**Chapter 04. Individual Tax**

|  |  |
| --- | --- |
| **Overview: Exemptions, Filing Status** |  |
| Individual Income Tax Formula | [**2**] |
| Capital gains, capital losses, etc. | [**6:** 26] |
| Municipal-Interest (also pg. 5-29) | [**5**] |
| Deductions for & from AGI | [**7**] |
| Tax calculation, Credits, Payments | [**10**] |
| Exemption (child, relative, divorce, etc.) | [**12:** 34] |
| Filing Status (Single, Joint, Separate, H. of H.) | [**19:** 43, 45] |

**The tax year is 2016 unless a problem indicates that another year should be used.**

|  |  |
| --- | --- |
| **Individual Income Tax Formula (Inclusions, Exclusions, etc.)** | **[2]** |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| a. | Union dues for an employee | c. | Wall street journal subscription for stock investor | | |  |
| b. | Real estate taxes on family residence | d. | Real estate taxes on rental house |  |

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 |  |

**[§ 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 |  |

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

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

Which of the following is a deduction for AGI?

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

|  |  |
| --- | --- |
| **Exclusions: Municipal-Interest (also pg. 5-29), etc.** | **[5]** |

  Bill owns corporate bonds that pay 5% interest. Bill's marginal income tax rate is 30%. There is no state income tax. Bill may sell the corporate bonds and buying City of Charlotte bonds. What interest rate would he need to earn on a municipal bond in order to realize the same after-tax income?

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

**James** is single. He earned a salary of $250,000. After taking into account all deduction limits and phase-outs, his exemption and itemized deductions amounted to a total of $20,000.   
He received $10,000 of interest on State of Ohio bonds. His federal income tax before credits was:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $59,429 | **b.** | $57,497 | **c.** | $58,550 | **d.** | $60,797 | **e.** | Other |  |

|  |  |
| --- | --- |
| **Capital gains, capital losses etc.** | **[6: 26]** |

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $107,198 | **b.** | $108,929 | **c.** | $110,288 | **d.** | $120,251 | **e.** | Other |  |

Continue the preceding problem. Ms. Rich has owned Duke Energy stock for 4 years.   
She paid $10,000 for the stock. The stock has a current value of $30,000.   
Assume the taxpayer does not incur commissions of other selling costs.   
The taxpayer sold the stock in December, for $30,000.  
How much additional federal income tax will be paid as a result of the sale   
(assume the additional income will not affect the phase-out provisions for itemized deductions)?

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

Continue the preceding problem. Ms. Rich is considering giving the stock to her 30-year old son.   
Her son’s only income is his salary of $25,000. He claims one exemption and the standard deduction.   
Assume she gives the stock to her son in December, 2016. She does not incur a gift tax.   
He sells the stock for $30,000 in December, 2016.   
How much additional income tax will he pay as a result of the sale of the Duke Energy stock?

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

Continue with information above for Ms. Rich and her son. Make one change in the   
information. Ms. Rich paid $50,000 for the Duke stock. The stock is now worth $30,000.   
She sells the stock for $30,000 in December, 2016?  
How much income tax will Ms. Rich save on the 2016 federal income tax return as a result of this sale?

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

Continue the preceding series of questions. Ms. Rich paid $50,000 for the Duke stock.   
The stock is now worth $30,000. She will give the stock to her son.   
He will sell the stock for $30,000 in December, 2016.   
How much federal income tax will he save for 2016, as a result of this sale?

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

|  |  |
| --- | --- |
| **Deductions for & from AGI (including Standard Deduction.)** | **[7]** |

**Bob and Pam** are both age 67 and legally blind.

What is their standard deduction on a joint return for current year (2016)?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $7,950 | **b.** | $8,900 | **c.** | $13,500 | **d.** | $17,600 | e | Other |  |

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 (2016)?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 2,400 | **b.** | $ 4,250 | **c.** | $ 4,550 | **d.** | $ 4,800 | e | $ 4,900 |  |

|  |  |
| --- | --- |
| **Tax calculation, Credits, Payments** | **[10]** |

**Jan** is single. 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.** | $56,129 | **c.** | $58,550 | **d.** | $35,710 | **e.** | Other |  |

**Jan** is single. 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 received $10,000 of interest on State of North Carolina bonds. Jan's marginal tax rate is:

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

**(Text page 7-15) Jan** is single. 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?

[Please ignore the additional payroll taxes required by the Affordable Care Act.]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $10,392 | **b.** | $10,977 | **c.** | $10,972 | **d.** | $9,522 | **e.** | Other |  |

**Betty** is single. She had a regular salary of $250,000.   
In December, 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 |  |

**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 file a   
joint return. They have two small children whom they support. The Smiths have taxable income:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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 |

|  |  |
| --- | --- |
| **Exemption (child, relative, divorce, etc.)** | **[12: 34]** |

**[**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 |  |

Rachael is a single parent who maintains a home in Boston in which she.

Rachel’s 16-year-old daughter reside with Rachel.

Rachael 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 |  |

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 |  |

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 |  |

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. |

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 |  |

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 |  |

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

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

Sheri and Jake Woodhouse have one daughter, Emma, who is 16 years old.   
They also have taken in Emma's friend, Harriet, (16 years old) who has lived with them since February, 2015. 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 these 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. |

Katy has one child, Dustin, who is 18 years old at the end of the year.   
Dustin lived at home for three months in 2016, 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 statement is accurate regarding whether Katy may claim Dustin as a dependent for 2016?

|  |  |  |
| --- | --- | --- |
| **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. |

Bill and Charlotte Collins divorced in November of year 1.   
Bill moved out and Charlotte remained in their house with their 10-month-old daughter, Ann.   
Diana, Charlotte's mother, lived in the home and acted as Ann's nanny for all of year 1.   
Bill provided 70% of Ann's support, Diana provided 20%, and Charlotte provided 10%.   
Bill, Charlotte, and Diana each wanted to claim Ann as a dependent on their 2015 federal income tax returns. Their respective AGIs in 2015 were $50,000, $35,000, and $52,000. Who has priority to claim Ann as a dependent?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Bill | **b.** | Diana | **C** |
| **c.** | Charlotte | **d.** | They must negotiate amongst themselves. |

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. |

Mike, 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.   
Others providing her support: Mike (40%), Diane (8%), Karen (10%), and Kenny (32%)  
Under a multiple support agreement, who may claim a dependency exemption for Janet as a qualifying relative?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Mike, Diane, Karen, and Kenny | **b.** | Mike, Karen, and Kenny | **C** |
| **c.** | Mike and Kenny | **d.** | Mike |

Lydia and John Watt filed jointly in year 1. They divorced in year 2.   
In late year 2, the IRS discovered that the Watt 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. |

|  |  |
| --- | --- |
| **Filing Status (Single, Joint, Separate, H. of H.)** | **[19: 43, 45]** |

In October, 2016, 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 2016?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **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** |

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 | |

In June of year 1, Eric's wife Sara died. Eric did not remarry during year 1, year 2, or year 3.

Eric maintains the household for his dependent daughter Catherine in year 1, year 2, and year 3.

Which is the most advantageous filing status for Eric in year 2?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Head of household. | **b.** | Qualifying widower. | **B** |
| **c.** | Single. | **d.** | Married filing separately. |

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 |

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 |

 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. |

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 |

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** |

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).   
Joanna 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** |