**Chapter 04. Individual Tax Homework**

 **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 | **B** |

 **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% | **D** |

 **(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 | C |

 **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 | B |

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

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

 **[**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  | **D** |

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 | **A** |

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 | **D** |

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 | **C** |

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  | **B** |

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 | **C** |

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 | **B** |

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 | **D** |

 **[§ 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 | **B** |

 **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 | **A** |
| **c.** | More than $38,000 | **d.** | More than $37,000, but not more than $38,000 |

 **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 | **D** |

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 | **A** |

 **[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 | **A** |

Who pays FUTA.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | Employers | **b.** | Employees | **c.** | Both | **A** |

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 | **A** |

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

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

**Alimony paid is a *for* AGI deduction.**

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

|  |  |  |
| --- | --- | --- |
| **a.** |  A married couple filing jointly may claim two personal exemptions. | B |
| **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. |

**To qualify as dependent of another, an individual must be a resident of the U.S., Canada, or Mexico.**

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 | **A** |

**Qualifying children must pass age, support, and residence tests. There is no requirement relating to gross income.**

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 | **C** |

**A, B, and D are all valid relationships for a qualifying child.**

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. | A |
| **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. |

**Because Charlotte is a full-time student and under 24 she passes the age test of a qualifying child. Her time spent away from school is counted as time at home for the residence test. Also, Charlotte did not provide more than half of her own support. There is no gross income test for qualifying children.**

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. | A |
| **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. |

**Emma passes all tests of a qualifying child. Harriet, however, must be tested as a qualifying relative because she does not meet the relationship test of a qualifying child. In order to be considered a qualifying relative, she would have had to live at in the Woodhouse residence for the entire year, and not just 11 of 12 months.**

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. | D |
| **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. |

**Dustin fails the qualifying child residence test and he fails the qualifying relative gross income test so Katy may not claim Dustin as a dependent.**

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** |
| **c.** | Charlotte | **d.** | They must negotiate amongst themselves. |

**When a child is a qualifying child of multiple parties, parents have priority over grandparents. Because Charlotte lived with Autumn longer, she has preference over William. AGI is not used as a tiebreaker in this case because the issue was resolved after application of the first two rules.**

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. | C |
| **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. |

**The support test for a qualifying child considers the amount of support the child provided for herself. The support test for a qualifying relative considers the amount of support the taxpayer provided for the prospective dependent.**

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** |
| **c.** | Michael and Kenny | **d.** | Michael |

**Only Michael and Kenny are eligible because they are the only ones who contributed more than 10% of Janet's support.**

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** |
| **c.** | Both Lydia and John. | **d.** | Neither Lydia nor John. |

**Because the couple filed a joint return both parties are responsible for paying the tax.**

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 | **B** |
| **c.** | Qualifying widower | **d.** | Head of household |

**If a spouse dies during the year and the surviving spouse does not remarry, for tax purposes the surviving spouse is still considered married to the deceased spouse at the end of the year.**

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 | **B** |
| **c.** | Qualifying individual | **d.** | Surviving single |

**Jan can claim head of household status if she maintains a separate residence for a parent who is also a dependent.**

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 | **A** |
| **c.** | Qualifying individual | **d.** | Surviving single |

**Jane's mother is not Jane's dependent because she fails the qualifying relative gross income test. Consequently, Jane may not file as a head of household.**

 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** |
| **c.** | Head of household. | **d.** | Qualifying widow. |

**Although she has not lived with Martin for the last six months of the year, she is still *legally* married as of the end of the year. Because she provided more than half the costs of maintaining a household for her dependent child, and she filed separately from her husband, she can file using the head of household status under the abandoned spouse provision.**

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 | **B** |
| **c.** | the middle of the year | **d.** | None of the above |

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 | **D** |
| **c.** | Qualifying widower | **d.** | Head of household |

**The special treatment for widows and widowers who maintain a household for a dependent is only available for two years following the spouse's death. After that, the taxpayer is eligible for head of household filing status.**