

Fundamentals of Taxation 2018 Edition, 11e (Cruz)

Chapter 2 Expanded Tax Formula, Forms 1040A and 1040, and Basic Concepts

- 1) The federal individual income tax returns are the 1040ES, 1040A and 1040.
- 2) The tax code defines adjusted gross income (AGI) as gross income minus a list of permitted deductions.
- 3) The amount of tax liability for a taxpayer depends on many factors, including the filing status of the taxpayer.
- 4) A married couple can file a joint return only if both have earned income.
- 5) A married couple in the process of obtaining a divorce cannot file a joint tax return.
- 6) A married taxpayer filing separately must show the name, address, and social security number of the spouse on the tax return.
- 7) To qualify for head of household status, a taxpayer must maintain a household that is the principal place of abode of a qualifying person for more than half the year.
- 8) A taxpayer can qualify for head of household even though his or her parents are living in a separate household from that of the taxpayer (assume all other requirements are met).
- 9) If a taxpayer's spouse dies during the tax year, the taxpayer must file as a qualifying widow(er).
- 10) The exemption amount is subject to annual adjustment for inflation.
- 11) The personal exemption for 2017 is \$4,050.
- 12) A taxpayer can be claimed as a dependent on another return and still he or she can claim a personal exemption on his or her tax return.
- 13) To be claimed as a dependent, a person must be a qualifying child or a qualifying relative.
- 14) A qualifying child does not have to meet the support test in order to be claimed as a dependent.
- 15) A qualifying relative must be related to the taxpayer (as listed by the IRS), or be a member of the taxpayer's household for the entire year.
- 16) A taxpayer who either is 65 or older or blind can claim an additional standard deduction.
- 17) The standard deduction in 2017 for a married couple, under 65 and not blind, is \$12,700.

- 18) In 2017, the additional standard deduction for a single taxpayer, who is 65 or older and not blind, is \$1,200.
- 19) Even if the total of the itemized deductions is lower than the standard deduction, a taxpayer should choose to itemize on his or her tax return.
- 20) The tax tables stop at taxable income of \$115,000.
- 21) Most taxpayers make payments to the IRS through income tax withholdings and quarterly estimated tax payments.
- 22) A taxpayer may request an automatic seven-month extension of time to file his or her tax return.
- 23) An extension to file a tax return is an extension of time to file and an extension of time to pay.
- 24) The maximum penalty for failure to file a tax return that is not due to fraud is 25%.
- 25) The IRS can impose a 75% penalty on any portion of understatement of tax that is attributable to negligence.
- 26) Taxable income (TI) is computed after subtracting from adjusted gross income (AGI), the standard deduction or itemized deductions and personal and dependency exemptions.
- 27) When a taxpayer's AGI exceeds certain levels, certain tax benefits are reduced or eliminated.
- 28) Marital status of a taxpayer is determined on the last day of the tax year.
- 29) A couple who is legally married on the last day of the tax year cannot file married filing separately.
- 30) Even though the taxpayer is claimed as a dependent on another tax return, he or she can still receive an exemption amount for himself or herself when filing his or her tax return.
- 31) In a multiple support agreement, the taxpayer who will receive the exemption must file all the Forms 2120 with his or her tax return.
- 32) The taxpayer's brother must live with the taxpayer for the entire year to meet the relationship or member of household test under qualifying relatives.
- 33) If a married couple files separate returns and one of them itemizes, the other spouse must also itemize.
- 34) A taxpayer who has income that is not subject to withholding is never required to make estimated payments during the year.

- 35) If the taxpayer still owes tax after April 15, the IRS assesses interest based on the remaining amount owed.
- 36) Many deductions and credits are determined with reference to adjusted gross income (AGI).
- 37) A taxpayer must be married to claim Head of Household status.
- 38) Personal exemptions are for the taxpayer and spouse.
- 39) The amount of the standard deduction increases for people who are age 62 and have retired.
- 40) The accuracy-related penalty applies when negligence or any substantial understatement occurs.
- 41) A single taxpayer is 43 years old and has wages only of \$16,000. Which is the simplest form this person can file?
- A) 1040A.
 - B) 1040EZ.
 - C) 1040.
 - D) 1040ES.
- 42) A 36-year-old taxpayer with a dependent child and claiming head of household status has received \$29,000 in alimony payments and earned wages of \$44,000. Which is the simplest form this person can file?
- A) 1040A.
 - B) 1040EZ.
 - C) 1040.
 - D) 1040ES.
- 43) A taxpayer is married with a qualifying child (dependent), but she has been living separate from her spouse for the last five months of the year. However, she paid for more than half of the cost of keeping up the household. Her spouse does not want to file jointly. What filing status must she use when filing her tax return? She wants to obtain the maximum legal benefit.
- A) Single.
 - B) Married Filing Separately.
 - C) Qualifying Widow(er).
 - D) Head of Household.
- 44) The taxpayer's spouse died at the beginning of 2016. He has no qualifying child. Which status should the taxpayer select when filing his tax return for 2017?
- A) Single.
 - B) Married Filing Separately.
 - C) Married Filing Jointly.
 - D) Qualifying Widow(er).

45) A legally divorced taxpayer maintains a household for himself and maintains a separate household that is the principal place of abode of his dependent widowed mother. What filing status should he use when filing his tax return?

- A) Married Filing Separately.
- B) Single.
- C) Qualifying widow(er).
- D) Head of Household.

46) For tax purposes, marital status is determined as of the _____ day of the year.

- A) first
- B) third
- C) last
- D) None of these

47) What was the amount of the personal exemption for 2017?

- A) \$3,900.
- B) \$4,000.
- C) \$4,100.
- D) \$4,050.

48) Elisa is 21 years of age and a full-time student living with her parents. She had wages of \$680 (\$75 of income tax withholding) for 2017. Can Elisa claim her exemption on her return even though her parents will claim her as a dependent on their tax return?

- A) Elisa and her parents can both claim the exemption.
- B) No one can claim the exemption for Elisa.
- C) Yes, Elisa can claim the exemption.
- D) No, Elisa cannot claim the exemption.

49) A taxpayer can deduct a(an) _____ amount from AGI for each dependent.

- A) Deduction
- B) Exemption
- C) Itemized
- D) Adjustment

50) Mirtha is 21 years of age and a full-time student living by herself. She had wages of \$25,000 for 2017 and provided more than half of her own support. Can Mirtha claim the exemption for herself on her tax return?

- A) Mirtha's parents can claim the exemption.
- B) Both, Mirtha and her parents can claim the exemption.
- C) Yes, Mirtha can claim the exemption.
- D) No one can claim the exemption for Mirtha.

51) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which one is *not* part of the five specific tests?

- A) Gross income test.
- B) Relationship test.
- C) Residency test.
- D) Special test for qualifying child of more than one taxpayer.

52) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. What are the three general tests?

- A) Relationship test, residency test and gross income test.
- B) Support test, age test and relationship test.
- C) Dependent taxpayer test, relationship test and citizen or resident test.
- D) Dependent taxpayer test, joint return test and citizen or resident test.

53) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is *not* part of the four specific tests?

- A) Relationship test or member of household test.
- B) Age test.
- C) Support test.
- D) Gross income test.

54) For a qualifying relative to be claimed as a dependent, this person must either be related to the taxpayer, or be a member of the taxpayer's household for the entire year. Select the relative who must be part of the taxpayer's household for the entire year.

- A) Mother.
- B) Sister.
- C) Cousin.
- D) Son-in-law.

55) The taxpayer must provide over _____ of the qualifying relative's support to be able to claim a dependency exemption.

- A) 49%
- B) 50%
- C) 51%
- D) 75%

56) Which of the following items would not be considered as *support* for a dependency exemption?

- A) medical insurance premiums.
- B) food.
- C) clothing.
- D) life insurance premiums.

57) Robert, Fred and Lucas are supporting their mother who lives in a separate apartment. Their contributions towards her support are 10%, 40% and 50%, respectively. In a multiple support agreement, who would be entitled to claim the mother as a dependent?

- A) Robert.
- B) Fred or Lucas.
- C) Robert, Fred or Lucas.
- D) None of these.

58) The basic standard deduction in 2017 for a *single* taxpayer, under 65 and not blind, is:

- A) \$6,350.
- B) \$4,050.
- C) \$9,300.
- D) \$6,300.

59) The basic standard deduction in 2017 for a taxpayer, under 65 and not blind, filing *married filing jointly* is:

- A) \$12,400.
- B) \$12,600.
- C) \$12,700.
- D) \$9,350.

60) The basic standard deduction in 2017 for a taxpayer, 67 and not blind, filing *head of household* is:

- A) \$9,300.
- B) \$10,900.
- C) \$10,850.
- D) \$9,350.

61) When a taxpayer can be claimed as a dependent on the tax return of another individual, the basic standard deduction for the taxpayer is limited to the greater of (a) _____, or (b) the taxpayer's earned income plus \$350, but not more than the amount of the basic standard deduction.

- A) \$1,000
- B) \$950
- C) \$1,050
- D) \$350

62) Luisa's parents can claim her as a dependent on their tax return. In 2017, her only source of income was a part-time job as a medical clerk where she earned \$2,600 during the year. What is Luisa's standard deduction?

- A) \$2,600.
- B) \$4,050.
- C) \$1,050.
- D) \$2,950.

63) Ed's parents can claim him as a dependent on their tax return. In 2017, his only source of income was \$1,050 of interest income received from Global Bank. What is Ed's standard deduction?

- A) \$1,050.
- B) \$1,000.
- C) \$4,050.
- D) \$350.

64) What is the amount of the social security wage limitation for 2017?

- A) \$118,500.
- B) \$110,100.
- C) \$127,200.
- D) \$117,000.

65) What is the amount of the tax liability for a married couple filing jointly, having taxable income of \$153,500? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$38,375.
- B) \$29,753.
- C) \$30,233.
- D) \$29,865.

66) What is the amount of the tax liability for a single person having taxable income of \$59,200? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$10,656.
- B) \$9,350.
- C) \$10,545.
- D) \$14,800.

67) What is the amount of the tax liability for a head of household person having taxable income of \$87,573? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$16,146.
- B) \$16,134.
- C) \$17,963.
- D) \$17,633.

68) What is the amount of the tax liability for a qualifying widow(er) with a dependent child and having taxable income of \$18,355? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$1,836.
- B) \$2,331.
- C) \$1,838.
- D) \$2,753.

69) What is the amount of the tax liability for a qualifying widow(er) with a dependent child and having taxable income of \$121,600? All answers should be rounded to the nearest dollar.

- A) \$25,234.
- B) \$21,878.
- C) \$30,400.
- D) \$27,665.

70) Failure to make required estimated payments will subject the taxpayer to a potential underpayment penalty plus interest. However, if the difference between the tax shown on the return and the amount of tax withheld for wages is less than _____, the taxpayer will not be assessed a penalty.

- A) \$1,250
- B) \$500
- C) \$850
- D) \$1,000

71) The interest charged by the IRS for the first three months of 2017 was:

- A) 3%.
- B) 5%.
- C) 4%.
- D) 6%.

72) John forgot to file his tax return by April 15. He did not file an extension. John finally filed his tax return on June 30 and had a remaining tax liability of \$1,500. What is John's failure to file penalty? Assume he made all his payments on time.

- A) \$375.
- B) \$225.
- C) \$233.
- D) \$300.

73) The failure to file penalty is _____ of the tax shown on the return for each month (or fraction of a month) the tax return is not filed, up to a maximum of 25%.

- A) 0.25%
- B) 0.5%
- C) 5.0%
- D) 5.5%

74) The IRS can impose a _____ penalty on any portion of understatement of tax that is attributable to fraud.

- A) 25%
- B) 75%
- C) 50%
- D) 5%

75) Criminal penalties only apply to:

- A) Careless disregard for tax authority.
- B) Willful failure to file a return.
- C) Tax evasion.
- D) Willful failure to file a return and tax evasion.

76) A single taxpayer is 35 years old and has only wages of \$16,000. Which is the simplest form this person can file?

- A) 1040A.
- B) 1040EZ.
- C) 1040ES.
- D) 1040.

77) The early withdrawal penalty is a *for AGI deduction*. Which form can the taxpayer use to claim this benefit?

- A) 1040EZ.
- B) 1040A.
- C) 1040.
- D) 1040A or 1040.

78) A 37- year-old taxpayer with a dependent child and claiming head of household status has received \$21,000 in child support payments and earned wages of \$46,000. Which is the simplest form this person can file?

- A) 1040A.
- B) 1040.
- C) 1040ES.
- D) 1040EZ.

79) The taxpayer's spouse died at the beginning of 2017. He has no qualifying child. Which status should the taxpayer select when filing his tax return?

- A) Single.
- B) Qualifying Widow(er).
- C) Married Filing Separately.
- D) Married Filing Jointly.

80) Which condition listed below is not required for a taxpayer to qualify as a qualifying widow(er) with dependent child?

- A) The household was the principal place of abode for the entire year of both the taxpayer and his or her child.
- B) Taxpayer must remarry before the end of the tax year in question.
- C) Taxpayer paid more than half the cost of keeping up a household.
- D) Taxpayer was eligible to file a joint return in the year the spouse died.

81) What is the amount of the personal and dependency exemption for 2017?

- A) \$6,350.
- B) \$4,050.
- C) \$4,000.
- D) \$4,100.

82) George is 21 years of age and a full-time student living with his parents. He had wages of \$1,375 (\$140 of income tax withholding) for 2017. Can George claim his exemption on his return even though his parents will claim him as a dependent on their tax return?

- A) No, George cannot claim the exemption.
- B) George and his parents can both claim the exemption.
- C) No one can claim the exemption for George.
- D) Yes, George can claim the exemption.

83) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is *not* part of the three general tests?

- A) Citizen or resident test.
- B) Dependent taxpayer test.
- C) Support test.
- D) Joint return test.

84) Jane, Joseph and John are supporting their father who lives in a separate apartment. Their contribution towards his support is 10%, 35% and 55%, respectively. In a multiple support agreement, who would be entitled to claim the father as a dependent?

- A) Jane.
- B) Joseph or John.
- C) Jane, Joseph or John.
- D) None of these.

85) Which of the following items would not be considered as *support* for a dependency exemption?

- A) shelter.
- B) life insurance premiums.
- C) medical and dental care.
- D) food.

86) Which amount represents the standard deduction for a taxpayer who is single and 68 years of age?

- A) \$6,350.
- B) \$7,550.
- C) \$7,850.
- D) \$7,900.

87) The additional standard deduction amount for a taxpayer who is 65, single and blind is:

- A) \$3,100.
- B) \$2,500.
- C) \$2,800.
- D) \$3,000.

88) Robin's parents can claim him as a dependent on their tax return. In 2017, his only source of income was a part-time job as a supermarket clerk where he earned \$3,200 during the year. What is Robin's standard deduction?

- A) \$1,050.
- B) \$3,550.
- C) \$3,200.
- D) \$6,350.

89) The basic standard deduction in 2017 for a taxpayer, 69 and not blind, filing *head of household* is:

- A) \$6,350.
- B) \$9,350.
- C) \$10,850.
- D) \$10,900.

90) What is the amount of the tax liability for a head of household person having taxable income of \$122,500? All answers should be rounded to the nearest dollar.

- A) \$30,625.
- B) \$27,796.
- C) \$34,300.
- D) \$24,878.

91) What is the amount of the tax liability for a single person having taxable income of \$55,300? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$9,570.
- B) \$9,754.
- C) \$8,295.
- D) \$9,681.

92) What is the amount of the tax liability for a married couple filing jointly having taxable income of \$96,843? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$14,526.
- B) \$13,604.
- C) \$15,684.
- D) \$15,923.

93) What is the amount of the tax liability for a married person filing a separate return and having taxable income of \$115,715? All answers should be rounded to the nearest dollar.

- A) \$26,435.
- B) \$25,842.
- C) \$32,400.
- D) \$25,950.

94) The IRS can impose a _____ penalty on any portion of understatement of tax that is attributable to fraud.

- A) 20%
- B) 25%
- C) 75%
- D) 5%

95) Peter forgot to file his tax return by April 15. He did not file an extension. Peter finally filed his tax return on July 31 and had a remaining tax liability of \$3,500. What is Peter's failure to file penalty? Assume he made all his payments on time.

- A) \$875.
- B) \$525.
- C) \$350.
- D) \$700.

96) A head of household taxpayer with a dependent child had wages of \$47,200. Which is the simplest form this person can file?

- A) 1040EZ.
- B) 1040ES.
- C) 1040A.
- D) 1040.

97) The taxpayer's spouse died at the beginning of 2017. She has a qualifying child. Which status should the taxpayer select when filing her tax return for 2017?

- A) Single.
- B) Married Filing Jointly.
- C) Head of Household.
- D) Qualifying Widow(er).

98) On December 31, 2017, a taxpayer received the notification that he was legally divorced. However, he lived with his spouse for 8 months during 2017. He has no dependent children. What status should he select when filing his tax return for 2017?

- A) Married Filing Separately.
- B) Head of Household.
- C) Married Filing Jointly.
- D) Single.

99) What is the total amount of personal exemptions a taxpayer and spouse can claim for 2017?

- A) \$8,100.
- B) \$9,300.
- C) \$4,050.
- D) \$12,600.

100) Severin, who is 20 years old and a full- time student, is claimed by his parent as a dependent. However, in 2017, he earned \$5,350. What is the amount of the personal exemption that he can claim on his tax return?

- A) \$4,050.
- B) \$1,050.
- C) \$0.
- D) \$5,400.

101) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which one is *not* part of the three general tests?

- A) Joint return test.
- B) Citizen or resident test.
- C) Dependent taxpayer test.
- D) Support test.

102) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is part of the four specific tests?

- A) Gross income test.
- B) Age test.
- C) Citizen or resident test.
- D) Residency test.

103) A qualifying relative must earn less than _____ for the year 2017.

- A) \$1,050
- B) \$6,350
- C) \$9,350
- D) \$4,050

104) The basic standard deduction in 2017 for a *single* taxpayer who is 67 years old and not blind is:

- A) \$7,850.
- B) \$6,350.
- C) \$7,900.
- D) \$1,550.

105) The basic standard deduction in 2017 for a *Head of Household* taxpayer who is 41 years old and not blind is:

- A) \$6,350.
- B) \$7,900.
- C) \$12,700.
- D) \$9,350.

106) What is the limit on the social security amount for 2017?

- A) \$127,200.
- B) \$117,000.
- C) \$113,700.
- D) \$118,500.

107) The tax liability for a married couple with taxable income of \$141,325 is:

- A) \$35,331.
- B) \$26,809.
- C) \$20,276.
- D) \$21,199.

108) The tax liability for a single taxpayer with taxable income of \$67,350 is:

Use the appropriate Tax Tables or Tax Rate Schedules.

- A) \$12,700.
- B) \$10,103.
- C) \$12,638.
- D) \$12,583.

109) The tax liability for a head of household taxpayer with taxable income of \$124,225 is:

- A) \$25,701.
- B) \$31,056.
- C) \$18,634.
- D) \$25,309.

110) The IRS can impose a _____ penalty on the tax due on a return where there is negligence.

- A) 5%
- B) 75%
- C) 20%
- D) 25%

- 111) Why is the concept of "Adjusted Gross Income (AGI)" important?
- 112) What is the simplest tax return form a taxpayer should file if he or she has only \$41,000 in wages and is claiming head of household with a dependent child?
- 113) David and Martha were divorced on December 31, 2017. Can they file their 2017 income tax return using married filing jointly? Why or Why not? What other filing status choices do they have, if any?
- 114) What qualifications are necessary to file as *qualifying widow(er)*?
- 115) How many personal exemptions can the taxpayer claim? What is the amount of the personal exemption for 2017?
- 116) Can Albert, who is a full-time student and earns \$1,575 working as a clerk, claim an exemption for himself on his tax return? Assume his parents are claiming him as a dependent.
- 117) A taxpayer can claim a dependency exemption if the person is a *qualifying child or a qualifying relative* and the person meets three tests. List the three tests this person must meet.
- 118) List and describe the five tests that a person must meet to qualify as a *qualifying child*.
- 119) List and describe the four tests that a person must meet to qualify as a *qualifying relative*.
- 120) Determine the amount of the standard deduction for each of the following taxpayers for tax year 2017.
1. Leo and Mary who are under 65 and filing a joint return. They have no dependents.
 2. Sergio who is single.
 3. Peter who is over 65 and single.
 4. Anna who is 38 and filing as head of household with a dependent child.
 5. Frank who is 45 and blind and is filing as married filing separately.
- 121) What is the amount of the standard deduction for Evelyn who is a full-time student and claimed as a dependent by her parents? She earned \$2,700 in wages in 2017.
- 122) What does the withholding amount on a taxable payment made to the taxpayer represent?
- 123) Using the appropriate tax tables or tax rate schedules, determine the amount of tax liability in each of the following instances. All answers should be rounded to the nearest dollar.
1. A single person with taxable income of \$103,500.
 2. A married couple filing jointly with taxable income of \$37,700.
 3. A head of household with taxable income of \$87,925.
 4. A person filing married filing separately with taxable income of \$64,000.
 5. A married couple filing jointly with taxable income of \$144,600.

124) Can the taxpayer avoid the failure to pay on time penalty by just filing an automatic extension to file his or her tax return?

125) The IRS can assess criminal penalties if fraud is found on a tax return. Name and describe at least two of those criminal penalties.