**CHAPTER 6 - DEDUCTIONS FOR AGI**



**Tax year is 2016, unless the question directs you to use another year.**



|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | Which of the following is a deduction for AGI? | | | |  |
| **a.** | | Unreimbursed employee business expense | **b.** | Cost of having tax return prepared | | |
| **c.** | | Deduction for IRA Contribution | **d.** | State income tax. | | |

A taxpayer has the following amounts of income and expenses from these investments:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Investments** | **Revenue** | **Publications Bought** | **Expense** |
| **1.** | Treasury bonds | $1,000 | U.S. Bond Newsletter | $40 |
| **2.** | General Motors bonds | $2,000 | Corporate Bond Newsletter | $50 |
| **3.** | City of Charlotte Bonds | $3,000 | Municipal Bond Newsletter | $45 |

What is the amount of the miscellaneous itemized deduction, before considering the 2% threshold?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $90 | **b.** | $40 | **c.** | $85 | **d.** | $50 | **e.** | $95 |  |



A taxpayer earns a salary of $100,000 from Big Corporation.

The taxpayer also report the following income and expense.

|  |  |
| --- | --- |
| Rental income from a residence that was fully rented all year | $20,000 |
| Consulting revenue from a week-end tax consulting business | $30,000 |
| Dividend income from stock in Wells Fargo | $10,000 |
| Fully deductible expenses associated with the rental property | $8,000 |
| Office supplies and other deductible costs for consulting business | $4,000 |
| Subscription to a newsletter containing advice on stock investments | $500 |

Do not consider the deduction for self-employment tax. Assume that she has no other   
deductions except for the personal exemption and the standard deduction.

What is her adjusted gross income for the year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $147,500 | **b.** | $148,000 | **c.** | $160,000 | **d.** | $152,000 | **e.** | Other |  |



Rubio recently invested $20,000 (tax basis) in a limited partnership, in which he will have no management rights in the company. His at-risk amount is $21,000. In addition, Rubio’s share of   
the limited partnership loss for the year is $22,000, his share of income from a different limited partnership was $5,000, and he had $40,000 in wage income and $10,000 in long-term capital   
gains.How much of Rubio’s $22,000 loss from the limited partnership can he deduct in the   
current year considering all limitations?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $5,000 | **b.** | $21,000 | **c.** | $22,000 | **d.** | $17,000 | **e.** | Other |  |  |

**[Pg. 6-6]** Neil owns a 50% interest in a limited partnership that operates an apartment   
complex. During the current year, the partnership generates a taxable rental loss of $42,000.   
Neil's other sources of income are salary of $55,000 and interest of $18,000.   
What is Neil's deductible loss from the apartment?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $18,000 | **c.** | $21,000 | **d.** | $25,000 | **e.** | Other |  |  |

**[Pg. 6-6]** In the current year, Marci worked two "jobs." She performed financial consulting   
activities for 1,000 hours and real estate development and rental activities for 1,200 hours.

Her real estate activities produced a loss of $35,000.   
Her financial consulting generated a net business income of $40,000.   
How much of the loss can Marci deduct against her financial consulting income?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $17,500 | **c.** | $25,000 | **d.** | $35,000 | **e.** | $40,000 |  |  |

**[Pg. 6-10]** Heathcliff and Gertrude file a joint income tax return for the year. Heathcliff received   
wages of $50,000. Gertrude actively participated in a rental real estate activity in which she had a $30,000 loss. They had no other income. How much of the rental loss may they deduct on their  
 income tax return for the year?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $12,500 | **c.** | $15,000 | **d.** | $25,000 |  |

**[Pg. 6-10]** Harold and Heather file a joint income tax return. Harold received wages of $120,000. Heather actively participated in a rental real estate activity in which she had a $30,000 loss.   
They had no other income. How much rental loss may they deduct on their income tax return?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $12,500 | **c.** | $15,000 | **d.** | $25,000 |  |

**[Pg. 6-10]** Kit is an engineering professor at Southern College. Her annual salary is $110,000.   
She owns two 3-unit apartment buildings near the university.   
Because of the proximity to campus, Kit actively manages the property.   
During the current year, the rental of the property produced a $29,500 loss.   
How much of the loss may Kit deduct for the current year?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $14,750 | **c.** | $20,000 | **d.** | $25,000 | **e.** | $29,500 |  |  |

Karl has the following income (loss) during the current year:

|  |  |
| --- | --- |
| Net business income | $45,500 |
| Dividends and interest | 12,000 |
| Actively managed rental property | (34,000) |

What is Karl's adjusted gross income for this year?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $23,500 | **b.** | $31,400 | **c.** | $32,500 | **d.** | $45,500 | **e.** | $57,500 |  |  |

Mary and Philip purchased an apartment building in January 2016, which they actively   
manage. During the current year, the apartment building generates a loss of $35,000.   
Their other income is as follows:

|  |  |
| --- | --- |
| Salaries | $70,000 |
| Dividends and interest | 8,000 |
| Loss from limited partnership acquired in 2016 | (4,000) |

What is Mary and Philip's adjusted gross income?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $49,000 | **b.** | $53,000 | **c.** | $74,000 | **d.** | $78,000 | **e.** | Other |  |  |



Sue rented her vacation home for 60 days at a fair rental rate of $100 per day.   
She lived in the home 30 days. She has provided this information about income and   
expenses for the vacation home for the year.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Total Income and Expenses** | **Total** |  |  |  |  |  |  |
| Sue's gross rental income (60 days) | $6,000 |  |  |  |  |  |  |
| Real estate taxes (total) | $3,650 |  |  |  |  |  |  |
| Mortgage interest expense (total) | $7,300 |  |  |  |  |  |  |
| Utilities & maintenance expense (total) | $4,800 |  |  |  |  |  |  |
| Depreciation (total) | $9,000 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

How much depreciation can be deducted on her tax return, using any approved methods most   
favorable for the taxpayer?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 | **b.** | $2,200 | **c.** | $1,871 | **d.** | $825 | **e.** | $901 |  |

Continue preceding question. Assume the recession caused fewer families to take vacations.   
She was only able to rent the home for 10 days (at $100 per day). Other facts are unchanged.  
How much gross rental income would she report on her current federal income tax return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,200 | **c.** | $1,871 | **d.** | $1,000 | **e.** | $200 |  |

Nelda uses 1 room in her home as primary location for her (Schedule C) business this year.   
Her business was $23,000 and expenses (other than home office expenses) of $18,000.

****

How much is her allowable depreciation expense deduction on her current income tax return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $240 | **c.** | $440 | **d.** | $400 | **e.** | Other |  |



**[Pg. 6-23]** Betty and Bill are both 40 years of age. Betty and Bill are married and file a joint return. They are both are covered by a retirement plan at work. Betty earned a salary of $60,000 from Big Corporation. Bill earned a salary of $55,000 from Great Corporation.   
They contribute a total of $11,000 to their traditional IRAs ($5,500 to each account).   
How much is their total deduction for the IRA contributions on a joint return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,650 | **c.** | $2,500 | **d.** | $11,000 | **e.** | Other |  |

|  |  |  |
| --- | --- | --- |
|  | Compare the tax rules for traditional IRAs and Roth IRAs in the following areas. |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Traditional** | **Roth** | **Tax Treatment** |
| **a.** | Yes | Yes | Taxpayer may deduct contributions to the IRA, subject to limits |
| **b.** | Yes | NO | Distributions are included in income of the owner of the IRA |
| **c.** | Yes | Yes | Owner of IRA generally must begin receiving distributions at a certain age |

Ken and Barbie (both 45 years old) are married and want to contribute to a Roth IRA   
for Barbie. Their AGI is $186,000. Ken and Barbie each earned half of the income.

How much can Barbie contribute to her **Roth IRA** if they file a joint return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $3,300 | **c.** | $3,500 | **d.** | $4,400 | **e.** | Other |  |

Ken and Barbie (both 45 years old) are married and want to contribute to a Roth IRA   
for Barbie. In 2015, their AGI is $186,000. Ken and Barbie each earned half of the income.

How much is **Barbie’s tax deduction** for her contribution to her **Roth IRA** on a joint return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $3,300 | **c.** | $3,500 | **d.** | $4,950 | **e.** | Other |  |

Shirley is not covered by a retirement plan at work. Her husband is also not covered by   
a retirement plan at work. Both are 62 years old. Their combined AGI is $280,000, all from   
their salaries. What is the maximum about of deductible contribution that Shirley may   
make to her traditional IRA?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,200 | **c.** | $3,500 | **d.** | $5,500 | **e.** | $6,500 |  |

|  |  |  |
| --- | --- | --- |
|  | Shauna received a distribution from her 401(k) account this year. |  |

In which of the following situations will Shauna be subject to an early distribution penalty?

|  |  |  |
| --- | --- | --- |
| **a.** | Shauna is 60 years of age but not yet retired when she receives the distribution. |  |
| **b.** | Shauna is 58 years of age but not yet retired when she receives the distribution. |
| **c.** | Shauna is 58 years of age and retired when she receives the distribution. |
| **d.** | Shauna is 69 years of age but not yet retired when she receives the distribution. |

Sarah began making annual contributions to a Roth IRA when she was 42 years of age.   
This year, she was 52 years old, and she received a distribution of $60,000.

Sarah had made contributions of $50,000 before she received the distribution.

The balance in the account was $150,000 immediately before she received the distribution.

How much of the distribution should be included in her income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $10,000 | **c.** | $50,000 | **d.** | $60,000 | **e.** | Other |  |



Jay obtains a new job in Boston and moves from Reno during the current year.   
He incurs the following moving expenses:

|  |  |
| --- | --- |
| Transportation of household goods | $6,700 |
| House-hunting trips to Boston | 600 |
| Cost of transporting Jay's family | 2,300 |
| Meals incurred while moving the family | 200 |
| Temporary living expenses while waiting for the new residence to be ready | 1,000 |

What is Jay's moving expense deduction?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $ 6,700 | **c.** | $10,700 | **d.** | $ 9,000 | **e.** | $10,800 |  |

Ann earned a salary of $80,000 from Big Corporation this year. Ann asked to be transferred   
to Charlotte from Topeka. The company does not reimburse moving costs where an employee   
requests the move. Ann paid a moving company $10,000 to pack and move her furniture.   
She also paid $1,000 for an airline ticket from Topeka to Charlotte as part of the move.   
She spent $20 on lunch at the airport while waiting for her flight to Charlotte.   
**What is her AGI for 2014**?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $80,000 | **b.** | $70,000 | **c.** | $69,000 | **d.** | $68,980 |  |  |



Ellen is a self-employed taxpayer who is 42 years old at the end of the year.   
Her net Schedule C income was $90,000. This was her only source of income.   
What is the amount of her self-employment tax?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $13,770 | **b.** | $6,875 | **c.** | $12,717 | **d.** | $6,358 | **e.** | Other |  |

**See Chapter 8, Page 14+. Also see Form 1040, Schedule SE, and IRC Sections 1401 and 1402**

Ellen is a self-employed taxpayer who turns 42 years old at the end of the year.   
Her net Schedule C income was $90,000. This was her only source of income.   
What is the amount of her deduction on page 1 of Form 1040 for her self-employment tax?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $13,770 | **b.** | $6,875 | **c.** | $12,717 | **d.** | $6,358 | **e.** | Other |  |



**[Pg. 6-33]** Karen is single and graduated from UNC Charlotte in December of 2015.   
In January of 2016, she began repaying **her student loans**. She paid **$2,800** of **interest on the loans**.

Her adjusted gross income is $43,000. What is the amount of interest that Karen may deduct for **2016**?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $ 2,800 | **c.** | $ 2,500 | **d.** | $ 2,000 | **e.** | $1,000 |  |