

Federal Tax Test No. 2. Chapters 4-7. 11:00
Spring, 2017. The University of North Carolina at Charlotte

See last Page for Tax Tables

Test No. _____

Name _____ Row In Class _____

INSTRUCTIONS: This test is "open book," which means you may use your textbook during the test. You may also use notes. The test contains 25 multiple-choice questions. A question may cover material from more than one chapter. Some answers may be rounded to nearest dollar. Assume the tax year is 2016, unless a question indicates otherwise. Avoid all appearances of impropriety. If you see any sign of impropriety, please prepare an anonymous note and slide it under the instructor's office door.

Failure to follow instructions below will result in a 5 point reduction in your grade.

Multiple Choice- 25 questions count 4 points each for a total of 100 Points.

1. Use a soft-lead pencil
2. Enter name in appropriate space (above on this page). Write clearly.
3. Enter above the row number for your seat in the regular class (write above on this page).

On the Opscan Sheet

5. Enter name (last name first) in the area for "NAME."
6. Enter test number (found in top right corner of this page) in "special codes" area.
7. Blacken the area in the circle containing the appropriate letter for each question.

For each question, choose the best answer.

1. Which one of these expenditures is not a deduction from adjusted gross income?

a. Charitable Contribution	b. IRA deduction	c. Home mortgage interest
d. State income tax	e. Casualty losses	

2. Ann and Allan are married and file a joint return. They are both age 67, Ann has good vision, but Allan is blind. They do not qualify social security benefits. They have interest income of \$30,000. They claim the standard deduction. What is their taxable income?

a. \$0	b. \$5,550	c. \$4,800	d. \$3,800	e. Other
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3. David earned \$100,000 in salary and \$16,000 in interest income in 2016. David also has a long-term capital gain of \$10,000. David has two qualifying dependent children who live with him. Neither of his dependents qualifies for the child tax credit. He qualifies to file as head of household and has \$17,000 in itemized deductions. What is David's tax liability before credits (for withholding, etc.)? Use the 2016 tax rate schedules.

a. 16,610	b. \$17,110	c. \$17,510	d. \$16,672.50	e. Other
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4. Donald is single, with no children. Donald's elderly mother (Dana, age 75) lives with David. Dana works part-time at a laundry, where she earns wages of \$13,000 per year, which Dana spends on her own medical care. Donald pays \$18,000 per year for food, clothing, and other costs for support of Dana. What is Donald's filing status for the current year?

a. Single	b. Married filing jointly
c. Qualifying widower	d. Head of household

5. Nancy is single. In 2016, she received her regular salary of \$150,000. In December, 2016, the company paid her a cash bonus of \$30,000, in addition to her regular salary. How much Social Security tax and Medicare tax is withheld on the bonus?

a. \$435	b. \$580	c. \$725	d. \$522	e. Other
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6. A single investor (Ms. Gray) has salary income of \$200,000 and adjusted gross income of \$190,000. She has total itemized deductions and exemption of \$20,000 (after all phase-outs) each year. There is no state income tax.

Ms. Gray has owned Duke Energy stock for 4 years.

Ms. Gray 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. Gray save on the 2016 federal income tax return as a result of this sale?

- a. \$620 b. \$840 c. \$9,900 d. \$990 e. Other

7. On June 1, 2011, Ann received 1,000 shares of **restricted stock** from her employer, when the share price was \$10 per share. Ann **did not** make a Section 83(b) election.

On June 1, 2014, Ann's restricted shares vested, when the market price was **\$20** per share.

On June 3, 2015, Ann sold all 1,000 shares of the stock when the market price was **\$50** per share.

What amount of ordinary income did Ann recognize in 2014?

- a. \$50,000 b. \$10,000 c. \$16,000. d. \$20,000 e. Other

Use the following information for the next three questions.

Albert started working for Big Corporation on June 1, 2012, when the company's stock price was **\$1** per share. At that time, Albert received a **non-qualified option** to buy 1,000 shares of Big Corporation stock for \$1 per share.

On June 1, 2015, the option vested, when Big Corp's share price is **\$5** per share.

On June 1, 2015, Albert exercised all of his options, acquiring the 1,000 shares.

(no restriction on sale of stock)

On June 30, 2016, Albert sold all of the shares (1,000 shares), at a price of **\$10** per share.

Albert is single with a salary of \$500,000, and total deductions (after limits) of \$40,000 per year.

8. How much income does **Albert** recognize in 2015 (related to the stock option)?

- a. \$4,000 b. \$5,000 c. \$6,000 d. \$8,000 e. Other

9. Assume the stock option is an incentive option.

When computing regular income tax, how much income does Albert recognize in 2015 (related to the incentive stock option)?

- a. \$3,000 b. \$4,000 c. \$5,000 d. \$0 e. Other

10. Assume the stock option is NOT an incentive option.

What is the amount of the tax deduction (related to the incentive stock option) that will be claimed by Big Corporation?

- a. \$0 b. \$1,000 c. \$4,000 d. \$6,000 e. Other

11. Stanley (single, age 40, no dependent) had \$2,000 of state income taxes withheld from his salary in **2016**. Stanley properly claimed total itemized deductions of \$6,600 on his Form 1040 for 2016.

His 2016 state tax return showed a \$900 refund, which he received on May 25, 2017. How much of the state income tax refund should Stanley include in income on his 2017 federal return?

- a. \$0 b. \$100 c. \$200 d. \$300 e. Other

12. Sue (single) purchased a home on January 1, 2008 for \$200,000, and later sold the home for \$480,000 in 2016. She used home as her principal residence from January 1, 2008 until she sold it on December 30, 2016. She is single and does not have any dependents.

What amount of gain will be recognized on the sale of this home, on her 2016 return?

- a. \$30,000 b. \$250,000 c. \$150,000 d. \$50,000 e. Other

13. On **December 31, 2013**, John bought an annuity for \$40,000. The annuity begins payment of \$1,000 per month in January, 2016, and will pay \$1,000 monthly to John for as long as he lives. John had a life expectancy of 5 years on January 1, 2016. How much of the \$12,000 received in 2016 should be included in John's income?

- a. Zero b. \$2,000 c. \$4,000 d. \$8,000

14. Ann's employer provides each employee with \$400,000 of group-term life insurance. Ann (age 52) received the coverage for the entire year. Ann's employer pays premiums of \$700 each year to provide this coverage for Ann. How much income will be reported on her W-2 form for this group-term life benefit? (See table at end of test.)

- a. \$0 b. \$630 c. \$966 d. \$952 e. Other

15. **Robert** sold stock with a basis of \$15,000 to **Laura** (his sister) for \$10,000 (its FMV). **Laura** sold this stock to her neighbor, **Amanda**, for \$14,000. How much gain does **Laura** report?

- a. \$6,000 b. \$5,000 c. \$1,000 d. \$0

16. Bob and Barbara file a joint income tax return. Bob received wages of \$200,000. Barbara actively participated in a rental real estate activity in which she had a \$30,000 loss. They had no other income. They have no deduction for AGI, except possibly a rental loss. How much rental loss may they deduct on their income tax return?

- a. \$0 b. \$5,000 c. \$10,000 d. \$20,000

17. Sue rented her vacation home for 60 days at a fair rental. Total rent revenue was \$7,000. 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)	\$7,000						
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. \$2,000 c. \$3,000 d. \$4,000 e. Other

18. Evelyn and Everett are both 40 years of age. Evelyn and Everett are married and file a joint return. They are both are covered by a retirement plan at work. Evelyn earned a salary of \$56,000 from Big Corporation. Everett earned a salary of \$56,000 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 (total for both IRAs) on a joint return?

- a. \$0 b. \$3,000 c. \$3,850 d. \$3,300 e. Other

19. 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

20. Jenna is single. She 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
Refund of 2016 state income tax, to be received in 2017	500

She had total itemized deductions of \$6,500 on her 2015 federal income tax return, which included a deduction of \$1,000 for state income tax. The federal standard deduction was \$6,300 for a single person in both 2015 and 2016.

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

21. Margaret Lindley paid interest of \$15,000 on her \$300,000 acquisition debt for her home (fair market value of \$500,000), \$5,000 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 \$1,400 of interest income this year and no investment expenses.

How much of the interest expense may she deduct this year?

- a. \$21,400. b. \$21,500. c. \$21,600. d. \$23,000. e. Other

22. Joe donated stock (capital gain property) to a public charity.

He bought the stock 3 years ago for **\$160,000**. 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 \$300,000?

- a. \$100,000 b. \$90,000 c. \$150,000 d. \$200,000 e. None of the above

23. 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 \$100,000 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.)

- a. \$ 30,000 b. \$ 14,900 c. \$ 29,900 d. \$39,900 e. Other

24. 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. State income tax b. Tax preparation fees
c. Employee moving expenses d. Medical expenses

25. Robert and Mary are married and file a joint return. They claim dependency exemptions for their two young children. They claim a total of four exemptions (personal and dependency).

In 2016, They had AGI of \$400,000. The exemption phase-out threshold for a joint return is \$311,300.

Calculate the total amount of their deductible personal and dependency exemptions.

- a. \$960 b. \$11,016 c. \$4,368 d. \$4,536 e. Other

Regulation 1.79-3 5-year age bracket	Cost per \$1,000 of protection for 1 month
Under 25	\$0.05
25 to 29	0.06
30 to 34	0.08
35 to 39	0.09
40 to 44	0.10
45 to 49	0.15
50 to 54	0.23
55 to 59	0.43
60 to 64	0.66
65 to 69	1.27
70 and above	2.06

Federal Income Tax Rates-Single - 2016.

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	9,275	0.00	+ 10%	0	
9,275	37,650	927.50	+ 15%	9,275	
37,650	91,150	5,183.75	+ 25%	37,650	
91,150	190,150	18,558.75	+ 28%	91,150	
190,150	413,350	46,278.75	+ 33%	190,150	
413,350	415,050	119,934.75	+ 35%	413,350	
415,050		120,529.75	+ 39.6%	415,050	

Example: with taxable income of \$9,375, rate is 10% on \$9,275 and 15% on \$100.

Federal Income Tax Rates: Joint - 2016.

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	18,550	0.00	+ 10%	0	
18,550	75,300	1,855.00	+ 15%	18,550	
75,300	151,900	10,367.50	+ 25%	75,300	
151,900	231,450	29,517.50	+ 28%	151,900	
231,450	413,350	51,791.50	+ 33%	231,450	
413,350	466,950	111,818.50	+ 35%	413,350	
466,950		130,578.50	+ 39.6%	466,950	

Income Tax Rates - Separate - 2016.

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	9,275	0.00	+ 10%	0	
9,275	37,650	927.50	+ 15%	9,275	
37,650	75,950	5,183.75	+ 25%	37,650	
75,950	115,725	14,758.75	+ 28%	75,950	
115,725	206,675	25,895.75	+ 33%	115,725	
206,675	233,475	55,909.25	+ 35%	206,675	
233,475		65,289.25	+ 39.6%	233,475	

AGI Phase-out Thresholds

Filing Status	Exemptions	Itemized Deduct.
Married, Joint	311,300	311,300
Head-of-Household	285,350	285,350
Single	259,400	259,400
Married, Separate	155,650	155,650

Exemptions reduced by:

2% for each \$2,500 layer above AGI Threshold above (for married filing separately, layer is \$1,250)

Itemized Deductions reduced by lesser of:

3% of excess of AGI over AGI Threshold above
80% of deductions otherwise allowable, except for Medical Exp., Investment Interest and Casualty losses.

Income Tax Rates - Head of Household - 2016.

Taxable income		Total Federal Income Tax			
Over	But not over	Tax on all Previous Layers	Plus	of Taxable Income over:	
0	13,250	0.00	+ 10%	0	
13,250	50,400	1,325.00	+ 15%	13,250	
50,400	130,150	6,897.50	+ 25%	50,400	
130,150	210,800	26,835.00	+ 28%	130,150	
210,800	413,350	49,417.00	+ 33%	210,800	
413,350	441,000	116,258.50	+ 35%	413,350	
441,000		125,936.00	+ 39.6%	441,000	

Standard Deduction	Basic	Age/ Blindness
Single	6,300	1,550
Married-Joint	12,600	1,250
Married - File Separately	6,300	1,250
Head of Household	9,300	1,550
Standard deduction for child who is a dependent of another	1,050	
Or: Earned income +	350	
Personal Exemption Amount	4,050	

AMT Exemption	Amount	Phase-out	
Joint Return	83,800	159,700	494,900
Separate Return	41,900	79,850	247,450
H-of-H and Single	53,900	119,700	335,300
AMT Rates (Joint, Head of H., Single)	Amount	Rate	
Rate on AMT base up to	186,300	26%	
Rate on AMT base above	186,300	28%	

OASDI rate on salary up to	\$118,500	6.20%
Medicare rate on salary up to	\$118,500	1.45%
Medicare rate on excess	Excess	1.45%
Extra Medicare - .9%. (Single & HH) Wages above		\$200,000
Extra Medicare - .9%. (Joint) Wages above		\$250,000
NII tax (3.8%) on lesser of NII or AGI (Single & HH) above		\$200,000
NII tax (3.8%) on lesser of NII or AGI (Joint) above		\$250,000

Federal Corporate Income Tax Rates

Taxable Income		The tax is:				of the amount over:
Over	but not over		+			
0	50,000	0	+	15%	0	
50,000	75,000	7,500	+	25%	50,000	
75,000	100,000	13,750	+	34%	75,000	
100,000	335,000	22,250	+	39%	100,000	
335,000	10,000,000	113,900	+	34%	335,000	
10,000,000	15,000,000	3,400,000	+	35%	10,000,000	
15,000,000	18,333,333	5,150,000	+	38%	15,000,000	
18,333,333				35%		

1 B IRA contribution is deductible for AGI

2 B

Ann, Allan	Joint Return		2016
Adjusted Gross Income			30,000
Exemptions	2	4,050	(8,100)
Basic standard deduction		12,600	
Additional std. deduction			
Amount	Number		
1,250	3	3,750	
Standard Deduction		16,350	(16,350)
Taxable Income			\$5,550

3 C

David, Head of Household, 2016			Computation
Salary			\$100,000
Interest Income			\$16,000
Capital Gains			\$10,000
Itemized deduct. or Standard	\$17,000		
Exemptions	3	4,050	\$12,150
			(29,150)
Taxable Income			\$96,850
Remove Long-term Capital Gains			(\$10,000)
Income subject to ordinary tax rates			\$86,850

	Base	Rate	Tax
Top FULL layer for this taxpayer	50,400		6,897.50
Top layer for this taxpayer	36,450	25%	9,112.50
Total ordinary income and related tax	86,850		16,010.00
Capital Gain income and related tax	\$10,000	15%	1,500.00
Total income tax			17,510.00

4 A Homework. Dana does not as an exemption for Donald.

5 A

S. Security & Medicare tax withheld	2016		
Salary and bonus in 2016	\$150,000		
Limit for OASDI (6.2% tax)-2016	\$118,500		
Amount Subject to both taxes	\$118,500	7.65%	\$9,065.25
Additional Amt Subject to Medicare tax	31,500	1.45%	456.75
Total Income and Total Tax	\$150,000		9,522.00

Medicare tax on bonus	30,000	1.45%	435.00
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6 B	Cost of Gray's stock	\$50,000
	Value of Gray's stock	\$30,000
	Gray's basis in stock for loss	\$50,000
	Gray's selling price	\$30,000
	Gray's gain or loss on sale	(\$20,000)
	Gray's deductible loss on sale (on 2016 return)	(\$3,000)
	Tax Rate	28%
	Gray's tax (tax savings) for 2016	(\$840)

Deduction will reduce ordinary income

Stock Options

7 D	Restricted	No. of	Strike	FMV	Total	Amount	Current	Ending Total
	Date	Stock	Price	per share	Value	Paid	Income	Cost/basis
	6/1/11	Grant	\$0	\$10	\$10,000			
	6/1/14	Vest	\$0	\$20	\$20,000		\$20,000	\$20,000
	6/3/16	Sell	\$0	\$50	\$50,000		\$30,000	N/A

Note: The employee does not make a payment for restricted stock.

8 A	Non-Qual.	No. of	Strike	FMV	Total	Amount	Current	Ending Total
	Date	Option	Price	per share	Cost or Value	Paid	Income	Cost/basis
	6/1/12	Grant	\$1	\$1	\$1,000		\$0	
	6/1/15	Vest	\$1	\$5	\$5,000		\$0	
	6/1/15	Buy	\$1	\$5	\$5,000	\$1,000	\$4,000	\$5,000
	6/3/16	Sell	\$1	\$10	\$10,000		\$5,000	N/A

Note: regular income means income (ordinary or capital gain), other than AMT income.

9 D \$0 With incentive option, all income is recognized when stock is sold.

10 C \$4,000

11 D	Income tax refund, tax benefit rule	
	State Income withheld in 2016	\$2,000
	State Income Tax Refund in 2017, for 2016	\$900
	Total itemized deductions for 2016	\$6,600
	Standard Deduction amount for 2016	\$6,300
	Excess of Itemized Deduction over Std. Deduction	\$300

12. A	Sell. Price	\$480,000
	Cost	\$200,000
	Gain	\$280,000
	Exclusion	\$250,000
	Recognize	\$30,000

13 C	Income from an annuity	
	Monthly benefit	\$1,000
	Life expectancy in months	60
	Total expected benefits	\$60,000
	Cost	\$40,000
	Exclusion Ratio	66.67%
	Annual benefit	\$12,000
	Exclusion	\$8,000
	Income	\$4,000

14 C	Ann	Group Term	Age:	45
	Group term life insurance			\$400,000
	Amount received tax-free			\$50,000
	Amount of coverage above \$50,000			\$350,000
	Monthly cost from table			\$0.23
	Months in year			12
	Total			\$2.76
	Number of thousands above \$50,000			350
	Amt included in employee's income			\$966

15 D

16 A

Bob and Barbara	
Loss for taxpayer(s)	\$30,000
Maximum write-off for managed real estate	25,000
AGI for this taxpayer	200,000
Threshold for phase-out	100,000
AGI in excess of phase-out threshold	100,000
Phase-out % for income above threshold	50%
Reduction in limit for write-off	25,000
Adjusted write-off limit	\$0
Actual write-off	\$0

17 B Note: This is the approach that is preferred by the taxpayer

Use of Vacation Home: Days							
Personal Use	30						
Rented	60						
Total Days Used	90						
Revenue & Exp	Total	Schedule E			Schedule A		
		Fraction-days used		Rental	Fraction-days used		Personal
		Rental	Total		Personal	Total	
Revenue	\$7,000			\$7,000			
1. Interest	7,300	60	365	1,200	305	365	\$6,100
2. Taxes	3,650	60	365	600	305	365	\$3,050
Total Int & Taxes	10,950			1,800			9,150
NI after Taxes & Int.				5,200			
3. Other Exp except Dep.	4,800	60	90	3,200			
N. Income Before Deprec.				2,000			
4. Dep. Expense	9,000	60	90	6,000			
Limit on Deprec.				2,000			
Taxable Income (Loss)				\$0			

IRS does not approve using the first two fractions (60/365) but this was approved in the Bolton case.

18 D

Evelyn and Everett	Trad. IRA	Both covered	Joint	Year:	2016
Start of Phase-out Range	\$98,000				
Phase-out range	20,000				
End of Phase-out Range	118,000				
Earnings of Spouse No. 1	56,000				
Earnings of Spouse No. 2	56,000				
Total earned income & AGI	112,000				
Excess of AGI over amount at start of phase-out range	14,000				
Phase-out range	20,000				
Percent in phase-out range	70%				
IRA deduction limit (for each taxpayer)	5,500				
Phase-out	3,850				
Deduction [for each taxpayer] after phase-out	\$1,650				
Deduction [total on joint return for both spouses.]	\$3,300				
AGI before IRA Deduction - earned income above	\$112,000				
AGI	\$108,700				

19 B

20 A

21 A

Interest on acquisition debt	\$15,000	\$15,000
Interest on home equity debt	\$5,000	\$5,000
Credit card interest	\$1,000	\$0
Interest paid on margin loan	\$3,000	
Amount of net investment income	\$1,400	
Investment interest deduction		\$1,400
Total Deduction		\$21,400

22 C Joe: Stock is appreciated capital gain property limited to 30% of AGI.

Joe - Charity: Stock - L.T. Capital Gain Property		Facts	Return
Adjusted Gross Income		\$300,000	\$300,000
Land given to public charity	Joe's Cost	160,000	
	Value	200,000	
Amount of contribution		200,000	
Limit as % of AGI			30%
Limit - 30% using FMV			\$90,000
Other limit - 50% using cost (\$150,000 limit)			\$150,000

Problem asked for maximum deduction.

If taxpayer uses cost as the amount of gift, the deduction limit is 50% of AGI.

23 D

Jim	Info.
Adjusted gross income	\$100,000
Fair market value before the casualty	160,000
Fair market value after the casualty	0
Decline in value	160,000
Cost basis	150,000
Lesser of cost or decline in value	150,000
Insurance proceeds	100,000
Loss	50,000
10% of AGI	(10,000)
\$100 floor	(100)
Deduction	\$39,900

Note: this is a casualty loss of personal use property.

With a casualty loss of business or investment property, you would not deduct 10% of AGI or \$100.

24 B Misc. Itemized Deductions

25 D

Exemption Phase-out	Joint	2016
Adjusted gross income		\$400,000
Threshold		\$311,300
Amount above threshold		\$88,700
Layer amount (\$2,500 or \$1,250)		\$2,500
Number of layers		35.48
Number of Layers rounded up		36.0
Disallowed % (2% per layer)		72.00%
Exemption amount	\$4,050	
Number of exemptions	4	
Total exemptions before phase-out	\$16,200	
Exemption Deduction Disallowed		\$11,664
Exemption Deduction Allowed		\$4,536