**Chapter 8. Individual Tax, AMT, Credits**



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| --- | --- | --- |
|  | **Chapter 8. Individual Income Tax** | |
| **1** | **Compute Regular Tax [Rate Schedule]** | **[2: 49, 51]]** |
| **2** | **Tax Rate: Capital Gains and Dividends** | **[4: 52]** |

Linda is a qualifying widow. She has taxable income of $75,000 (all ordinary).   
What is her gross tax liability using the tax rate schedules?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $10,323 | **b.** | $15,035 | **c.** | $14,875 | **d.** | $13,518 | **e.** | Other | **A** |

Jamie is single. She has $100,000 of taxable income, including a long-term   
capital gain of $5,000. What is her gross tax liability (use the tax rate schedules)?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $23,117 | **b.** | $21,617 | **c.** | $20,387 | **d.** | $15,000 | **e.** | Other | **C** |

Anna files her federal income tax returns as a head of household. She has $50,000   
of taxable income, including a $10,000 qualified dividend. What is her gross tax liability,   
rounded to the nearest whole dollar amount (use the tax rate schedules)?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $5,393 | **b.** | $5,337 | **c.** | $7,500 | **d.** | $7,268 | **e.** | Other | **B** |

|  |  |  |
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| **3** | **Net Investment Income Tax** | **[5]** |

A single taxpayer with an AGI (and modified AGI) of $240,000,which   
includes a salary of $190,000 and long-term capital gains of $50,000.   
What is the Net Investment Income tax liability, rounded to nearest dollar?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,920 | **b.** | $1,840 | **c.** | $2,220 | **d.** | $1,520 | **e.** | Other | **D** |

|  |  |  |
| --- | --- | --- |
| **4** | **KIDDIE Tax (child taxed at parent rates)** | **[6]** |

**Scott** is 15 years old and qualifies as a dependent on his parents' tax return.   
This year, he earned $2,500 from a part-time job and received $800 of dividend income.   
What is Scott’s federal taxable income?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $3,300 | **b.** | $2,500 | **c.** | $450 | **d.** | $0 |  | **C** |

Shannon is 16 years old and is a qualified dependent of her mother. Shannon earns $1,500   
as a counselor at a church summer camp and receives $2,500 of interest on a savings account  
established by her grandparents. Shannon's federal taxable income for the current year is:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $1,500 | **c.** | $2,150 | **d.** | $2,500 | **e.** | $3,100 | **C** |

Brian is 18, a full-time student, and a dependent on his parent’s return.   
His income consists of interest of $1,300, and $2,500 from being a lifeguard.   
His parent's taxable income is $72,000.   
What is Brian's federal income tax liability for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ -0- | **b.** | $95 | **c.** | $130 | **d.** | $250 | **e.** | $295 | **B** |

The Olympians have three children. The kiddie tax applies to unearned income   
received by which of the following children?

|  |  |  |
| --- | --- | --- |
| **a.** | Poseidon is a 20-year-old full-time student who does not support himself | A |
| **b.** | Demeter, a 23-year-old full-time student who supports herself with a job at a grocery store |
| **c.** | Zeus is 20 years old and not a student |

**Poseidon is under the age of 24, a full time student, and does not support himself.   
His income is subject to the kiddie tax.**

Assuming the kiddie tax applies, what amount of a child's income is subject to the kiddie tax?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **a.** | All of it | **b.** | All of the unearned income |  | **C** |
| **c.** | The net unearned income | **d.** | Taxable income less the standard deduction |

**The kiddie tax base is the child's net unearned income. Net unearned income is the *lesser* of   
(1) the child's gross *unearned income* minus $2,100 or   
(2) the child's taxable income (the child is not taxed on more than her taxable income).**

Marvin (age 15) received $2,250 from a corporate bond.  
He also received $600 from a savings account established for him by his parents.  
Marvin lives with his parents and he is their dependent. What is Marvin 's taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,200 | **c.** | $2,800 | **d.** | $1,800 | **e.** | Other | **D** |

**$2,850 interest income minus $1,050 standard deduction for person claimed   
as a dependent on another's tax return.**

Jasmine (age 12) received $2,500 from a corporate bond. She also received $600 from a   
savings account established for her by her parents. Jasmine lives with her parents and she is their dependent. Her parents' marginal tax rate is 28%. What is Jasmine's gross tax liability?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $95 | **c.** | $308 | **d.** | $385 | **e.** | Other | **D** |

**Jasmine's taxable income is $2,050 ($3,100 minus $1,050 standard deduction). Her net unearned income is $1,000 ($3,100 gross unearned income minus $2,100). This amount ($1,000) is taxed at 28% ($280 tax). The remaining $1,050 of her taxable income ($2,050 minus $1,000 taxed at parents' rate) is taxed at 10% ($105 tax). Total tax is $385 ($280 + 105).**

Hestia (age 17) is claimed as a dependent by her parents, Rita and Ron.   
Hestia received $1,100 of interest income from a bond that she owns.   
In addition, she has earned income of $200.   
What is her taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $250 | **c.** | $700 | **d.** | $1,200 | **e.** | Other | **B** |

**Gross income of $1,300 less the greater of   
(1) $1,050 or (2) $550 ($200 earned income + $350) equals $250.**

Montague (age 15) is claimed as a dependent by his parents Matt and Mary.   
Montague received $5,000 of qualified dividends and he received $800 from a part time job.   
What is his taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $100 | **b.** | $3,900 | **c.** | $4,650 | **d.** | $4,850 | **e.** | Other | **C** |

**Gross income of $5,800 less the greater of   
(1) $1,000 or (2) $1,150 ($800 earned income + $350) is $4,650.**

Hester (age 17) is claimed as a dependent by his parents, Charlton and Abigail.   
Hester received $10,000 of qualified dividends and he received $6,000 from a part time job.   
What is his taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $16,000 | **b.** | $15,050 | **c.** | $9,700 | **d.** | $9,800 | **e.** | Other | **C** |

**Gross income of $16,000 less the greater of (1) $1,050 or (2) $6,350 ($6,000 earned   
income + $350—not to exceed the basic standard deduction amount of $6,300) is $9,700.**

|  |  |  |
| --- | --- | --- |
| **5** | **AMT: ALTERNATIVE MINIMUM TAX** | **[8: 57, 60-63]** |

Which of the following items is NOT added back to regular taxable income   
in computing alternative minimum taxable income?

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | Interest expense on mortgage for acquisition debt. | | A |
| **b.** | Real property taxes. | |
| **c.** | Tax exempt interest from a private activity bond issued in 2007. | |
| **d.** | Miscellaneous itemized deductions in excess of the 2% floor. |  |

**Interest expense on a home mortgage is deductible for AMT and so is not added back to regular taxable income. Home equity interest is added back if proceeds from the loan are not used to acquire or substantially improve the home.**

Persephone has a regular tax liability of $12,475 and a tentative minimum tax of $11,500.   
Given just this information, what is her alternative minimum tax liability for the year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $11,500 | **c.** | $975 | **d.** | $12,475 | **e.** | Other | **A** |

**Because Persephone's regular tax liability exceeds the tentative minimum tax,   
she does not owe any alternative minimum tax.**

Harmony reports a regular tax liability of $15,000 and tentative minimum tax of $17,000.   
Given just this information, what is her alternative minimum tax liability for the year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $2,000 | **c.** | $15,000 | **d.** | $17,000 | **e.** | Other | **B** |

**Because Harmony's tentative minimum tax exceeds her regular tax,   
the $2,000 difference is her alternative minimum tax liability for the year.**

Maia (who files as a head of household) reported regular taxable income of $115,000.   
She itemized her deductions, deducting $5,000 in charitable contributions and $3,000 in   
state income taxes. She claimed exemptions for herself and her son, Hermes.  
What is Maia's alternative minimum taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $118,000 | **b.** | $115,000 | **c.** | $118,700 | **d.** | $126,100 | **e.** | Other | **D** |

**$125,900 = $115,000 + $3,000 + $4,050 + $4,050.**

Sylvester files as a single taxpayer and claims one personal exemption.   
Sylvester’s regular taxable income is $200,000. He itemizes deductions for   
regular tax purposes. He paid:

1. charitable contributions of $7,000,   
   (2) residential real estate taxes of $1,000,  
   (3) state income taxes of $4,000,  
   (4) interest on a home equity loan of $2,000 (proceeds to purchase a car), and   
   (5) miscellaneous itemized deductions of $3,000 (after taking applying the “2% of AGI” rule).

What is Sylvester’s AMTI?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $213,350 | **b.** | $214,050 | **c.** | $218,650 | **d.** | $214,150 | **e.** | Other | **B** |

Juanita is married and files a joint tax return with her husband. Their AMT base is $220,000,   
which includes $20,000 of qualified dividends. What is their tentative minimum tax?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $55,274 | **b.** | $50,150 | **c.** | $58,050 | **d.** | $59,350 | **e.** | Other | **A** |

Steve’s regular federal income tax is $10,000.   
His tentative minimum tax (TMT) is $24,000. What is his AMT?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $24,000 | **b.** | $14,000 | **c.** | $10,000 | **d.** | $0 | **e.** | Other | **B** |

A single (head of household) taxpayer reports this individual income tax information.

|  |  |
| --- | --- |
| Regular taxable income | $100,000 |
| Regular income tax before credits | ? |
| Alternative minimum taxable income | $200,000 |

(Full AMT Exemption for a head of household is $53,900 and threshold is $119,700.)

What is the amount of the AMT exemption, after phase-out?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $32,125 | **b.** | $25,323 | **c.** | $25,909 | **d.** | $33,825 | **e.** | Other | **D** |

Which of these items is added to regular taxable income in computing alternative   
minimum taxable income?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Home mortgage interest expense. | **b.** | Employee moving expenses. | **C** |
| **c.** | Private activity bond interest | **d.** | Charitable contributions. |

Bill (who files as a head of household) reported regular taxable income of $120,000.   
His itemized his deductions consisted of the following:

(1) Charitable contributions of $8,000,   
(2) State income taxes $3,000

(3) Interest expense of $10,000 on mortgage to acquire his home, and  
(4) Property tax on home in the amount of $400.

He claimed exemptions for himself and his daughter, Maria.   
What is Bill's alternative minimum taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $129,900 | **b.** | $131,500 | **c.** | $131,000 | **d.** | $141,000 | **e.** | Other | **B** |

|  |  |  |
| --- | --- | --- |
| **6** | **EMPLOYMENT: FICA, Self-Employment Tax** | **[14 & 17: 70]** |

Asteria earned a $25,500 salary as an employee. How much should her employer   
have withheld from her paycheck for FICA taxes (rounded to the nearest whole dollar amount)?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $370 | **b.** | $1,071 | **c.** | $1,951 | **d.** | $3,392 | **e.** | Other | **C** |

**$25,500 x (.062 + .0145).**

Baker earned $120,000 of salary as an employee. How much should his employer   
have withheld from his paycheck for FICA taxes (rounded to the nearest whole dollar amount)?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,595 | **b.** | $8,170 | **c.** | $9,087 | **d.** | $6,215 | **e.** | Other | **C** |

Hera had FICA taxes withheld on the $120,000 salary she received as an employee this year.   
Her husband, Zeus, made $70,000 as an employee at a Greek Gyro stand. How much must   
Zeus have withheld for FICA taxes, assuming he files a joint return with Hera?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $1,015 | **c.** | $5,355 | **d.** | $3,955 | **e.** | Other | **C** |

**The cap on Social Security taxes applies to each individual taxpayer. Thus, the fact that Hera   
has already exceeded the cap does not affect the FICA taxes owed by Zeus. ($70,000 \* .0765).**

Sue earned a salary of $100,000 in the first six months of 2016, working as an employee for   
Bank of America. She changed employers on July 1. She earned a salary of $100,000 in the last   
six months of the 2016 working as an employee for Bank of America.   
What is the amount of the credit for excess withholding tax?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $5,053 | **c.** | $5,355 | **d.** | $3,955 | **e.** | Other | **B** |

Which of the following statements regarding FICA taxes is true?

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | Low income employees are not required to pay FICA taxes. | | **B** |
| **b.** | An employee who has two different employers during the year may be  entitled to a tax credit for overpaid FICA taxes |
| **c.** | The maximum amount of Medicare taxes an employee is required to pay is  capped each year but the maximum amount of Social Security taxes is not. |
| **d.** | The wage base limit for FICA taxes depends on the taxpayer's filing status. |

**The cap on Social Security taxes applies to the taxpayer even if the taxpayer had more than   
one employer. Employers withhold on the salary they individually pay -- so a taxpayer (who earns more than the Social Security wage base limit via multiple jobs) may have more withheld than the taxpayer is required to pay.**

Which of the following suggests that a working taxpayer is an independent contractor   
rather than an employee?

|  |  |  |
| --- | --- | --- |
| **a.** | Works for more than one firm | **E** |
| **b.** | May realize a loss from business activities |
| **c.** | Sets own working hours |
| **d.** | Works somewhere other than on employer premises |
| **e.** | All of the above suggest independent contractor status |

**All factors suggest the worker is an independent contractor.**

Which of the following statements best describes the deductions independent contractors   
may claim for valid business expenses?

|  |  |  |
| --- | --- | --- |
| **a.** | *for* AGI deductions | **A** |
| **b.** | *from* AGI deductions not subject to the two percent of AGI floor |
| **c.** | *from* AGI deductions subject to a two percent of AGI floor |
| **d.** | *for* AGI deductions limited to income from the business activities |

**Independent contractors deduct expenses as *for* AGI calculations, unlike employees,   
whose “*from* AGI” deductions for employee expenses are subject to a 2% floor.**

Which of the following best describes the manner in which self-employed taxpayers   
may deduct self-employment taxes?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **a.** | Deduct one-half from AGI. | **b.** | Deduct entire amount from AGI. | C |
| **c.** | Deduct one-half for AGI. | **d.** | Deduct entire amount for AGI. |
| **e.** | No deduction. |  |  |

**This is a *for* AGI deduction as it is considered a cost of doing business. One-half is deductible.**

For taxpayers who receive both salary as an employee and self-employment income as an   
independent contractor in the same year, which of the following statements regarding   
FICA and self-employment taxes is most accurate?

|  |  |  |
| --- | --- | --- |
| **a.** | The Social Security limit applies to the salary but not to the self- employment income. | C |
| **b.** | The Social Security limit applies to the self-employment income but not to the salary. |
| **c.** | Salary is first applied against the Social Security limit and then self-employment income is applied against the Social Security limit. |
| **d.** | Self-employment income is first applied against the Social Security limit and then salary is applied against the Social Security limit. |

**Salary is applied against the limit first. This is taxpayer favorable because the self-employment income is taxed at a higher rate and not as much of the income will be subject to the Social   
Security tax than would have been if self-employment income was applied first.**

Which of the following statements concerning differences between employees   
and independent contractors is most accurate?

|  |  |  |
| --- | --- | --- |
| **a.** | Employees and independent contractors deduct business expenses as | B |
|  | miscellaneous itemized deductions. |
| **b.** | While employees are typically eligible for nontaxable fringe benefits from  employers, independent contractors are not. |
| **c.** | Employers are required to withhold either FICA or self-employment taxes from  compensation paid to employees and compensation paid to independent contractors. |
| **d.** | Employers typically withhold federal income taxes from compensation paid to  employees and to independent contractors. |

**Non-employees are ineligible for nontaxable fringe benefits.**

Carolyn owns and operates an unincorporated CPA firm. This year she earned fees of $200,000, and   
had operating expenses of $70,000. How much self-employment tax does she pay for the year?

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | | $0 | | **b.** | $1,015 | **c.** | $18,176 | **d.** | $13,955 | | **e.** | Other | | **C** |
| **7** | | **CREDITS: Child credit, Dependent care credit,** | | | | | | | **[25,26: 72, 73]** | | |
|  | | **Education credits, Earned Income credit,** | | | | | | | **[28, 31]** | | |
|  | | **Foreign tax credit** | | | | | | | **[33]** | | |

Deana and Joseph are married and have two children ages 17 and 15. Their adjusted gross   
income for the current year is $100,000. What amount can they claim for the child tax credit?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ - 0 - | **b.** | $ 600 | **c.** | $1,000 | **d.** | $1,200 | **e.** | $2,000 | **C** |

Maurice and Lana are married and have two children ages 12 and 10. Their adjusted gross   
income for the current year is $120,000. What amount can they claim for the child tax credit?

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

Susan files as head of household and has three dependent children ages 12, 14, and 16.   
Her AGI is $85,000. How much can Susan claim for the child tax credit for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $3,000 | **b.** | $2,750 | **c.** | $2,500 | **d.** | $0 | **e.** | Other Amount | **C** |

Ruth had wages of $34,000 and her husband John’s wages were $27,000. They have   
three children age 3, 6 and 9. They paid a total of $8,000 to Creative Child Care School, Inc.   
Assuming a 20% credit rate, what will be their child and dependent care credit?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $960 | **b.** | $1,200 | **c.** | $1,600 | **d.** | $6,000 | **e.** | Other | **B** |

Floyd is a single parent with an 11-year-old daughter. Floyd's AGI is $26,000.  
He pays $2,100 in qualified child-care expenses. Floyd can claim a child-care credit of:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 420 | **b.** | $ 441 | **c.** | $ 609 | **d.** | $ 735 | **e.** | $2,100 | **C** |

Jerry has two dependent children, Greg and Mandy, who are attending an accredited college  
 in the current year. Greg is a graduate student (5th year of college) who had $7,000 for tuition and fees. Mandy, a freshman with no prior postsecondary education, had tuition expenses of $4,000.   
Jerry meets all the income and filing status requirements for the education credits.   
There is no tax-free assistance to pay these expenses. Jerry’s AGI income equals $50,000.   
What is the maximum credit that Jerry may claim on his federal income tax return?

|  |  |  |
| --- | --- | --- |
| **a.** | $2,200 Lifetime Learning Credit. | **D** |
| **b.** | $3,000 AOTC (Hope) Credit. |
| **c.** | $1,650 AOTC (Hope) Credit & $2,000 Lifetime Learning Credit |
| **d.** | $2,500 AOTC (Hope) Credit & $1,400 Lifetime Learning Credit |

|  |  |  |
| --- | --- | --- |
| **8** | **PENALTY: Underpayment of Withholding** |  |
|  | **or Estimated Tax Payments** | **[36]** |
|  | **Late filing or late payment penalty** | **[38: 84]** |

Sheryl's AGI is $200,000. Her current year federal income tax liability is $52,068.   
Last year, her tax federal income tax liability was $48,722.   
She will not owe underpayment penalties if her total estimated tax payments are at least   
which of these amounts (rounded) (assume she made the required payments each quarter)?

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $46,861 | **b.** | $48,722 | **c.** | $51,547 | **d.** | $53,594 | **A** |

Which of these statements about estimated tax payments and underpayment penalties   
is true for individual taxpayers?

|  |  |  |
| --- | --- | --- |
| **a.** | Taxpayers, who have paid their full tax liability by the original tax return | **C** |
|  | due date, are not required to pay underpayment penalties. |
| **b.** | Taxpayers who have paid their full tax liability by the extended tax return  due date are protected from underpayment penalties. |
| **c.** | Taxpayers who have uneven income streams can pay estimated tax quarterly in uneven amounts and not be susceptible to underpayment penalties. |
| **d.** | Taxpayers who have paid their required amount of estimated tax, even  though not on time, are protected from underpayment penalties. |

Billy filed 2015 tax return on June 5, 2016, without requesting an extension.   
His total tax was $10,000. He had no withholding tax. He made no estimated tax payment.   
He paid $10,000 with return filed on June 5, 2016?

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $500 | **b.** | $550 | **c.** | $1,000 | **d.** | $1,100 | **e.** | Other | **C** |

 Which of the following statements regarding late filing penalties is true?

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | If a taxpayer fails to file a tax return, the late filing penalty will | | **C** |
|  | continue to grow until the taxpayer files the tax return. |
| **b.** | The amount of the late filing penalty is the same for both  fraudulent failure to file and non-fraudulent failure to file. |
| **c.** | Taxpayers who owe no tax as of the due date of their tax returns  are not subject to late filing penalties even if they file late. |