

**Chapter 8. Supplemental Homework-Class Handout-Part 1**

4. 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

35. 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

16. 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

17. 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

18. 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. \$126,000      e. Other

19. 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. \$214,000      c. \$218,650      d. \$214,150      e. Other

20. 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

21. 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

22. 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. \$33,400      e. Other

23. 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. Private activity bond interest      d. Charitable contributions.

**Chapter 8. Supplemental Homework-Class Handout-Part 2**

3. 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

7. 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

11. 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. \$380      e. Other

37. 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

38. 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

39. 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

40. 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

41. 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.  
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

42. 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

4. Single Return For 2016	Case A
Wages- earned equally by spouses	\$190,000
Dividends, Interest and LTCG	50,000
Modified Adjusted Gross Income (MAGI )	240,000
Less Threshold Amount	(200,000)
Excess over threshold	40,000
Medicare Surtax (Sec. 1411)	
Lesser of:	
1) AGI Over \$250,000	
2) Net Investment Inc.	
Amount subject to tax	
Tax Rate	
Amount of tax on investment income	

### 35. Self-employment Tax

Max. earnings for Social Security & Medicare Tax	\$118,500	
Salary, etc. subject to FICA withholding	\$0	
Remaining amount - Soc. Security & Medicare Tax		
Net income from Self-Employment activities		
Fraction to get equivalent for half of SE tax		
Net Self-employment income - Total		
Net Self-Employment Income below Soc. Sec. limit	15.30%	
Net Self-Employment Income ABOVE Soc.Sec. limit	2.90%	
Total self-employment tax		

17. Harmony	
Regular income tax liability	\$15,000
Tentative AMT	
AMT Liability	

18. Maia	
Taxable income	\$115,000
Exemptions	
State income tax	

### 19. Sylvester

1	Regular taxable income	\$200,000
2	Add back <b>exemptions</b> for self, spouse, dependents	4,000
3	Subtotal (This is where you start on Form 6251)	204,000
4	Add back <b>standard deduction</b> (or itemized deductions <b>not allowed</b> in computing AMT).	
5	<b>Adjust</b> taxable income for items with other AMT method. (Percentage of Completion Method, Incentive options, etc.)	
6	<b>AMT preferences</b> (Private activity bond interest, etc.)	
7	Subtract net operating loss allowed for AMT	
8	<b>AMTI [Combine lines 3 through 7, to get AMTI]</b>	

Compute TMT

10	Taxable Excess- Base for AMT Tax Computation		220,000
	Less amount of qualified dividends		20,000
	Amount taxed at regular rates		200,000
11	Tax on line 10	Up to: 186,300	26%
		above: 186,300	28%
	Subtotals		
	Qualified dividends	15%	
	Tenative minimum tax before foreign tax credit		
12	Subtract foreign tax credit		
13	Subtotal - This is tentative minimum tax		
14	Enter regular income tax from page 2 of Form 1040		
15	If TMT (Line 13) exceeds Regular tax (Line 14), excess is AMT		

In AMT computations, dividends and long-term capital gains are taxed at their usual preferential rates.

Problem no. 21

13	Tentative minimum tax	24,000
14	Regular income tax	
15	If TMT (Line 13) exceeds Regular tax (Line 14), excess is AMT	

Problem no. 22

Amount of Exemption Before Reduction		\$53,600
AMTI	200,000	
Threshold	119,200	
Excess of AMTI over threshold	80,800	
Phaseout percentage - 25%	25%	
Exemption disallowed		
Exemption allowed		

<b>24. Bill</b>	
Taxable income	\$120,000
Add: Exemptions	
State income tax	
Miscellaneous Itemized Ded.	
AMTI	

## 3. Angelina. What is Angelina's federal taxable income before credits?

Taxable income	\$50,000		
Less dividend income	(\$10,000)		
	\$40,000		
<b>Head of Household, 2016</b>	<b>Base</b>	<b>Rate</b>	<b>Tax</b>
Top full layer for taxpayer	13,250		1,325.00
Amount above layer	26,750	15%	4,012.50
Totals for ordinary income	40,000		5,337.50
Capital gain	10,000		
Taxable income	50,000		
Tax on capital gain			
Threshold for 25% bracket			
Long-term capital gain above 15%			
Amount of LTCG taxed at 0%		0%	
Amount of LTCG taxed at 15%		15%	
<b>Total income tax before credits</b>			

Total of ordinary income and capital gain is not above threshold for 25% rate.

<b>7. Brian</b>	<b>2016</b>
Wages	\$2,500
Interest Income	1,300
	3,800
Standard Deduction: Greater of:	
1. Base deduction	\$1,050
2. Earned income + \$350	2,500
<b>Taxable Income</b>	
<b>Tax rate</b>	
<b>Tax</b>	

## Jasmine

11. Dependent Child's Income		Information			Income Tax	
Child's Age	12 years old	Unearned Income	Earned Income	Total Income	Tax Rate	Income Tax
Earnings from job						
Interest on savings, etc.		3,100		3,100		
Gross Income		3,100		3,100		
Less Deduct for AGI						
Adjusted Gross Income		3,100		3,100		
Personal Exemption		0		0		
Std Ded. -Unearned Income		(1,050)				
Std Deduction - Excess		0				
Total Standard Deduction		(1,050)				
Taxable Income		2,050				
Taxed at child's rates					10%	
Taxed at parent's rates		[net unearned income]			28%	
<b>Child's Total Income Tax</b>						

37. Child Credit - Maurice and Lana		Page 8-25
Adjusted Gross Income		\$120,000
Amount of credit per child		1,000
Number of children under 17		2
Total credit before phaseout		2,000
Phase Out		
<b>Threshold</b>		
AGI above Threshold		
Number of layers at \$1,000 per layer		
Phaseout per layer		
Phase-out		
<b>Child Credit</b>		

40. Floyd- Child care credit		
<b>Number of children</b>		<b>1</b>
Amount spent for childcare		\$2,100
Spouse 1 - wages		26,000
Spouse 2 - wages		0
Total wages		26,000
Maximum amt. of expense subject to credit		3,000
Amount spent for childcare		2,100
AGI		
Base for reducing credit rate		
Excess		
Divide by \$2,000		
Compute answer, round up		
Maximum credit rate		35%
Child care credit rate for taxpayer		
<b>Credit</b>		

41. Jerry		AOTC (previously:Hope) and Lifetime learning Credit			
Student	Level	Type	Base	Percent	Amount
Mandy	Freshman	Hope [25(b), (i)]	\$2,000	100%	
			\$2,000	25%	
Greg	5th year	Life-time [25(c)]	\$7,000	20%	
<b>Total Credit</b>					

42. Penalty-Estimated Tax	Current Year	Prior Year
Adjusted Gross Income	\$200,000	\$200,000
Income tax liability	\$52,068	\$48,722
	90%	110%
See Sec. 6654(d)(1)(B), ( C)		

Tax Year-2016-Joint Return	Regular Tax	AMT	AMT Rules
Salary	100,000	100,000	
City of Charlotte Bond interest (Private activity)	0	40,000	Taxable
<b>Adjusted Gross Income</b>	<b>100,000</b>	<b>140,000</b>	
<b>Itemized Deductions</b>			
State Income Taxes	12,000	0	Not Allowed
Real Estate Taxes	15,000	0	Not Allowed
Home Mortgage Interest (acquisition debt)	10,000	10,000	
Charitable Contributions	4,000	4,000	
Investment Interest Expense			
Total Itemized Deductions Before Phaseout	41,000	14,000	
Phaseout of Itemized Deductions	0		
Total Itemized Deductions	41,000		
Standard Deduction	12,600		
Greater of Itemized Ded. or Std. Deduction	(41,000)	(14,000)	
Personal Exemptions (\$4,050 each)	(8,100)	0	Not Allowed
Personal Exemption Phaseout	0		
<b>Taxable Income</b>	<b>50,900</b>		
<b>AMTI (before AMT exemption, if any)</b>		126,000	
AMT Exemption (after phase out)		(83,800)	Exemption
<b>Base for computation of AMT</b>		<b>42,200</b>	
<b>Regular Income Tax</b>	<b>6,708</b>		
<b>Tentative Minimum Tax</b>		<b>10,972</b>	
<b>Alternative Minimum Tax</b>	<b>4,265</b>		
Total Tax Liability	10,972		
Federal Tax Withholding	(10,000)		
<b>Total Tax</b>	<b>972</b>		
Penalty for underpayment of estimated tax			
<b>Total payment due (refund)</b>			

Compute regular income tax			
<b>Taxable Income - from above</b>			<b>50,900</b>
Tax Computations:	<b>Base</b>	<b>Rate</b>	<b>Tax</b>
Next to top layer	18,550		1,855
Top layer	32,350	15%	4,853
Totals	50,900		<b>\$6,708</b>

AMT Exemption		
<b>Amount of Exemption Before Reduction</b>		<b>\$83,800</b>
AMTI from above	126,000	
<b>Threshold (Single \$119,700, Joint \$159,700, \$79,850 MSep)</b>	159,700	
Excess of AMTI over threshold	0	
Phaseout percentage - 25%	25%	
Exemption disallowed		0
<b>Special AMT Exemption allowed</b>		<b>\$83,800</b>

Compute Tentative AMT	Layers	Base	Rate	Tax
Bottom layer	<b>\$186,300</b>	42,200	26%	10,972
Top layer	Excess	0	28%	0
<b>Totals</b>		<b>\$42,200</b>		<b>\$10,972</b>

Joint tax return. 2016. AMT		Information	Tax Return - Regular Tax		
	Adjusted gross income (Salary)	\$100,000			\$100,000
	Private activity bond interest	80,000			
	Less: Ded. from adjusted gross income				
	Medical expenses	12,000	\$12,000		
	Less: 10% of AGI		(10,000)	2,000	
	Home mortgage interest	5,300		5,300	
	State income taxes	3,400		4,600	
	Charitable contributions (cash)	800		800	
	Misc. itemized deductions	2,400	2,400		
	Less: 2% x \$100,000		(2,000)	400	(13,100)
	Less: 6 Exemptions (\$4,050)		6	4,050	(24,300)
	Taxable Income				\$62,600
	Tax Computations:	Base	Rate	Tax	
	Amount below top layer	18,550		1,855	
	Top layer	44,050	15%	6,608	
	Totals	\$62,600		\$8,463	

Part 1-Summary of Computations for AMT					Amount	
1	Start with regular taxable income - above. (Before NOL)				\$62,600	
2	Add back <b>exemptions</b> for self, spouse, dependents				24,300	
3	Subtotal (This is where you start on Form 6251)				86,900	
4	Add back <b>standard deduction</b> (or itemized deductions <b>not allowed</b> in computing AMT).					
			Part 2 below	5,000		
5	Adjust regular taxable income for items with a substitute AMT method. (Percentage of Completion Method, Incentive options, etc.)					
6	Add <b>AMT preferences</b> (Private activity bond interest, etc.)				\$80,000	
7	Subtract net operating loss allowed for AMT					
8	<b>AMTI [Combine amounts in lines 3 through 7, to get AMTI]</b>				171,900	
9	Subtract "AMT Exemption" (Note limit)					
			Part 3 below	(80,750)		
10	<b>Taxable Excess- Base for AMT Tax Computation</b>				91,150	
11	<b>Tax on line 10</b>	<b>Up to:</b>	186,300	26%	91,150	23,699
		<b>above:</b>	186,300	28%	0	0
	<b>Subtotals</b>				91,150	23,699
	Income taxed at lower rates:		%			
12	Subtract foreign tax credit					
13	<b>Subtotal - This is tentative minimum tax</b>				23,699	
14	Enter regular income tax from page 2 of Form 1040				Top of page	\$8,463
15	If TMT (Line 13) exceeds Regular tax (Line 14), excess is AMT					\$15,237
16	AMT may generate tax credit to be carried forward to future years					

Part 2. Adjustment for Itemized Deductions		
17	Enter Adjusted Gross Income	\$100,000
18	State and local income taxes	4,600
19	Miscellaneous Itemized Deductions (after 2% floor)	400
20	Total Adjustment for Itemized Deductions (line 4 above)	5,000

Part 3. AMT Exemption		Filing Status:	Joint
21	Exemption (Single \$53,900, Joint \$83,800, Separate \$41,900)		\$83,800
22	AMTI from 8 above	171,900	
23	Threshold (Single \$119,700, Joint \$159,700, \$79,850)	159,700	
24	Excess of AMTI over threshold	12,200	
25	Phaseout percentage - 25%	25%	
26	Exemption disallowed		3,050
27	Exemption allowed		\$80,750