

1 E One-half of self-employment tax is deductible for AGI.

2 A **David, Head of Household, 2016**

			Computation
Salary			\$100,000
Interest Income			\$16,000
Capital Gains			\$4,000
Itemized ded. or Standard	\$17,000		
Exemptions	3 4,050	\$12,150	(29,150)
Taxable Income			\$90,850
Remove Long-term Capital Gains			(\$4,000)
Income subject to ordinary tax rates			\$86,850

	Base	Rate	Tax
Top FULL layer for this taxpayer	50,400		6,897.50
Top layer for this taxpayer	36,450	25%	9,112.50
Total ordinary income and related tax	86,850		16,010.00
Capital Gain income and related tax	\$4,000	15%	600.00
Total income tax			16,610.00

Note: Your choice of answers was based on this taxpayer with 4 exemptions.  
 Official key for (uncorrected) test version would be E.  
 Grading is based on key of E

3 D Homework. Maud qualifies as an exemption for Marvin

4 B **Joan, John Joint Return**

			2016
Pension income			\$24,000
50% of Social Security benefits		\$4,000	
Other income		\$24,000	
Modified AGI		28,000	
MAGI threshold for taxation		32,000	
Taxable amount of SS benefits			0
Adjusted Gross Income			24,000
Exemptions	2 4,050		(8,100)
Basic standard deduction	12,600		
Additional std. deduction			
Amount	Number		
1,250	2	2,500	
Standard Deduction	15,100		(15,100)
Taxable Income			\$800

5 A **S. Security & Medicare tax withheld**

		2016		
Salary and bonus in 2016		\$150,000		
Limit for OASDI (6.2% tax)-2016		\$118,500		
Amount Subject to both taxes		\$118,500	7.65%	\$9,065.25
Additional Amt Subject to Medicare tax		31,500	1.45%	456.75
Total Income and Total Tax		\$150,000		9,522.00
Medicare tax on bonus		30,000	1.45%	435.00

6 B Carry Capital losses forward only- rule for individual taxpayers, not for corporations.

## Stock Options

**7 A**

	Non-Qual. Option	No. of Shares	Strike Price	FMV per share	Total Cost or Value	Amount Paid	Current Income	Ending Total Cost/basis
6/1/11	Grant	1,000	\$1	\$1	\$1,000		\$0	
6/1/15	Vest	1,000	\$1	\$5	\$5,000		\$0	
6/1/15	Buy	1,000	\$1	\$5	\$5,000	\$1,000	\$4,000	\$5,000
6/3/16	Sell	1,000	\$1	\$10	\$10,000		\$5,000	N/A

Note: regular income means income (ordinary or capital gain), other than AMT income.

**8 D** \$9,000 With incentive option, all income is recognized when stock is sold.

**9 A** \$0

**10 B**

	Restricted Stock	No. of Shares	Strike Price	FMV per share	Total Value	Amount Paid	Current Income	Ending Total Cost/basis
6/1/11	Grant	1,000	\$0	\$10	\$10,000			
6/1/14	Vest	1,000	\$0	\$15	\$15,000		\$15,000	\$15,000
6/3/16	Sell	1,000	\$0	\$20	\$20,000		\$5,000	N/A

Note: There is no payment for restricted stock.

**11 B**

Income tax refund, tax benefit rule	
State Income withheld in 2016	\$2,000
State Income Tax Refund in 2017, for 2016	\$900
Total itemized deductions for 2016	\$6,400
Standard Deduction amount for 2016	\$6,300
Excess of Itemized Deduction over Std. Deduction	\$100

**12 D**

Selling Price	\$500,000
Cost	\$200,000
Gain	\$300,000
Exclusion	\$250,000
Recognize	\$50,000

13 D

Annual benefit	\$20,000
Annuity period in years	10.00
Total expected benefits	\$200,000
Cost	\$120,000
Exclusion Ratio	60.00%
Annual benefit	\$20,000
Annual exclusion amount	\$12,000
Amount included in income	\$8,000

14 B

<b>Grace</b>	<b>Group Term</b>	<b>Age:</b>	<b>45</b>
<b>Group term life insurance</b>			<b>\$400,000</b>
<b>Amount received tax-free</b>			<b>\$50,000</b>
<b>Amount of coverage above \$50,000</b>			<b>\$350,000</b>
Monthly cost from table			\$0.15
Months in year			12
Total			\$1.80
Number of thousands above \$50,000			350
<b>At included in employee's income</b>			<b>\$630</b>

Note: Your choice of answers was based on this taxpayer having coverage of \$400,000.

The actual test that you took showed coverage of \$200,000

Official key for (uncorrected) test version would be E.

Grading is based on key of E

15 D

Amount of distribution	\$100,000
Marginal tax rate	25%
Income tax	\$25,000
Penalty rate-early withdrawal	10%
Penalty amount	\$10,000
Total tax and penalty	\$35,000

16 D

<b>Harold and Heather</b>	
<b>Loss for taxpayer(s)</b>	<b>\$30,000</b>
<b>Maximum write-off for managed real estate</b>	<b>25,000</b>
<b>AGI for this taxpayer</b>	<b>110,000</b>
<b>Threshold for phase-out</b>	<b>100,000</b>
AGI in excess of phase-out threshold	10,000
<b>Phase-out % for income above threshold</b>	<b>50%</b>
Reduction in limit for write-off	5,000
<b>Adjusted write-off limit</b>	<b>\$20,000</b>
<b>Actual write-off</b>	<b>\$20,000</b>

17 B Note: This is the approach that is preferred by the taxpayer

Use of Vacation Home: Days							
Personal Use	30						
Rented	60						
Total Days Used	90						
Revenue & Exp	Total	Schedule E			Schedule A		
		Fraction-days used		Rental	Fraction-days used		Personal
		Rental	Total		Personal	Total	
<b>Revenue</b>	<b>\$7,000</b>			<b>\$7,000</b>			
1. Interest	7,300	60	365	1,200	305	365	\$6,100
2. Taxes	3,650	60	365	600	305	365	\$3,050
Total Int & Taxes	10,950			1,800			<b>9,150</b>
NI after Taxes & Int.				5,200			
3. Other Exp except Dep.	4,800	60	90	3,200			
N. Income Before Deprec.				<b>2,000</b>			
4. Dep. Expense	9,000	60	90	6,000			
Limit on Deprec.				2,000			
Taxable Income (Loss)				<b>\$0</b>			

The IRS does not approve using the first two fractions (60/365) but this was approved in the Bolton case. See PowerPoint slides.

18 D

Bill and Betty	Trad. IRA	Both covered	Joint	Year:	2016
Start of Phase-out Range					\$98,000
Phase-out range					20,000
End of Phase-out Range					118,000
<b>Earnings of Spouse No. 1</b>					<b>55,000</b>
Earnings of Spouse No. 2					55,000
Total earned income & AGI					110,000
Excess of AGI over amount at start of phase-out range					12,000
Phase-out range					20,000
Percent in phase-out range					60%
IRA deduction limit (for each taxpayer)					5,500
Phase-out					3,300
<b>Deduction [for each taxpayer] after phase-out</b>					<b>\$2,200</b>
<b>Deduction [total on joint return for both spouses.]</b>					<b>\$4,400</b>
AGI before IRA Deduction - earned income above					\$110,000
<b>AGI</b>					<b>\$105,600</b>

19 B

<b>Net income from business</b>	<b>\$80,000</b>		
Max. earn. for Medicare Tax (1.45%)	No Limit	Elderly health Insurance	
Max. earn. for OASDI (pension)(6.2%)	\$118,500	Subject to both taxes	
Salary, etc. subject to FICA W/H	\$0	Income already taxed	
Subject to: OASDI & Medicare Tax	\$118,500	Remainder for both taxes	
Net income	\$80,000		
Fraction (equivalent- half of SE tax)	92.35%		
Net Self-employment income	\$73,880	Net of deduction of 7.65%	
Amount subject to both taxes	\$73,880	15.30%	\$11,304
Amount subject to Medicare only	\$0	2.90%	\$0
Total self-employment tax			<b>\$11,304</b>

My apologies. Another mistake in the key caused answer to be E, which students are hesitant to answer. Official key for (uncorrected) test version would be E. Grading is based on key of E

20 A

21 A	Interest on acquisition debt	\$15,000	\$15,000
	Interest on home equity debt	\$5,000	\$5,000
	Credit card interest	\$1,000	\$0
	Interest paid on margin loan	\$3,000	
	Amount of net investment income	\$1,400	
	Investment interest deduction		\$1,400
	Total Deduction		\$21,400

22 A Joe: Stock is appreciated capital gain property limited to 30% of AGI.

Joe	Facts	Return
<b>Donation: Stock - capital gain property</b>		
<b>Adjusted Gross Income</b>	<b>\$300,000</b>	<b>\$300,000</b>
<b>Land given to public charity</b>		
<b>Cost</b>	<b>100,000</b>	
<b>Value</b>	<b>200,000</b>	
<b>Amount of contribution</b>	<b>200,000</b>	
<b>Limit as % of AGI</b>	<b>30%</b>	
<b>Limit - 30% using FMV</b>		<b>\$90,000</b>
<b>Other limit - 50% using cost (\$250,000 limit)</b>		<b>\$100,000</b>

Problem asked for maximum deduction.

If taxpayer uses cost as the amount of the gift, the deduction limit is 50% of AGI.

23 D	Jim	Info.
	Adjusted gross income	\$100,000
	Fair market value before the casualty	160,000
	Fair market value after the casualty	0
	Decline in value	160,000
	Cost basis	150,000
	Lesser of cost or decline in value	150,000
	Insurance proceeds	100,000
	Loss	50,000
	10% of AGI	(10,000)
	\$100 floor	(100)
	<b>Deduction</b>	<b>\$39,900</b>

Note: this is a casualty loss of personal use property.

With a casualty loss of business or investment property, you would not deduct 10% of AGI or \$100.

24 A Misc. Itemized Deductions

<b>25 B</b>	<b>Exemption Phase-out</b>	<b>Joint</b>	<b>2016</b>
	Adjusted gross income		\$350,000
	Threshold		\$311,300
	Amount above threshold		\$38,700
	Layer amount (\$2,500 or \$1,250)		\$2,500
	Number of layers		15.48
	Number of Layers rounded up		16.0
	Disallowed % (2% per layer)		32.00%
	Exemption amount	\$4,050	
	Number of exemptions	4	
	Total exemptions before phase-out	\$16,200	
	<b>Exemption Deduction Disallowed</b>		<b>\$5,184</b>
	<b>Exemption Deduction Allowed</b>		<b>\$11,016</b>