

Student name _____

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SAMPLE EXAMINATION I**I. Multiple Choice Questions (Please choose the Best answer for each question. 10 points each, 350 points total):**

- 1) If a taxpayer's total tax liability is \$4,000, taxable income is \$20,000 and total economic income is \$40,000, then the effective tax rate is 20 percent.
A) True
B) False
- 2) Limited liability company members (owners) are responsible for the liabilities of their limited liability company.
A) True
B) False
- 3) Denzel earns \$120,000 this year through his job as a sales manager. What is his FICA tax?
A) \$7,459.
B) \$7,803.
C) \$8,362.
D) \$9,180.
- 4) A married taxpayer filing a separate tax return may claim an exemption for the taxpayer's spouse when the spouse has no gross income and is not claimed as a dependent by another.
A) True
B) False
- 5) Tax returns from individual and corporate taxpayers are due on the 15th day of the third month following the close of the tax year.
A) True
B) False
- 6) Ben, age 67, and Karla, age 58, have two children who live with them and for whom they provide total support. Their daughter is 21 years old, blind, is not a full-time student and has no income. Her twin brother is 21 years old, has good sight, is a full-time student and has income of \$3,600. Ben and Karla can claim how many personal and dependency exemptions on their tax return?
A) 2
B) 3
C) 4
D) 5
- 7) In 2009 Brett and Lashana (both 50 years old) file a joint tax return claiming as a dependent their son who is blind. Their standard deduction is
A) \$11,400.
B) \$12,500.
C) \$12,800.
D) None of the above.
- 8) Tom and Alice were married on December 31 of last year. What is their filing status for last

year?

- A) They file as single.
- B) They file as married joint or married separate.
- C) They file as single for half the year and married for the other half.
- D) They file as single for 364 days and married for one day.

9) The portion of a taxpayer's wages that are garnished by court order and forwarded to pay a delinquent bank loan are not taxable income to the taxpayer.

- A) True
- B) False

10) The recipient of a taxable stock dividend includes the value of the stock received in gross income and that amount becomes the basis for the stock received.

- A) True
- B) False

11) Gregory receives 100 shares of stock from his employer as a year-end bonus. The fair market value of the stock is included in Gregory's income for the year.

- A) True
- B) False

12) One of the requirements that must be met in order to defer recognition of income for advance payments for goods is:

- A) the taxpayer's method of accounting for the sale for tax purposes is the same as the method used for financial reporting purposes.
- B) the goods are on the taxpayer's premises on the last day of the tax year.
- C) the goods are produced in the United States.
- D) the amount received is more than the taxpayer's cost of the goods.

13) Which of the following is least likely to result in a constructive dividend?

- A) an unreasonable salary paid to a shareholder
- B) a sale of a corporation's asset to a shareholder at fair market value
- C) a payment by a corporation of a shareholder's debts
- D) a payment by a corporation of a shareholder's personal expenses

14) Dividends on life insurance policies are generally excludable income because they are considered a return of premium.

- A) True
- B) False

15) As a result of a divorce, Michael pays Judy \$75,000 in year one and \$25,000 per year in subsequent years. How much of the \$75,000 in year one is properly characterized as alimony, and will not be recaptured later?

- A) \$25,000
- B) \$35,000
- C) \$40,000
- D) \$75,000

16) During 2009, Marla's employer withheld \$2,000 from her wages for state income tax. Marla claimed the \$2,000 as an itemized deduction on her 2009 federal income tax return. Her total itemized deductions for 2009 were \$6,000. Marla's taxable income for 2009 was a negative \$20,000. Marla received the \$2,000 as a refund from the state during 2010. What amount must Marla include in income in 2010?

- A) \$0
- B) \$1,000
- C) \$2,000
- D) \$6,000

17) Martha, who has been employed by the Smythe Corporation for ten years, receives a \$400 watch as a length of service award in a meaningful presentation. The fair value of the watch is taxable.

- A) True
- B) False

18) Carter is the beneficiary of a \$100,000 policy on the life of his mother. Carter sells the policy to his brother, Parker, for \$30,000. Parker subsequently pays premiums of \$15,000. Upon his mother's death, how much of the insurance proceeds must Parker include in income?

- A) \$0
- B) \$45,000
- C) \$55,000
- D) \$100,000

19) Nelda suffered a serious stroke and was admitted to a nursing home for 140 days. Nursing home charges, including physician fees and other related expenses were \$35,000. Under Nelda's long-term care insurance contract, she received reimbursements of \$38,000. How much of the \$38,000 reimbursement must be included in Nelda's gross income in 2009?

- A) \$0
- B) \$1,200
- C) \$2,000
- D) \$3,000

20) Tim earns a salary of \$40,000. This year, Tim's employer establishes a cafeteria plan under which Tim signed a salary reduction of \$2,500 for which \$1,500 is to cover his health insurance premiums and \$1,000 is available to reimburse medical expenses. During the year, he is reimbursed \$900 for medical expenses. What is the total taxable to Tim this year?

- A) \$37,500
- B) \$37,600
- C) \$38,400
- D) \$40,000

21) An expense is considered necessary if it is "appropriate and helpful" in the taxpayer's business.

- A) True
- B) False

22) A wash sale occurs when a taxpayer realizes a loss on the sale of stock or securities and the taxpayer acquires substantially identical stock or securities within a 61 day period after the date of sale.

- A) True
- B) False

23) Expenses are deductible only if connected to trade or business or property held for the production of income.

- A) True
- B) False

24) Liz, who is single, lives in a single family home and owns a second single family home that she rented for the entire year at a fair rental rate. Liz had the following items of income and expense during the current year.

Income:

| | |
|---|----------|
| Gross salary and commissions from Ace Corporation | \$50,000 |
| Rent received from tenant in Liz's rental house | 10,000 |
| Dividends received on her portfolio of stocks | 5,000 |

Expenses:

| | |
|---|-------|
| Unreimbursed professional dues | 200 |
| Subscriptions to newsletters recommending stocks | 900 |
| Taxes, interest and repair expenses on rental house | 3,500 |
| Depreciation expense on rental house | 2,300 |

What is her adjusted gross income for the year?

- A) \$50,750
- B) \$58,100
- C) \$59,200
- D) \$65,000

25) American Healthcare (AH), an insurance company, is trying to persuade Congress to enact nationwide anti-smoking legislation. As part of this effort, AH paid \$500,000 to hire a lobbying firm to discuss its concerns with members of Congress. AH also contributed \$100,000 to candidates for political office who support limiting public smoking. What amount of these expenditures can AH deduct?

- A) \$0
- B) \$100,000
- C) \$500,000
- D) \$600,000

26) Sheila sells stock, which has a basis of \$12,000, to her daughter for \$7,000, the stock's fair market value. Subsequently, the daughter sells the stock to an unrelated party for \$5,000. Which of the following is true for the Sheila and the Daughter?

| <u>Sheila</u> | <u>Daughter</u> |
|-------------------------------|----------------------------|
| A) recognizes no loss | recognizes loss of \$2,000 |
| B) recognizes no loss | recognizes loss of \$5,000 |
| C) recognizes loss of \$3,000 | recognizes loss of \$5,000 |
| D) recognizes loss of \$3,000 | recognizes loss of \$2,000 |

27) Mackensie owns a condominium in the Great Smokey Mountains. During the year, Mackensie uses the condo a total of 27 days. The condo is also rented to tourists for a total of 73 days and generates rental income of \$8,900. Mackensie incurs the following expenses in the condo:

| Expense | Amount |
|-------------------|---------------|
| Mortgage interest | \$ 3,000 |
| Property taxes | 1,500 |
| Utilities | 2,500 |
| Insurance | 1,800 |
| Depreciation | 11,000 |

Using the Court method of allocating expenses, the amount of depreciation that Mackensie may take with respect to the rental property will be

- A) \$2,476.
- B) \$4,861.

- C) \$7,300.
- D) \$10,000

28) Expenditures for long-term insurance premiums qualify as a medical expense deduction subject to an annual limit based upon the age of an individual.

- A) True
- B) False

29) Interest expense incurred in the taxpayer's trade or business is deductible as a *for* AGI deduction without limitation if the taxpayer materially participates in the business.

- A) True
- B) False

30) All of the following are deductible as medical expenses except

- A) vitamins and health foods that improve a taxpayer's general health.
- B) payments to Christian Science practitioners for treatment of a specific medical condition.
- C) payments to a hospital for laboratory fees and X-rays for diagnosis of a medical problem.
- D) cosmetic surgery necessary to correct a deformity arising from a congenital abnormality.

31) On September 1, of the current year, Samuel, a cash-basis taxpayer, sells his farm to Edward, also a cash-basis taxpayer for \$100,000. Samuel's basis in the farm is \$65,000. The real property tax year is the calendar year. Real estate taxes on the property for the year are \$3,650 and are payable on April 1 of the following year. The sales agreement does not provide for apportionment of real estate taxes between the buyer and seller. Assume Samuel pays all of the real estate taxes prior to the sale. The effects of this sales structure will be:

| | Taxes allocated to Samuel | Taxes allocated to Edward | Effect on Samuel's Gain |
|----|----------------------------------|----------------------------------|--------------------------------|
| A) | \$1,220 | \$2,430 | increase gain by \$1,220 |
| B) | \$2,430 | \$1,220 | increase gain by \$2,430 |
| C) | \$2,430 | \$1,220 | decrease gain by \$2,430 |
| D) | \$1,220 | \$2,430 | decrease gain by \$1,220 |

32) Carlos purchased a machine for use in his trade or business several years ago for \$25,000. During the current year, Carlos donates the machine to the local community college. At the time of the contribution, the machine's adjusted basis is \$10,000 and its FMV is \$15,000. Carlos's AGI for the year is \$28,000. What is the amount of his charitable contribution deduction?

- A) \$10,000
- B) \$14,000
- C) \$15,000
- D) \$25,000

33) Alvin gave his daughter Martha section 1244 stock which he had purchased from the corporation. Martha's basis in the stock was \$15,000. If she subsequently sells the stock for \$10,000, the \$5,000 loss is ordinary.

- A) True
- B) False

34) Shirley, who is married and files a joint return, is sole shareholder of ABC Corporation. She sold all of her stock in the corporation for \$100,000. Shirley had organized the corporation in 2002 by contributing \$225,000 and receiving all of the capital stock of the corporation. ABC Corporation is a domestic corporation engaged in the manufacturing of ski parkas. The stock in ABC Corporation qualified as Sec. 1244 stock. The sale results in a (n)

- A) ordinary loss of \$125,000.
- B) long-term capital loss of \$125,000.

- C) long-term capital loss of \$100,000 and ordinary loss of \$25,000.
- D) ordinary loss of \$100,000 and long-term capital loss of \$25,000.

35) Leonard owns a hotel which was damaged by a hurricane. The hotel had an adjusted basis of \$1,000,000 before the hurricane. A recent appraisal determined that the hotel's FMV was \$1,500,000 before the hurricane and \$700,000 afterwards. Leonard received insurance proceeds of \$500,000. His AGI is \$60,000. What is the amount of his deductible casualty loss?

- A) \$293,900
- B) \$300,000
- C) \$793,900
- D) \$800,000

II. Problem Solving Question (50 points):

- 1) On April 1, 2009, Martha, age 67, begins receiving payments of \$3,000 monthly from her employer's qualified retirement plan. She had contributed \$90,000 to the plan. The anticipated number of payments is 210.
 - a. How much of the payments are taxable in 2009?
 - b. In 2029, Martha, age 87, continues to receive retirement payments. How much of the payments are taxable in 2029?
 - c. Assume that Martha dies on December 20, 2011. She had received all twelve of her 2011 payments. What are the tax consequences on her 2011 tax return?