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Question 1

Question Type: MultipleChoice

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

Tom received $10,000, consisting of $5,000 each of principal and interest, when he redeemed a Series EE savings bond in 1994. The bond was issued in his name in 1990 and the proceeds were used to pay for Laura's college tuition. Tom had not elected to report the yearly increases in the value of the bond.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

A

Explanation:

'A' is correct. $0. Generally, if a taxpayer does not make an election to accrue interest income from Series EE bonds, the interest is taxable at the time the bonds are cashed. However, an exception applies in this case because Tom Moore meets the criteria (assume he was 24 years or older in 1990). Savings bonds is tax-exempt when:

(1) It is used to pay for qualified higher-education expenses for the taxpayer, spouse, or dependents;

(2) There is taxpayer or joint ownership with spouse;

(3) The taxpayer is age 24 (or over) when the bonds are issued; and

(4) The bonds are acquired after 1989.

Question 2

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

In 1994, Joan received $3,500 as beneficiary of the death benefit, which was provided by her brother's employer. Joan's brother did not have a nonforfeitable right to receive the money while living.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

A

Explanation:

'A' is correct. $0. Life insurance proceeds received by reason of the death of the insured are not taxable income to the recipient.

Question 3

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

The Moores received a stock dividend in 1994 from Ace Corp. They had the option to receive either cash or Ace stock with a fair market value of $900 as of the date of distribution. The par value of the stock was $500.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

C

Explanation:

'C' is correct. $900. If a taxpayer has the option of taking a dividend either in stock or in other property (e.g., cash), the dividend is taxable regardless of the option the taxpayer selects.

Question 4

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

The Moores received $8,400 in gross receipts from their rental property during 1994. The expenses for the residential rental property were:

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

I

Explanation:

'I' is correct. $2,500. Rental activity net income is reported on page one; the gross income ($8,400) is fully reportable; and all deductions listed (total = $5,900) are fully deductible for a net of $2,500.

Question 5

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

In 1994, Joan received $1,300 in unemployment compensation benefits. Her employer made a $100 contribution to the unemployment insurance fund on her behalf.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

F

Explanation:

'F' is correct. $1,300. Unemployment compensation benefits are fully taxable (when received by the employee), but contributions made by the employer to the insurance fund are not taxable.

Question 6

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

During 1994, the Moores received a $2,500 federal tax refund and a $1,250 state tax refund for 1993 overpayments. In 1993, the Moores were not subject to the alternative minimum tax and were not entitled to any credit against income tax. The Moores' 1993 adjusted gross income was $80,000 and itemized deductions were $1,450 in excess of the standard deduction. The state tax deduction for 1993 was $2,000.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

E

Explanation:

'E' is correct. $1,250. The Moores itemized deductions in 1993 because such deductions were $1,450 in excess of the standard deduction. The amount of state taxes deducted in 1993 was $2,000, which (along with the fact that the Moores were not subject to alternative minimum tax, which may have reduced their tax benefit) indicates that the Moores received a tax benefit in 1993 from deducting the $1,250 state tax refund they received in 1994. The $1,250 is taxable in 1994.

Question 7

Question Type: **MultipleChoice**

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

Tom's 1994 wages were $53,000. In addition, Tom's employer provided group-term life insurance on Tom's life in excess of $50,000. The value of such excess coverage was $2,000.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

A

Explanation:

'N' is correct. $55,000. The value of employer-provided group term life insurance for which the face amount exceeds $50,000 is taxable income to the insured employee and the $53,000 in wages would both be included on page one, Form 1040.

Question 8

Question Type: MultipleChoice

Tom and Joan Moore, both CPAs, filed a joint 1994 federal income tax return showing $70,000 in taxable income. During 1994, Tom's daughter Laura, age 16, resided with Tom. Laura had no income of her own and was Tom's dependent.

Determine the amount of income or loss, if any that should be included on page one of the Moores' 1994 Form 1040.

The Moores received a $500 security deposit on their rental property in 1994. They are required to return the amount to the tenant.

Options:

A- $0

B- $500

C- $900

D- $1,000

E- $1,250

F- $1,300

G- $1,500

H- $2,000

I- $2,500

J- $3,000

K- $10,000

L- $25,000

M- $50,000

N- $55,000

O- $75,000

Answer:

A

Explanation:

'A' is correct. $0. The security deposit is not taxable income because the Moores are required to return it when the tenant leaves. If the deposit is applied to damages in a later tax year, the portion the Moores retain would be income to them in the year they retain the deposit, and the money they spend to repair the damage would be a deduction to them.

Question 9

Question Type: **MultipleChoice**

Among which of the following related parties are losses from sales and exchanges not recognized for tax purposes?

Options:

A- Father-in-law and son-in-law.

B- Brother-in-law and sister-in-law.

C- Grandfather and granddaughter.

D- Ancestors, lineal descendants, and all in-laws.

Answer:

C

Explanation:

Choice 'c' is correct. Losses from sales and exchanges are not recognized for tax purposes between grandfather and granddaughter.

Rule: Losses are disallowed on sales between related parties. 'Related' includes brothers and sisters, husband-wife, lineal descendants (father, son, grandfather), and entities that are more than 50% owned by individuals, corporations, trusts and/or partnerships.

Choices 'a', 'b', and 'd' are incorrect, because losses from sales and exchanges are recognized for all 'in-laws.'

Question 10

Question Type: **MultipleChoice**

Ryan, age 57, is single with no dependents. On July 1, 1997, Ryan's principal residence was sold for the net amount of $500,000 after all selling expenses. Ryan bought the house in 1963 and occupied it until sold. On the date of sale, the house had a basis of $180,000. Ryan does not intend to buy another residence. What is the maximum exclusion of gain on sale of the residence that may be claimed in Ryan's 1997 income tax return?

Options:

A- $320,000

B- $250,000

C- $125,000

D- $0

Answer:

B

Explanation:

Choice 'b' is correct. $250,000 maximum exclusion from taxable income.

Rule: An individual may exclude from income up to $250,000 gain provided that the property was the taxpayer's primary residence for 2 of the last 5 years. Married taxpayers may exclude gains up to $500,000.

Choice 'a' is incorrect. $320,000. Ryan, age 57, was not married. Thus, his exclusion was limited to $250,000.

Choice 'c' is incorrect. The $125,000 exclusion was old law and eliminated for sales after 5/6/97.

Choice 'd' is incorrect, per the above rule.