Income Tax Fundamentals 2025 43rd edition Whittenburg Test Bank

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Name:_____ Class:_____ Date:_____

Ch 01: The Individual Income Tax Return

True / False

1. The U.S. federal tax law's sole purpose is to raise revenue.
   a. True
   b. False

ANSWER: False

2. A corporation is a reporting entity but *not* a tax-paying entity.
   a. True
   b. False

ANSWER: False

3. Partnership capital gains and losses are allocated separately to each of the partners.
   a. True
   b. False

ANSWER: True

4. Married taxpayers may double their standard deduction amount by filing separate returns.
   a. True
   b. False

ANSWER: False

5. An item is included in gross income unless the tax law specifies that the item is subject to exclusion.
   a. True
   b. False

ANSWER: True

6. For taxpayers who do *not* itemize deductions, the standard deduction amount is subtracted from the taxpayer's adjusted gross income.
   a. True
   b. False

ANSWER: True

7. A taxpayer with self-employment income of $600 must file a tax return.
   a. True
   b. False

ANSWER: True

8. A dependent child with earned income in excess of the available standard deduction amount must file a tax return.
   a. True
   b. False

ANSWER: True

9. A single taxpayer, who is *not* a dependent on another's return, *not* blind, and under age 65, with income of $11,800 must file a tax return.

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a. True
b. False

ANSWER: False

10. If a taxpayer is due a refund, it will be mailed to the taxpayer regardless of whether a tax return is filed.
a. True
b. False

ANSWER: False

11. Taxpayers with self-employment income of $400 or more must file a tax return.
a. True
b. False

ANSWER: True

12. If your spouse dies during the tax year and you do *not* remarry, you must file as single for the year of death.
a. True
b. False

ANSWER: False

13. Taxpayers who do *not* qualify for married, head of household, or surviving spouse filing status must file as single.
a. True
b. False

ANSWER: True

14. If an unmarried taxpayer paid more than half the cost of keeping a home which is the principal place of residence of a nephew who is *not* their dependent, they may use the head of household filing status.
a. True
b. False

ANSWER: False

15. The maximum official individual income tax rate for 2024 is 39.6%, *not* including the Medicare surtax on net investment income.
a. True
b. False

ANSWER: False

16. All taxpayers may use the tax rate schedule to determine their tax liability.
a. True
b. False

ANSWER: False

17. The head of household tax rates are higher than the rates for a single taxpayer.
a. True
b. False

ANSWER: False

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18. Most states are community property states.
    a. True
    b. False

ANSWER: False

19. If taxpayers are married and living together at the end of the year, they must file a joint tax return.
    a. True
    b. False

ANSWER: False

20. A taxpayer who maintains a household with an unmarried child may qualify to file as head of household even if the child is *not* the taxpayer's dependent.
    a. True
    b. False

ANSWER: False

21. A married person with a dependent child may choose to file as head of household if it reduces the taxpayer's tax liability.
    a. True
    b. False

ANSWER: False

22. Taxpayers who live alone, are legally separated from their spouses under a separate maintenance decree at year-end, and have no dependents should file as single.
    a. True
    b. False

ANSWER: True

23. Malik, age 22, is enrolled in college on a full-time basis. His parents provide all of his support. Malik may be claimed as a dependent by his parents.
    a. True
    b. False

ANSWER: True

24. A dependent who dies during the tax year may still qualify as a dependent.
    a. True
    b. False

ANSWER: True

25. For 2024, the deductions for personal and dependency exemptions are $4,300 each.
    a. True
    b. False

ANSWER: False

26. Scholarships received by a student may be excluded for purposes of the support test for determining the availability of

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the dependency exemption.

a. True

b. False

ANSWER: True

27. The two types of dependents are qualifying child or qualifying relative.

a. True

b. False

ANSWER: True

28. An 18-year-old full-time student who is claimed on the parents' tax return as a dependent is eligible for the child tax credit.

a. True

b. False

ANSWER: False

29. Most taxpayers may deduct the standard deduction amount or the amount of their itemized deductions, whichever is higher.

a. True

b. False

ANSWER: True

30. An individual taxpayer with a net capital loss may deduct up to $3,000 per year against ordinary income.

a. True

b. False

ANSWER: True

31. Taxpayers can download tax forms from the IRS website.

a. True

b. False

ANSWER: True

Multiple Choice

32. Which of the following is a goal of the tax law?

a. Encouraging certain social goals such as contributions to charity

b. Supporting certain economic goals such as increasing employment

c. Encouraging smaller families

d. Promoting goodwill with other countries

ANSWER: a

33. Which of the following provisions was passed by Congress to meet a social goal of the tax law?

a. Deduction for job hunting expenses

b. Child and dependent care credit

c. Moving expense deduction for adjusted gross income

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d. Deduction for soil and water conservation costs available to farmers

ANSWER: b

34. Which of the following is an economic goal of the tax law?
a. Ensuring that all persons pay the same amount of tax
b. Reducing unemployment
c. Lowering the cost of adoption
d. Encouraging charitable contributions

ANSWER: b

35. In 2024, Wesley, age 45, has a fairly simple tax situation with moderate wage income and a modest amount of interest income. Wesley wishes to use the easiest possible tax form. He may file which of the following?
a. Form 1040-EZ
b. Form 1040-SR
c. Form 1040
d. Form 1065

ANSWER: c

36. Which of the following forms may be filed by individual taxpayers?
a. Form 1040
b. Form 1041
c. Form 1065
d. Form 1120

ANSWER: a

37. Which of the following is *true* of partnerships?
a. They are not taxable entities.
b. They are taxed in the same manner as individuals.
c. They file tax returns on Form 1120.
d. They file tax returns on Form 1041.

ANSWER: a

38. Which of the following is *true* regarding reporting and taxable entities?
a. An individual is a reporting entity but not a taxable entity.
b. A partnership is a taxable entity and a reporting entity.
c. A corporation is a reporting entity but not a taxable entity.
d. A partnership is a reporting entity but not a taxable entity.

ANSWER: d

39. In 2024, Schedule 1 of Form 1040 is used to report what?
a. Income from wages
b. Capital gains and losses
c. Withholding on wages
d. Unemployment compensation

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ANSWER: d

40. Partnership income is reported on _____.
    a. Form 1040PTR
    b. Form 1120S
    c. Form 1040X
    d. Form 1065

ANSWER: d

41. What is reported on Schedule 2?
    a. Additional income
    b. Adjustments to income
    c. Additional taxes
    d. Itemized deductions

ANSWER: c

42. Which of the following is used to report capital gains and losses?
    a. Schedule A
    b. Schedule B
    c. Schedule C
    d. Schedule D

ANSWER: d

43. An individual is a head of household. What is this individual's 2024 standard deduction?
    a. $14,600
    b. $29,200
    c. $21,900
    d. $1,950

ANSWER: c

44. Chad and Vivian are married. For 2024, Chad earned $25,000 and Vivian earned $30,000. They have decided to file separate returns. They have no deductions for adjusted gross income. Chad's itemized deductions are $14,800 and Vivian's are $4,000. Assuming Chad and Vivian do not live in a community property state and Chad deducts the greater of the standard deduction or itemized deductions, what is Chad's taxable income?
    a. $10,200
    b. $6,200
    c. $10,400
    d. $21,000

ANSWER: a

45. Kelly and Morgan have no dependents and file a joint income tax return for 2024. They have adjusted gross income (all wages) of $140,000 and itemized deductions of $30,000. What is the amount of taxable income that Kelly and Morgan must report on their 2024 income tax return?
    a. $110,800
    b. $118,100

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c. $140,000
d. $110,000

ANSWER: d

46. Which of the following taxpayers is exempt from having to file a tax return for 2024?
a. A single taxpayer who is under age 65, with income of $14,900
b. Married taxpayers (ages 45 and 50 years), filing jointly, with income of $29,800
c. A 22-year-old student with unearned income of $2,500 who is claimed as a dependent by her parents
d. A 67-year-old surviving spouse with a dependent child and income of $18,900

ANSWER: d

47. In which of the following situations is the taxpayer excluded from having to file a 2024 income tax return?
a. When an individual has a current year income tax refund and would like to obtain it
b. When the taxpayer is a single 67-year-old with wages of $9,800
c. When the taxpayer is a 35-year-old head of household with wages of $21,990
d. When the taxpayer is a 69-year-old surviving spouse (spouse died 3 years ago) with wages of $17,500 and no dependents

ANSWER: b

48. Which of the following factors are important in determining whether an individual is required to file an income tax return?
a. The taxpayer's filing status and gross income
b. The taxpayer's gross income and total itemized deductions
c. The taxpayer's total itemized deductions and filing status
d. The taxpayer's total itemized deductions and number of dependents

ANSWER: a

49. Elliot and Karmen are married. For 2024, Elliot earned $35,000 and Karmen earned $40,000. They have decided to file separate returns. They have no deductions for adjusted gross income. Karmen's itemized deductions are $15,600, so she is going to itemize. Elliot's itemized deductions are $4,750. Assuming Elliot and Karmen do *not* live in a community property state, what is Elliot's taxable income?
a. $20,400
b. $15,600
c. $30,250
d. $24,400

ANSWER: c

50. Juan, 45 years old and unmarried, contributed $1,000 monthly in 2024 to the support of his parents' household. The parents lived alone, and their income for 2024 consisted of $500 from dividends and interest. What is Juan's filing status, and how many dependents should he claim on his 2024 tax return?
a. Single and no dependents
b. Head of household and no dependents
c. Single and two dependents
d. Head of household and two dependents

ANSWER: d

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51. During 2024, Manfred, who is 60 years old and unmarried, provided all of the support of his elderly mother. His mother was a resident of a home for the aged for the entire year and had no income. What is Manfred's filing status for 2024, and how many dependents should he report on his tax return?

a. Head of household and one dependent
b. Single and two dependents
c. Head of household and two dependents
d. Single and one dependent

ANSWER: a

52. Kofi is a 25-year-old full-time student at a state university. Kofi lives with his unmarried sister, Abbey, who provides over half of his support. His only income is $5,900 of wages from a part-time job at the college bookstore. What is Abbey's filing status for 2024?

a. Single
b. Head of household
c. Married filing separately
d. Surviving spouse

ANSWER: a

53. Roberto is a single taxpayer who has AGI of $145,000 in 2024; his taxable income is $122,000. What is his federal tax liability for 2024?

a. $21,475
b. $17,168.50
c. $29,280
d. $22,322.50

ANSWER: d

54. Dalton is a divorced taxpayer who provides a home for their dependent child, Edward. What filing status should Dalton indicate on their tax return?

a. Head of household
b. Married filing separately
c. Single
d. Surviving spouse

ANSWER: a

55. Iris, widowed in 2024, pays all costs related to the home in which she and her unmarried child live. Her child does not qualify as her dependent. What is her filing status for 2024?

a. Single
b. Married filing separately
c. Head of household
d. Surviving spouse

ANSWER: a

56. Alec, whose wife died in 2022, filed a joint tax return for 2022. He did *not* remarry and continues to maintain his home in which his four dependent children live. In the preparation of his tax return for 2024, Alec should file as _____.

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a. single
b. surviving spouse
c. head of household
d. married filing separately

ANSWER: b

57. During 2024, Howard maintained his home in which he and his 16-year-old son resided. The son qualifies as his dependent. Howard's wife died in 2024. What is his filing status for 2024?
a. Single
b. Head of household
c. Married filing separately
d. Surviving spouse

ANSWER: d

58. An unmarried taxpayer who maintains a household for a dependent child and whose spouse died 4 years ago should file as _____.
a. single
b. head of household
c. surviving spouse
d. married filing separately

ANSWER: b

59. During the current tax year, Anita was entirely supported by her four children, Dudley, Mel, Carlton, and Isidore, who provided support for her in the following percentages:

Dudley	9%
Mel	15%
Carlton	25%
Isidore	51%

Which of the children may be allowed to claim Anita as a dependent, assuming a multiple support agreement exists?
a. Only Isidore
b. Carlton or Isidore
c. Mel, Carlton, or Isidore
d. Dudley, Carlton, Mel, or Isidore

ANSWER: c

60. Sheldon is 92 years old and in poor health. Clever investing earlier in his life has left him with a sizeable income. He therefore is able to support his son Paul. Paul is 67 years old and lives in a nursing home. Paul's income is less than $2,000. How many dependents should Sheldon claim on his tax return?
a. 0
b. 1
c. 2
d. 3

ANSWER: b

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61. Which of the following is a *true* statement with respect to the gross income test for claiming a qualifying relative as a dependent?

a. The relative must receive less than $5,050 of gross income in order to qualify.
b. The gross income test does not have to be met provided the relative is under age 19 at the end of the tax year.
c. The gross income test does not have to be met provided the relative is under age 24 at the end of the tax year.
d. The gross income test does not have to be met provided the relative is a student.

ANSWER: a

62. Albert and Avery, ages 66 and 64, respectively, filed a joint return for 2024. They provided all of the support for their 19-year-old son, who is blind and had no gross income. They also provided the total support of Avery's father, who is a citizen and life-long resident of Peru. What is the amount of credit for other dependents that Albert and Avery can claim?

a. $0
b. $500
c. $1,000
d. $2,000

ANSWER: b

63. Which of the following relationships disqualifies an individual for dependency according to the relationship test?

a. Sister
b. Adopted child
c. Aunt
d. Cousin

ANSWER: d

64. Which of the following is a test that must be met for a child to be considered a dependent but does *not* apply to other qualifying relatives?

a. Joint return test
b. Domicile test
c. Citizenship test
d. Relationship test

ANSWER: b

65. Mr. and Mrs. Vonce, both age 62, file a joint return for 2024. They provided all the support for their daughter, who is 19 years old, is legally blind, and earns no income. Their 21-year-old son, a full-time student at a university, had $5,800 of income and provided 70% of his own support during 2024. What is the other dependent credit Mr. and Mrs. Vonce may claim on their 2024 tax return?

a. $0
b. $500
c. $1,000
d. $2,000

ANSWER: b

66. Taxpayers who are blind get the benefit of _____.

a. an extra exemption
b. an additional amount added to their standard deduction

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c. two standard deductions
d. an expedited refund

ANSWER: b

67. Malay, a 50-year-old single taxpayer, paid the full cost of maintaining his dependent mother in a home for the aged for the entire year. What is the amount of Malay's standard deduction for 2024?
a. $14,600
b. $21,900
c. $23,850
d. $29,200

ANSWER: b

68. Jada is a 16-year-old child who is claimed as a dependent by her parents. Jada's only income is $1,400 interest from her bank savings account. What is the amount of Jada's standard deduction for 2024?
a. $1,400
b. $1,300
c. $1,950
d. $14,600

ANSWER: b

69. Your standard deduction will be $14,600 in 2024 if you are which of the following?
a. Single and 67 years old
b. Single and 45 years old
c. Single, 27 years old, and blind
d. Head of household

ANSWER: b

70. Sofia is 60 years old, single, and legally blind. Sofia supports her father, who is 88 years old and blind, by paying the rent and other costs of her father’s residence. What is the total standard deduction amount that Sofia should claim on her 2024 tax return?
a. $21,900
b. $29,200
c. $23,850
d. $16,550

ANSWER: c

71. Lee purchased Elm Corporation stock 20 years ago for $10,000. In the current year, they sell the stock for $29,000. What is Lee's gain or loss?
a. $19,000 long-term
b. $19,000 short-term
c. $19,000 ordinary
d. $3,000, with the excess carried forward

ANSWER: a

72. Alexis has a long-term capital loss of $13,000 on the sale of stock in the current year. She has no other capital gains or

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losses for the year. Her taxable income without this transaction is $60,000. What is her current year taxable income considering this capital loss?

a. $47,000
b. $54,000
c. $57,000
d. $70,000

ANSWER: c

73. Which of these assets is considered an exception as it relates to capital gains and losses?

a. Inventory
b. Stocks
c. A personal automobile
d. Gold

ANSWER: a

74. Bob owns a rental property that he bought several years ago for $250,000. He has taken depreciation on the house of $35,000 since buying it. He sells it in 2024 for $290,000. His selling expenses are $12,000 for the year. What is Bob's realized gain on the sale?

a. $28,000
b. $53,000
c. $63,000
d. $75,000

ANSWER: c

75. Which of the following is *true* regarding the IRS?

a. The IRS requires official tax forms to be obtained at the local IRS office.
b. The IRS links to the ProConnect Tax website.
c. The IRS provides information on how to choose a stock.
d. The IRS offers an app for mobile phone users.

ANSWER: d

76. Internet users can go to www.irs.gov to do which of the following?

a. Download tax forms and publications
b. Get a list of approved tax preparers
c. Find links to Intuit's tax preparation products
d. Read reviews of tax preparation software

ANSWER: a

77. Which of the following is *true* of electronic filing (e-filing)?

a. It reduces the error rate for tax returns.
b. It generally results in a slower refund.
c. It can be done only by telephone.
d. It requires the services of a professional.

ANSWER: a

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78. Electronically filed tax returns _____.
    a. may not be transmitted from a taxpayer's home computer
    b. constitute less than 50% of the returns filed with the IRS
    c. have error rates similar to paper returns
    d. offer faster refunds than paper returns

ANSWER: d

79. When was the Sixteenth Amendment to the U.S. Constitution ratified?
    a. 1861
    b. 1894
    c. 1913
    d. 1935

ANSWER: c

80. Which of the following is an example of a tax provision designed to meet social goals?
    a. Bonus depreciation provisions
    b. Earned income credit
    c. Research and experimentation tax credit
    d. Limited allowance for expensing capital expenditures

ANSWER: b

81. What is one reason the U.S. tax system has become increasingly complex?
    a. Lack of technology to simplify calculations
    b. Increased use of the tax system to promote economic and social policies
    c. Decrease in the number of tax brackets
    d. Elimination of deductions and credits

ANSWER: b

82. What was a significant outcome of the adoption of the Sixteenth Amendment?
    a. It eliminated all state taxes.
    b. It made the income tax constitutional.
    c. It introduced the concept of tax credits.
    d. It established the Internal Revenue Service.

ANSWER: b

83. What is the primary purpose of the IRS YouTube channel?
    a. To provide entertainment content
    b. To offer tax preparation services
    c. To share educational videos on tax-related topics
    d. To sell IRS merchandise

ANSWER: c

84. Which of the following can be accessed through an online account on the IRS website?
    a. Real-time tax return processing status

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b. Personal tax records
c. Free tax preparation software
d. Live chat with IRS agents

ANSWER: b

85. Which social media platform does the IRS use for news feeds?
a. Instagram
b. X (formerly Twitter)
c. Facebook
d. Pinterest

ANSWER: b

86. To what type of information does Tax Notes provide free access?
a. Only tax court cases
b. Only IRS regulations
c. Only tax law articles
d. A comprehensive library of federal tax research information

ANSWER: d

87. What percentage of individual taxpayers currently use e-filing?
a. Less than 50%
b. About 75%
c. More than 90%
d. 100%

ANSWER: c

88. What form must an Electronic Return Originator obtain before creating a PIN for a taxpayer?
a. Form 1040
b. Form W-2
c. Form 8878 or 8879
d. Form 1099

ANSWER: c

89. How long must an Electronic Return Originator (ERO) keep Form 8878 or 8879?
a. 1 year
b. 2 years
c. 3 years
d. 5 years

ANSWER: c

90. What is the main difference between the free fillable forms and the free tax preparation software offered by the IRS?
a. Fillable forms are only for businesses.
b. Tax preparation software is only for high-income individuals.
c. Fillable forms perform calculations but don't provide guidance.

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d. Tax preparation software can only be used by tax professionals.

ANSWER: c

Subjective Short Answer

91. List at least two general objectives of the tax code.

ANSWER: The tax code promotes social goals, economic goals, and the raising of revenue.

92. Indicate with a "Yes" or a "No" whether each of the following is an objective of the tax code.
a. To provide a car to each American.
b. To promote charitable contributions.
c. To encourage taxpayers to send their children to college.
d. To raise money to operate the government.
e. To promote investment in solar energy.

ANSWER: a. No
b. Yes
c. Yes
d. Yes
e. Yes

93. Mark each of the following as a taxable entity, a reporting entity, or both.
a. Individuals
b. Corporations
c. Partnerships

ANSWER: a. Both
b. Both
c. Reporting entity

94. Determine if a form is used for an individual, a corporation, or a partnership tax return.
a. Form 1065
b. Schedule A, Itemized Deductions
c. Form 1040
d. Form 1120
e. Schedule B, Interest and Dividends

ANSWER: a. Partnership
b. Individual
c. Individual
d. Corporation
e. Individual

95. Barry is a 45-year-old single taxpayer. In 2024, he has gross income of $37,000 and itemized deductions of $6,500. If Barry claims no dependents on his 2024 income tax return, calculate the following amounts:

a. His personal exemption amount
b. Barry's taxable income

ANSWER: a. **$0.** There are no personal exemptions in 2024.
b. **$22,400.** ($37,000 − $14,600 standard deduction)

96. What is the formula for computing taxable income?

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ANSWER:

Gross Income
− Deductions for Adjusted Gross Income
= Adjusted Gross Income
− Greater of Itemized Deductions or Standard Deduction
− Qualified Business Income Deduction
= Taxable income

97. Marin is a 33-year-old unmarried taxpayer with adjusted gross income for 2024 of $49,400. Marin maintains a home for three dependent children and has itemized deductions of $5,000. Calculate the following amounts for Marin's 2024 income tax return:

a. Marin's standard or itemized deduction amount
b. Marin's taxable income

ANSWER: a. **$21,900**
b. **$27,500.** ($49,400 − $21,900)

98. Kenzie is a research scientist in Tallahassee, Florida. Her spouse Garrett stays home to take care of their house and two dogs. Kenzie's total wages for 2024 were $60,500 from which $5,900 of federal income tax was withheld.

Calculate the income tax due or income tax refund on Kenzie and Garrett's 2024 individual income tax return. Use the tax formula for individuals and show your work.

ANSWER:

Gross income	$60,500
Deductions for adjusted gross income	0
Adjusted gross income	$60,500
Standard deduction	(29,200)
Taxable income	$31,300
Gross tax liability (from tax table)	$ 3,295
Tax withheld	(5,900)
Refund due	$(2,605)

99. Melissa is a 35-year-old single taxpayer with adjusted gross income of $49,600. She uses the standard deduction and has no dependents.

a. Calculate Melissa's 2024 taxable income. Please show your work.
b. When you calculate Melissa's tax liability, are you required to use the tax tables or the tax rate schedules, or does it matter?
c. What is Melissa's tax liability?

ANSWER: a. **$35,000.** ($49,600 − $14,600)
b. Taxpayers with income less than $100,000 must use the tax tables.
c. **$3,971**

100. Bonnie, age 39, and Steve, age 50, are married with two dependent children. They file a joint return for 2024. Their income from salaries totals $165,000; they receive $1,000 in taxable interest and $2,000 in royalties. Their deductions for adjusted gross income amount to $3,100; they have itemized deductions totaling $41,000. Calculate the following amounts:

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a. Gross income
b. Adjusted gross income
c. The greater of the amount of their itemized deduction or the standard deduction amount
d. Deduction for exemptions
e. Taxable income
f. Regular income tax liability **from rate schedules**

ANSWER: a. **$168,000.** ($165,000 + $1,000 + $2,000)
b. **$164,900.** ($168,000 − $3,100)
c. **$41,000**
d. **$0**
e. **$123,900.** ($164,900 − $41,000)
f. **$22,778.50.** {$17,168.50 + [($123,900 − $100,525) × 24%]}

101. Silvan is 35 years old, is single, and works as a commodities broker. His salary for 2024 is $111,500, and he has taxable interest income of $40,000. He has no deductions for adjusted gross income. His itemized deductions are $31,000. Silvan does not have any dependents.

a. What is the amount of his adjusted gross income?
b. What are his allowable itemized deductions?
c. What is his deduction for personal exemptions?
d. What is his taxable income?
e. What is his regular tax liability from the **tax rate schedules**?

ANSWER: a. **$151,500.** ($111,500 + $40,000)
b. **$31,000**
c. **$0**
d. **$120,500.** ($151,500 − $31,000)
e. **$21,962.50.** {$17,168.50 + [($120,500 − $100,525) × 24%]}

102. Nathan is 24 years old, is single, and works as an accountant in a salmon cannery in Alaska. His total wages for 2024 were $32,000. Federal income tax of $3,500 was withheld from his wages. His only other income was $260 of interest, and he had no deductible expenses.

Calculate the income tax due or income tax refund on Nathan's 2024 individual income tax return. Use the tax formula for individuals.

ANSWER:

Gross income	$32,260
Deductions for adjusted gross income	0
Adjusted gross income	$32,260
Standard deduction	(14,600)
Taxable income	$17,660
Gross tax liability (from tax table)	$1,889
Tax withheld	(3,500)
Refund due	$(1,611)

103. In 2024, Lacinda has a salary of $40,700 from her job. She also has interest income of $400. Lacinda is single and has no dependents. During the year, Lacinda sold stock held as an investment for a $10,000 loss. Calculate the following amounts for Lacinda:

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a. Adjusted gross income
b. Standard deduction
c. Taxable income
d. Tax liability
e. Explain the tax treatment of the loss from the stock sale.

ANSWER: a. **$38,100.** ($40,700 + $400 − $3,000)
b. **$14,600**
c. **$23,500.** ($38,100 − $14,600)
d. **$2,591.** (tax table)
e. Up to **$3,000** of net capital loss per year can be deducted from ordinary income; the unused portion of $7,000 is carried forward.

104. Richard, age 39, and Leah, age 37, are married taxpayers who file a joint income tax return for 2024. They have gross income of $51,100. Their deductions for adjusted gross income are $550, and they have itemized deductions of $5,400. If Richard and Leah have no dependents for 2024, calculate the following amounts:

a. Adjusted gross income
b. The greater of the amount of their standard deduction or itemized deductions
c. Taxable income

ANSWER: a. **$50,550.** ($51,100 − $550)
b. **$29,200**
c. **$21,350.** ($50,550 − $29,200)

105. Zahra and Wyatt are married taxpayers who file a joint income tax return for 2024. They have no dependents. On their 2024 income tax return, they have adjusted gross income of $62,000 and total itemized deductions of $4,000. What is their taxable income?
ANSWER: **$32,800.** ($62,000 − $29,200)

106. Ian, age 50, and Hanna, age 49, are married taxpayers who file a joint return for 2024. They have gross income of $150,700. Their deductions for adjusted gross income are $5,100, and they have itemized deductions of $18,000, consisting of $10,000 in state income taxes and $8,000 in mortgage interest expense. If they have no dependents for 2024, calculate the following amounts:

a. Adjusted gross income
b. The greater of the amount of their standard deduction or itemized deductions
c. Taxable income
ANSWER: a. **$145,600.** ($150,700 − $5,100)
b. **$29,200**
c. **$116,400.** ($145,600 − $29,200)

107. Margaret, age 67, and Owen, age 63, are married taxpayers with two dependents. Their adjusted gross income for 2024 is $43,600, and they have itemized deductions of $7,800. Determine the following for Margaret and Owen's 2024 income tax return:

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a. The greater of the amount of their standard deduction or itemized deductions
b. Taxable income

ANSWER: a. **$31,150.** ($29,200 + $1,950)
b. **$12,450.** ($43,600 − $31,150)

108. Gabriel, age 67, and Laylah, age 60, are married taxpayers with three dependent children. Their adjusted gross income for 2024 is $142,000. They have itemized deductions of $24,600. Determine the following for their joint tax return for 2024:

a. Exemption deduction amount
b. The greater of the amount of their standard deduction or itemized deductions
c. Taxable income

ANSWER: a. **$0**
b. **$31,150.** ($29,200 + $1,950)
c. **$110,850.** ($142,000 − $31,150)

109. For each of the following situations, indicate whether the taxpayers are required to file a tax return for 2024. Explain your answer.

a. Dalia, age 68, and Dylan, age 70, are married and file a joint return. They received $25,500 in interest income from a savings account.
b. Maggie is a single taxpayer with wages of $8,400 and interest income of $200.
c. Allison, age 30, and Luke, age 28, are married and file a joint tax return. They had $17,000 in earnings from wages.
d. Kim, a 20-year-old single college student who is claimed as a dependent by her parents, has earnings of $3,000 from a part-time job and $450 in interest income.
e. Stefanie, a 25-year-old single taxpayer, has wages of $1,500, from which $80 of federal income tax was withheld.

ANSWER: a. No. The standard deduction of $29,200 plus two additional standard deductions of $1,550 each add up to $32,300, which is more than their income of $25,500.
b. No. Income of $8,600 is less than the $14,600 standard deduction.
c. No. The income of $17,000 is less than the $29,200 standard deduction.
d. Yes. Gross income is more than the larger of $1,300 or $3,450 (earned income of $3,000 plus $450).
e. No. Stefanie is not required to file a tax return, but she must file if she wishes to receive a refund of the income tax withheld.

110. Monica is a housekeeper in a San Francisco hotel. Monica received $500 in unreported tips during 2024 and owes Social Security and Medicare taxes on these tips. Her total income for the year, including tips, is $4,500. Is Monica required to file an income tax return for 2024?

Explain.

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ANSWER: Yes. Monica must file a return and pay Social Security and Medicare taxes on the unreported tips.

111. Jerica is single and supports her 45-year-old son who has income of $350 from working in a pumpkin patch during October and lives in his own apartment.

a. Can she claim him as a dependent?
b. Can she claim head of household filing status? Why or why not?

ANSWER: a. Yes, her son qualifies as a dependent.
b. No. Her son must live in the same household with Jerica in order for her to be able to file as head of household.

112. Noah and Hailey are married taxpayers that file jointly with taxable income of $126,000 in 2024.

a. When you calculate their tax liability, are you required to use the tax tables or the tax rate schedules, or does it matter?
b. What is their tax liability?

ANSWER: a. Taxpayers with incomes of $100,000 or more must use the tax rate schedules.
b. Tax liability: $17,826 = $10,852 + [($126,000 – $94,300) × 22%]

113. Jeff and Lauren were married on December 31 of the prior year. What are their options for filing status for their prior year taxes?

ANSWER: They may file either as married filing jointly or as married filing separately. Even though they were married on the last day of the year, they must file as if they were married for the full year.

114. Madeline is single and supports her 85-year-old parents who live in a senior home paid for by Madeline. Her parents have no income. What is Madeline's filing status and why?

ANSWER: Head of household. Madeline is single, and Madeline's parents meet the tests to qualify as her dependents. Parents are the only exception to the requirement that dependents must live in the same household as the taxpayer to qualify the taxpayer for head of household status.

115. List each alternative filing status available to unmarried individual taxpayers.

ANSWER: Single
Head of household
Surviving spouse [qualifying widow(er)]

116. Determine from the tax table or the tax rate schedule, whichever is appropriate, the amount of the income tax for each of the following taxpayers for 2024.

Taxpayer(s)	Filing Status	Taxable Income	Income Tax
Macintosh	Single	$35,700	
Hindmarsh	MFS	$62,000	
Kinney	MFJ	$143,000	
Rosenthal	H of H	$91,500	
Wilk	Single	$21,400	

ANSWER: Macintosh, **$4,055** (tax table)
Hindmarsh, **$8,699** (tax table)
Kinney, **$21,566** {tax rate schedule: $10,852 + [($143,000 − $94,300) × 22%]}
Rosenthal, **$13,495** (tax table)
Wilk, **$2,339** (tax table)

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117. Jessica, a 17-year-old guitarist in a successful band, earns $100,000 a year and is completely self-supporting although she lives with her parents. Can her parents claim her as a dependent? Why or why not?

ANSWER: Because Jessica is self-supporting, her parents may not claim her as a dependent. The self-support test is applied to both children and relatives who otherwise qualify, so Jessica is disqualified.

118. Karl's father, Krzysztof, is a 60-year-old Polish citizen who lived in Poland for the full year. Karl supported Krzysztof while he looked for work. Krzysztof had no income. Can Karl claim Krzysztof as a dependent?

ANSWER: No. Krzysztof cannot be claimed as a dependent because he is not a U.S. citizen or a resident of the United States, Mexico, or Canada.

119. Calculate the amount of the standard deduction these taxpayers should claim on their 2024 income tax returns.

a. Kelly and Hideo are married with one dependent child. They file a joint return and are in good health, and both of them are under 65 years of age. They also support an aging father.
b. Ivana is 24 years old, in good health, and single.
c. Erik and Eriqua are married and file a joint return. Erik is 64 years old, and Eriqua is 63 years old.
d. Jerek is 62 years old, single, and blind.
e. Daphne qualifies for head of household filing status, is 42 years old, and is in good health.
f. Elizabeth is 11 years old, and her only income is $3,200 of interest on a savings account. She is claimed as a dependent on her parents' tax return.

ANSWER: a. **$29,200**
b. **$14,600**
c. **$29,200**
d. **$16,550** (an additional $1,950 is allowed due to blindness)
e. **$21,900**
f. **$1,300** (She is claimed as a dependent on her parents' tax return.)

120. How should a taxpayer decide whether to take the standard deduction or claim itemized deductions?

ANSWER: A taxpayer should claim the larger of the standard deduction or the total allowed itemized deductions since the amount reduces the taxpayer's income subject to tax. However, if married filing separately, both spouses have to file the same way. So they should consider the implications of standard versus itemized for both of them before choosing.

121. Mike purchased stock in MDH Corporation 5 years ago for $15,500. This year, he sold it for $12,650 and then paid a $250 sales commission to his broker. He had no other capital gains or losses during the year.
a. What is Mike's amount realized?
b. What is Mike's adjusted basis?
c. What is Mike's realized gain or loss?
d. What is Mike's recognized gain or loss?
e. How much of the gain or loss can Mike report on his tax return?

ANSWER: a. Amount realized: **$12,400** = $12,650 − $250
b. Adjusted basis: **$15,500**
c. Realized loss: $12,650 − $250 − $15,500 = **$3,100**
d. Recognized loss: $12,650 − $250 − $15,500 = **$3,100**
e. **$3,000.** Up to $3,000 of capital loss can be deducted against ordinary income each year.

122. Maylin bought stock in FCM Corporation 4 years ago at a price of $18,000. She sold it this year for $22,225 and paid her broker $225 from the proceeds of the sale.

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a. What is Maylin's amount realized?
b. What is Maylin's adjusted basis?
c. What is Maylin's realized gain or loss?
d. What is Maylin's recognized gain or loss?
e. How much of the gain or loss should be included in her tax return?

ANSWER: a. Amount realized: **$22,000** = $22,225 − $225
b. Adjusted basis: **$18,000**
c. Realized gain: $22,225 − $225 − $18,000 = **$4,000**
d. Recognized gain: $22,225 − $225 − $18,000 = **$4,000**
e. **$4,000.** There is no limit on the amount of capital gain to be included on tax returns; however, it may be taxed at preferential rates.

123. Indicate with a "Yes" or a "No" whether each of the following can be found on the IRS website.
a. A list of IRS forms
b. A search function
c. Advice on how to avoid paying taxes
d. Ways to contact the IRS

ANSWER: a. Yes
b. Yes
c. No
d. Yes

124. State two reasons why a person would want to e-file a return instead of mailing it.

ANSWER: A return that is e-filed has a smaller error rate than paper-filed returns (less than 1% versus more than 20%). E-filing also offers a faster refund because the IRS is able to process the return more quickly.

125. For each of the following situations, indicate the filing status of the taxpayer(s).
a. The taxpayer's spouse died last year. The taxpayer's 13-year-old dependent daughter lives with her.
b. The unmarried taxpayer supports his dependent mother, who lives next door in a separate apartment.
c. The taxpayer is unmarried and is living with her girlfriend.
d. The taxpayer is married, but their spouse abandoned them while on vacation in March of the current year. The taxpayer has no dependents.
e. After living together for 6 months, the couple married on December 31.
f. The taxpayer who is unmarried legally adopted a child who lives with her.

ANSWER: a. Surviving spouse
b. Head of household
c. Single
d. Married filing separately
e. Married filing jointly or married filing separately
f. Head of household

Essay

126. Distinguish between reporting entities and taxable entities and give examples of each.

ANSWER: A partnership is an example of a reporting entity. It pays no tax but must report partnership income or loss and the allocation of income or loss to partners. Individuals, corporations, estates, and certain trusts are examples of taxable entities whose income is subject to federal income taxation.

127. What is the difference between the standard deduction and itemized deductions?

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ANSWER: The standard deduction is a flat amount, varying based on a taxpayer's filing status (single, married, head of household, etc.), age, and vision, which is deducted from adjusted gross income (AGI) along with qualified business income deductions to arrive at taxable income.

Itemized deductions are personal expenses paid by a taxpayer including medical expenses, certain interest expenses, certain taxes, charitable contributions, certain casualty losses, and a small number of miscellaneous items. If the total itemized deductions are larger than the taxpayer's standard deduction, the taxpayer should complete Schedule A, listing all itemized deductions, and use this amount instead of the standard deduction. By itemizing deductions when they are larger than the standard deduction, taxpayers may reduce their taxable income and pay less tax.

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