

FEDERAL TAX - TEST No. 3. Chapters 8-10 Test No. _____
Fall, 2015. The University of North Carolina at Charlotte

Name _____ Row In Class _____

Instructions: This test is "open book," (you may use your textbook during the test, as well as your class notes). The test contains 25 multiple-choice questions. Some answers may be rounded to nearest dollar. Use 2014 tax rate schedules when computing federal individual income tax. 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. **Last page had tax rates and other amounts.**

Failure to follow instructions below will result in a 5 point reduction in your grade.

<p>1. Use a soft-lead pencil In Spaces Above 2. Enter name in appropriate space above. Write clearly. 3. Enter above the row number for your seat in class.</p>	<p>On the Opscan Sheet: 4. Enter name (last name first) in the area for "NAME." 5. Enter test number (found in upper right hand corner of this page) in the special codes area. 6. Blacken circle containing appropriate letter for each question.</p>
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Your signature is required here.

I have read the instructions above and I have followed those instructions.

Signature _____

1. Olga is married and files a joint tax return with her husband.

What amount of AMT exemption may they deduct assuming their **AMTI is \$190,000?**

- a. \$75,625 b. \$70,325 c. \$70,325 d. \$73,125 e. Other

2. Lacy is a single taxpayer. In 2015, her taxable income is \$40,000.

What is her tax liability assuming her taxable income of \$40,000 includes \$2,000 of qualified dividends?

- a. \$6,893 b. \$5,494 c. \$5,794 d. \$5,594 e. Other

3. Sylvester files as a single taxpayer during 2015 and claims one personal exemption. He itemizes deductions for regular tax purposes. He paid charitable contributions of \$7,000, real estate taxes of \$1,000, state income taxes of \$4,000, interest on a home equity loan of \$2,000, and miscellaneous itemized deductions of \$3,000 (after taking into account the limitation based on AGI). Sylvester's regular taxable income is \$100,000.

What is Sylvester's AMTI if he used the home-equity proceeds to purchase a car?

- a. \$116,000 b. \$111,000 c. \$114,000 d. \$115,000 e. Other

4. Sam earns a salary of \$324,000. He is single, age 40, claims one exemption in the amount of \$4,000, and has itemized deductions of \$20,000 (all for charitable contributions). His regular taxable income is \$300,000.

He also earned interest income of \$100,000 on a private activity bond (issued in 2013).

What is tentative minimum tax?

- a. \$109,412 b. \$107,325 c. \$108,478 d. \$108,125 e. Other

5. Samantha earns tax consulting fees of \$100,000 this year in her unincorporated tax practice. She had deductible business expenses of \$40,000 (for rent, utilities, employee salaries, and payroll tax on employee salaries) in her tax practice. How much self-employment tax does she owe for 2015?

- a. \$7,625 b. \$5,652 c. \$7,325 d. \$8,478 e. Other

6. Heather and Larry are married and have two children ages 12 and 10.

Their AGI for the year is \$120,000. What amount may they claim for the child tax credit?

- a. \$500 b. \$800 c. \$2,000 d. \$1,500 e. Other

7. Floyd is a single parent with an 11-year-old daughter. Floyd's AGI is \$50,000.

He pays \$3,100 in qualified child-care expenses. Floyd can claim a child-care credit of:

- a. \$420 b. \$441 c. \$600 d. \$735 e. Other

8. Joan did not have money to pay her taxes on April 15, 2015. She did not request an extension. She filed her 2014 tax return on July 5, 2015. Her total tax was \$20,000. She had no withholding tax and she had made no estimated tax payments. She paid \$20,000 with return filed on July 5, 2015?

What is the total amount of her failure to file and failure to pay penalties?

- a. \$4,500 b. \$2,000 c. \$3,000 d. \$4,500 e. Other

9. Mr. Hill is self-employed. He has these unreimbursed business expenses. (He has adequate documentation).

Dues to country club- where customers are entertained	\$3,000
Business meals	\$2,000
Business entertainment	\$1,000
Business gifts (10 gifts at a cost of \$30 each -- to 10 different people)	\$300

What is the amount of these expenses that Mr. Hill can deduct?

- a. \$1,750 b. \$1,800 c. \$2,250 d. \$6,300 e. Other

10. Maria's business warehouse building was totally destroyed by fire. The property had an adjusted basis of \$150,000 and a FMV of \$130,000 before the fire. Maria received insurance reimbursement of \$120,000 for the loss. Maria's adjusted gross income was \$70,000, before considering this loss. Maria had no casualty gains during the year. What amount of the **fire loss** was Maria entitled to claim on her tax return?

- a. \$ 2,900 b. \$ 8,500 c. \$ 8,600 d. \$10,000 e. \$30,000

11. In June 1, 2015, Justin purchased an insurance policy that covers his business property for accidents and casualties. Justin paid \$6,000 for a 24-month policy that covers from July 1, 2015 through June 30, 2017. Justin is a calendar-year taxpayer who uses the cash method of accounting.

What is his deduction for this expense on the 2015 income tax return?

- a. \$0 b. \$1,500 c. \$3,000 d. \$6,000 e. Other

12. Erin is considering switching her business from the cash method to the accrual method at the beginning of 2016. At the end of 2015 (beginning of 2016), Erin's will have \$25,000 of accounts receivables and \$5,000 of accounts payables that have not been recorded for tax purposes. Assume the IRS grants Erin's request to change her accounting method. What is the amount of Ann's \$481 adjustment on her 2016 income tax return?

- a. \$0 b. \$5,000 c. \$25,000 d. \$10,000 e. Other

13. Silver Company collects cash for revenue before that revenue is earned. Silver is in the business of renting office space to local businesses. When cash is collected, the company debits cash and credits unearned revenue. At the end of each accounting period, the company adjusts the books by moving the appropriate amount from the unearned revenue account to the earned revenue account. The company provided the following information for 2015.

Unearned Revenue	Balance-January 1, 2015	\$10,000
Unearned Revenue	Balance-December 31, 2015	\$40,000
Collection of Revenue	All of 2015	\$100,000

Silver is in the 40% tax bracket. What is the balance in the deferred tax asset or liability at the end of 2015?

- a. \$4,000 b. \$8,000 c. \$16,000 d. \$20,000 e. Other

14. The Peach Company sells phones to college students. The phones have a two-year warranty. The company provided the following trial balance at the end of its first year of operation.

Cash	100,000	
Machine - Bought Jan. 2, 2015	50,000	
Accumulated Dep.-S.L.- 5 years		10,000
Warranty Liability		5,000
Common Stock		85,000
Retained Earnings		
Repair revenue		200,000
Warranty Expense	20,000	
Salaries, supplies, depreciation, etc.	130,000	
Totals	300,000	300,000

How much taxable income will the company report this year?

- a. \$50,000 b. \$45,000 c. \$55,000 d. \$70,000 e. Other

15. On 1-1-2015, Bell Corp. was organized. On that date, Bell paid \$23,000 for startup costs for the corporation. What amount is deducted for 2015?

- a. \$6,000 b. \$5,120 c. \$6,200 d. \$23,000 e. Other

16. FLASH, Inc. was started in 2014. The company provided the following GAAP income statement for 2015, which includes all revenue and expense other than federal income tax.

Sales	\$200,000
Cost of sales	100,000
Total expenses other than income taxes	60,000

FLASH's provision for bad debts each year (included above) is equal to 4% of gross sales.

Allowance for bad debts, 12/31/2014	\$3,000
Allowance for bad debts, 12/31/2015	4,000

What is FLASH's taxable income for 2015?

- a. \$40,000 b. \$41,000 c. \$38,000 d. \$39,000 e. Other

17. Ann is an owner of a calendar-year, accrual basis business. Ann engages her sister (Beth) as an independent contractor, to provide some specialized service for her clients. Beth submitted a bill \$5,000 for consulting services in December, 2015. Ann was only able to pay \$3,000 of the bill by the end of 2015. Ann paid the remainder of the bill in year January, 2016. How much of the \$5,000 expense may Ann deduct in her tax return for 2015?

- a. \$0 b. \$2,500 c. \$3,000 d. \$5,000 e. Other

18. Taxpayer bought a business building and land in a single transaction at a bargain. What is the basis of the land?

Total Cost for both assets	\$630,000
Fair Market Value of building	600,000
Fair Market Value of land	100,000

- a. \$ 50,000 b. \$ 70,000 c. \$80,000 d. \$90,000 e. Other

19. An individual (Jan) owns land held as an investment, with a value of \$500,000, and a basis of \$400,000. If Jan sells the land for \$500,000, she will recognize a gain of \$100,000. Assume the Jan trades the land for an office building worth \$500,000, Jan has a gain realized on the exchange of \$100,000. The gain will not be recognized because this qualifies as a like-kind exchange (rules covered in later chapter). What is the basis in the building?

- a. \$ 400,000 b. \$ 500,000 c. \$600,000

20. A business purchased a new delivery truck (5 year property) for \$20,000 on September 2, 2015. The company also bought a heavy machine (7-year property) for \$25,000 on December 10, 2015. No other depreciable asset was acquired in 2015. Under MACRS, what amount of depreciation will be claimed on the new truck?

- a. \$ 2,000 b. \$ 3,000 c. \$4,500 d. \$6,000 e. Other

21. Teton Company purchased a machine on July 22 at a cost of \$207,000, which has a recovery period of 7 years. This was the only purchase of depreciable assets in 2015. The company will NOT claim bonus depreciation (which has expired). Assume Congress will NOT pass legislation for 2015 that will maintain the maximum section 179 write-off at \$500,000. What is Teton's deduction under Section 179?

- a. \$25,000 b. \$18,000 c. \$7,000 d. \$8,000 e. Other

22. Charlotte Corporation purchased heavy equipment (7 year life) at a cost of \$40,000 in 2015.

The taxable income of the business is \$20,000 [before sec. 179 deduction].

What is the company's maximum Section 179 deduction for the current year?

- a. \$ 20,000 b. \$ 30,000 c. \$25,000 d. \$40,000 e. Other

23. Charlotte Corporation bought and placed into service a company auto costing \$40,000 in June, 2015. The auto is used 100% for business. Assume Congress will NOT extend to 2015, the law allowing bonus depreciation on autos acquired in the year. What is the depreciation deduction on the auto for 2015? (Use textbook)

- a. \$ 3,160 b. \$ 2,900 c. \$ 4,350 d. \$ 11,160 e. other

24. Robert paid \$220,000 for an **office building** on **September 27, 2015**, to use in his trucking business. He properly allocates \$200,000 to the building and \$20,000 to the land.

What is Robert's depreciation deduction on the property for 2015?

- a. \$642 b. \$2,443 c. \$1,498 d. \$3,846 e. Other

25. Trump bought Jeb's ownership interest in ABC Company on July 1 of current year. Trump paid Jeb \$60,000 cash not to compete or interfere with Trump's business activities over the next 3 years. How much cost recovery can Trump claim in the current year because of the covenant not to compete?

- a. \$ 1,000 b. \$ 2,000 c. \$ 3,000 d. \$ 6,000 e. \$30,000

Federal Income Tax Rates-Single. 2015

Taxable income:		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
\$0	\$9,225	0.00	+	10%	\$0
9,225	37,450	922.50	+	15%	9,225
37,450	90,750	5,156.25	+	25%	37,450
90,750	189,300	18,481.25	+	28%	90,750
189,300	411,500	46,075.25	+	33%	189,300
411,500	413,200	119,401.25	+	35%	411,500
\$413,200		119,996.25	+	39.6%	413,200

Example: with taxable income of \$9,325, rate is 10% on \$9,225 and 15% on \$100

Federal Income Tax Rates:Joint - 2015.

Taxable income:		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
\$0	\$18,450	0.00	+	10%	\$0
18,450	74,900	1,845.00	+	15%	18,450
74,900	151,200	10,312.50	+	25%	74,900
151,200	230,450	29,387.50	+	28%	151,200
230,450	411,500	51,577.50	+	33%	230,450
411,500	464,850	111,324.00	+	35%	411,500
\$464,850		129,996.50	+	39.6%	464,850

Income Tax Rates - Separate - 2015.

Taxable income:		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
\$0	\$9,225	0.00	+	10%	\$0
9,225	37,450	922.50	+	15%	\$9,225
37,450	75,600	5,156.25	+	25%	\$37,450
75,600	115,225	14,693.75	+	28%	\$75,600
115,225	205,750	25,788.75	+	33%	\$115,225
205,750	232,425	55,662.00	+	35%	\$205,750
\$232,425		64,998.25	+	39.6%	\$232,425

Income Tax Rates - Head of Household - 2015.

Individual taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
\$0	\$13,150	0.00	+	10%	\$0
13,150	50,200	1,315.00	+	15%	13,150
50,200	129,600	6,872.50	+	25%	50,200
129,600	209,850	26,722.50	+	28%	129,600
209,850	411,500	49,192.50	+	33%	209,850
411,500	439,000	115,737.00	+	35%	411,500
\$439,000		125,362.00	+	39.6%	439,000

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	\$9,250	\$1,550
Personal Exemption Amount	\$4,000	

AMT Exemption	Amount	Phase-out	
Joint Return	\$83,400	\$158,900	\$492,500
Separate Return	\$41,700	\$79,450	\$246,250
H-of-H and Single	\$53,600	\$119,200	\$333,600
AMT Tax Rates	Amount	Rate	
Rate on AMT base up to	\$185,400	26%	
Rate on AMT base above	\$185,400	28%	

FICA rate on salary up to	\$118,500	7.65%
FICA rate on excess	Excess	1.45%

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%	

1 A	Exemption Before Reduction	Joint	\$83,400	Joint	\$83,400
	AMTI	190,000		200,000	
	Threshold	158,900		158,900	
	Excess of AMTI over threshold	31,100		41,100	
	Phaseout percentage - 25%	25%		25%	
	Exemption disallowed		(7,775)		(10,275)
	Exemption allowed		\$75,625		\$73,125

2 D **Lacy** What is her federal taxable income before credits?

Taxable income	\$40,000		
Less net long-term capital gain	(\$2,000)		
	\$38,000		
Single, 2015	Base	Rate	Tax
Top layer for taxpayer	37,450		5,156.25
Amount above layer	550	25%	137.50
Totals	38,000		5,293.75
Tax on capital gain			
Net long-term capital gain		\$2,000	
Threshold for 25% bracket		37,450	
Taxable income		40,000	
Amount of LTCG taxed at 0%		0	
Amount of LTCG taxed at 15%		\$2,000	
		15%	300.00
Total income tax			5,593.75

E **Lacy** What is her federal taxable income before credits?

Taxable income	\$40,000		
Less net long-term capital gain	(\$3,000)		
	\$37,000		
Single, 2015	Base	Rate	Tax
Top layer for taxpayer	9,225		922.50
Amount above layer	27,775	15%	4,166.25
Totals	37,000		5,088.75
Tax on capital gain			
Net long-term capital gain		\$3,000	
Threshold for 25% bracket		37,450	
Taxable income		40,000	
Amount of LTCG taxed at 0%		450	
Amount of LTCG taxed at 15%		\$2,550	
		15%	382.50
Total income tax			5,471.25

3 C Sylvester - Connect Homework Question no. 57

1	Regular taxable income	\$100,000	\$100,000
2	Add back exemptions for self, spouse, dependents	4,000	4,000
3	Subtotal (This is where you start on Form 6251)	104,000	104,000
4	Add back standard deduction (or itemized deductions not allowed in computing AMT).		
	Real estate taxes	1,000	1,000
	State income Taxes	4,000	4,000
	Interest paid on home equity loan	2,000	2,000
	Miscellaneous itemized deductions after AGI limits	3,000	5,000
6	AMT preferences (Private activity bond interest, etc.)	\$0	\$0
7	Subtract net operating loss allowed for AMT		
8	AMTI [Combine lines 3 through 7, to get AMTI]	114,000	116,000

4	A	1	Regular taxable income	\$300,000
		2	Add back exemptions for self, spouse, dependents	4,000
		3	Subtotal (This is where you start on Form 6251)	304,000
		4	Add back standard deduction (or itemized deductions not allowed in computing AMT).	
		5	Adjust taxable income for items with other AMT method. (Percentage of Completion Method, Incentive options, etc.)	
		6	AMT preferences (Private activity bond interest, etc.)	\$100,000
		7	Subtract net operating loss allowed for AMT	
		8	AMTI [Combine lines 3 through 7, to get AMTI]	404,000

A	10	Taxable Excess- Base for AMT Tax Computation		404,000			
	11	Tax on line 10	Up to:	185,400	26%	185,400	48,204
			above:	185,400	28%	218,600	61,208
		Subtotals		404,000		109,412	
		Qualified dividends		15%	-	0	
		Tentative minimum tax before foreign tax credit				109,412	
	12	Subtract foreign tax credit					
	13	Subtotal - This is tentative minimum tax				109,412	
	14	Enter regular income tax from page 2 of Form 1040					
	15	If TMT (Line 13) exceeds Regular tax (Line 14), excess is AMT					

In AMT computations, dividends and long-term capital gains are taxed at their usual preferential rates.

5	D	Net income from Self-Employ. activities	\$60,000
		Fraction to compute S.E. income	92.35%
		Net Self-employment income - Total	\$55,410
		Net S.E. Income subject to Soc. Sec. tax	\$55,410
		Social Sec. tax rate & Soc. Security tax	12.40% \$6,870.84
		Net S.E. Income subject to medicare tax	\$55,410
		Medicare tax rate & medicare tax	2.90% \$1,606.89
		Total self-employment tax	\$8,477.73

Net income from Self-Employ. Activities	\$40,000
Fraction to compute S.E. income	92.35%
Net Income from Self-employment	\$36,940
Net S.E. Income subject to Soc. Sec. tax	\$36,940
Social Sec. tax rate & Soc. Security tax	12.40% \$4,580.56
Net S.E. Income subject to medicare tax	\$36,940
Medicare tax rate & medicare tax	2.90% \$1,071.26
Total self-employment tax	\$5,651.82

6	D	Child Credit	Joint Return	2015
		Adjusted Gross Income		\$120,000
		Amount of credit per child		1,000
		Number of children under 17		2
		Total credit before phaseout		2,000
		Phase Out		
		Threshold	\$110,000	
		AGI above Threshold	\$10,000	
		Number of layers at \$1,000 per layer	10	
		Phaseout per layer	\$50	
		Phase-out		500
		Child Credit		\$1,500

7 C	Floyd- Child care credit		
	Number of children		1
	Amount spent for childcare		\$3,100
	Spouse 1 - wages		50,000
	Spouse 1 - wages		-
	Total wages		50,000
	Maximum amount of exp. subject to credit		3,000
	Amount spent for childcare		3,100
	Lesser of limit or expense		3,000
	AGI	50,000	
	Base for reducing credit rate	15,000	
	Excess	35,000	
	Divide Excess by \$2,000	18	
	Maximum credit rate	35%	
	Child care credit rate for taxpayer	20%	35%
	Credit		\$600 \$1,050

- 8 C** **Compute late filing penalty**
- AorD **Penalty for failure to file is 5% per month, up to 5 months.**
Penalty for failure to pay is .5% per month. (Max. 25%)
Failure to file penalty is reduced by failure to pay penalty (.5%)
In effect, total penalty is 5% per month, for first few months.

Amount Underpaid	\$20,000
Rate per month the payment is late	5.0%
Penalty per month	\$1,000
Number of months	3
Late payment penalty	\$3,000

April 15	
May 15	1 month
June 15	2 months
July 15	3 months

Amount Underpaid	\$30,000
Rate per month the payment is late	5.0%
Penalty per month	\$1,500
Number of months	3
Late payment penalty	\$4,500

Meals, entertainment and gifts

	Total	Deduct
Dues to country club- where customers are entertained	\$3,000	\$0
Business meals	\$2,000	\$1,000
Business entertainment	\$1,000	\$500
Business gifts (10 gifts at \$30 each to 10 different people)	\$300	\$250
What is the amount Hill can deduct?		\$1,750

Taxpayer (business property):	Maria
Adjusted gross income	\$70,000
FMV before the casualty	130,000
FMV after the casualty	0
Decline in value	130,000
Cost basis	150,000
Loss before considering insurance	150,000
Insurance proceeds	120,000
Loss	\$30,000

Deduction for complete loss of bus. property is not limited to decline in value.

Cost of policy	\$6,000
Term in months	\$24
Cost per month	\$250
Months of coverage in current year	6
	\$1,500

Accounts receivable	\$25,000
Accounts payable	\$5,000
Difference	\$20,000
Period in years	4
	\$5,000

Unearned revenue	\$40,000
	40%
	\$16,000

Peach Company		
Cash	100,000	
Machine - Bought Jan. 2, 2015	50,000	
Accumulated Dep.-S.L.- 5 years		10,000
Warranty Liability		5,000
Common Stock		85,000
Retained Earnings		
Repair revenue		200,000
Warranty Expense	20,000	
Salaries, supplies, depreciation, etc.	130,000	
Totals	300,000	300,000
Revenue	200,000	
Expenses	150,000	
	50,000	
	5,000	
	55,000	

Next tab		
Sales	\$200,000	
Cost of sales	100,000	
Gross margin	100,000	
Expenses	60,000	
Net Income (GAAP)	40,000	
Add back bad debt provision	8,000	
Net income before Bad Debts	48,000	
Bad debts written off	7,000	
Taxable Income	\$41,000	

Includes bad debt provision of \$8,000

15 C	Organization Costs	Computations	Return
	Amount spent on start-up costs	\$23,000	
	Threshold	\$50,000	
	Excess of costs over \$50,000	\$0	
	First-Year write-off amount (limit)	\$5,000	
	Less: excess expenditure above	\$0	
	Write-off	\$5,000	\$5,000
	Amount to be amortized	\$18,000	
	Amortization period - Years	15	
	Amortization period - Months	180	
	Amortization per month	\$100	
	Number of months	12	
	Total amortization for year	\$1,200	\$1,200
	Total deduction and amortization		\$6,200

16 B Preceding tab

17 C

18 D Cost for building and land \$630,000

Description	Building	Land	Total
Fair Market Value	\$600,000	\$100,000	\$700,000
Percentage of value	85.714%	14.286%	100.00%
Basis	\$540,000	\$90,000	\$630,000

19 A

20 B

Date of acquisition	Sept2
Asset	Truck
Life	5.0
Convention	Mid-Qtr.
New auto cost	\$20,000
MACRS Rate	15.00%
MACRS Depreciation	\$3,000

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21 B

1 Sec. 179	Compute	Write-off
2 Type of asset	Equipment	
3 Cost of Sec. 179 asset(s)	\$207,000	
4 Threshold - Sec. 179 write-off	200,000	
5 Excess (Reduction in 179 limit)	7,000	
6 Regular Section 179 limit	25,000	
7 Adjusted Sec. 179 limit (6 - 5)	18,000	
8 Cost of asset (above)	\$207,000	
9 Lesser of asset cost or limit (179 ded.)	\$18,000	\$18,000
Book value (basis) after Sec. 179 write-off	\$189,000	

22 A

23 A

24 C

Date of acquisition	Sept. 27	
Asset	Building	
Type of asset	Office	
Life	39.0	
Convention	Mid-Month	
New property cost	\$220,000	
Less: allocation to land	(\$20,000)	
Depreciable base	\$200,000	
Rate	0.749%	Page 10-15
Depreciation	\$1,498	First year

25 B

C

Amount paid for Covenant Not to Compete	\$60,000	\$90,000
Period of cost recovery in years	15	15
Cost recovery per full year	4,000	6,000
Fraction of first tax year for recovery	0.50	0.50
Amortization for six months	2,000	3,000