Essentials of Federal Income Taxation for Individuals and Business 2020 1st edition Johnson Test Bank

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Chapter 2
Tax Determination, Payments, and Reporting Procedures

TRUE-FALSE QUESTIONS—CHAPTER 2

1. The amount of the adoption credit is not affected by the amount of the taxpayer's adjusted gross income (AGI) when the taxpayer adopts a child with special needs.
2. Married filing jointly and qualifying widow(er) share the same tax rates.
3. For purposes of the child and dependent care credit, only the custodial parent can claim a child as a qualifying child.
4. For tax years beginning after 2017 and before 2026, the initial child tax credit equals $2,000 for a dependent child under the age of 17.
5. Employers are required to withhold Medicare taxes on only the first $200,000 of Medicare wages.
6. Taxpayers with taxable income of less than $100,000 must use the Tax Table to determine their tax liability.
7. A retirement savings contributions credit is available for a $1,000 contribution to a qualified retirement plan by a dependent whose AGI is only $10,000.
8. For 2019, the maximum penalty for failing to comply with the ACA mandate on any taxpayer’s tax return is $695.
9. The American opportunity credit is available only for qualified higher education expenses paid during a student's first two years of college.
10. Taxpayers eligible to claim the earned income credit can use it to reduce their tax liability and, in some cases, to create a tax refund.
11. For purposes of claiming the earned income credit, a married child must be the taxpayer's dependent in order to claim the child as a qualifying child.
12. A married taxpayer with $80,000 of taxable income filing married filing separately will have a larger tax liability than an unmarried taxpayer with the same taxable income.
13. The tax liability on $50,000 of taxable income would be the same if computed using the tax rate schedule and the tax table.
14. Comparing the tax on $350,000 of taxable income for each tax filing status, the filing status that produces the greatest amount of tax is married filing separately.
15. Taxpayers with AGI in excess of $250,000 are not entitled to the child and dependent care credit.
16. Employers withhold social security and Medicare taxes only on the first $200,000 of each employee’s wages.
17. For purposes of computing the child and dependent care credit, taxpayers multiply their qualified dependent care expenses by a percentage that ranges from 20% to 35%.
18. There are more steps involved when using the Tax Table to compute a taxpayer’s tax liability when compared to using the Tax Rate Schedules.
19. Individuals may obtain an automatic extension of four months to file their tax returns.
20. For purposes of the child and dependent care credit, a dependent child who is not incapacitated must be under age 13.
21. A portion of the adoption credit may be refundable for certain taxpayers.
22. To qualify for the earned income credit, the taxpayer must maintain a home for at least one qualifying child.
23. When a single taxpayer with one qualifying person receives nontaxable reimbursements from his employer's dependent care assistance plan, the $3,000 dollar limit must be reduced by the nontaxable reimbursements when computing the taxpayer's child and dependent care credit.

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24. For taxpayers with AGI in excess of $250,000, the child tax credit is completely phased-out.
25. For a taxpayer with AGI of $150,000, the full amount of the adoption credit is available if the taxpayer adopts a child with special needs, regardless of the actual adoption costs.
26. The maximum retirement savings contributions credit for any taxpayer is $1,000.
27. A cash basis taxpayer takes the adoption credit in the year the adoption expenses are paid.
28. The adoption credit cannot be taken if the adoption of a foreign child is never finalized.
29. The adoption credit cannot be taken if the adoption of a U.S. child is never finalized.
30. A dependent physically unable to provide self-care is a qualifying person for purposes of the child and dependent care credit, regardless of the dependent's age.
31. The education credit is not available to a person filing married filing separately.
32. For purposes of the child and dependent care credit, a spouse who does not work but attends college full time for 9 months during the year is deemed to earn $2,500 if he and his wife have one qualifying person.
33. Unmarried taxpayers with AGI in excess of $75,000 are not entitled to the child tax credit.
34. Any unused child tax credit (due to not having enough tax liability) can be carried forward and used in the next tax year.
35. The amount of the earned income credit is computed by looking up the credit based on both the taxpayer's earned income and adjusted gross income and taking the lesser of the two amounts.
36. Taxpayers must have some amount of earned income in order to take the earned income credit.
37. Tuition paid in 2019 for courses that begin before April 1, 2020 count toward the 2019 education credit.
38. When there is no custodial parent, the parent with the least amount of AGI gets to claim the earned income credit for the qualifying child.
39. For taxpayers in the 12% tax bracket, the tax savings from a $100 tax deduction is better than a $10 tax credit.
40. Taxpayers in the 12% tax bracket pay the same tax rate on their qualified dividends and net capital gain as they do on their wages and other types of income.
41. The maximum American opportunity education credit is per taxpayer; the maximum lifetime learning education credit is per eligible student.
42. Childcare payments made to a relative that the taxpayer claims as a dependent do not count as qualified expenses for purposes of the child and dependent care credit.
43. The earned income credit is not available to married persons who file separately from their spouses.
44. The child tax credit is not available to married persons who file separately from their spouses.
45. The amount of the refundable (additional) child tax credit may not exceed $1,400 per qualifying child under age 17 for 2019. The $500 partial credit for any other dependent is nonrefundable.

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MULTIPLE CHOICE QUESTIONS—CHAPTER 2

46. The maximum adoption credit for 2019 is:
    a. $2,400.
    b. $5,000.
    c. $6,000.
    d. $9,350.
    e. $14,080.
47. The IRS presents the tax rates to individual taxpayers in the form of Tax Rate Schedules and a Tax Table. Taxpayers who use the Tax Table to compute their tax will find that for an equal amount of taxable income their tax will always:
    a. equal the tax determined from using the Tax Rate Schedule for the proper filing status.
    b. be larger than the tax determined from using the Tax Rate Schedule for the proper filing status.
    c. be smaller than the tax determined from using the Tax Rate Schedule for the proper filing status.
    d. equal or be within a few dollars of the tax determined from using the Tax Rate Schedule for the proper filing status.
    e. always be different from the tax determined using the Tax Rate Schedule for the proper filing status.
48. Education tax credits are reported on:
    a. Form 8839.
    b. Form 8863.
    c. Form 2441.
    d. Schedule 8812.
    e. Form 2120.
49. The full child tax credit is available to a married couple who files a joint tax return and whose AGI does not exceed:
    a. $55,000.
    b. $400,000.
    c. $75,000.
    d. $110,000.
    e. $200,000.
50. The full child tax credit is available to unmarried taxpayers whose AGI does not exceed:
    a. $55,000.
    b. $200,000.
    c. $75,000.
    d. $150,000.
    e. $125,000.
51. Which of the following types of gross income can be reported on Form 1040-SR in 2019?
    a. wages, tips, taxable scholarships, dividends, and interest.
    b. wages, tips, taxable scholarship, interest, and unemployment compensation.
    c. wages, tips, annuities, pensions, and interest.
    d. wages, pensions, and interest.
    e. all of the above.

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52. Taxpayers sending a check in payment of taxes should make the check payable to the:
    a. IRS.
    b. Internal Revenue Service.
    c. United States Treasury.
    d. either a. or c. above.
    e. any of the above.
53. Which of the following credits may be carried over if not entirely utilized in the current year?
    a. Child tax credit
    b. Child and dependent care credit
    c. Adoption credit
    d. Earned income credit
    e. Premium tax credit
54. Which of the following taxpayers qualifies to claim the child tax credit?
    a. A taxpayer who files as head of household and claims his 18-year-old daughter as a dependent.
    b. A divorced taxpayer who claims his 15-year-old son as a dependent. The son lives most of the year with the ex-wife. The taxpayer was given the dependency exemption when the ex-wife signed away her right to claim the son as her dependent.
    c. A 25-year-old unmarried taxpayer who claims her 10-year-old sister as a dependent.
    d. both b. and c.
    e. both a. and b.
55. Employees who work for two employers may have too much in OASDI taxes withheld from their gross wages. To have too much in OASDI taxes withheld from their pay in 2019, employees' gross wages would have to exceed:
    a. $200,000.
    b. $128,400.
    c. $250,000.
    d. $132,900.
    e. $110,000.
56. When a taxpayer with three qualifying persons computes the child and dependent care credit, the law limits the eligible dependent care expenses to:
    a. $2,500.
    b. $3,000.
    c. $5,000.
    d. $6,000.
    e. $9,000.

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57. For tuition expenses paid during the year for a student attending graduate school, an education credit is available that is equal to:
    a. 100% of up to $2,500 of such expenses.
    b. 20% of up to $2,500 of such expenses.
    c. 20% of up to $10,000 of such expenses.
    d. 50% of up to $10,000 of such expenses.
    e. $2,000 plus 25% of the next $2,000 of such expenses.
58. In 2018, a couple pays $10,000 towards the adoption of a U.S. born child. The couple pays another $10,000 in 2019 when the adoption is finalized. In both years, AGI is less than $150,000. Which of the following statements best describes the couple's adoption credit?
    a. The couple is entitled to a $10,000 adoption credit in 2018 and a $4,080 adoption credit in 2019.
    b. The couple is entitled to a $20,000 adoption credit in 2019.
    c. The couple is entitled to a $14,080 adoption credit in 2019, and will carryover $6,190 to 2020.
    d. The couple is entitled to a $10,000 adoption credit in 2018, a $4,080 adoption credit in 2019, and will carryover $6,190 to 2020.
    e. None of the above.
59. After taking into consideration a couple's AGI in 2019, the couple's American opportunity credit and lifetime learning credit are $5,000 and $1,800, respectively. The couple's refundable and nonrefundable education credit is:
    a. $5,000 and $1,800, respectively.
    b. $0 and $6,800, respectively.
    c. $3,000 and $3,800, respectively.
    d. $6,800 and $0, respectively.
    e. $2,000 and $4,800, respectively.
60. The child tax credit for a married couple with two dependent children (ages 6 and 9) and AGI of $121,600 is:
    a. $0.
    b. $600.
    c. $1,400.
    d. $4,000.
    e. none of the above.
61. The maximum per student American opportunity education tax credit available is:
    a. $1,500.
    b. $2,000.
    c. $2,500.
    d. $3,000.
    e. $4,000.
62. A taxpayer works two jobs during 2019. He earns $61,400 at the first job, and $79,700 at the second job. Each employer withholds the correct amount of FICA taxes (OASDI and Medicare). The taxpayer's excess OASDI withheld for 2019 equals:
    a. $508.
    b. $533.
    c. $834.
    d. $719.
    e. $0.

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63. The maximum child and dependent care credit that a married couple with three qualifying children can claim is:
    a. $2,100.
    b. $1,800.
    c. $3,150.
    d. $1,200.
    e. $2,400.
64. The maximum child and dependent care credit that a single parent with one qualifying child can claim is:
    a. $1,000.
    b. $600.
    c. $1,050.
    d. $1,200.
    e. $1,500.
65. A married couple files a joint return. During 2019 they pay college tuition and fees for their two dependent children. Before taking the phase-out for excess AGI into consideration, the couple has calculated their American opportunity credit to be $2,300. If the couple's AGI is $112,000, their refundable education tax credit equals:
    a. $1,380.
    b. $0.
    c. $690.
    d. $920.
    e. $1,035.
66. During 2019, an unmarried taxpayer paid tuition and fees of $8,000 on behalf of her dependent son, who is a full-time student attending his third year of college. If the taxpayer's AGI is $54,000, her total education tax credit equals:
    a. $640.
    b. $960.
    c. $1,600.
    d. $3,500.
    e. $2,500.
67. During the year, a married couple pays $3,500 in qualified childcare expenses to a nanny to look after their 8-year-old son. The husband works and has $56,000 of wages during the year; the wife attended college as a full-time student for 10 months of the year. Based on the couple's AGI, the percentage they can use to compute their child and dependent care credit is 26%. The couple's child and dependent care credit is:
    a. $910.
    b. $780.
    c. $650.
    d. $1,000.
    e. $0.
68. Which of the following is a refundable credit?
    a. The lifetime learning education credit
    b. The retirement savings contributions credit
    c. The premium tax credit
    d. The child and dependent care credit
    e. None of the above is refundable credits

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69. Which of the following childcare costs can a taxpayer use in computing the child and dependent care credit?
    a. Payments made to the taxpayer's 17-year-old daughter to look after her younger brother after school so that the child's parents can both work.
    b. Payments made to the taxpayer's mother to look after the taxpayer's children after school so that the taxpayer can work. The taxpayer cannot claim her mother as a dependent.
    c. Payments made to a childcare facility. The taxpayer is reimbursed from the employer's dependent care assistance plan for the childcare costs, and the taxpayer excludes the reimbursement from gross income.
    d. All of the above childcare costs count in the calculation of the child and dependent care credit.
    e. None of the above childcare costs count in the calculation of the child and dependent care credit.
70. The additional child tax credit is claimed on:
    a. Form 2441.
    b. Schedule 8812.
    c. Form 8863.
    d. Schedule EIC.
    e. Form 1116.
71. A taxpayer's earned income and AGI are both $34,500. The taxpayer's total tax liability (before any tax credits) is $1,300. The taxpayer's only tax credits are an $840 child and dependent care credit and the child tax credit for two qualifying children. The taxpayer's refundable child tax credit is:
    a. $2,800.
    b. $460.
    c. $0.
    d. $1,540.
    e. $700.
72. Which of the following credits may be partially refundable and partially nonrefundable?
    a. The child tax credit
    b. The retirement savings contributions credit
    c. The earned income credit
    d. Exceeds OASDI withholding
    e. The lifetime learning education tax credit
73. Which of the following statements is not correct regarding the education credit?
    a. The lifetime learning credit is 100% nonrefundable.
    b. Lower AGI thresholds apply to reduce the American opportunity credit for higher income taxpayers.
    c. The lifetime learning credit is available to students who attend graduate school.
    d. The maximum American opportunity credit is $2,500 for each eligible student.
    e. All of the above statements are correct.

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FILL-IN-THE-BLANK—CHAPTER 2

74. Taxpayers complete _____ to compute their child and dependent care credit.
75. The social security (OASDI) tax rate (not the Medicare rate) for employees is _____.
76. Form _____ is used to request an automatic extension of time to file the individual income tax return.
77. The maximum adoption credit for a child with special needs is _____.
78. The maximum qualified education expense eligible for computing the lifetime learning credit is _____.
79. The highest income tax rate imposed on individual taxpayers is _____.
80. For purposes of computing the child and dependent care credit, the maximum employment-related expenses that can be used to figure the credit for four qualifying persons is _____.
81. The maximum American opportunity tax credit for an eligible student is _____.
82. The lifetime learning credit is completely phased-out for an unmarried taxpayer when AGI reaches _____.
83. Working taxpayers may claim the earned income credit on up to _____ qualifying children.
84. Is the child and dependent care credit a refundable or nonrefundable tax credit? _____
85. Is the additional child tax credit a refundable or nonrefundable credit? _____
86. Employers are required to withhold Medicare taxes at a 2.35% rate on Medicare wages in excess of _____.
87. Taxpayers cannot take the earned income credit if they have disqualified income in excess of _____.
88. An individual may receive an automatic extension of _____ to file an income tax return.
89. To claim the earned income credit, an individual without a qualifying child must be at least _____ years old.
90. Income taxes paid to a foreign country may be claimed as either a _____ or an _____.
91. To claim the child tax credit, the qualifying child must be under the age of _____.
92. Is the nonbusiness energy property credit a refundable or nonrefundable credit? _____
93. The portion of the child tax credit that cannot be taken as a nonrefundable credit can often be taken as a refundable credit, provided that the refundable portion of the credit does not exceed _____.
94. The premium tax credit is computed on Form _____.
95. The maximum retirement savings contributions credit for an unmarried taxpayer who makes a $5,000 contribution to his IRA is _____.

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SUPPLEMENTARY PROBLEMS—CHAPTER 2

96. Essay: Answer the following essay questions.
    a. Discuss who qualifies for the earned income credit.
    b. Explain the difference between a refundable tax credit and a nonrefundable tax credit, and give an example of each.
97. Fill-in-the-Form: Prepare Form 1040, for Thomas Wirsing using the information provided. Your instructor will provide a blank Form 1040 and Tax Table information for incomes of $28,000 to $29,000.

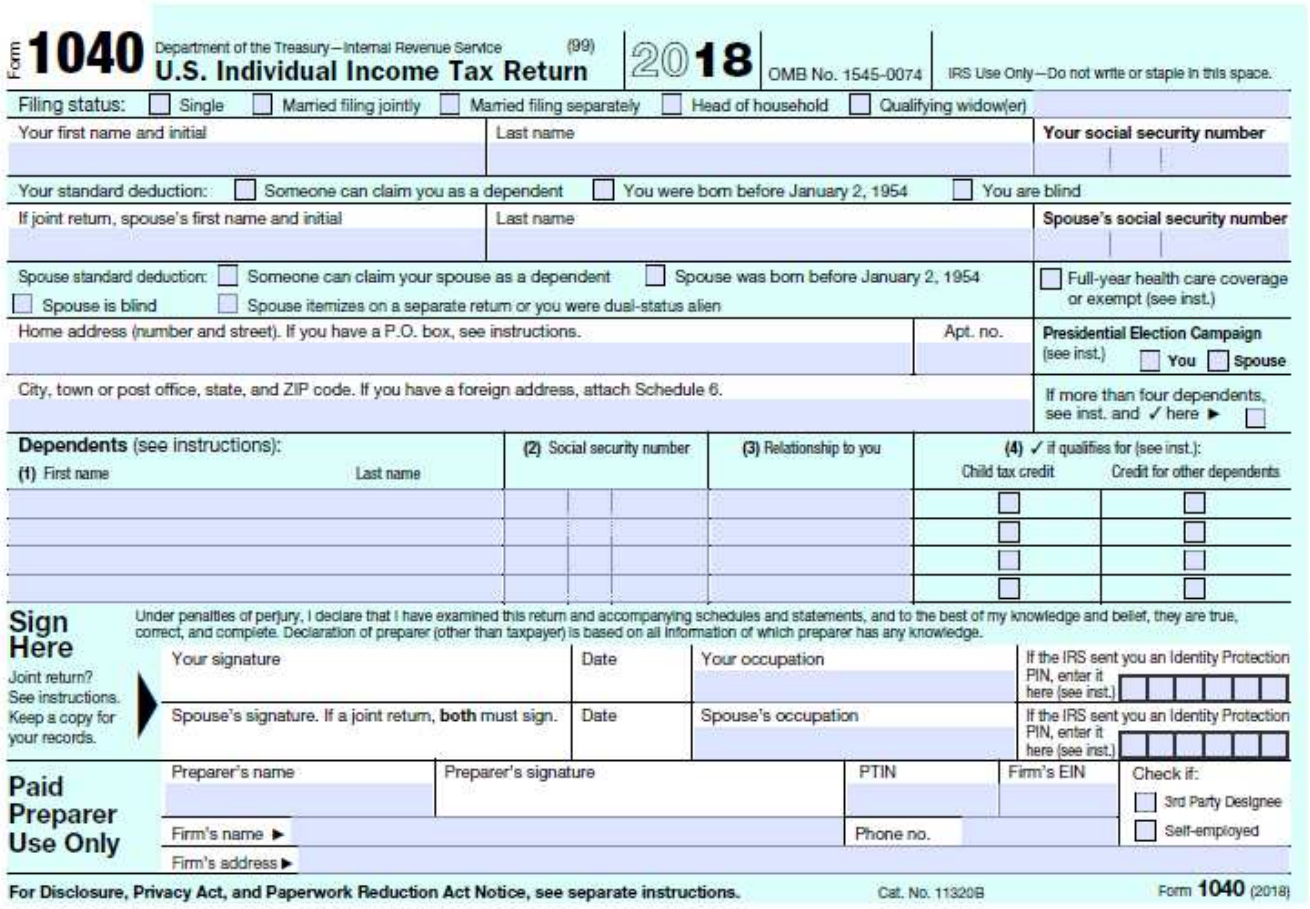
    Thomas A. Wirsing (SSN 621-11-7650), a 25-year-old unmarried taxpayer, resides at 19 Crestview Drive, Plymouth, Wisconsin, 53073. During the year, he earned $38,000 as a salesperson and received $360 in taxable interest. Thomas claims the standard deduction. His employer withheld the following taxes from his wages:

Federal income tax	$3,574
State income tax	950
Social security tax	2,356
Medicare tax	551

    Thomas signs his return on April 15, 2020, and elects to have $3 go to the Presidential Election Campaign fund. He gets full health care coverage through his employer and is compliant with the ACA mandate.

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Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2018** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: ☐ Single ☐ Married filing jointly ☐ Married filing separately ☐ Head of household ☐ Qualifying widow(er)

Your first name and initial | Last name | **Your social security number**

Your standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

If joint return, spouse's first name and initial | Last name | **Spouse's social security number**

Spouse standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Spouse was born before January 2, 1954 ☐ Spouse is blind ☐ Spouse itemizes on a separate return or you were dual-status alien

☐ Full-year health care coverage or exempt (see inst.)

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | **Presidential Election Campaign** (see inst.) ☐ You ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. | If more than four dependents, see inst. and ✓ here ▶ ☐

Dependents (see instructions): (1) First name Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see inst.): Child tax credit	Credit for other dependents
			☐	☐
			☐	☐
			☐	☐
			☐	☐

Sign Here Joint return? See instructions. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Preparer's name | Preparer's signature | PTIN | Firm's EIN | Check if: ☐ 3rd Party Designee ☐ Self-employed

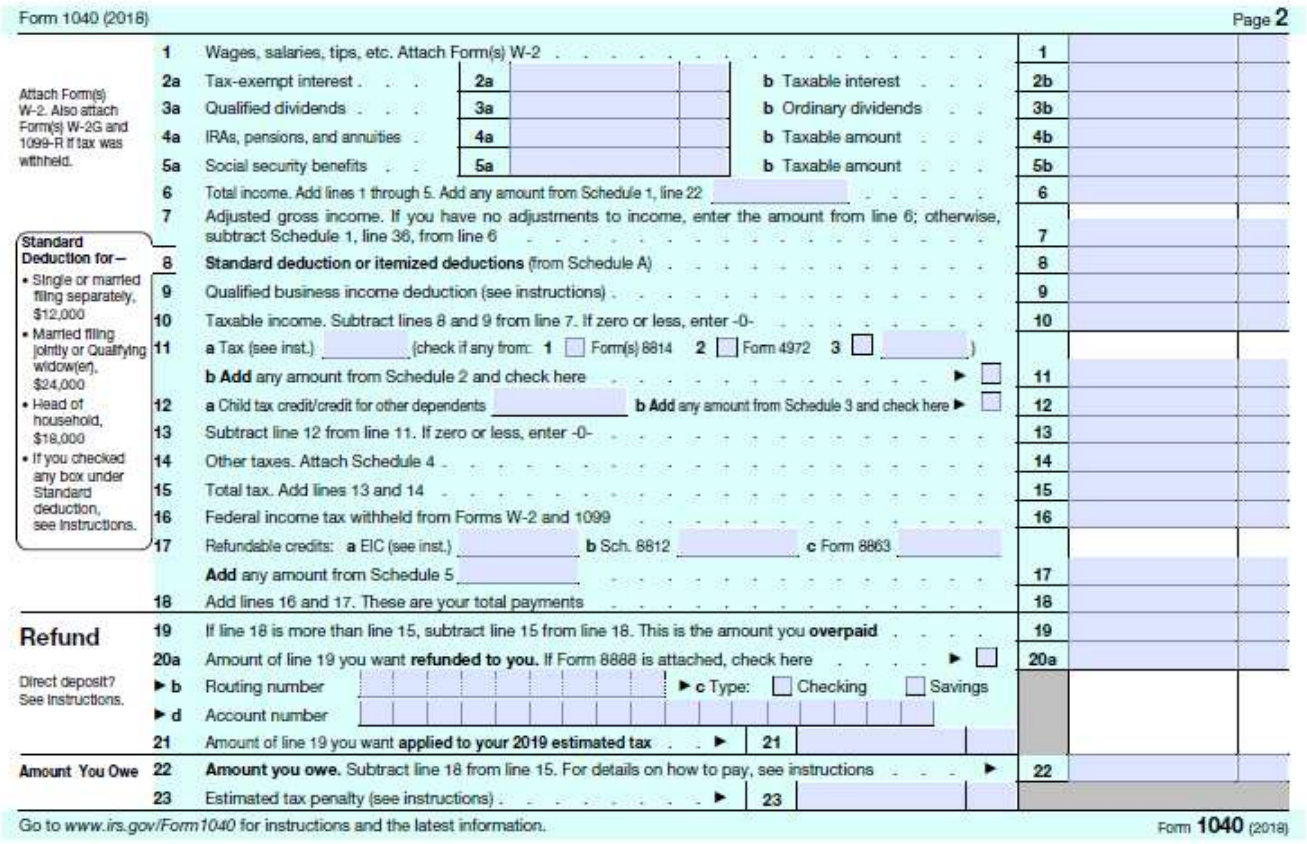
Firm's name ▶ | Phone no.

Firm's address ▶

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

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Form 1040 (2018) Page 2

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	
	2a	Tax-exempt interest	2a	b Taxable interest	2b	
	3a	Qualified dividends	3a	b Ordinary dividends	3b	
	4a	IRAs, pensions, and annuities	4a	b Taxable amount	4b	
	5a	Social security benefits	5a	b Taxable amount	5b	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22			6	
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)			8	
	9	Qualified business income deduction (see instructions)			9	
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10	
	11	a Tax (see inst.) (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐)				
		b Add any amount from Schedule 2 and check here ▶ ☐			11	
	12	a Child tax credit/credit for other dependents **b Add** any amount from Schedule 3 and check here ▶ ☐			12	
	13	Subtract line 12 from line 11. If zero or less, enter -0-			13	
	14	Other taxes. Attach Schedule 4			14	
	15	Total tax. Add lines 13 and 14			15	
	16	Federal income tax withheld from Forms W-2 and 1099			16	
	17	Refundable credits: a EIC (see inst.) b Sch. 8812 c Form 8863				
		Add any amount from Schedule 5			17	
	18	Add lines 16 and 17. These are your total payments			18	
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**			19	
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			20a	
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings				
	▶ d	Account number				
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶	21			
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶			22	
	23	Estimated tax penalty (see instructions) ▶	23			

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

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ANSWERS TO TRUE-FALSE QUESTIONS—CHAPTER 2

1. False. The full initial credit is allowed to taxpayers who adopt a child with special needs. However, the AGI limits still apply. In 2019, as AGI gets above $211,160, the adoption credit begins to be phased out. ¶204.10.
2. True. ¶201.02.
3. True. ¶204.02.
4. True. ¶204.07.
5. False. The rate increases to 2.35% once Medicare wages reach $200,000. ¶203.03.
6. True. ¶201.01.
7. False. The retirement savings contributions credit is not available for dependents. ¶204.06.
8. False. The penalty was repealed for taxable years beginning after 2017. ¶205.
9. False. The American opportunity credit is available for qualified expenses paid during a student's first four years of college. ¶204.04.
10. True. ¶204.11.
11. True. ¶204.11.
12. False. ¶201. However, that will not be the case if taxable income is above $300,000.
13. False. The tax table uses the midpoint of $50 intervals, so the amounts will be slightly different. ¶201.01, ¶201.02.
14. True. ¶201.
15. False. The percentage used in the calculation drops to 20% for taxpayers in the highest income range. ¶204.02.
16. False. In 2019, employers withhold social security taxes on the first $132,900 of earnings. They withhold Medicare taxes on all earnings. ¶203.03.
17. True. ¶204.02.
18. False. The Tax Table shows the calculated amount of tax. All that is necessary is to locate the appropriate row and column. A person computing tax using the tax rate schedules is required to actually perform the calculations. ¶201.01.
19. False. The automatic extension is for six months. ¶208.
20. True. ¶204.02.
21. False. The adoption credit is a nonrefundable credit. ¶204.10.
22. False. The EIC is available to taxpayers who do not have a qualifying child as long as they themselves are not claimed as a dependent and are at least 25 and younger than 65 years of age. ¶204.11.
23. True. ¶204.02.
24. False. The phase-out is $50 for each $1,000 of excess AGI of $400,000 for MFJ and $200,000 for MFS. ¶204.07.
25. True. ¶204.10.
26. True. $2,000 × 50% = $1,000. ¶204.06.
27. False. The adoption credit is taken in the year paid only if the adoption is finalized in that year or in a previous tax year. ¶204.10.
28. True. ¶204.10.
29. False. ¶204.10.
30. True. ¶204.02.
31. True. ¶204.04.
32. False. The deemed earned income is $2,250 ($250 per month × 9 months). ¶204.02.

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33. False. An unmarried taxpayer's child tax credit is phased-out at a rate of $50 for each $1,000 (or portion thereof) once AGI exceeds $200,000. ¶204.07.
34. False. Any portion of the child tax credit that is not taken as a nonrefundable credit may be eligible to be taken as an additional (refundable) child tax credit. ¶204.07.
35. True. ¶204.11.
36. True. ¶204.11.
37. True. ¶204.04.
38. False. The parent with the higher AGI gets to claim the EIC. ¶204.11.
39. True. The $12 tax savings from a $100 deduction ($100 × 12%) is better than the $10 tax savings from a $10 tax credit. ¶201.04.
40. False. Taxpayers in the 12% bracket pay no tax (0% rate) on qualified dividends and net capital gain. ¶201.04.
41. False. The American opportunity credit is per eligible student; the lifetime learning credit is per taxpayer. ¶204.04.
42. True. ¶204.02.
43. True. ¶204.11.
44. False. The phase-out of the child tax credit begins at AGI of $200,000 for taxpayers filing married filing separately. ¶204.07.
45. True. ¶204.07.

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ANSWERS TO MULTIPLE CHOICE QUESTIONS—CHAPTER 2

46. e. ¶204.10.
47. d. If taxable income is in the mid-point of the income range in the Tax Table, the amount of tax will be the same. ¶201.02.
48. b. ¶204.05.
49. b. ¶204.07.
50. b. ¶204.07.
51. e. Form 1040-SR accommodates all of the same schedules and income and deduction categories as Form 1040. ¶201.03.
52. c. ¶205.03.
53. c. ¶204.10.
54. d. Only qualifying children under the age of 17 qualify the taxpayer for the CTC. A younger sibling passes the relationship test for qualifying child. In the case of divorced parents, only the parent who claims the child as a dependent can take the child tax credit for that child. ¶204.07.
55. d. ¶203.03.
56. d. ¶204.02.
57. c. The American opportunity credit is only available to students attending their first four years of college. ¶204.04.
58. e. The couple is entitled to a $14,080 (maximum) adoption credit in 2019, the year in which the adoption was finalized. ¶204.10.
59. e. $5,000 × 40% = $2,000 refundable. ¶204.04.
60. d. ¶204.07.
61. c. $2,000 + (25% × $2,000). ¶204.04.
62. a. ($136,600 × 6.2%) − $8,240 maximum OASDI tax in 2019 = $508. ¶203.03.
63. a. $6,000 for two or more qualifying persons × 35% = $2,100. ¶204.02.
64. c. $3,000 for one qualifying person × 35% = $1,050. ¶204.02.
65. d. $2,300 × 40% = $920. The phase-out for MFJ begins at $160,000. ¶204.04.
66. e. $2,000 + ($2,000 × 25%) = $2,500 maximum American opportunity credit. ¶204.04.
67. c. The 26% rate is multiplied by the lesser of (i) $3,500 actual costs, (ii) $3,000 maximum for one qualifying person, or (iii) $2,500 earned income. The wife is deemed to earn $250 a month for the 10 months that she is a full-time student. ¶204.02.
68. c. ¶204.13.
69. b. Payments to a relative count unless the taxpayer claims the relative as a dependent. Payments to the taxpayer's child under age 19 do not count (regardless of whether the child is claimed as a dependent), and amounts reimbursed from an employer's dependent care plan do not count if the taxpayer excludes the reimbursements from gross income. ¶204.02.
70. b. ¶204.07.
71. a. $1,300 total tax liability − $840 child and dependent care credit = $460 nonrefundable child tax credit. The taxpayer's additional (refundable) child tax credit is $4,000 − $460 = $3,540, but maximum ACTC is $1,400 per qualifying child; therefore only $2,800 may be claimed. ¶204.07.
72. a. The retirement savings contributions credit, child and dependent care credit, and the lifetime learning credit are nonrefundable. The earned income credit is 100% refundable. The child tax credit may be refundable for certain taxpayers. ¶204.02; ¶204.04; ¶204.06; ¶204.07; ¶204.11.
73. b. Lower AGI thresholds apply to the lifetime learning credit. ¶204.04.

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ANSWERS TO FILL-IN-THE-BLANK—CHAPTER 2

74. Form 2441 ¶204.03.
75. 6.2% ¶203.03.
76. 4868 ¶208.
77. $14,080 ¶204.10.
78. $10,000 ¶204.04.
79. 37% ¶201.
80. $6,000 ¶204.02.
81. $2,500. ¶204.04.
82. $68,000 ¶204.04.
83. 3 ¶204.11.
84. nonrefundable ¶204.02.
85. refundable ¶204.07.
86. $200,000 ¶203.03.
87. $3,500 ¶204.11.
88. 6 months ¶208.
89. 25 ¶204.11.
90. tax credit; itemized deduction ¶204.01.
91. 17 ¶204.07.
92. Nonrefundable, but only available for qualified property placed in service before January 1, 2021. ¶205.09.
93. 15% of the taxpayer's earned income in excess of $2,500 ¶204.07.
94. 8962 ¶204.13.
95. $1,000 ($2,000 limit × 50% maximum rate) ¶204.06.

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ANSWERS TO SUPPLEMENTARY PROBLEMS—CHAPTER 2

96. a. The earned income credit is not available in 2019 to taxpayers whose disqualified income (interest, dividends, net rental income, etc.) exceeds $3,500. It also is not available to anyone who is claimed as a dependent, or is married and files married filing separately. An unmarried taxpayer with no qualifying child, who works and is at least 25 and younger than 65 years of age, qualifies for the earned income credit, subject to earned income and AGI phase-outs. Taxpayers who work and have a "qualifying child" can qualify for the earned income credit, regardless of age, but subject to earned income and AGI phase-outs. A qualifying child need not be the taxpayer's dependent, but the child must meet the relationship test, age test, residency test, and the citizenship test used in defining a "qualifying child." However, the child may provide over half of his or her own support. ¶204.11.

    b. A refundable credit offsets the taxpayer's tax liability, but it entitles the taxpayer to a payment from the government when the amount of the credit exceeds the liability. In contrast, a nonrefundable credit can offset only the taxpayer's tax liability. When such credits exceed the tax liability, there is no payment for the excess. The earned income credit and the premium tax credit are examples of a refundable credit. Examples of nonrefundable credits are the child and dependent care credit, adoption credit, and the retirement savings contributions credit. ¶203.04.

97. See filled-in Form 1040 for Thomas Wirsing. ¶205.04.

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Form **1040** Department of the Treasury—Internal Revenue Service (99) **U.S. Individual Income Tax Return** **2019** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☑ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying widow(er) (QW)
If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial	Last name	Your social security number
Thomas A.	Wirsing	6 2 1 1 1 7 6 5 0
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. — Apt. no.
19 Crestview Drive

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Plymouth, WI 57073

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☑ You ☐ Spouse

If more than four dependents, see instructions and ✓ here ▶ ☐

Standard Deduction **Someone can claim:** ☐ You as a dependent ☐ Your spouse as a dependent
☐ Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** ☐ Were born before January 2, 1955 ☐ Are blind **Spouse:** ☐ Was born before January 2, 1955 ☐ Is blind

Dependents (see instructions):

(1) First name Last name	(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions): Child tax credit	Credit for other dependents
			☐	☐
			☐	☐
			☐	☐
			☐	☐

Standard Deduction for—
- Single or Married filing separately, $12,200
- Married filing jointly or Qualifying widow(er), $24,400
- Head of household, $18,350
- If you checked any box under *Standard Deduction*, see instructions.

1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	38,000
2a	Tax-exempt interest	2a	b Taxable interest. Attach Sch. B if required	2b	360
3a	Qualified dividends	3a	b Ordinary dividends. Attach Sch. B if required	3b	
4a	IRA distributions	4a	b Taxable amount	4b	
c	Pensions and annuities	4c	d Taxable amount	4d	
5a	Social security benefits	5a	b Taxable amount	5b	
6	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			6	
7a	Other income from Schedule 1, line 9			7a	
b	Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your **total income** ▶			7b	38,360
8a	Adjustments to income from Schedule 1, line 22			8a	
b	Subtract line 8a from line 7b. This is your **adjusted gross income** ▶			8b	38,360
9	**Standard deduction or itemized deductions** (from Schedule A)	9	12,200		
10	Qualified business income deduction. Attach Form 8995 or Form 8995-A	10			
11a	Add lines 9 and 10			11a	12,200
b	**Taxable income.** Subtract line 11a from line 8b			11b	26,160

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2019)

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Form 1040 (2019) Page 2

	12a	**Tax** (see inst.) Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	12a	2,945	
	b	Add Schedule 2, line 3, and line 12a and enter the total ▶			12b 2,945
	13a	Child tax credit or credit for other dependents	13a		
	b	Add Schedule 3, line 7, and line 13a and enter the total ▶			13b
	14	Subtract line 13b from line 12b. If zero or less, enter -0-			14 2,945
	15	Other taxes, including self-employment tax, from Schedule 2, line 10			15
	16	Add lines 14 and 15. This is your **total tax** ▶			16 2,945
	17	Federal income tax withheld from Forms W-2 and 1099			17 3,574
• If you have a qualifying child, attach Sch. EIC. • If you have nontaxable combat pay, see instructions.	18	Other payments and refundable credits:			
	a	Earned income credit (EIC)	18a		
	b	Additional child tax credit. Attach Schedule 8812	18b		
	c	American opportunity credit from Form 8863, line 8	18c		
	d	Schedule 3, line 14	18d		
	e	Add lines 18a through 18d. These are your **total other payments and refundable credits** ▶			18e
	19	Add lines 17 and 18e. These are your **total payments** ▶			19 3,574
Refund	20	If line 19 is more than line 16, subtract line 16 from line 19. This is the amount you **overpaid**			20 629
	21a	Amount of line 20 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			21a 629
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings			
	▶ d	Account number			
	22	Amount of line 20 you want **applied to your 2020 estimated tax** ▶	22		
Amount You Owe	23	**Amount you owe.** Subtract line 19 from line 16. For details on how to pay, see instructions ▶			23
	24	Estimated tax penalty (see instructions) ▶	24		

Third Party Designee (Other than paid preparer)

Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ | Phone no. ▶ | Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Salesperson	
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if:
Firm's name ▶		Phone no.		☐ 3rd Party Designee ☐ Self-employed
Firm's address ▶			Firm's EIN ▶	

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2019)

DRAFT AS OF JUL 1, 2019 DO NOT FILE

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DIFFICULTY LEVEL RATINGS—CHAPTER 2

The following table denotes the relative difficulty level of each question. Instructors may wish to organize test questions based on the difficulty level of the particular class.

True-False Question Ratings

1. Difficult
2. Moderate
3. Moderate
4. Easy
5. Moderate
6. Easy
7. Moderate
8. Moderate
9. Easy
10. Easy
11. Easy
12. Easy
13. Moderate
14. Easy
15. Difficult
16. Easy
17. Easy
18. Easy
19. Easy
20. Easy
21. Moderate
22. Moderate
23. Moderate
24. Difficult
25. Moderate
26. Easy
27. Moderate
28. Easy
29. Easy
30. Moderate
31. Easy
32. Moderate
33. Moderate
34. Easy
35. Moderate
36. Moderate
37. Easy
38. Easy
39. Moderate
40. Difficult

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41. Moderate
42. Moderate
43. Moderate
44. Moderate
45. Difficult

Multiple Choice Question Ratings

46. Moderate
47. Moderate
48. Easy
49. Easy
50. Moderate
51. Moderate
52. Easy
53. Moderate
54. Difficult
55. Easy
56. Easy
57. Moderate
58. Difficult
59. Easy
60. Difficult
61. Moderate
62. Difficult
63. Difficult
64. Difficult
65. Moderate
66. Difficult
67. Difficult
68. Easy
69. Moderate
70. Easy
71. Moderate
72. Easy
73. Moderate

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Fill-in-the-Blank Question Ratings

74. Easy
75. Easy
76. Easy
77. Easy
78. Easy
79. Easy
80. Easy
81. Easy
82. Easy
83. Easy
84. Easy
85. Easy
86. Moderate
87. Easy
88. Easy
89. Moderate
90. Easy
91. Easy
92. Moderate
93. Moderate
94. Easy
95. Difficult

Supplementary Problem Ratings

96. Moderate
97. Moderate

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