: Med. Taxes. Interest, Charity, Misc., before phase-out			$27,800

Code	**Complete the Tax Return- Form 1040 for 2017**		
	Adjusted Gross Income from above →		$ 100,000
151(b)	Exemption	$4,050	
151(d)(3)	Less Phase-Out (if any)		
	Itemized deduction from above (total deductible amount)	$27,800	
68	Less Phase-Out (if any- Sec. 68)		
	Total of Exemption and Itemized deductions		$31,850
	Taxable income		$68,150
1(c)	Federal income tax before credits		12,776.25
31	Federal income taxes withheld from her pay in 2017 ($10,000)		10,000.00
	Net Income Tax Due or (Refund)		2,776.25

Tax Computation-2017-Single	Base	Rate	Tax
First layer for this taxpayer	37,950		5,226.25
Top layer for this taxpayer	30,200	25%	7,550.00
Total	68,150		12,776.25

Shereal Wallace v. Commissioner

U.S. Tax Court, T.C. Summary Opinion 2011-116

Filed September 29, 2011.

Shereal Wallace, pro se v. Commissioner.

[Code Secs. 24, 151 and 152]

The IRS determined a $3,137 deficiency in Shereal Wallace's Federal income tax.

The issues we must decide are:

(1) whether Shereal is entitled to claim dependency exemption deductions for Ms. Daquetta Davis and Mary Davis and

(2) whether Shereal is entitled to the child tax credit for Mary Davis.

Facts

Shereal Wallace timely filed his tax return, claiming dependency exemption deductions Daquetta Davis and Mary Davis and a child tax credit for Mary Davis.

Ms. Daquetta Davis is Shereal Wallace 's niece, and Mary Davis is Ms. Daquetta Davis' daughter.

At the close of the year, Ms. Daquetta Davis was 21 years old and Mary Davis was 2 years old.

Ms. Davis is not married, and Shereal Wallace is not sure who is the father of Mary Davis.

Shereal Wallace took Ms. Daquetta Davis and Mary Davis into his home during January because they were homeless.

They resided in a spare room in his home until October of the tax year under consideration.

Ms. Daquetta Davis received her certificate of high school equivalence on September 4.

During the period (of about 10 months) when Ms. Daquetta Davis and Mary Davis resided with Shereal, Ms. Daquetta Davis did not have a job and received no other income.

The IRS issued a notice of deficiency to Shereal. Shereal timely filed a petition with this Court.

Although Shereal offered evidence that Ms. Daquetta Davis obtained her certificate of high school equivalency during September, he did not offer any evidence that she was a full-time student at a qualified educational institution during at least 5 months of the calendar year.

Ms. Daquetta Davis earned no income during the approximately 10 months she and Mary Davis lived with Shereal. Shereal provided for all of Mary Davis's needs during that period.

Shereal offered no evidence regarding the amount of Ms. Daquetta Davis' gross income during the period when she was not living in his home.

Questions

1. Is Shereal entitled to claim dependency exemption deductions for Daquetta Davis?
2. Is Shereal entitled to claim dependency exemption deductions for Mary Davis?
3. Is Shereal is entitled to the child tax credit for Mary Davis?

Section 152-Qualifying Child or Relative

152 (c) <u>Qualifying Child</u>. For purposes of this section	**152 (d) <u>Qualifying Relative</u>. For purposes of this section**
(1) In general. The term <u>"qualifying child"</u> means, with respect to any taxpayer for any taxable year, an individual	**(1) In general. The term <u>"qualifying relative"</u> means, with respect to any taxpayer for any taxable year, an individual**
(A) who bears a relationship to the taxpayer described in paragraph (2), (See paragraph 2 – next page)	**(A)** who bears a relationship to the taxpayer described in paragraph (2), [Note: list of relationships is longer in Sec. 152(d) than in 152(c).] (See paragraph 2 – next page)
(B) who has the same principal place of abode as the taxpayer for more than one-half of such taxable year,	**(B)** whose gross income for the calendar year in which such taxable year begins is less than the exemption amount (as defined in section 151(d)),
(C) who meets the age requirements of paragraph (3), (See paragraph 3 – next page)	**(C)** with respect to whom the taxpayer provides over one-half of the individual's support for the calendar year in which such taxable year begins, and
(D) who has not provided over one-half of such individual's own support for the calendar year in which the taxable year of the taxpayer begins, and	**(D)** who is not a qualifying child of such taxpayer or of any other taxpayer for any taxable year beginning in the calendar year in which such taxable year begins.
(E) who has not filed a joint return (other than only for a claim of refund) with the individual's spouse under section 6013 for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins.	

Qualifying Child.	**Qualifying Relative.**
(c) Qualifying Child. For purposes of this section— (1) In general. The term "qualifying child" means, with respect to any taxpayer for any taxable year, an individual— **(A)** who bears a relationship to the taxpayer described in paragraph (2), **(2) Relationship.** For purposes of paragraph (1)(A), an individual bears a relationship to the taxpayer described in this paragraph if such individual is— **(A)** a child of the taxpayer or a descendant of such a child, or **(B)** a brother, sister, stepbrother, or stepsister of the taxpayer or a descendant of any such relative.	**(d) Qualifying Relative. For purposes of this section—** (1) In general. The term "qualifying relative" means, with respect to any taxpayer for any taxable year, an individual— **(A)** who bears a relationship to the taxpayer described in paragraph (2), **(2) Relationship. For purposes of paragraph (1)(A), an individual bears a relationship to the taxpayer described in this paragraph if the individual is any of the following with respect to the taxpayer:** **(A)** A child or a descendant of a child. **(B)** A brother, sister, stepbrother, or stepsister. **(C)** The father or mother, or an ancestor of either. **(D)** A stepfather or stepmother. **(E)** A son or daughter of a brother or sister of the taxpayer. **(F)** A brother or sister of the father or mother of the taxpayer. **(G)** A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. **(H)** An individual (other than an individual who at any time during the taxable year was the spouse, determined without regard to section 7703, of the taxpayer) who, for the taxable year of the taxpayer, has the same principal place of abode as the taxpayer and is a member of the taxpayer's household.
(B) who has the same principal place of abode as the taxpayer for more than one-half of such taxable year,	**(B)** whose gross income for the calendar year in which such taxable year begins is less than the exemption amount (as defined in section 151(d)),
(C) who meets the age requirements of paragraph (3), **(3) Age requirements.** (A) In general. For purposes of paragraph (1)(C), an individual meets the requirements of this paragraph if such individual is younger than the taxpayer claiming such individual as a qualifying child and— **(i)** has not attained the age of 19 as of the close of the calendar year in which the taxable year of the taxpayer begins, or **(ii)** is a student who has not attained the age of 24 as of the close of such calendar year. (B) Special rule for disabled. In the case of an individual who is permanently and totally disabled (as defined in section 22(e)(3)) at any time during such calendar year, the requirements of subparagraph (A) shall be treated as met with respect to such individual.	**(C)** with respect to whom the taxpayer provides over one-half of the individual's support for the calendar year in which such taxable year begins, and
(D) who has not provided over one-half of such individual's own support for the calendar year in which the taxable year of the taxpayer begins, and	**(D)** who is not a qualifying child of such taxpayer or of any other taxpayer for any taxable year beginning in the calendar year in which such taxable year begins.
(E) who has not filed a joint return (other than only for a claim of refund) with the individual's spouse under section 6013 for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins.	

Betty invests in stock. Each stock qualifies as a capital asset.

						Short Term	Long Term
Betty is single (no dependent). Earns annual salary of					$134,050		
Itemized deductions -Charitable contribution to UNCC					($10,000)		
Itemized deductions-Mortgage Interest					($20,000)		
Exemption					($4,050)		
Taxable Income each year, before items below.					**$100,000**		
	Asset	Date Acquired	Date Sold	Total Cost	Total Sell. Price		
	ABC Stock	2017	2017	**$10,000**	**$16,000**		
	DEF Stock	2017	2017	**$10,000**	**$5,000**		
	GHI Stock	2014	2017	**$10,000**	**$13,000**		
	KLM Stock	2014	2017	**$10,000**	**$18,000**		
	NOP Stock	2014	2017	**$10,000**	**$1,000**		
					Totals		

1 What is her taxable income for the year?

2 What is her overall net capital gain or loss for the year?
First provide net Short-term and net Long-term amounts.
(Enter only 2 amounts in Column A below.)

			Column A	Column B	
	Short-term				
1	**Short-term**	**Gain**			**See page 4-6.**
2	**Short-term**	**Loss**			**See page 7-10+**
	Net Short-term Gain or Loss				
	Long-term				
3	**Long-term**	**Gain**			
4	**Long-term**	**Loss**			
	Net Long-term Gain or Loss				
	Net capital gain or loss				

3 What tax rates apply to her capital gains?

	Amount	Rate
Short-term		
Long-term		

See page 7-10+

4 Assume her salary is actually $43,800.
What tax rates apply to her capital gains?

	Amount	Rate
Short-term		
Long-term		

See page 7-14

Phase-out of Exemptions and Deductions - Tax Year-2017

1		**John James and Joan James graduated and got married in May, 2017.**			
2	6013	**Filing Status**	**Joint**		
3		**Taxpayers**	**John**	**Joan**	**Joint**
4	61	John worked for a bank and earned	$50,000		$50,000
5	61	Joan worked as a consultant and earned		$50,000	50,000
6		Gambling Winnings	150,000	150,000	300,000
7	61	**Total Income (also adjusted gross income)**	**200,000**	**205,000**	**400,000**
8	31	Federal income tax withheld	(28,000)	(28,700)	(56,700)
9	164	North Carolina income tax withheld	(4,000)	(4,000)	(8,000)
10		Other Itemized Deductions	(26,000)	(26,000)	(52,000)
11		Total itemized deductions (NC Tax W/H)	(30,000)	(30,000)	(60,000)
12	63(c)	Standard Deduction on joint return			(12,400)
13		(Greater of Std. deduct or itemized deductions)			$60,000
14		Exemptions (2 @ $4,050) **2** **$4,050**			**$8,100**
15		**They went to Las Vegas on New Years Eve, 2017 and won $300,000.**			
16	151(d)	**Phase-out of exemptions**	**Text Page 6-39**		
17		**Revised Adjusted Gross Income**			**400,000**
18	151(d)	**Phase-out threshold** **Filing Status** **Joint**			**313,800**
19		**Excess of AGI over threshold**			**86,200**
20		**Amount of layer used in phase-out**			**2,500**
21		**Number of layers (Divide Excess by $2,500) ($1,250 on sep. return)**			**34.48**
22		**Number of layers rounded up**			**35.0**
23		**Phase-out percentage, using 2% per layer**			**70%**
24		**Amount of exemptions before phase-out**			**8,100**
25		**Amount of exemptions phased out**			**(5,670)**
26		**Exemptions allowed after phase-out**			**$2,430**
27		**At what level of AGI are the exemptions completely phased out?**			
28	68	**Phase-out itemized deduct.** **Page 6-38**		**Joint**	**2017**
29		**Adjusted Gross Income**			**$400,000**
30		**Threshold**			**313,800**
31		**Excess**			**86,200**
32		**Total itemized deductions**			**60,000**
33		**Itemized deductions NOT Subject to the Phase-Out (1)**			**0**
34		**Itemized deductions Subject to the Phase-Out**			**60,000**
35		**3% of excess of AGI over threshold**			**2,586**
36		**80% of affected deductions that are subject to phase-out**			**48,000**
37		**Lesser of two amounts above**			**2,586**
38		**Total itemized deductions after phase-out**			**$57,414**
39	**(1) Medical expenses, Investment interest, Gambling & Casualty losses not subject to phase-out.**				

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Code	Consider information in the columns labeled "INFO" Enter applicable information in Columns 4, 5, and 6	INFO	Gross Income	Ded. For A.G.I.	A.G.I.
	Income, Deductions for AGI & AGI				
61	Sue, single with no dependent, earned a salary in 2016 of	$113,000	$113,000		
	Sue's employer pays for a group-term life insurance policy				
79	with face value of $50,000 for Sue. Annual premiums are	$5,000			
61	Sue purchased a lottery ticket this year and she won:	$10,000	$10,000		
102	Sue's mother made a gift to Sue in the amount of:	$20,000			
103	Sue had interest income on City of Charlotte bonds	$5,000			
	Sue's employer does not provide a retirement plan, so				
219	Sue set up an IRA and made a contribution in 2016 of:	$3,000		$3,000	
71, 215	Sue paid alimony to former spouse in 2016:	$20,000		$20,000	
	Gross Income →		$123,000		
	Deductions for AGI →			$23,000	
	Adjusted Gross Income →				$100,000
	Itemized Deductions (Schedule A)		INFO	Deduct.	Net Deduct.
	Medical Expense				
213	Sue paid hospitalization insurance premiums:		$11,000	$11,000	
213	She also spent on "Weight-watchers" meals:		$10,000		
	Total medical expenses before limit.				$11,000
213(a)	Less: 10% of AGI		10.0%		$10,000
	Net Medical Expense Deduction				1,000
	State and Local Taxes Paid				
164(a)(3)	Sue had North Carolina income tax withheld from pay in 2016		$8,800	$8,800	
164(a)(3)	Sue paid N.C. income tax for 2015 on April 15, 2016		$200	$200	
164(a)	Sue paid real estate taxes on her home		$1,000	$1,000	
164(a)(1)	NC sales taxes on purchases of clothing, furniture, etc.		$500		
	Total Taxes Paid & Amount of Deduction for Taxes		$10,500		$10,000
	Interest Paid				
163(h)	Sue paid Interest on her home mortgage		$9,000	$9,000	
163(h)(3)	Sue paid interest paid on her credit cards		$3,000		
	Total Interest Paid and Amount Deductible		$12,000		$9,000
	Charitable Contributions				
170	Sue made gifts to her church		$7,800	$7,800	
170(c)	Sue made gifts to a neighbor whose uninsured house burned		$1,000		
	Total Contributions and Amount Deductible		$8,800		$7,800
	Miscellaneous Itemized Deductions				
212	Tax preparation fees for 2015 return paid 4/15/2016		$1,000	$1,000	
262	Cost of business suits (dresses)		$5,000		
162	Dues paid to a professional organization		$500	$500	
	Total		$6,500	$1,500	
	Less: 2% of AGI			(2,000)	
	Net deductible amount of Misc. Itemized Deductions				0
	Total Itemized Deductions: Med. Taxes. Interest, Charity, Misc., before phase-out				$27,800
	Complete the Tax Return- Form 1040 for 2016				
	Adjusted Gross Income from above →				$ 100,000
151(b)	Exemption			$4,050	
151(d)(3)	Less Phase-Out (if any)				
	Itemized deduction from above (total deductible amount)			$27,800	
68	Less Phase-Out (if any- Sec. 68)				
	Total of Exemption and Itemized deductions				$31,850
	Taxable income				$68,150
1(c)	Federal income tax before credits				12,808.75
31	Federal income taxes withheld from her pay in 2016 ($20,000)				20,000.00
	Net Income Tax Due or (Refund)				7,191.25

Tax Computation-2016-Single	Base	Rate	Tax
First layer for this taxpayer	37,650		5,183.75
Top layer for this taxpayer	30,500	25%	7,625.00
Total	68,150		12,808.75

Classification of Expenses

		Deductible				Not deductible		
Expense Item	Note	**For AGI**	Note	**From AGI**	Note		Note	Applicable Code Section
Investment expenses								
Rent and royalty		X						§ 62(a)(4)
All other investments				X				§ 212
Employee expenses								
Commuting expenses						X		§ 262
Travel and transportation	1			X				§ 162(a)(2)
Reimbursed expenses	1	X						§ 62(a)(2)(A)
Moving expenses		X						§ 62(a)(15)
Entertainment	1			X	4,5			§ 162(a)
All other employee expenses				X	4,5			§ 162(a)
Expenses of performing artists		X						§ 62(a)(2)(B)
Trade or business expenses		X						§§ 162 and 62(a)(1)
Casualty losses								
Business		X						§ 165(c)(1)
Personal				X	6			§ 165(c)(3)
Tax determination		X	8	X	4			§§ 212 and 62(a)(1)
Bad debts		X						§§ 166 and 62(a)(1)
Medical expenses				X	7			§ 213
Charitable contributions				X				§ 170
Taxes								
Trade or business		X						§§ 162 and 62(a)(1)
Personal taxes								
Real property				X				§ 164(a)(1)
Personal property				X				§ 164(a)(2)
State and local income				X				§ 164(a)(3)
Investigation of a business	**2**	X						§§ 162 and 62(a)(1)
Interest								§§ 162 and 62(a)(1)
Interest on Business Property		X						§ 163(a), (d), and (h)
Interest on Rental Property		X						
Investment Interest Expense				X				
Personal				X	3	X	9	§ 262
All other personal expenses						X		§ 262
Food and Clothing						X		§ 262
Rent on apartment, etc.						X		§ 262
Legal fees for divorce, will, etc.						X		§ 262
Cost of funeral	10					X		§ 262

1. Deduction for AGI if reimbursed, adequate accounting is made, & excess amount is returned
2. Provided certain criteria are met.
3. Subject to the excess investment interest and the qualified residence interest provisions.
4. Subject (in the aggregate) to a 2%-of-AGI floor imposed by § 67.
5. Only 50% of meals and entertainment are deductible.
6. Subject to a 10%-of-AGI floor and a $100 floor.
7. Subject to a 7.5%-of-AGI floor. Floor increased to 10% in 2013
8. Only the portion relating to business, rental, or royalty income or losses
9. Other personal interest [other than residential interest or investment interest] is not deductible
10. This sheet deals with income tax. See also estate tax rules.

Chapter 04. Individual Tax Homework

1. Jan is single. In 2017, she had a salary of $250,000.
After taking into account all deduction limits and phase-outs,
her exemption and itemized deductions amounted to a total of $30,000.
She also received $10,000 of interest on State of North Carolina bonds.
Jan's federal income tax before credits was:

a. $59,751 **b.** $55,999 **c.** $58,550 **d.** $35,710 **e.** Other

2. Jan is single. In 2017, she had a salary of $250,000.
After taking into account all deduction limits and phase-outs, her exemption and itemized deductions amounted to a total of $30,000.
She also received $10,000 of interest on State of North Carolina bonds.
Jan's marginal tax rate in 2017 is:

a. 15% **b.** 26% **c.** 28% **d.** 33% **e.** 35%

3. (Text page 8-15) Jan is single. In 2017, she had a salary of $250,000.
After taking into account all deduction limits and phase-outs, her exemption and itemized deductions amounted to a total of $30,000.
She also received $10,000 of interest on State of North Carolina bonds.
How much Social Security tax is withheld above from Jan's salary in 2017?
Ignore the additional payroll taxes required by the Affordable Care Act (ObamaCare).

a. $10,392 **b.** $10,977 **c.** $11,511 **d.** $9,522 **e.** Other

4. Betty is single. In 2017, she had a regular salary of $250,000.
In December, 2017, the company paid her a cash bonus of $15,000, in addition to her regular salary. How much Social Security tax is withheld on the bonus?

a. $277.90 **b.** $217.50 **c.** $1,147.50 **d.** $1,522.00 **e.** Other

5. [§ 62] Which of these expenditures is a deduction to get AGI for a single individual?

a. Union dues for an employee
b. Real estate taxes on family residence
c. Wall Street Journal subscription for stock investor
d. Real estate taxes on rental house owned by an investor

6. [Page 4-15.] Beth was entirely supported by her sons Bart, Bill and Bob who provided this support:
Bart 40%; Bill 45%; Bob 15%
Who is (are) entitled to claim Beth as a dependent, assuming a multiple support agreement exists?

a. Bart **b.** Bart or Bill **c.** Bill or Bob **d.** Bart, Bill or Bob

7. Julie's grandmother bought some land 10 years ago for **$30,000.**
In the current year, grandmother gave Julie the land, which had a value of $100,000 on the date of the gift. Her Grandmother paid gift tax of $10,000 on the gift. What is Julie's basis in the land?

a. $ 37,000 **b.** $ 33,000 **c.** $100,000 **d.** $30,000 **e.** Other

8. A single taxpayer had the following income and expenditures in the current year.

Wages earned	$60,000
Deductible contribution to IRA	(2,000)
NC Income Tax	(4,000)
Charity	(3,000)
Alimony paid to former spouse	(5,000)

What is the taxpayer's adjusted gross income?

a. $60,000 **b.** $55,000 **c.** $54,600 **d.** $53,000 **e.** Other

9. Rachael is a single parent who maintains a home in Boston in which she and her 16-year-old daughter reside. She also provides most of the support for her son, Stockton, age 25, who is a full-time student at Harvard Law School, lives at home, and earns $2,000 as a part-time waiter at a local diner.
How many personal and dependency exemptions can Rachael claim?

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

10. Anita was entirely supported by her sons Bart, Bill and Bob who provided this support:
Bart 42%; Bill 49%; Bob 9%
Which brother is entitled to claim Anita as a dependent, assuming a multiple support agreement exists?

a. Bart **b.** Bart or Bill **c.** Bill or Bob **d.** Bart, Bill or Bob

11. Laura and Michael were divorced last year. Michael has custody of their two children.
Laura pays $8,600 in child support payments during the current year. The total cost of supporting the children is $12,500. Michael and Laura do not have any special agreement about dependency exemptions. How many total exemptions may Michael claim for the current year?

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

12. In October of the current year, Brandy and her husband Ben split up and do not speak to each other.
Neither individual will cooperate with the other on anything including finalizing the divorce.
Ben supports their two children after the split up and maintains their household.
What is Ben's filing status for the current year?

a. Single **b.** Married filing separately **c.** Head of household **d.** Surviving Spouse

13. Nell Brown's husband died in 2015. Nell did not remarry, and continued to provide a home and support for herself and her dependent infant child during 2015, 2016, and 2017.
For 2017, Nell's filing status is:

a. Single **b.** Married filing joint return **c.** Head of household. **d.** Qualifying widow

14. [§ 62] Which type of deductions is not deductible in arriving at adjusted gross income?

a. Alimony **b.** Exemption **c.** Expenses of rental property **d.** IRA Contributions

15. Mr. and Mrs. Smith have combined salaries of $62,000. Their only expenditures affecting the tax return are state income taxes of $6,000 and real estate taxes amounting to $2,000.
They have two small children whom they support, and file a joint return.
They have taxable income for the current year of:

a. Not more than 34,000 **b.** More than $34,000, but not more than $37,000
c. More than $38,000 **d.** More than $37,000, but not more than $38,000

16. **Bob and Pam** are both age 67 and legally blind.
What is their standard deduction on a joint return for current year (2017)?

a. $7,950 **b.** $8,900 **c.** $13,500 **d.** $17,700 e Other

17. Eleanor is 67, single and has an adjusted gross income of $14,300. She has no dependents and her itemized deductions are $6,000. What is her taxable income for the current year (2017)?

a. $ 2,350 **b.** $ 4,250 **c.** $ 4,550 **d.** $ 4,800 e $ 4,900

18. **[Page 1-13]** An employer compensates Joe at the rate of $50,000 per year in 2017.
The employer withholds FICA of $3,825 and matches it when making its deposit of payroll taxes to the IRS.
The employer also withholds federal income tax of $5,000 (no state income tax) and pays combined FUTA and SUTA of $434. What is the employer's total deduction for salary and payroll taxes for Joe?

a. $54,259 **b.** $59,259 **c.** $58,084

19. Who pays FUTA.

a. Employers **b.** Employees **c.** Both

20. Joanna received $60,000 compensation from her employer, the value of her stock in ABC company appreciated by $5,000 during the year (but she did not sell any of the stock), she received $30,000 of life insurance proceeds from the death of her husband.
What is the amount of Joanna's gross income from these items?

a. $60,000 **b.** $65,000 **c.** $95,000 **d.** $97,000

21. **[§ 62]** Which of the following is not an itemized deduction?

a. Alimony paid **b.** Medical expenses
c. Personal property taxes **d.** Charitable contributions

22. Which of the following statements regarding personal and dependency exemptions is *false*?

a. A married couple filing jointly may claim two personal exemptions.
b. To qualify as a dependent of another, an individual must be a resident of the United States.
c. An individual who qualifies as a dependent of another taxpayer may not claim a personal exemption.
d. A person cannot qualify as a dependent of another as a qualifying relative if that person's gross income exceeds the exemption amount.

23. All of the following are tests for determining qualifying child status except the ______.

a. gross income **b.** age test **c.** support test **d.** residence test

24. Which of the following relationships does **NOT** pass the relationship test for a qualifying child?

a. Stepsister's daughter **b.** Half-brother **c.** Cousin **d.** Stepsister

25. Charlotte is the Lucas family's 22-year-old daughter. She is a full-time student at an out-of-state university but plans to return home when the school year ends. During the year, Charlotte earned $4,000 of income working part-time. Her support totaled $30,000 for the year. Of this amount, Charlotte paid $7,000 with her own funds ($4,000 from earnings and $3,000 from her savings), her parents paid $14,000, and Charlotte's grandparents paid $9,000. Which of the following statements most accurately describes whether Charlotte's parents can claim a dependency exemption for Charlotte?

- **a.** Yes, Charlotte is a qualifying child of her parents.
- **b.** No, Charlotte fails the support test for both qualifying children and qualifying relatives.
- **c.** No, Charlotte does not pass the gross income test.
- **d.** Yes, Charlotte is a qualifying relative of her parents.

26. Sheri and Jake Woodhouse have one daughter, Emma, who is 16 years old. They also have taken in Emma's friend, Harriet, who has lived with them since February of the current year and is also 16 years of age. The Woodhouses have not legally adopted Harriet but Emma often refers to Harriet as "her sister." The Woodhouses provide all of the support for both girls, and both girls live at the Woodhouse residence. Which of the following statements is true regarding the *dependency* exemptions (and the reason for the exemptions) Sheri and Jake may claim for the current year for these girls?

- **a.** One exemption for their daughter Emma as a qualifying child but no exemption for Harriet.
- **b.** One exemption for Emma as a qualifying child and one exemption for Harriet as a qualifying child.
- **c.** One exemption for Emma as a qualifying child and one exemption for Harriet as a qualifying relative.
- **d.** None of the above statements is true.

27. Katy has one child, Dustin, who is 18 years old at the end of the year. Dustin lived at home for three months during the year before leaving home to work full-time in another city. During the year, Dustin earned $15,000. Anne provided more than half of Dustin's support for the year. Which of the following statements regarding whether Katy may claim Dustin as a dependent for the current year is accurate?

- **a.** Yes, Dustin is a qualifying child of Katy.
- **b.** Yes, Dustin fails residence test for a qualifying child but he is considered a qualifying relative of Katy
- **c.** No, Dustin fails the support test for a qualifying relative.
- **d.** No, Dustin fails the gross income test for a qualifying relative.

28. William and Charlotte Collins divorced in November of year 1. William moved out and Charlotte remained in their house with their 10-month-old daughter, Autumn. Diana, Charlotte's mother, lived in the home and acted as Autumn's nanny for all of year 1. William provided 70% of Autumn's support, Diana provided 20%, and Charlotte provided 10%. When the time came to file their tax returns for year 1, William, Charlotte, and Diana each wanted to claim Autumn as a dependent. Their respective AGIs for year 1 were $50,000, $35,000, and $52,000. Who has priority to claim Autumn as a dependent?

- **a.** William
- **b.** Diana
- **c.** Charlotte
- **d.** They must negotiate amongst themselves.

29. Which of the following statements regarding the difference between the requirements for a qualifying child and the requirements for a qualifying relative is *false*?

- **a.** Qualifying children are subject to age restrictions while qualifying relatives are not.
- **b.** The relationship requirement is more broadly defined (more inclusive) for qualifying relatives than for qualifying children.
- **c.** The support test for qualifying relatives focuses on the support the potential dependent provides while the support test for qualifying children focuses on the support the taxpayer provides.
- **d.** Qualifying relatives are subject to a gross income restriction while qualifying children are not.

30. Michael, Diane, Karen, and Kenny provide support for their mother Janet who is 75 years old. Janet lives by herself in an apartment in Los Angeles. Janet's gross income for the year is $3,000. Janet provides 10% of her own support, Michael provides 40% of Janet's support, Diane provides 8% of Janet's support, Karen provides 10% of Janet's support, and Kenny provides the remaining 32% of Janet's support. Under a multiple support agreement, who may claim a dependency exemption for Janet as a qualifying relative?

- **a.** Michael, Diane, Karen, and Kenny
- **b.** Michael, Karen, and Kenny
- **c.** Michael and Kenny
- **d.** Michael

31. Lydia and John Wickham filed jointly in year 1. They divorced in year 2. In late year 2, the IRS discovered that the Wickham has underpaid their year 1 taxes by $2,000. Both Lydia and John worked in year 1 and received equal income but John had $2,000 less tax withheld than did Lydia. Who is legally liable for the tax underpayment?

- **a.** Lydia.
- **b.** John.
- **c.** Both Lydia and John.
- **d.** Neither Lydia nor John.

32. In June of year 1, Edgar's wife Cathy died and Edgar did not remarry during the year. What is his filing status for year 1?

- **a.** Single
- **b.** Married filing jointly
- **c.** Qualifying widower
- **d.** Head of household

33. Jan is unmarried and has no children. Jan provides all of the financial support for her mother, who lives in an apartment across town. Jan's mother qualifies as Jan's dependent. Which is the most advantageous filing status available to Jan?

- **a.** Single
- **b.** Head of household
- **c.** Qualifying individual
- **d.** Surviving single

34. Jane is unmarried and has no children, but provides more than half of her mother's financial support. Jane's mother lives in an apartment across town and has a part-time job earning $5,000 a year. Which is the most advantageous filing status available to Jane?

- **a.** Single
- **b.** Head of household
- **c.** Qualifying individual
- **d.** Surviving single

35. In April of year 1, Martin left his wife Marianne. While the couple was apart, they were not legally divorced. Marianne found herself having to financially provide for the couple's only child (who qualifies as Marianne's dependent) and to pay all the costs of maintaining the household. When Marianne filed her tax return for year 1, she filed a return separate from Martin.
What is Marianne's most favorable filing status for year 1?

a. Married filing separately. **b.** Single.
c. Head of household. **d.** Qualifying widow.

36. For filing status purposes, the taxpayer's marital status is determined at what point during the year?

a. the beginning of the year **b.** the end of the year
c. the middle of the year **d.** None of the above

37. In year 1, Harold Weston's wife died. Since her death, he has maintained a household for their son Frank, his qualifying child. Which is the most advantageous filing status available to Harold in year 4?

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