FEDERAL TAXATION OF INDIVIDUALS (TAX 650)

MID-TERM EXAM

May, 2014

1) Please write your name on the exam paper.

2) If writing your exam, please write legibly. Do not cram your work on one or two sheets of paper if using your computer. Identify each problem clearly. Please CIRCLE your choice of the correct answer on the "Multiple Choice" problems.

3) All exams must be turned in no later than May 15 (6:00 PM).

4) The exam should be your work. It should not be prepared in collaboration with anyone else.

5) Assume 2013 as the tax year for all problems.

6) If you cannot attend class on the due date, please e-mail the exam to me. Use the e-mail address shown on the syllabus, that is [redacted]

Thank you,

[redacted]

PROBLEM 1

1) All of the following items are deductions <u>for</u> (not from) adjusted gross income <u>except</u>
A) moving expenses.
B) unreimbursed employee business expenses.
C) qualifying contributions to individual retirement accounts.
D) one-half of self-employment taxes paid.

2) In 2013 the standard deduction for a married taxpayer filing a joint return and who is 67 years old with a spouse who is 65 years old is
A) $12,200.
B) $13,400.
C) $14,600.
D) $15,200.

3) On June 1, 2013, Ellen turned 65. Ellen has been a widow for five years and has no dependents. Her standard deduction is
A) $3,900.
B) $6,100.
C) $7,600.
D) $12,200.

4) Husband and wife, who live in a common law state, are eligible to file a joint return for 2013, but elect to file separately. They do not have dependents. Wife has adjusted gross income of $25,000 and has $2,200 of expenditures which qualify as itemized deductions. She is entitled to one exemption. Husband deducts itemized deductions of $11,200. What is the taxable income for the wife?
A) $15,000
B) $18,900
C) $12,150
D) $22,800

5) Lewis, who is single, is claimed as a dependent on his parents' tax return. He received $2,000 during the year in dividends, which was his only income. What is his standard deduction?
A) $1,000
B) $2,000
C) $2,350
D) $6,100

6) Charlie is claimed as a dependent on his parents' tax return in 2013. He received $8,000 during the year from a part-time acting job, which was his only income. What is his standard deduction?
A) $1,000
B) $6,100
C) $8,000
D) $8,350

7) Cheryl is claimed as a dependent on her parents' tax return. She had a part-time job during 2013 and earned $4,900 during the year, in addition to $600 of interest income. What is her standard deduction?
A) $1,000
B) $4,900
C) $5,200
D) $6,100

8) 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 $4,500. Ben and Karla can claim how many personal and dependency exemptions on their tax return?
A) 2
B) 3
C) 4
D) 5

9) Anita, who is divorced, maintains a home in which she and her 16 year old daughter live. Anita provides the majority of the support for her daughter and for a son, age 23, who is enrolled part-time at the university and lives in the dorm. The son also works in the campus bookstore and earns spending money of $4,500. How many personal and dependency exemptions may Anita claim?
A) 1
B) 2
C) 3
D) 4

10) David's father is retired and receives $14,000 per year in social security benefits. David's father saves $4,000 of the benefits and spends the remaining $10,000 for his support. How much support must David provide for his father to meet the dependent support requirement?
A) $10,000
B) $10,001
C) $14,000
D) $14,001

11) Blaine Greer lives alone. His support comes from the following sources:

Buddy (his son)$2,600Ken (his brother)4,200Martha (his daughter)2,300Natalie (a friend)__ 1,000Total support$10,100

Assuming a multiple support declaration exists, which of the individuals may claim Blaine as a dependent?
A) Ken or Martha
B) Buddy, Ken, or Martha
C) Ken, Martha, or Natalie
D) None of them

12)
A) be a U.S. citizen or resident.
B) live apart from the spouse for the last six months of the year.
C) pay more than half the cost of maintaining the home.
D) have a son or daughter in the home for the entire year.

`13) In October 2012, Joy and Paul separated and have not lived with each other since, but they are still legally married. They do not file a joint return. Joy supports their children after the separation and pays the cost of maintaining their home. Joy's filing status in 2012 and 2013 is, respectively,
A) single for both years.
B) head of household and single.
C) married filing separately for both years.
D) married filing separately and head of household.

14) Elise, age 20, is a full-time college student with earned income from wages of $4,400 and interest income of $500. Elise's parents provide more than half of her support. Elise's

[redacted]

PROBLEM 2

1) Frasier and Marcella, husband and wife, file separate returns. Frasier and Marcella live in a community property state that considers separate property income to be separate. Frasier's salary is $42,000 and Marcella's salary is $46,000. Marcella receives dividend income of $4,000 from stock inherited from her parents. Frasier receives interest income of $1,000 from bonds purchased with his salary after marriage. Frasier and Marcella receive $3,200 dividend income from stock they purchased jointly. Marcella's income would be
A) $50,000.
B) $50,100.
C) $51,100.
D) $51,600.

2) Todd and Hillary, husband and wife, file separate returns. Todd and Hillary live in a community property state that considers separate property income to be community income. Todd's salary is $82,000 and Hillary's salary is $80,000. Hillary receives dividend income of $7,000 from stock inherited from her parents. Todd receives interest income of $5,000 from bonds purchased with his salary after marriage. Todd and Hillary receive $10,000 dividend income from stock they purchased jointly. Todd's income would be
A) $92,000.
B) $93,000.
C) $94,500.
D) $97,000.

3) Norah, who gives music lessons, is a calendar year taxpayer using the cash basis method of accounting. On October 1 of this year, she received $1,200 for a one-year contract beginning on that date to provide 10 lessons. She gave 6 lessons this year. How much should Norah include in income this year?
A) $0
B) $360
C) $720
D) $1,200

4) Amy's employer provides her with several fringe benefits. Which of the following are included in her taxable income?
A) Christmas bonus check
B) group term life insurance premium paid by employer for $40,000 coverage for Amy
C) employee discount
D) employer's contribution to retirement plans on Amy's behalf

5) Ricky has rented a house from Sarah since last year. The rent is usually $900 per month, but Sarah reduced the monthly rent down to $800 for all twelve months this year in exchange for Ricky constructing an addition to the house. The addition has a fair market value of $33,000. How much total rental income must Sarah report this year?

A) $9,600

B) $33,000

[redacted]

10) With respect to alimony and property settlements in a divorce or separation, all of the [redacted]

14) Lily had the following income during the current year:

Salary$75,000Prize from quiz show25,000Unemployment compensation8,000Embezzled funds30,000Partnership Income35,000

What is Lily's adjusted gross income (not taxable income)?
A) $135,000
B) $143,000
C) $165,000
D) $173,000

15) During 2013, Robert and Cassie had $2,600 withheld from their pay for state income taxes. They file a joint return for 2013 and claimed the $2,600 taxes withheld as an itemized deduction on their federal tax return. Their itemized deductions totaled $12,800 on their 2013 tax return. Their 2013 state income tax was only $1,000 and they received a refund of $1,600 when they filed their state income tax return in 2014. As a result, Robert and Cassie must
A) amend 2013's federal tax return.
B) report income of $600 in 2014.
C) report income of $1,600 in 2014.
D) reduce their deduction for state income taxes for 2014 by $1,600.

PROBLEM 3

1) Britney is beneficiary of a $150,000 insurance policy on her father's life. Upon his death, she may elect to receive the proceeds in five yearly installments of $32,000 or may take the $150,000 lump sum. She elects to take the lump sum payment. What are the tax consequences in year one?
A) All $32,000 each year is taxable.
B) $10,000 interest is taxable in the first year.
C) There is no taxable income.
D) The lump sum payment is taxable.

2) Hope receives an $18,500 scholarship from State University. The university specifies that $8,500 is for tuition, books, supplies, and equipment, while $10,000 is for room and board. In addition, Hope works part-time at the campus library and earns $5,000. Hope's gross income is
A) $5,000.
B) $15,000.
C) $18,500.
D) $23,500.

3) Elisa sued her former employer for discrimination. She was awarded $200,000 for lost wages, $30,000 for medical expenses related to emotional distress resulting from the discrimination, and $300,000 in punitive damages. The amount taxable is
A) $0.
B) $200,000.
C) $500,000.
D) $530,000.

4) Joe Black, a police officer, was injured in the line of duty. He received the following during the current year:

Salary$50,000Workers' compensation5,000Compensatory damages for physical injury18,000Punitive damages for physical injury14,000Cash reward for preventing a break-in2,000

What is the amount that is taxable?
A) $57,000
B) $66,000
C) $71,000
D) $84,000

5) All of the following items are excluded from gross income <u>except</u>
A) working condition benefits.
B) de minimis benefits.
C) no additional cost benefits for employees.
D) disability income from an employer-financed policy.

6) Which of the following item(s) must be included in the income of the respective employees?
A) ABC Hospital Corporation provides free meals in the hospital cafeteria to employees while on duty in order that they be available for emergency calls.
B) The state of California highway patrol organization provides its officers with a daily meal allowance to compensate them for meals eaten at any location while they are on duty.
C) IBX Corporation requires its employees to work overtime three evenings each year when the company takes inventory. The corporation pays to provide catered dinners on its premises on these evenings.
D) More than one, but not all, of the amounts must be included in income.

7) Ahmad's employer pays $10,000 in tuition this year for Ahmad to attend a graduate business program. How much of the employer-provided tuition is taxable to Ahmad?
A) $0
B) $4,750
C) $5,250
D) $10,000

8) In 2012 Betty loaned her son, Juan, $10,000 to help him buy a car. In 2013, before he repaid the $10,000, Betty told Juan that she was "tearing up" the $10,000 note as a graduation present. How should Juan treat the amount forgiven?
A) taxable income in year of loan
B) taxable income in year of forgiveness
C) excludable gift in year of loan
D) excludable gift in year of forgiveness

9) For a taxpayer who is not insolvent nor under bankruptcy proceedings, the discharge of debt is generally
A) taxable.
B) nontaxable.
C) partially taxable.
D) none of the above.

10) Randy and Sharon are married and have two dependent children. They also fully support Sharon's mother who lives with them and has no income. Their 2013 tax and other related information is as follows:

Total salaries \$160,000
Bank account interest income \$3,500
Municipal bond interest income \$1,500
Value of employer provided medical insurance\$5,500
Value of premiums for \$50,000 of group term life insurance provided by employer \$500
Dividend income—from ABC stock, \$2,000
Loan from Randy's parents \$5,000
Gift from Randy's parents \$15,000
Gain from the sale of qualified small business stock acquired in 2006 \$15,000
Total itemized deductions \$16,000

Compute Randy and Sharon's taxable income. (Show all calculations in good form.)

PROBLEM 4

1) Richard exchanges a building with a FMV of $75,000, a basis of $35,000, and subject to a liability of $25,000 for land with a FMV of $50,000 owned by Bill. What is the amount of Richard's realized gain?
A) $0
B) $15,000
C) $25,000
D) $40,000

2) Jordan paid $30,000 for equipment two years ago and has claimed total depreciation deductions of $15,600 for the two years. The cost of repairs during the same time period was $2,000 while a major overhaul which extended the life of the equipment cost $7,000. What is Jordan's adjusted basis in the equipment at the end of the two-year period?
A) $14,400
B) $16,400
C) $21,400
D) $30,000

3) Dennis purchased a machine for use in his business. Mr. Dennis' costs in connection with this purchase were as follows:

Note to seller$33,000 ; Cash paid to seller $5,000; State sales tax $2,400; Freight to place [redacted]

4) Edward purchased stock last year as follows:

March-- 100 shs. $270.
July----- 200 shs. $600.
October- 600 shs. $1,200.

In April of this year, Edward sells 80 shares for $250. Edward cannot specifically identify the stock sold. The basis for the 80 shares sold is
A) $160.
B) $184.
C) $216.
D) $240.

5) Kathleen received land as a gift from her grandfather. At the time of the gift, the land had a FMV of $85,000 and an adjusted basis of $110,000 to Kathleen's grandfather. One year later, Kathleen sold the land for $80,000. What was her gain or (loss) on this transaction?
A) no gain or loss
B) ($5,000)
C) $5,000
D) $30,000

6) Dale gave property with a basis of $16,000 to Sarah when it had a FMV of $12,000. Sarah later sold the property for $22,000 resulting in a recognized gain of
A) $-0-.
B) $4,000.
C) $6,000.
D) $12,000.

7) David gave property with a basis of $1,330 to Hannah when the property had a FMV of $1,000 and paid gift taxes of $80. If Hannah later sells the property for $1,400, Hannah's basis (to determine gain) in the property immediately before the sale is
A) $1,000.
B) $1,080.
C) $1,330.
D) $1,410.

PROBLEM 5

1) In 2011 Toni purchased 100 shares of common stock in Blue Corporation for $5,280. In 2012, Blue declared a stock dividend of one share of its common stock for each 10 shares held. This year, 2013, Blue's common stock split 2 for 1 at a time when the FMV was $80 a share. What is Toni's basis in each of her shares of the Blue Corporation stock if both distributions were tax-free?
A) $24 per share
B) $48 for 110 shares and $0 for all additional shares
C) $52.80 for 100 shares and $0 for all additional shares
D) $80 per share

2) All of the following are capital assets with the exception of
A) personal residence.
B) corporate stock held for investment.
C) equipment used in a trade or business.
D) a Rembrandt painting held in a private collection.

3) Antonio is single and has taxable income of $150,000 without considering the sale of a capital asset (land held for investment) in September of 2013 for $25,000. That asset was purchased six years earlier and has a tax basis of $5,000. The tax liability applicable to only the capital gain (without consideration of the additional Medicare tax) is
A) $1,000.
B) $3,000.
C) $5,600.
D) $7,000.

4) Renee is single and has taxable income of $480,000 without considering the sale of a capital asset (land held for investment) in September of 2013 for $25,000. That asset was purchased six years earlier and has a tax basis of $5,000. The tax liability applicable to only the capital gain (without consideration of the additional Medicare tax) is
A) $7,920.
B) $5,600.
C) $3,000.
D) $4,000.

5) Darla sold an antique clock in 2013 for $3,000. She had purchased the clock in 2009 for $2,000. If she is otherwise in the 35% marginal tax bracket, what is the maximum tax rate on the capital gain on the sale of the clock?
A) 5%
B) 15%
C) 28%
D) 20%

6) The taxable portion of a gain from qualified small business stock is taxed at a top tax rate of
A) 15%.
B) 18%.
C) 20%.
D) 28%.

7) Andrea died with an unused capital loss carryover of $3,300. The carryover
A) may be carried back three years.
B) will be fully used on Andrea's final income tax return.
C) will be inherited by Andrea's heirs.
D) expires with death.

8) Joel has four transactions involving the sale of capital assets during the year resulting in a STCG of $5,000, a STCL of $12,000, a LTCG of $1,800 and a LTCL of $1,000. As a result of these transactions, Joel will
A) deduct net losses of $6,200 against ordinary income.
B) deduct losses of $3,000 against ordinary income and carry $3,200 of STCL forward.

C) deduct losses of $3,000 against ordinary income and carry $3.200 of LTCL forward.
D) deduct losses of $3,000 against ordinary income and carry $3,200 of losses back two years.

9) Stella has two transactions involving the sale of capital assets during the year resulting in a STCL of $5,200 and LTCL of $2,400. As a result, Stella can offset
A) $5,200 of ordinary income and have a LTCL carryforward of $2,400.
B) $3,000 of ordinary income and have a $4,600 STCL carryforward.
C) $3,000 of ordinary income and have a $2,200 STCL carryforward and $2,400 LTCL carryforward.
D) $7,600 of ordinary income.

10) Gertie has a NSTCL of $9,000 and a NLTCG of $5,500 during the current taxable year. After gains and losses are offset, Gertie reports

A)

An offset against ordinary incomeLoss carryforward$ 3,000$ -0-

B)

An offset against ordinary incomeLoss carryforward$ 3,000$ 500

C)

An offset against ordinary incomeLoss carryforward$ 3,500$ -0-

D)

An offset against ordinary incomeLoss carryforward$ 3,000$ 6,000

11) Amanda, whose tax rate is 33%, has NSTCL of $25,000, a $30,000 LTCG from sale of a rare coin held 15 months and a $18,000 LTCG from the sale of stock held for three years. By what amount will Amanda's tax liability increase?

A) $3,450
B) $4,100
C) $6,440
D) $7,340

12) Candice owns a mutual fund that reinvests her dividends and capital gains earned during the year. The mutual fund reported to her that her share of earnings was: $500 in dividends, $1,500 in short-term net capital gains, and $1,300 in long-term net capital gains. She reported the items on her tax return and paid the appropriate tax on these earnings. If her basis in the fund was $25,000 at the beginning of the year, what is her basis at the end of the year?

A) $25,000
B) $25,500
C) $27,000
D) $28,300