**FEDERAL TAX - TEST No. 3. Chapters 8-10 Test No. \_\_\_\_\_\_\_**

**Spring, 2017. The University of North Carolina at Charlotte**

Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Row In Class\_\_\_\_\_\_\_\_\_\_

**Instructions**: This test is "open book," (you may use your textbook during the test, as well as your class notes). The test contains 25 multiple-choice questions. Some answers may be rounded to nearest dollar. Use 2016 tax rate schedules when computing federal individual income tax. 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.  **Last few pages have tax rates and other amounts.**

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

|  |  |
| --- | --- |
| 1. Use a soft-lead pencil  **In Spaces Above**  2. Enter name in appropriate space above. Write clearly.  3. Enter above the row number for your seat in class. | **On the Opscan Sheet:**  4. Enter name (last name first) in the area for “NAME.”  5. Enter test number (found in upper right hand corner of   this page) in the special codes area.  6. Blacken circle containing appropriate letter for each question. |

**Your signature is required here.  
I have read the instructions above and I have followed those instructions.  
Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

Roberta files her federal income tax returns as a head of household. She has $40,000   
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.** | $3,993.50 | **b.** | $3,337.25 | **c.** | $4,500 | **d.** | $3,837.50 | **e.** | Other |  |

A single taxpayer has AGI (and modified AGI) of $300,000,which   
includes a salary of $260,000 and long-term capital gains of $40,000.   
What is the Net Investment Income Tax liability, rounded to nearest dollar?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $1,920 | **b.** | $1,520 | **c.** | $2,280 | **d.** | $1,840 | **e.** | Other |  |

**Susan** is 15 years old and qualifies as a dependent on her parents' tax return.   
This year, she earned $800 from a part-time job and received $300 of dividend income.   
What is Susan’s federal taxable income?

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $50 | **b.** | $1,100 | **c.** | $800 | **d.** | $0 |  |  |

Carol is single (age 40) and has no dependent. She has regular taxable income of $119,000.   
She itemized her deductions, deducting $5,000 in charitable contributions and $3,000 in   
state income taxes. She claimed an exemption for herself.  
What is Carol's alternative minimum taxable income?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $118,000 | **b.** | $122,050 | **c.** | $118,700 | **d.** | $126,050 | **e.** | Other |  |

Ron is single and does not have a dependent.

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

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $32,125 | **b.** | $25,323 | **c.** | $33,825 | **d.** | $28,825 | **e.** | Other |  |

Ann and Bob are married and have two children ages 19 and 5. Their adjusted gross   
income for the current year is $41,000. What amount can they claim for the child tax credit?

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

Robert is a single parent with an 11-year-old daughter. Robert's AGI is $15,000.  
He pays $2,100 in qualified child-care expenses. Robert can claim a child-care credit of:

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

Sally's AGI is $190,000. Her current year federal income tax liability is $35,000.   
Last year, her AGI was $160,000, and her tax federal income tax liability was $28,000.   
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.** | $28,000 | **b.** | $30,800 | **c.** | $31,500 | **d.** | $34,300 |  |

Silver Company collects cash for revenue before that revenue is earned.   
Silver’s only income is from its business of renting office space to local businesses.   
The company uses the accrual basis (GAAP) in its accounting records and in its   
audited financial statements. When cash is collected, the company debits cash and   
credits unearned revenue. At the end of each accounting period, the company   
adjusts the books by moving the appropriate amount from the unearned revenue   
account to the earned revenue account. Silver Company is in the 40% tax bracket.   
Silver Company provided the following information for 2016.

|  |  |  |
| --- | --- | --- |
| Unearned Revenue | Balance-January 1, 2016 | $10,000 |
| Unearned Revenue | Balance-December 31, 2016 | $40,000 |
| Collection of Revenue | All of 2016 | $100,000 |

How much revenue is reported on the tax return for 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $100,000 | **b.** | $110,000 | **c.** | $130,000 | **d.** | $140,000 | **e.** | Other |  |

Orange Corporation provided the following trial balance at the   
end of its first year of operation. There is no state income tax.   
Assume the company is in the 40% federal income tax bracket.

|  |  |  |
| --- | --- | --- |
| Cash | 110,000 |  |
| Accounts receivable | 40,000 |  |
| Allowance for bad debts |  | 6,000 |
| Machine - Bought January 2, 2016 | 100,000 |  |
| Accumulated Depreciation-S.L.- 5 years |  | 20,000 |
| Common Stock |  | 174,000 |
| Retained Earnings |  |  |
| Repair revenue |  | 300,000 |
| Bad debt expense | 15,000 |  |
| Salaries, supplies, depreciation, etc. | 235,000 |  |
| Totals | 500,000 | 500,000 |

What is the amount of Orange Corporation’s taxable income for the year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $50,000 | **b.** | $53,000 | **c.** | $47,000 | **d.** | $56,000 | **e.** | Other |  |

The Peach Company sells phones which have a two-year warranty.   
There is no state income tax. The company is in the 40% federal income tax bracket.   
There is no book-tax difference other than the difference related to warranty expense.   
The company provided the following trial balance at the end of its first year of   
operation (December 31, 2016).

|  |  |  |  |
| --- | --- | --- | --- |
| Cash |  | 100,000 |  |
| Machine - Bought Jan. 2, 2016 | | 50,000 |  |
| Accumulated Depreciation-S.L.- 5 years | |  | 10,000 |
| Warranty Liability |  |  | 4,000 |
| Common Stock |  |  | 86,000 |
| Retained Earnings |  |  |  |
| Repair revenue |  |  | 200,000 |
| Warranty Expense |  | 20,000 |  |
| Salaries, supplies, depreciation, etc. | | 130,000 |  |
| Totals |  | 300,000 | 300,000 |

How much taxable income will the company report for 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $50,000 | **b.** | $54,000 | **c.** | $55,000 | **d.** | $70,000 | **e.** | Other |  |

**Continue preceding Question.** What is the balance in the deferred tax asset   
on December 31, 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $5,000 | **b.** | $3,000 | **c.** | $1,600 | **d.** | $2,000 | **e.** | Other |  |

Susan spent $2,000 on lunches to entertain her customers at the local country club.   
The club charges an annual membership fee of $800. Susan uses the facility 80 % of the   
time for business. Her employer does not reimburse her for any of these expenses.   
What is her deductible expense?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $500 | **b.** | $1,000 | **c.** | $1,640 | **d.** | $2,000 | **e.** | $800 |  |

Atlanta Corporation's book income, before federal income   
tax, was $100,000 for the current year. Included in this $100,000 were the following:

|  |  |
| --- | --- |
| Provision for state income tax | $1,000 |
| Interest earned on City of Charlotte Bonds | 6,000 |
| Interest expense on bank loan to purchase City of Charlotte Bonds | 4,000 |

Charlotte's taxable income for the year was:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 96,000 | **b.** | $ 97,000 | **c.** | $ 100,000 | **d.** | $ 98,000 |  |  |

Jim's **business building was totally destroyed by fire.** The property had an   
adjusted basis of $150,000 and a FMV of $200,000 before the fire. Jim received   
insurance reimbursement of $130,000 for the loss. Jim's adjusted gross income   
was $70,000, before considering this loss. Jim had no casualty gains during the year.   
What amount of the **fire loss** will Jim claim as a casualty loss deduction on his tax return?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 32,900 | **b.** | $ 70,000 |  | **c.** | $ 48,600 | **d.** | $10,000 | **e.** | $20,000 |  |

Erin is considering switching her business from the cash method to the accrual method   
at the beginning of 2016. At the end of 2015 (beginning of 2016), Erin’s will have $29,000   
of accounts receivable and $5,000 of accounts payable that have not been recorded for   
tax purposes. Assume the IRS grants Erin’s request to change her accounting method.   
What is the amount of Erin’s §481 adjustment on her 2016 income tax return?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $0 | **b.** | $25,000 | **c.** | $5,000 | **d.** | $6,000 | **e.** | Other |  |

Taxpayer bought a business building and land in a single transaction.

|  |  |
| --- | --- |
| Total Cost for both assets | $1,200,000 |
| Value of building for property tax | 700,000 |
| Value of land for property tax | 300,000 |

What is the basis of the building?

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 1,200,000 | **b.** | $ 840,000 | **c.** | $900,000 | **d.** | $960,000 |

Nonresidential commercial realty placed in service on March 2, of current year, is depreciated over:

|  |  |  |
| --- | --- | --- |
| **a.** | 27.5 years, 200%-declining-balance method, mid-year convention. |  |
| **b.** | 27.5 years, straight-line method, mid-month convention. |
| **c.** | 31.5 years, 200%-declining-balance method, mid-year convention |
| **d.** | 39 years, straight-line method, mid-month convention. |
| **e.** | 40 years, straight-line method, mid-month convention. |

Mr. Diamond founded Repair Corporation and served as the CEO until he retired this year.  
Janet bought all of Mr. Diamond's stock in the Company on April 1 of current year for $900,000.   
Janet also paid Mr. Diamond $30,000 cash not to compete or interfere with Janet's business   
activities over the next 3 years.   
How much cost recovery can Janet claim in the current year for the covenant not to compete?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $500 | **b.** | $80,000 | **c.** | $1,500 | **d.** | $1,000 | **e.** | $30,000 |  |

What is the MACRS recovery period for office furniture?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | 3 years. | **b.** | 5 years. | **c.** | 6 years. | **d.** | 7 years | **e.** | 10 years |  |

Hornet Corporation purchased a machine on July 22 at a cost of $200,000, which has a   
recovery period of 7 years. The company will **NOT** claim: (1) bonus depreciation or   
(2) expensing under section 179.   
What is Hornet’s cost recovery deduction for the current year?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $22,879 | **b.** | $25,714 | **c.** | $28,459 | **d.** | $25,740 | **e.** | $28,580 |  |

On 1-1-2016, Piano Corp. was organized. On that date, Piano paid $41,000 for   
organization costs for the corporation. What amount of this cost is deducted for 2016?

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $6,000 | b. | $7,400 |  | c. | $6,200 | d. | $5,600 | e. | Other |  |

AssumeBobCat Company purchased a machine at a cost of $80,000 on December 22, 2016.   
This was the only asset acquisition in the year. The machine is 7-year property.  
What is BobCat’s cost recovery deduction?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | $ 21,420 | **b.** | $33,000 | **c.** | $25,000 | **d.** | $15,000 | **e.** | Other |  |

Sharp Corporation bought Section 179 property costing $2,470,000 for   
and immediately began to use it. What is Sharp's maximum Section 179 deduction for 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $30,000 | b. | $500,000 | c. | $37,500 | d. | $40,000 | e. | Other |  |

Tar Heel bought an office building on **March 27, 2016**, at a cost of $2,000,000   
(exclusive of the cost allocated to land). The company uses the building for its headquarters.   
What is Tar Heel's cost recovery deduction on the building in **2016**?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $51,510 | b. | $63,630 | c. | $40,660 | d. | $69,690 | e. | $72,720 |  |



