**Chapter 07. Itemized Deductions**



**The current tax year is 2016, unless otherwise indicated in a problem.**

|  |  |  |
| --- | --- | --- |
| **1** | **Medical Expenses** | **[2: 32, 36]** |

**[§213]** Patricia paid the following medical expenses in the current tax year:

|  |  |
| --- | --- |
| Surgeon's fees | $1,200 |
| Medical insurance premiums | 600 |
| Hospital fees | 800 |
| Prescription drugs | 310 |
| Vitamins, not prescribed by doctor | 200 |

Her AGI for the year is $20,000. She received a $500 reimbursement from his health insurance   
company. Determine the amount of her medical expense deduction for the current year.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $ 610 | **c.** | $910 | **d.** | $410 | **e.** | $1,110 | **D** |

**[§213] Dan Daniels** has AGI of $90,000. This year he paid state income taxes of $10,000.   
He incurred $14,000 of medical expenses and received a reimbursement of $3,000 from his   
health insurance company for these medical expenses.   
What is his allowable medical expense deduction if he itemizes?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,000 | **b.** | $7,240 | **c.** | $11,000 | **d.** | $14,000 |  | **A** |

**[§213]** Samantha (Sam) incurred the following medical expenses for the current year:

|  |  |
| --- | --- |
| Face-lift for cosmetic purposes | $800 |
| Dentist fees | 500 |
| Doctors' fees for Samantha's daughter | 400 |

How much may Sam include as qualified medical expenses before any limit?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 400 | **b.** | $ 500 | **c.** | $ 900 | **d.** | $1,300 | **e.** | $1,700 | **C** |

**[§213]** Phil incurs the following medical expenses during the current tax year:

|  |  |
| --- | --- |
| Surgeon's fees | $2,200 |
| Medical insurance premiums | 600 |
| Hospital fees | 800 |
| Prescription drugs | 310 |
| Wheel chair | 200 |

Phil's adjusted gross income for the year is $32,000. He receives a $500 reimbursement from his   
insurance company. Determine the amount of his medical expense deduction for the current year.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $- 0 - | **b.** | $ 410 | **c.** | $2,360 | **d.** | $2,400 | **e.** | $2,610 | **B** |

**[§213]** Which of the following is a true statement?

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | A taxpayer can deduct medical expenses incurred for family members who are dependents. | | E |
| **b.** | A taxpayer can deduct medical expenses incurred for a qualified relative even if the relative  does not meet the gross income test. | |
| **c.** | A divorced taxpayer can deduct medical expenses incurred for a child even if the  child is claimed as a dependent by the former spouse. | |
| **d.** | Deductible medical expenses include long-term care services for disabled spouses and dependents. |
| **e.** | All of the above are true. |

***All are true.***

**[§213]** Which of the following costs are deductible as an itemized medical expense?

|  |  |  |
| --- | --- | --- |
| **a.** | The cost of prescription medicine and over-the-counter drugs. | B |
| **b.** | Medical expenses incurred to prevent disease. |
| **c.** | The cost of elective cosmetic surgery. |
| **d.** | Medical expenses reimbursed by health insurance. |
| **e.** | None of the above costs is deductible. |

***Medical expenses include any payments for the care, prevention, diagnosis, or cure   
of injury, disease, or bodily function that are not reimbursed by health insurance.***

**[§213]** Which of the following costs are NOT deductible as an itemized medical expense?

|  |  |  |
| --- | --- | --- |
| **a.** | The cost of eyeglasses. | E |
| **b.** | Payments to a hospital. |
| **c.** | Transportation for medical purposes. |
| **d.** | The cost of insurance for long-term care services. |
| **e.** | All of the above are deductible as medical expenses. |

***All of the above are deductible.***

**[§213]** Opal fell on the ice and injured her hip this winter.   
She paid $3,000 for a visit to the hospital emergency room and $750 for follow-up visits with her doctor. While she recuperated, Opal paid $500 for prescription medicine and $600 to a therapist for rehabilitation. The insurance company reimbursed Opal $1,200 for these expenses.   
What is the amount of Opal's deductible medical expense before considering the limit, based on AGI?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $3,000 | **b.** | $3,750 | **c.** | $3,650 | **d.** | $4,850 | **e.** | All of the above | **C** |

***The deductible expenses are calculated as follows:***

|  |  |
| --- | --- |
| Emergency room and doctor visits | $3,750 |
| Prescription medication | 500 |
| Physical therapy | 600 |
| Total qualifying medical expenses | $4,850 |
| Less: Insurance reimbursement | -1,200 |
| Qualifying medical expenses from the accident | $3,650 |

|  |  |
| --- | --- |
| **2** | **Taxes** |

**[§111]** Juan (who is single, age 30, and has no dependent).

He had $1,000 of state income taxes withheld from his salary during 2016.   
Juan properly deducted $1,000 for state income taxes on his Federal Form 1040 for 2016.   
His total federal itemized deductions were $6,500 for 2016.   
His state income tax return for 2016 showed a refund of $800, which he received on May 25, 2017.   
Juan should:

|  |  |  |
| --- | --- | --- |
| **a.** | Ignore the state income tax refund – do not report it to the IRS | **E** |
| **b.** | Amend federal return for 2016. Report corrected amount of state income tax for 2016 |
| **c.** | Include $1,000 in income (related to state tax refund) on the 2017 federal tax return |
| **d.** | Include $800 in income (related to the state tax refund) on the 2017 federal tax return |
| **e.** | Include $200 in income (related to the state tax refund) on the 2017 federal tax return |

**[§164, 111] Sue Graduate** provided this information about to her state income taxes:

|  |  |
| --- | --- |
| State income taxes withheld in 2016 | $3,500 |
| Refund of 2015 state income tax, received in 2016 | 400 |
| Deficiency paid in 2016 after audit of her 2014 state income tax return: |  |
| State income tax | 600 |
| Interest | 100 |

A state income tax refund of $200 for 2016 will be claimed on the 2016 **state** income tax return filed   
on April 15, 2017. What is her deduction for state income taxes on her **2016 federal tax return**?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $3,500 | **b.** | $3,700 | **c.** | $4,100 | **d.** | $4,300 | **e.** | Other | **C** |

**[§164]** What is **Jeremy’s** total itemized deduction for taxes on Form 1040-Schedule A?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| State income tax paid this year | | | | | | | $3,000 | |
| Federal income tax paid this year | | | | | | | 12,000 | |
| County real estate tax paid this year | | | | | | | 2,000 | |
| Fee for his car inspection that he uses only personally | | | | | | | 50 | |
| Homeowners’ association fees on his personal home | | | | | | | 500 | |
| Gift Tax paid this year | | | | | | | 2,000 | |
| Self-employment tax paid this year | | | | | | | 1,000 | |
| **a.** | $18,550 | **b.** | $6,000 | **c.** | $5,000 | **d.** | $5,500 | |  | | **C** |

**[§164]** Which of the following taxes will not qualify as an itemized deduction?

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | Personal property taxes assessed on the value of specific property. | | **D** |
| **b.** | State, local, and foreign income taxes. |
| **c.** | Real estate taxes on a residence. |
| **d.** | Gasoline taxes on personal travel. |
| **e.** | None of the above qualifies as an itemized deduction. |

***Gasoline taxes on personal travel are not deductible.***

**[§164]** This year Amanda paid $749 in Federal gift taxes on a gratuitous transfer to her nephew.   
Amanda lives in Texas and does not pay any state or local income taxes. Which of these is true?

|  |  |  |
| --- | --- | --- |
| **a.** | Amanda cannot deduct Federal gift taxes. | A |
| **b.** | Amanda can deduct Federal gift taxes for AGI. |
| **c.** | Amanda can deduct Federal gift taxes paid as an itemized deduction. |
| **d.** | Amanda must include Federal gift taxes with other miscellaneous itemized deductions. |
| **e.** | None of the above is true. |

***Federal gift and estate taxes are not deductible.***

**[§63( c)]** This year Norma paid $1,200 of real estate taxes on her personal residence.   
Norma's other itemized deductions only amount to $5,200. Which of the following is a true  
 statement if Norma files as a single person with one personal exemption?

|  |  |  |
| --- | --- | --- |
| **a.** | Norma should deduct $5,200 for AGI. | E |
| **b.** | Norma should deduct $5,200 from AGI. |
| **c.** | Norma should deduct $5,200 rather than the standard deduction is $6,300. |
| **d.** | Norma can deduct $1,200 for taxes and take her standard deduction of $6,300. |
| **e.** | Norma must itemize her deductions in order to claim the deduction for $6,400. |

***To claim the entire deduction Norma must itemize her deductions.***

|  |  |  |
| --- | --- | --- |
| **3** | **Home Mortgage Interest** | **[5: 38]** |
| **4** | **Investment interest & other interest** | **[6]** |

**[§163]** What is **Bobby Boston’s** deductible interest for the current year?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Mortgage interest expense | | | | | | | $5,000 |
| Interest on credit cards | | | | | | | 1,000 |
| Interest on a loan used to buy municipal bonds | | | | | | | 1,000 |
| **a.** | 0 | | **b.** | $5,000 | **c.** | $6,000 | **d.** | $7,000 | | **e.** | Other | **B** |

**[§163(h)]** Wayne bought a home, borrowing $725,000 from National Bank to finance the purchase.

|  |  |
| --- | --- |
| Mortgage interest expense | $71,000 |
| Points paid | 7,250 |
| Loan origination fee | 4,500 |

What is Wayne's allowable interest deduction?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $7,250 | **c.** | $71,000 | **d.** | $78,250 | **e.** | $82,750 | **D** |

**Note: The rule for the problem above is not provided in the textbook.**

**[§163(h)]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | Taxpayers may only deduct interest on up to $1,500,000 of acquisition indebtedness. | **D** |
| **b.** | Taxpayers may deduct interest on up to $1,0000,000 of home-equity debt. |
| **c.** | The deduction for investment interest expense is not subject to limitation. |
| **d.** | Interest on home-equity debt up to $100,000 is deductible, even if the loan  proceeds are used to buy a new car. |

***Qualified residence interest deduction rules do not restrict the use of home-equity debt proceeds.***

**[§163]** Margaret Lindley paid interest of $15,000 on her $300,000 acquisition debt for   
her home (fair market value of $500,000), $4,000 of interest on her $30,000 home-equity   
loan, $1,000 of credit card interest, and $3,000 of margin interest for the purchase of stock.   
Margaret Lindley has $10,000 of interest income this year and no investment expenses.   
How much of the interest expense may she deduct this year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $23,000. | **b.** | $22,000. | **c.** | $19,000. | **d.** | $18,000. | **e.** | Other | **B** |

***The credit card interest is nondeductible personal interest. The remaining interest is deductible   
as qualified residence interest ($15,000 + $4,000) and investment interest ($3,000).   
The $3,000 investment interest is not restricted by her net investment income ($10,000).***

|  |  |  |
| --- | --- | --- |
| **5** | **CHARITABLE Gifts [money, other property]** | **[7: 42]** |

**[§170(b)(1)(A), ( C)]** David purchased investment realty several years ago for $49,000.   
He contributed it to the United Way to use as the site for its new local headquarters.   
The realty has a value of $52,000 on the contribution date, and David's AGI is $100,000.

He will retire immediately and he expects to have dramatically less income in future years.  
David's maximum current year contribution deduction is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $50,000 | **b.** | $ 15,000 | **c.** | $ 30,000 | **d.** | $ 49,000 | **e.** | $ 52,000 | **D** |

**[§170]** Jill (who is single) has AGI of $100,000. She made the following gifts:   
(1) $10,000 to her church,   
(2) $2,000 to United Way,   
(3) $1,000 to the Republican Party and   
(4) $400 to a needy family whose house had burned and they had no insurance on the house.

What is her **charitable contribution deduction**?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 0 | **b.** | $10,000 | **c.** | $12,000 | **d.** | $13,000 | **e.** | $13,400 | **C** |

**[§170]** Alex has AGI of $41,500, and makes the following donations in the current year:

|  |  |
| --- | --- |
| • | $1,000 cash to the United Way. |
| • | 100 hours contributed to Red Cross to help flood victims  (Alex's normal billing rate is $40 per hour in his consulting business). |
| • | 15 old dress shirts to the Salvation Army, (original cost $300; FMV $45). |
| • | $1,000 cash to an old friend, Sam, to help cover his medical bills |

What is Alex's charitable contribution deduction for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,000 | **b.** | $1,045 | **c.** | $2,045 | **d.** | $6,045 | **e.** | $6,300 | **B** |

**[§170(b)(1)(C)(i)]** Madeoff donated stock (capital gain property) to a public charity.   
He bought the stock 3 years ago for $100,000. On the date of the gift, it’s FMV was $200,000.   
What is his maximum charitable contribution deduction for the year if his AGI is $500,000?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $100,000 | **b.** | $200,000 | **c.** | $150,000 | **d.** | $250,000 | **e.** | None of the above | **C** |

***The stock is appreciated capital gain property limited to 30% of AGI.***

**[§1.170A-1( c)]** Carly donated inventory (ordinary income property) to a church.   
She bought the inventory last month for $100,000. On the date of gift, it had a FMV of $92,000.   
What is her maximum charitable contribution deduction for the year if her AGI is $200,000?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | $100,000 | **c.** | $46,000 if the church sells the inventory | **B** |
| **b.** | $92,000 | **d.** | $60,000 |

***Charitable deduction for ordinary income property is the lesser of FMV or basis limited to 50% of AGI.***

**[§170(b)(1)( C)(i)]** Simone donated a painting (tangible capital gain property) to a library, a public charity. She purchased the painting 5 years ago for $50,000. On the date of gift, it had FMV of $200,000. Her AGI is $300,000. What is her maximum charitable contribution deduction for the year?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | $100,000 | **d.** | $150,000 | | | **C** |
| **b.** | $200,000 | **e.** | Other | | |
| **c.** | $90,000 if the library uses the painting for its charitable purpose | | |  |  |

***The painting is appreciated capital gain property given to a public charity. However, because it is also tangible personal property the donation is FMV only if it is related to the charitable use or purpose. If so, the deduction at FMV is limited to 30% of AGI. If not, the deduction is basis   
limited to 50% of AGI.***

**[§170]** Larry recorded the following donations this year:

|  |  |
| --- | --- |
| Cash to family in need | $500 |
| Cash to church | $2,400 |
| Cash to political campaign | $500 |
| Household items to Salvation Army |  |
| Original cost | $1,200 |
| Current value | $300 |

What is Larry's maximum allowable charitable contribution if his AGI is $60,000?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,900 | **b.** | $1,000 | **c.** | $2,700 | **d.** | $4,600 | **e.** | Other | **C** |

***$2,400 to church + $300 FMV of clothing.***

**[§170]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | Deduction of cash contributions to public charities is limited to 30% of AGI. | **D** |
| **b.** | Deduction of capital gain property to private nonoperating foundations is limited to 50% of AGI |
| **c.** | Deduction of capital gain property to public charities is limited to 20% of AGI. |
| **d.** | Deduction of cash contributions to private nonoperating foundations is limited to 30% of AGI. |

***The deduction of cash contributions to public charities is limited to 50 percent of AGI, the deduction   
of capital gain******property to private nonoperating foundations is limited to 20 percent of AGI, and   
the deduction of capital gain property to public charities is limited to 30 percent of AGI.***

|  |  |  |
| --- | --- | --- |
| **6** | **Personal Casualty Losses (Bus. Loss Pg. 9-14)** | **[12: 43]** |

**[§165]** Jim's home was totally destroyed by fire in the current year.   
The home had an adjusted basis of $150,000 and a FMV of $160,000 before the fire.   
Jim received insurance reimbursement of $120,000 for the destruction of the home.   
Jim's adjusted gross income was $100,000, before considering this loss.   
Jim had no casualty gains during the year.

What amount of the fire loss may Jim claim on his tax return? (Ignore furniture etc. inside.)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 30,000 | **b.** | $ 19,900 | **c.** | $ 4,500 | **d.** | $24,900 | **e.** | Other |  | **B** |

**[§165]** Jane's residence was totally destroyed by fire. The property had FMV of $130,000 and an  
adjusted basis of $150,000 before the fire. Jane received insurance reimbursement of $120,000 for   
the destruction of her home. Jane's adjusted gross income was $70,000. Jane had no casualty gains.   
What amount of the **fire loss** was Jane entitled to claim as an itemized deduction on her tax return?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 2,900 | **b.** | $ 8,500 | **c.** | $ 8,600 | **d.** | $10,000 |  | **A** |

**[§165( c)]** This year, Daniel sold both of his personal vehicles. On January 10, he sold   
the first car at a loss of $9,000. On April 5, he sold the second car at a gain of $1,000.   
Assume Daniel's salary for the year is $50,000, and he has no other income. What is Daniel's AGI?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 1,000 | **b.** | $41,000 | **c.** | $42,000 | **d.** | $50,000 | **e.** | $51,000 | **E** |

**Would your answer be different if he received insurance proceeds after a fire destroyed these assets?**

**[§165]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | A casualty loss can only occur from storm damage. | B |
| **b.** | Personal casualty losses can only be deducted to the extent that aggregate  casualty losses exceed 10% of AGI. |
| **c.** | Individual casualty losses are only deductible if each individual loss exceeds $5,000. |
| **d.** | Uninsured thefts of personal assets are not included with casualty losses. |
| **e.** | All of the above are true. |

***Casualties are thefts and any sudden unexpected events such as storms, fires, or shipwrecks   
and individual casualty losses are subject to a per casualty floor in addition to an aggregate   
floor limitation of 10% of AGI.***

**[§164]** Jim was in an auto accident this year. Jim paid $2,450 to repair his car after the accident and   
his insurance only reimbursed him $400. Jim bought his car several years ago for $1,500. What is   
the amount of casualty loss from this accident before Jim applies any casualty loss floor limitations?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,450 | **b.** | $2,050 | **c.** | $1,500 | **d.** | $1,100 | **e.** | Other | **D** |

***The loss is the lesser of the adjusted basis of the asset ($1,500) or the decline in value (here the  
 amount of repairs - $2,450). Before the loss is compared to the per casualty floor limit, the   
amount of the loss ($1,500) must be reduced by insurance reimbursements ($400).***

|  |  |  |
| --- | --- | --- |
| **7** | **Miscellaneous Itemized Deductions:** | **[14: 29]** |
|  | **Employee Expenses,** |  |
|  | **Tax Preparation, Hobby, etc. [2% rule]** | **[17: 31]** |

**[§67]** Which one of these types of itemized deductions is included in the category of   
expenses deductible only if the total of such expenses exceeds 2% of the taxpayer's AGI?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | Union dues | **b.** | Interest expense |  |  |  |  | **A** |
| **c.** | Employee moving expenses | **d.** | Medical expenses |  |  |  |  |  |

**[§62]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | All business expenses are deducted for AGI. | **D** |
| **b.** | Investment expenses are typically deducted for AGI. |
| **c.** | Tax preparation fees are deducted for AGI. |
| **d.** | Rental and royalty expenses are deducted for AGI. |
| **e.** | All of the above |

**[§62]** Han is a self-employed carpenter and his wife, Christine, works full-time as a grade school teacher. Han paid $525 for carpentry tools supplies, and Christine paid $3,600 as her share of health insurance premiums for Han and herself in a qualified plan provided by the school district.   
Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | The supplies are deductible for AGI while the health insurance is an itemized deduction. | **A** |
| **b.** | Both expenditures are deductible for AGI. |
| **c.** | The tools and supplies are an itemized deduction but the health insurance is deductible for AGI. |
| **d.** | Both expenditures are itemized deductions. |
| **e.** | Neither of the expenditures is deductible. |

***Business expenses for self-employed are Schedule C deductions but health insurance premiums   
are itemized deductions if the taxpayers are eligible to participate in an employer-provided health plan.***

**[§62]** Bruce is employed as an executive and his wife, Marie, is a self-employed realtor.   
Bruce and Marie own a warehouse that they rent to a local business for storage.   
This year they paid $1,250 for electric service in the warehouse. Marie also paid self-employment   
tax of $6,200 and Bruce had $7,000 of Social Security taxes withheld by his employer.   
Marie paid $45 to rent a safe deposit box to store records associated with her realty operation.   
Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | One-half of the social security tax is deductible for AGI. | **D** |
| **b.** | Only the electric bill is deductible for AGI. |
| **c.** | The self-employment tax is not deductible. |
| **d.** | The safe deposit fee and the electric bill are deductible for AGI. |
| **e.** | None of the above is true. |

***Safe deposit fee and electric bill are rental expenses. One-half of self-employment tax is deductible for AGI.***

**[§62, 67]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | Employees cannot claim business expense deductions. | **D** |
| **b.** | Employees can claim business expense deductions for AGI. |
| **c.** | Employees can claim business expense deductions as miscellaneous itemized deductions not subject to the 2 percent of AGI limitation. |
| **d.** | Employees can claim business expense deductions as miscellaneous itemized deductions subject to the 2 percent of AGI limitation. |

***Employee business expenses are miscellaneous itemized deductions subject to the 2% of AGI limit.***

**[§217]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | Travel from a residence to a place of business is deducted for AGI as a moving expense. | **E** |
| **b.** | Traveling from a personal residence to a place of business is a miscellaneous  itemized deduction subject to the 2 percent of AGI limitation. |
| **c.** | The standard mileage rate can be used to calculate the deduction for traveling  from a personal residence to a place of business. |
| **d.** | Traveling from a personal residence to a place of business is deductible if  reimbursed by an employer. |
| **e.** | Traveling from a personal residence to a place of business is nondeductible. |

***Traveling from a personal residence to a place of business is   
a personal nondeductible expense even if reimbursed by an employer.***

**[§62]** Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | Fees for investment advice are included in miscellaneous itemized deductions | **E** |
|  | subject to the 2% of AGI limit. |  |
| **b.** | Unreimbursed employee business expenses are included in miscellaneous  itemized deductions subject to the 2% of AGI limit. |
| **c.** | Fees for tax preparation are included in miscellaneous itemized  deductions subject to the 2% of AGI limit. |
| **d.** | Reimbursed employee business expenses are included in miscellaneous  itemized deductions subject to the 2% of AGI limit unless the  employer's reimbursement plan qualifies as an accountable plan. |
| **e.** | All of the above are true. |

***Employee business expenses reimbursed via an accountable plan   
are not deducted and the reimbursement is excluded from gross income.***

Fred's employer dispatched him on a business trip from the Dallas headquarters   
to New York this year. During the trip Fred incurred the following expenses:

|  |  |
| --- | --- |
| Air fare | $1,300 |
| Lodging | $750 |
| Meals | $600 |
| Cab fare | $220 |

What is the amount of Fred's deduction before the application of any AGI limitations?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $2,870 | **b.** | $$2,570 | **c.** | $2,050 | **d.** | $1,300 |  |  | | **B** |
| **e.** | $0 - the expenses cannot be deducted unless Fred is reimbursed. | | | | | | | | |

***The meals are limited to 50% of the cost.***

Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | Expenses associated with a "hobby" are never deductible. | **B** |
| **b.** | The deductibility of an activity's expenses in excess of revenues depends upon  whether the activity is primarily profit-motivated or a hobby as determined by  facts and circumstances. |
| **c.** | Taxpayers engaged in a "hobby" are always presumed to be motivated by profit. |
| **d.** | The regulations do not provide any guidance for determining whether an activity  is profit motivated. |
| **e.** | All of the above are true. |

***The regulations provide a list of factors for determining whether an activity is profit motivated.   
The presumption that a hobby is profit motivated depends upon whether the activity generates   
a profit in three of five consecutive years.***

Glenn is an accountant who races stock cars as a hobby. This year Glenn was paid a salary of $80,000 from his employer and won $2,000 in various races. What is the effect of the racing activities on Glenn's taxable income if Glenn has also incurred $4,200 of hobby expenses this year?   
Assume that Glenn itemizes his deductions but has no other miscellaneous itemized deductions.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **a.** | increase in taxable income of $2,000 | | | **d.** | decrease in taxable income of $560 | **B** |
| **b.** | increase in taxable income of $1,640 | | | **e.** | decrease in taxable income of $2,200 |
| **c.** | no change in taxable income |  |  | | |

**Hobby expenses are deductible to the extent of hobby revenues. Hence, Glenn will include  
 $2,000 in gross income and deduct $2,000 as miscellaneous itemized deductions.   
After application of the 2% floor, this will result in a net increase of $1,640 in taxable   
income [$2,000 - ($2,000 - (2%\*$82,000))] = $2,000 - ($2,000-$1,640) = $1,640.**

Grace is employed as the manager of a sandwich shop. This year she earned a   
salary of $45,000 and incurred these expenses associated with her employment:

|  |  |
| --- | --- |
| Subscriptions to food publications | $300 |
| Cooking class (How to make better burgers) | $250 |
| Transportation between Grace’s home and the shop | $500 |

What amount of miscellaneous itemized deductions can Grace include with her   
other allowable itemized deductions?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $150 | **b.** | $1,050 | **c.** | $550 |  |  |  |  | **E** |
| **d.** | $200 if Grace was reimbursed $50 for her cooking class | | | | | | |
| **e.** | None of the above. | | | | | | |

***The subscriptions and cooking class ($550) are deductible but this  
 sum is reduced to zero by the 2 percent of AGI limitation ($900).***

Which of these is a miscellaneous itemized deduction that is not subject to the 2% of AGI floor?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Gambling losses to the extent of gambling winnings. | **b.** | Fees for investment advice. | **A** |
| **c.** | Employee business expenses. | **d.** | Tax preparation fees. |
| **e.** | All of the above are subject to the 2% of AGI floor limit. |  |  |

***All of the other alternatives are subject to the 2% of AGI floor.***

|  |  |  |
| --- | --- | --- |
| **8** | **Itemized Deduction PHASE-OUT** | **[20: 50]** |
| **9** | **Standard Deduction** | **[22: 48]** |

Jeff files as a single person with one exemption.   
Jeff’s AGI is $280,000. Jeff is entitled to these deductions before phase-outs:

|  |  |  |
| --- | --- | --- |
|  | State income taxes | $7,850 |
|  | Real estate taxes | 1,900 |
|  | Home mortgage interest | 8,200 |
|  | Charitable contributions | 1,700 |

Compute Jeff’s itemized deductions after considering the overall phase-out of itemized deductions.

[The threshold for starting the phase-out of deductions for a single person is $259,400.]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $19,032 | **b.** | $15,201 | **c.** | $ 19,650 | **d.** | $0 | **e.** | Other | **A** |

Andres and Lana are married and file joint. Andres is 72 years old and in good health.   
Lana is 62 years old and blind. What amount of standard deduction can Andres and Lana claim?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $15,100 | **b.** | $8,100 | **c.** | $8,700 | **d.** | $11,600 | **e.** | Other | **A** |

Which of the following is a true statement?

|  |  |  |
| --- | --- | --- |
| **a.** | The standard deduction is increased for taxpayers who are blind or deaf at year end. | **D** |
| **b.** | A married couple is only entitled to one addition to their standard deduction even if  both spouses are both over age 65. |
| **c.** | Bunching itemized deductions is an illegal method of tax avoidance. |
| **d.** | The deduction for personal and dependency exemptions  is $4,050 times the number of exemptions. |

***Each exemption is worth $4,050.***

Frieda is 67 years old and deaf. Frieda files as a head of household.

What amount of her standard deduction?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $10,850. | **b.** | $8,500. | **c.** | $3,700. | **d.** | $11,500. | **e.** | $1,450. | **A** |

|  |  |  |
| --- | --- | --- |
| **10** | **Exemption Deduction PHASE-OUT** | **[24: 51]** |

Jim is single and has three dependent children. Jim has **AGI of $300,000.**   
Calculate his deductible total personal and dependency exemptions.

[Threshold for starting the phase-out of exemptions for a head of household is $285,350.]

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $14,256 | **b.** | $10,200 | **c.** | $15,800 | **d.** | $0 | **e.** | Other | **A** |