

## Chapter 02

### Expanded Tax Formula, Forms 1040A and 1040, and Basic Concepts

#### True / False Questions

1. The federal individual income tax returns are the 1040ES, 1040A and 1040.

True   False

2. The tax code defines adjusted gross income (AGI) as gross income minus a list of permitted deductions.

True   False

3. The amount of tax liability for a taxpayer depends on many factors, including the filing status of the taxpayer.

True   False

4. A married couple can file a joint return only if both have earned income.

True   False

5. A married couple in the process of obtaining a divorce cannot file a joint tax return.

True   False

6. A taxpayer filing separately must show the name, address, and social security number of the spouse on the tax return.

True   False

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.

True False

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).

True False

9. If a taxpayer's spouse dies during the tax year, the taxpayer must file as a qualifying widow(er).

True False

10. The exemption amount is subject to annual adjustment for inflation.

True False

11. The personal exemption for 2013 is \$3,900.

True False

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.

True False

13. To be claimed as a dependent, a person must be a qualifying child or a qualifying relative.

True False

14. A qualifying child does not have to meet the support test in order to be claimed as a dependent.

True False

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.

True   False

16. A taxpayer who either is 65 or older or blind can claim an additional standard deduction.

True   False

17. The standard deduction in 2013 for a married couple, under 65 and not blind, is \$12,200.

True   False

18. In 2013, the additional standard deduction for a single taxpayer, who is 65 or older and not blind, is \$1,200.

True   False

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.

True   False

20. The tax tables stop at taxable income of \$115,000.

True   False

21. Most taxpayers make payments to the IRS through income tax withholdings and quarterly estimated tax payments.

True   False

22. A taxpayer may request an automatic seven-month extension of time to file his or her tax return.

True   False

23. An extension to file a tax return is an extension of time to file and an extension of time to pay.

True False

24. The maximum penalty for failure to file a tax return that is not due to fraud is 25%.

True False

25. The IRS can impose a 75% penalty on any portion of understatement of tax that is attributable to negligence.

True False

### Multiple Choice Questions

26. 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. 1040ES.
- C. 1040.
- D. 1040EZ.

27. A 35-year-old taxpayer with a dependent child and claiming head of household status has received \$28,000 in alimony payments and earned wages of \$46,000. Which is the simplest form this person can file?

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

28. 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.

29. The taxpayer's spouse died at the beginning of 2012. He has no qualifying child. Which status should the taxpayer select when filing his tax return for 2013?

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

30. 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.

31. For tax purposes, marital status is determined as of the \_\_\_\_\_ day of the year.
- A. first
  - B. third
  - C. last
  - D. None of the above
32. What was the amount of the personal exemption for 2013?
- A. \$3,800.
  - B. \$3,900.
  - C. \$3,950.
  - D. \$3,650.
33. Tina is 21 years of age and a full-time student living with her parents. She had wages of \$680 (\$70 of income tax withholding) for 2013. Can Tina claim her exemption on her return even though her parents will claim her as a dependent on their tax return?
- A. Tina and her parents can both claim the exemption.
  - B. No one can claim the exemption for Tina.
  - C. Yes, Tina can claim the exemption.
  - D. No, Tina cannot claim the exemption.
34. A taxpayer can deduct a(an) \_\_\_\_\_ amount from AGI for each dependent.
- A. Exemption
  - B. Deduction
  - C. Itemized
  - D. Adjustment

35. Mirtha is 21 years of age and a full-time student living by herself. She had wages of \$23,000 for 2013. 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.
36. 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.
37. 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.
38. 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.

39. 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.
40. 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%
41. 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.
42. 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 the above.



43. The basic standard deduction in 2013 for a *single* taxpayer, under 65 and not blind, is:
- A. \$8,950.
  - B. \$3,950.
  - C. \$3,900.
  - D. \$6,100.
44. The basic standard deduction in 2013 for a taxpayer, under 65 and not blind, filing *married filing jointly* is:
- A. \$11,900.
  - B. \$12,000.
  - C. \$12,200.
  - D. \$8,950.
45. The basic standard deduction in 2013 for a taxpayer, 67 and not blind, filing *head of household* is:
- A. \$10,450.
  - B. \$10,150.
  - C. \$1,500.
  - D. \$8,950.
46. 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. \$950
  - B. \$900
  - C. \$1,000
  - D. \$350

47. Luisa's parents can claim her as a dependent on their tax return. In 2013, her only source of income was a part-time job as a medical clerk where she earned \$2,300 during the year. What is Luisa's standard deduction?
- A. \$2,300.
  - B. \$3,900.
  - C. \$1,000.
  - D. \$2,650.
48. Ed's parents can claim him as a dependent on their tax return. In 2013, his only source of income was \$1,050 of interest income received from Global Bank. What is Ed's standard deduction?
- A. \$1,000.
  - B. \$1,050.
  - C. \$3,900.
  - D. \$350.
49. What is the amount of the social security wage limitation for 2013?
- A. \$106,800.
  - B. \$110,100.
  - C. \$102,800.
  - D. \$113,700.
50. What is the amount of the tax liability for a married couple having taxable income of \$153,500? All answers should be rounded to the nearest dollar.
- A. \$38,375.
  - B. \$30,446.
  - C. \$30,233.
  - D. \$23,025.

51. 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.
- A. \$8,900.
  - B. \$8,880
  - C. \$10,735.
  - D. \$14,800.
52. 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.
- A. \$16,396.
  - B. \$13,136.
  - C. \$12,498.
  - D. \$16,398
53. 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.
- A. \$1,836.
  - B. \$2,331.
  - C. \$2,149.
  - D. \$1,864.
54. 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. \$22,258.
  - C. \$30,400.
  - D. \$27,665.

55. 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
56. The interest charged by the IRS for the first three months of 2013 was:
- A. 3%.
  - B. 5%.
  - C. 4%.
  - D. 6%.
57. 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.

58. 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%
59. 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%
60. Criminal penalties only apply to:
- A. Careless disregard for tax authority.
  - B. Willful failure to file a return.
  - C. Tax evasion.
  - D. b and c.

### Short Answer Questions

61. Why is the concept of "Adjusted Gross Income (AGI)" important?
62. 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?
63. David and Martha were divorced on December 31, 2013. Can they file their 2013 income tax return using married filing jointly? Why or Why not? What other filing status choices do they have, if any?

64. What qualifications are necessary to file as *qualifying widow(er)*?

65. How many personal exemptions can the taxpayer claim? What is the amount of the personal exemption for 2013?

66. Can Erick, who is a full-time student and earns \$1,550 working as a clerk, claim an exemption for himself on his tax return? Assume his parents are claiming him as a dependent.

67. 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.

68. List and describe the five tests that a person must meet to qualify as a *qualifying child*.

69. List and describe the four tests that a person must meet to qualify as a *qualifying relative*.



70. Determine the amount of the standard deduction for each of the following taxpayers for tax year 2013.

1. Leo and Roberta who are under 65 and filing a joint return. They have no dependents.
2. Rafael who is single.
3. Paul who is over 65 and single.
4. Christina who is 38 and filing as head of household with a dependent child.
5. William who is 45 and blind and is filing as married filing separately.

71. 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 \$2,400 in wages in 2013.

72. What does the withholding amount on a taxable payment made to the taxpayer represent?
73. 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.

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

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

## Chapter 02 Expanded Tax Formula, Forms 1040A and 1040, and Basic Concepts **Answer Key**

### True / False Questions

1. The federal individual income tax returns are the 1040ES, 1040A and 1040.

**FALSE**

The three forms are the 1040EZ, 1040A and 1040.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.*

*RTRP: Yes*

*Topic: Form 1040 and 1040A*

2. The tax code defines adjusted gross income (AGI) as gross income minus a list of permitted deductions.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.*

*RTRP: Yes*

*Topic: Form 1040 and 1040A*

3. The amount of tax liability for a taxpayer depends on many factors, including the filing status of the taxpayer.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

4. A married couple can file a joint return only if both have earned income.

**FALSE**

For tax purposes, it does not matter if only one spouse earns all of the income.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

5. A married couple in the process of obtaining a divorce cannot file a joint tax return.

**FALSE**

If the taxpayers still are legally married on the last day of the tax year, a joint tax return can be filed.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

6. A taxpayer filing separately must show the name, address, and social security number of the spouse on the tax return.

**FALSE**

The address of the spouse is not required.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*  
*Topic: Filing Status*

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.

**TRUE**

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-02 Determine the proper filing status.*  
*RTRP: Yes*  
*Topic: Filing Status*

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).

**TRUE**

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-02 Determine the proper filing status.*  
*RTRP: Yes*  
*Topic: Filing Status*

9. If a taxpayer's spouse dies during the tax year, the taxpayer must file as a qualifying widow(er).

**FALSE**

The year the spouse dies, the surviving taxpayer can file a joint return if the couple was married on the date of death and has not remarried as of December 31 of the tax year.

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Learning Objective: 02-02 Determine the proper filing status.*  
*RTRP: Yes*  
*Topic: Filing Status*

10. The exemption amount is subject to annual adjustment for inflation.

TRUE

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*

11. The personal exemption for 2013 is \$3,900.

TRUE

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*

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.

FALSE

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

13. To be claimed as a dependent, a person must be a qualifying child or a qualifying relative.

TRUE

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

14. A qualifying child does not have to meet the support test in order to be claimed as a dependent.

**FALSE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

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.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

16. A taxpayer who either is 65 or older or blind can claim an additional standard deduction.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

17. The standard deduction in 2013 for a married couple, under 65 and not blind, is \$12,200.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*



18. In 2013, the additional standard deduction for a single taxpayer, who is 65 or older and not blind, is \$1,200.

**FALSE**

The additional standard deduction is \$1,500.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

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.

**FALSE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

20. The tax tables stop at taxable income of \$115,000.

**FALSE**

The tables stop at taxable income of less than \$100,000.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

21. Most taxpayers make payments to the IRS through income tax withholdings and quarterly estimated tax payments.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

22. A taxpayer may request an automatic seven-month extension of time to file his or her tax return.

**FALSE**

The extension is for six months.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

23. An extension to file a tax return is an extension of time to file and an extension of time to pay.

**FALSE**

Extending the time to file the return does not extend the time to pay the applicable tax.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

*Topic: Tax Due to IRS*

24. The maximum penalty for failure to file a tax return that is not due to fraud is 25%.

**TRUE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

25. The IRS can impose a 75% penalty on any portion of understatement of tax that is attributable to negligence.

**FALSE**

The penalty attributable to negligence is 20%.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

## Multiple Choice Questions

26. 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. 1040ES.

C. 1040.

**D.** 1040EZ.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.*

*RTRP: Yes*

*Topic: Form 1040 and 1040A*

27. A 35-year-old taxpayer with a dependent child and claiming head of household status has received \$28,000 in alimony payments and earned wages of \$46,000. Which is the simplest form this person can file?

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

Alimony is reported on Form 1040.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.*

*RTRP: Yes*

*Topic: Form 1040 and 1040A*

28. 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.

The taxpayer must have lived apart from her spouse for at least the last six months of the year to qualify for the Head of Household status.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

29. The taxpayer's spouse died at the beginning of 2012. He has no qualifying child. Which status should the taxpayer select when filing his tax return for 2013?

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

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

30. 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.

The taxpayer's parents can live in a separate household.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

31. For tax purposes, marital status is determined as of the \_\_\_\_\_ day of the year.

- A. first
- B. third
- C. last
- D. None of the above

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

32. What was the amount of the personal exemption for 2013?

- A. \$3,800.
- B.** \$3,900.
- C. \$3,950.
- D. \$3,650.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*

33. Tina is 21 years of age and a full-time student living with her parents. She had wages of \$680 (\$70 of income tax withholding) for 2013. Can Tina claim her exemption on her return even though her parents will claim her as a dependent on their tax return?

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

Tina cannot claim the exemption for herself because she is a dependent of her parents.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*

34. A taxpayer can deduct a(an) \_\_\_\_\_ amount from AGI for each dependent.

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

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

35. Mirtha is 21 years of age and a full-time student living by herself. She had wages of \$23,000 for 2013. 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.

Mirtha can claim the exemption because she provided more than half of her support.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*



36. 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.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

37. 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.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

38. 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.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

39. 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.

Cousins are not listed as relatives for this IRS section.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

40. 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%

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

41. 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.

Life insurance premiums are not considered support under this IRS section.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

42. 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 the above.

Robert is not contributing more than 10% of his mother's support.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

43. The basic standard deduction in 2013 for a *single* taxpayer, under 65 and not blind, is:

- A. \$8,950.
- B. \$3,950.
- C. \$3,900.
- D. \$6,100.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

44. The basic standard deduction in 2013 for a taxpayer, under 65 and not blind, filing *married filing jointly* is:

- A. \$11,900.
- B. \$12,000.
- C. \$12,200.
- D. \$8,950.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

45. The basic standard deduction in 2013 for a taxpayer, 67 and not blind, filing *head of household* is:

A. \$10,450.  
B. \$10,150.  
C. \$1,500.  
D. \$8,950.

Standard deduction of \$8,950 plus the additional amount of \$1,500.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

46. 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. \$950  
B. \$900  
C. \$1,000  
D. \$350

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

47. Luisa's parents can claim her as a dependent on their tax return. In 2013, her only source of income was a part-time job as a medical clerk where she earned \$2,300 during the year. What is Luisa's standard deduction?

A. \$2,300.  
B. \$3,900.  
C. \$1,000.  
D. \$2,650.

Earned income of \$2,300 plus \$350.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

48. Ed's parents can claim him as a dependent on their tax return. In 2013, his only source of income was \$1,050 of interest income received from Global Bank. What is Ed's standard deduction?

A. \$1,000.  
B. \$1,050.  
C. \$3,900.  
D. \$350.

Ed has zero earned income.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

49. What is the amount of the social security wage limitation for 2013?

- A. \$106,800.
- B. \$110,100.
- C. \$102,800.
- D. \$113,700.

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

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

- A. \$38,375.
- B. \$30,446.
- C. \$30,233.
- D. \$23,025.

$$(\$153,500 - \$146,400) \times 28\% \text{ plus } \$28,457.50$$

*Accessibility: Keyboard Navigation*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

51. 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.

A. \$8,900.  
B. \$8,880  
C. \$10,735.  
D. \$14,800.

Look up \$59,200 under the tax tables for a single person.

*Accessibility: Keyboard Navigation*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

52. 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.

A. \$16,396.  
B. \$13,136.  
C. \$12,498.  
D. \$16,398

Look up \$87,573 under the tax tables for a head of household person.

*Accessibility: Keyboard Navigation*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*



53. 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.

A. \$1,836.  
B. \$2,331.  
C. \$2,149.  
D. \$1,864.

Look up \$18,355 under the tax tables for married filing jointly (this column also is used for qualifying widow(er)).

*Accessibility: Keyboard Navigation*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

54. 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. \$22,258.  
C. \$30,400.  
D. \$27,665.

$(\$121,600 - \$72,500) \times 25\%$  plus \$9,982.50.

*Accessibility: Keyboard Navigation*

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

55. 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

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

56. The interest charged by the IRS for the first three months of 2013 was:

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

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

57. 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.

$(\$1,500 \times 5\%)$  multiplied by 3 months.

*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

58. 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%

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

59. 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%

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

60. Criminal penalties only apply to:

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

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

## Short Answer Questions

61. Why is the concept of "Adjusted Gross Income (AGI)" important?

The concept of "Adjusted Gross Income (AGI)" is important because many deductions and credits reported on the tax return are computed based on the amount shown as AGI. Furthermore, when a taxpayer's AGI exceeds certain levels, certain tax benefits are reduced or eliminated.

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.*

*RTRP: Yes*

*Topic: Form 1040 and 1040A*

62. 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?

The simplest tax return form he or she should file is the 1040A. A form 1040EZ can only be filed if the taxpayer is single or married filing jointly.

*Difficulty: 1 Easy*

*Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.*

*RTRP: Yes*

*Topic: Form 1040 and 1040A*

63. David and Martha were divorced on December 31, 2013. Can they file their 2013 income tax return using married filing jointly? Why or Why not? What other filing status choices do they have, if any?

No, David and Martha must file as single because they were divorced on December 31. According to the IRS, marital status is determined as of the last day of the tax year. They might be able to file as head of household if certain qualifications are met, including maintaining a household that is the principal place of abode of a qualifying person for more than half the year.

*Difficulty: 2 Medium*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

64. What qualifications are necessary to file as *qualifying widow(er)*?

The qualifications necessary to file as qualifying widow(er) are:

1. Taxpayer was eligible to file a joint return in the year the spouse died.
2. Taxpayer did not remarry before the end of the tax year in question.
3. Taxpayer paid more than half the cost of keeping up a household.
4. The household was the principal place of abode for the entire year (except for temporary absences) of both the taxpayer and a child, stepchild, or adopted child who can be claimed as a dependent by the taxpayer.

*Difficulty: 1 Easy*

*Learning Objective: 02-02 Determine the proper filing status.*

*RTRP: Yes*

*Topic: Filing Status*

65. How many personal exemptions can the taxpayer claim? What is the amount of the personal exemption for 2013?

The taxpayer can only claim a personal exemption for himself or herself and his or her spouse (if married). The amount for 2013 is \$3,900 for each personal exemption.

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*

66. Can Erick, who is a full-time student and earns \$1,550 working as a clerk, claim an exemption for himself on his tax return? Assume his parents are claiming him as a dependent.

No. If a taxpayer is claimed as a dependent on another return, no personal exemption is allowed on the return of the taxpayer.

*Difficulty: 1 Easy*

*Learning Objective: 02-03 Calculate personal exemptions.*

*RTRP: Yes*

*Topic: Personal Exemptions*

67. 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.

The three tests that this person must meet to be claimed as a dependent are:

1. Dependent taxpayer test.
2. Joint return test.
3. Citizen or resident test.

*Difficulty: 1 Easy*

*Learning Objective: 02-04 Calculate dependency exemptions.*

68. List and describe the five tests that a person must meet to qualify as a *qualifying child*.

To be a *qualifying child*, the person must meet five tests:

1. Relationship test.
2. Age test.
3. Residency test.
4. Support test.
5. Special test for *qualifying child* of more than one taxpayer.

The relationship test is met if the dependent is one of the following: child or descendant of child; stepchild; eligible foster child; or brother, sister, half-brother, half-sister, stepbrother, or stepsister, or a descendant of them.

The age test is met if, at the end of the year, the child is under the age of 19, under the age of 24 and a full-time student, or totally and permanently disabled regardless of age. After 2008, the child must be younger than the person claiming the dependency.

The residency test is met if the child lived with the taxpayer for more than half of the year.

The support test is met if the child did not provide more than half of his or her support.

The special test for *qualifying child* of more than one taxpayer applies if the child meets the other four tests and can be the qualifying child for more than one taxpayer. In this case, only one individual can claim the exemption.

Difficulty: 2 Medium

Learning Objective: 02-04 Calculate dependency exemptions.

RTRP: Yes

Topic: Dependency Exemptions



69. List and describe the four tests that a person must meet to qualify as a *qualifying relative*.

To be a *qualifying relative*, the person must meet four tests:

1. Not a qualifying child test.
2. Relationship or member of household test.
3. Gross income test.
4. Support test.

The *not a qualifying child* test refers to a child who is the taxpayer's *qualifying child* or the *qualifying child of another person*, who cannot be claimed as a *qualifying relative* by the taxpayer.

The relationship or member of household test is met if the person is related to the taxpayer (child or descendant; stepchild; eligible foster child; brother, sister, half-brother, half-sister, stepbrother, stepsister or descendant; father, mother; brother or sister of parents, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law) or a member of the taxpayer's household for the entire year.

The gross income test is met if this person does not have income equal to or greater than the amount of the exemption (\$3,900 for 2013).

The support test is met if the taxpayer provides over 50 percent of this person's support.

*Difficulty: 2 Medium*

*Learning Objective: 02-04 Calculate dependency exemptions.*

*RTRP: Yes*

*Topic: Dependency Exemptions*

70. Determine the amount of the standard deduction for each of the following taxpayers for tax year 2013.

1. Leo and Roberta who are under 65 and filing a joint return. They have no dependents.
2. Rafael who is single.
3. Paul who is over 65 and single.
4. Christina who is 38 and filing as head of household with a dependent child.
5. William who is 45 and blind and is filing as married filing separately.

1. \$12,200.
2. \$6,100.
3. \$7,600 (\$6,100 plus the additional amount of \$1,500).
4. \$8,950.
5. \$7,300 (\$6,100 plus the additional amount of \$1,200).

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

71. 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 \$2,400 in wages in 2013.

Evelyn's standard deduction is \$2,750. When a taxpayer can be claimed as a dependent on another return, the basic standard deduction for the taxpayer is limited to the greater of (a) \$1,000, or (b) the taxpayer's earned income plus \$350, but not more than the amount of the basic standard deduction.

*Difficulty: 2 Medium*

*Learning Objective: 02-05 Determine the standard deduction.*

*RTRP: Yes*

*Topic: Standard Deduction*

72. What does the withholding amount on a taxable payment made to the taxpayer represent?

The withheld amount represents an estimate of the amount of income tax that would be due for the year on the taxable payment. The IRS credits withholdings to the account of the appropriate taxpayer. Withholdings serve to reduce the amount otherwise due the IRS on the due date of the return.

*Difficulty: 1 Easy*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

73. 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.

1. \$22,273.  $(\$103,500 - 87,850) \times 28\%$  plus \$17,891.25.
2. \$4,766. Look up \$37,700 under the tax tables for married filing jointly.
3. \$16,484. Look up \$87,925 under the tax tables for head of household.
4. \$11,935. Look up \$64,000 under the tax tables for married filing separately.
5. \$28,008.  $(\$144,600 - \$72,500) \times 25\%$  plus \$9,982.50.

*Difficulty: 3 Hard*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*RTRP: Yes*

*Topic: Tax Due to IRS*

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

A taxpayer can file an automatic six-month extension of time to file his or her tax return, but this extension will not extend the time to pay the applicable tax. If the taxpayer filing an extension determines that he or she owes additional tax, the payment must accompany the extension request (Form 4868).

*Difficulty: 2 Medium*

*Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*

*Topic: Tax Due to IRS*

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

1. *Any person who willfully attempts to evade or defeat any tax.* The charge is a felony punishable by fines of not more than \$100,000 or imprisonment of not more than five years or both.
2. *Any person who fails to collect, account for, and pay over any tax.* The charge is a felony punishable by fines of not more than \$10,000 or imprisonment of not more than five years or both.
3. *Any person who willfully fails to pay estimated tax or other tax or file a return.* The charge is a misdemeanor punishable by fines of not more than \$25,000 or imprisonment of not more than one year or both.

*Difficulty: 2 Medium*

*Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.*

*RTRP: Yes*

*Topic: Interest and Penalties*