




Review Questions and Final Exam

Course name:	Individual Income Tax—Part One 2009 Tax Year
Course number:	1012.09
Number of questions:	Review: 60 Final Exam: 60
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	10 CPE hours
Recommended study time:	10 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	IRS 2009 Publication 17 Individual Income Tax (free download)
 The IRS logo, which includes the eagle emblem and the text "IRS Department of the Treasury Internal Revenue Service".	305 pages
Subject classification:	Taxation
Course updated:	December 16, 2009
Learning objective:	To understand who must file a return, which tax form to use, when the return is due, whether the income you receive is taxable, the kinds of expenses you may be able to deduct and other general information.
Instructions:	This copy of the exam can be used to answer questions while offline . Please note that you will still need to enter your answers online by logging into the course system with your User ID and Password.

- 1) Federal income tax filing requirements apply even if you do not owe tax.
True
False
- 2) Using Form 1040EZ allows you to take itemized deductions and some adjustment to income.
True
False
- 3) If you cannot file your return by the due date, you may be able to get a 6-month extension of time to file.
True
False
- 4) Individual tax payers choose their accounting period when they file their first income tax return.
True
False
- 5) To "constructively receive income" you must have physical possession of it, i.e. have a check or cash in hand.
True
False
- 6) One of the benefits of an installment agreement for payment of income taxes due is that no interest is charged on taxes owed if the installment payments are made on time.
True
False
- 7) Dudley Durite realized on April 16th (the day after he mailed in his return) that he had omitted some legitimate itemized deductions for his mortgage interest. He CAN file an amended return to correct this error.
True
False
- 8) If your spouse died during the year and you did not remarry before the end of the year, you can file a joint return for yourself and your deceased spouse.
True
False
- 9) Unless you are required to file separately, it may be beneficial to figure your tax on a joint return and on separate returns.
True
False
- 10) If you qualify to file as head of household, your tax rate usually will be lower than the rates for single or married filing separately.

True
False

11) You cannot file to be head of household if the parent for whom you can claim an exemption does not live with you.

True
False

12) You are generally allowed one exemption for yourself and, if you are married, one exemption for your spouse.

True
False

13) If your dependent files an income tax return you cannot claim an exemption for your dependent.

True
False

14) You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident, U.S. national, or a resident of Canada or Mexico, for some part of the year.

True
False

15) Ben's son Jarod is a full time student, age 22. Although Jarod earned \$3,900 during the summer performing science experiments with the neighborhood kids, Ben provided 75% of Jarod's support during the year. Since Jarod's earned income exceeds \$3,650, Bob cannot take an exemption for his son.

True
False

16) Henry's mother received \$2,500 in social security benefits and interest income. She used this income as follows:

\$1,500 paid for lodging and recreation
\$1,000 deposited in a savings account

If Henry spends more than \$1,500 for her support and no other support was received, Henry meets the support test.

True
False

17) Fair rental value is the amount you could reasonably expect to receive from a stranger for the same kind of lodging.

True
False

18) For income tax purposes, your pay includes your regular pay, bonuses, commissions, and vacation allowances

True
False

19) To be eligible for the cumulative wage method, you must have been paid for the same kind of payroll period since the beginning of the year.

True
False

20) If you fill out a new Form W-4, your employer must put it into effect by the start of the first payroll period ending 30 or more days after you turn it in.

True
False

21) Withholding on supplemental wages cannot be calculated using a different percentage than on regular wages.

True
False

22) Sally opens an interest bearing account at her bank. The IRS notifies the bank that the TIN you gave is incorrect. The bank must withhold at a flat rate on interest payments until the TIN is corrected.

True
False

23) Mary Lou is the owner of Big Beautiful Baskets, now in her second full year. She paid \$5,000 in taxes last year, and expects to owe \$10,000 in taxes this year.

She must pay estimated taxes this year.

True
False

24) If you receive an award in goods or services, you must include the fair market value of the goods or services in your income if the award is not for length of service or safety achievement.

True
False

25) Cash reimbursement by your employer for qualified transportation expenses under a bona fide reimbursement arrangement is excludable from your income.

True
False

26) Payments made to reimburse you for medical expenses you incurred after the accident or health plan was established must be reported as income.

True
False

27) All tips you receive are income and are subject to federal income tax.

True

False

28) Archie is 12 years old and has \$2,200 in investment income in 2009. All of his income will be taxed at the child's rate.

True

False

29) Interest from savings bonds may be excluded from income, with certain restrictions, if used to pay for qualified higher educational expenses.

True

False

30) Capital gains are the most common type of distribution from a corporation.

True

False

31) Morgan received a 1099-DIV which indicated that the dividends she received were "qualified dividends." Morgan might be entitled to a 0% tax rate on these dividends for tax year 2009.

True

False

32) You generally must include in your gross income all amounts you receive as rent, assuming you rent the property out for more than 14 days in the tax year.

True

False

33) You rented your Arizona beach house for 90 days at a fair rental price to a Mensa group for a summer meeting. You used this house for a family vacation for 20 days in December of the same year.

This house is considered a "dwelling unit used as a home" for tax purposes, and you cannot deduct rental expenses that are more than your rental income for the unit.

True

False

34) Igor bought a small castle in North Dakota as a rental property. He can estimate the remaining useful life of the building to determine annual depreciation expense.

True

False

35) Losses from passive rental real estate activity can be deducted from your nonpassive income if you actively participate in the rental real estate activity.

True

False

36) Money borrowed from your pension plan is never classified as income.

- True
- False

37) Under the direct rollover option, the plan administrator does not withhold tax from any part of the distribution that is directly paid to the other plan.

- True
- False

38) To find out whether any of your Social Security or Railroad Retirement benefits may be taxable, compare the base amount for your filing status with the total of one-half of your benefits plus all your other income.

- True
- False

39) Bob is a dentist and Sally is a doctor. They each exchange services to reduce their personal medical and dental costs. The exchange of services is nontaxable.

- True
- False

40) Jeremy got roped into hosting a multi-level marketing party for goldgolfballs4U.com. He provides chips and beer and invites everyone he knows. The local rep tries to talk everyone into buying golfballs. Jeremy receives a gift of 10 dozen gold golf balls for his effort. The value of the "host gift" golf balls received is reportable taxable income to Jeremy.

- True
- False

41) Life insurance proceeds paid to you because of the death of the insured person are taxable on any amount over \$100,000.

- True
- False

42) Royalties from copyrights and patents are taxable as ordinary income.

- True
- False

43) You should NOT include punitive damages that you receive from a court as ordinary income.

- True
- False

44) The basis of property you buy is usually its cost.

- True
- False

45) If you receive property for your services, you should include its FMV in income.

- True
- False

46) Ordinarily, a transaction is not a trade when you voluntarily sell property for cash and immediately buy similar property to replace it.

- True
- False

47) Your brother-in-law sells you his GAP stock for \$7,600 and his cost basis is \$10,000. Two years later, you sell the same stock to an unrelated party for \$4,000, realizing a loss of \$3,600 on your purchase. Your reportable loss is \$6,000.

- True
- False

48) If you hold investment property more than 1 year, any capital gain or loss is a long-term capital gain or loss.

- True
- False

49) If you have two homes and live in both of them, your main home is ordinarily the one you live in most of the time.

- True
- False

50) Fred and Wilma have owned and lived in their home in Michigan for 41 years. They are retiring to Florida and selling their home for \$400,000. They have never owned another home.

Assuming they are married filing jointly this year, they can choose to exclude all or part of the gain from the sale from their income.

- True
- False

51) Capital losses fall under "use it or lose it" tax laws. If you have a total net loss in a single year that is more than the yearly limit on capital loss deductions, you lose the unused loss deduction.

- True
- False

52) Wendall is an eligible bachelor with an AGI of \$95,000 for 2009 and he has a retirement plan at work. He can still make a deductible contribution to a traditional IRA because his AGI is below the phaseout limit.

- True
- False

53) Reese is already planning for retirement, even though he is only 54 year old. His taxable compensation was \$37,000 in 2009 and he wants to maximize his traditional IRA contribution. His contribution is limited to \$5,000.

- True
- False

54) Warren made a \$2,500 contribution to his IRA in October 2009. In February 2010 he withdrew \$2,100 from his IRA to pay for an unexpected car repair bill. This \$2,100 withdrawal is NOT a taxable distribution.

- True
- False

55) Billy, age 60, began investing in a Roth IRA three years ago because a qualified distribution is tax free. He redeems \$4,000 for a vacation. This withdrawal is tax and penalty free.

- True
- False

56) Your family moved after you had been at your new job location for 18 months. You delayed the move because you really like your old neighborhood and would miss your neighbors. This circumstance would not allow you to deduct your moving expenses.

- True
- False

57) Alimony is deductible by the payer.

- True
- False

58) "Student loan interest" is interest you paid during the year on a qualified student loan.

- True
- False

59) The tuition and fees deduction can be used on qualified education expenses you pay for yourself.

- True
- False

60) Chelsea Wilson attends Malibu College, which is considered an eligible educational institution for purposes of the student loan interest deduction. She spent \$5,000 on a notebook computer her first year, as the school required all freshmen to purchase a notebook computer.

The amount paid for her notebook computer is considered a qualified education expense for purposes of the student loan interest deduction.

- True
- False

Exam Name: Individual Income Tax-Part One-2009 Tax Year
--Final Exam--

1) Harry has two part-time jobs: he works at Starbucks and at Skateworld. He must file a separate federal income tax return for each job.

- True
- False

2) You must use Form 1040 if you cannot use:

- a) Form 1040EZ
- b) Form 1040A
- c) Form WD40

d) Either A or B

3) If you file for an extension and do not pay the tax due by the regular due date (generally April 15), you will owe interest in addition to any taxes.

True

False

4) Individuals must figure taxable income using a calendar year as the accounting period.

True

False

5) A valid check that was made available to you before the end of the tax year is constructively received by you in that year.

True

False

6) Sally meets all of the requirements to be guaranteed availability of an installment agreement to pay her taxes. One of the requirements is that your total taxes (not including interest, penalties, and additions to the tax or additional amounts) do not exceed:

a) \$2,000

b) \$5,000

c) \$10,000

d) \$20,000

7) You need to correct your return if, after you have filed it, you find that:

a) You forgot to include some rental income you received.

b) You left out some dividend income.

c) You should have claimed a different filing status which would have resulted in a greater tax liability.

d) Any of the above.

8) If your spouse died during the year, you are considered married for the whole year for filing status purposes.

True

False

9) You were divorced under a final decree on March 31st of the tax year, thus you were SINGLE for more than 50% of the tax year.

Which of the following filing statuses could be used?

a) Married filing jointly

b) Married filing separately

c) Divorced

d) Single

10) Which of the following requirements MUST be met to be able to file as head of household?

a) You must have paid more than half of the cost of keeping up a home for the year.

b) You must be married.

c) A "qualifying person" must have lived with you in the home for the entire year.

d) You must own your own home.

11) Fred is unmarried. He claims his father, who lives in an apartment by himself, as an exemption. His father died on November 12. The total cost of the upkeep of his father's apartment was \$9,000. Fred paid \$6,000 and his brother paid the balance of \$3,000.

Since Fred's brother paid a portion of the upkeep, Fred cannot file as a head of household.

True
False

12) Personal exemptions are generally:

- a) Taken(one)for each of your dependents
- b) Taken(one)for yourself
- c) Allowed only if you itemize your deductions
- d) Not allowed if you have any social security income

13) Which of the following tests MUST be met to allow you to claim an exemption for a dependent?

- a) Home ownership test
- b) Marriage test
- c) Citizen or resident test
- d) Comprehension test

14) Starting in 2009, when determining exemptions for dependents a "qualifying child" must:

- a) Have less than \$3,650 in earned income, unless they have zero tax liability.
- b) Be younger than you unless the child is permanently and totally disabled.
- c) Be unmarried at the tax year end.
- d) Be a resident of the U.S. for more than 75% of the tax year.

15) Which of the following would meet the relationship test for you to claim an exemption for a dependent who is a "qualifying child"?

- a) Your foster child's sister
- b) Your half brother's sister from his mom's prior marriage
- c) Your adopted child's grandson
- d) Your sister's husband's brother

16) Generally you must provide _____% of a person's total support during the calendar year to meet the Support test.

- a) More than 25%
- b) More than 50%
- c) More than 75%
- d) 100%

17) If you provide a person with lodging, the amount of support you provide is the fair rental value of the room the person uses or a share of the fair rental value of the entire dwelling if the person has use of your entire home.

True
False

18) With regards to tax withholding, which of the following is NOT true about salaries and wages?

- a) If your income is low enough that you will not have to pay income tax for the year, you may be exempt from withholding.
 - b) Military retirement pay is treated in the same manner as regular pay for income tax withholding purposes.
 - c) If you are a household worker, income tax should never be withheld from your pay.
 - d) Your pay includes reimbursements and other expense allowances paid under a nonaccountable plan.
- 19) The amount of income tax your employer withholds from your regular pay depends on the amount you earn and the information you give your employer on Form W-4.
- True
 - False
- 20) If you do not give your employer a completed Form W-4, your employer
- a) Cannot permit you to work.
 - b) Must withhold 50% of your income until the form is completed.
 - c) Must withhold at the highest rate.
 - d) Will be penalized by the IRS.
- 21) Supplemental wages include:
- a) Travel expenses reimbursed under an accountable plan
 - b) Gambling winnings
 - c) Overtime pay
 - d) Meal allowances
- 22) Which of the following is NOT listed as a reason that the payer must withhold at a flat rate?
- a) The IRS notifies the payer that the TIN you gave is incorrect.
 - b) You are required, but fail, to certify that you are not subject to backup withholding.
 - c) You do not give the payer your TIN in the required manner.
 - d) Your job history on your resume was not verifiable.
- 23) You should make estimated tax payments to pay tax due on income from:
- a) Alimony
 - b) Prizes
 - c) Awards
 - d) All of the above
- 24) Ann received a \$1,000 financial award for outstanding work this year. This award should be included in her income and shown on her Form W-2 for the tax year in which she received the award.
- True
 - False
- 25) A qualified transportation fringe benefit is:
- a) A company gas credit card.
 - b) Highway toll fees.
 - c) A transit pass that costs \$150 a month.
 - d) Transportation in a commuter highway vehicle between your home and work place.
- 26) Generally, if you retire on disability, you do NOT report your pension or annuity as income.

True
False

- 27) If you do not report tips to your employer as required, you may be subject to a penalty equal to _____% of the social security and Medicare taxes or railroad retirement tax you owe on the unreported tips.
- a) 10%
 - b) 25%
 - c) 50%
 - d) 75%
- 28) Josephine's daughter Mitzie turned 15 in 2009. She had \$1,769 of investment income, which she spent entirely on iTunes for her iPod. Which of the following applies?
- a) Mitzie's investment income is taxed at her rate.
 - b) Part of Mitzie's income may be taxed at the parent's tax rate.
 - c) Mitzie must file Form 8615.
 - d) Mitzie must file a 1040 or 1040A with a Schedule B.
- 29) Interest on U.S. savings bonds is:
- a) Taxable without exception.
 - b) Excluded from income if used to pay educational expenses for a private HIGH SCHOOL for your child.
 - c) Reported each year by cash basis taxpayers, even if received in a later year.
 - d) Exempt from state and local taxes.
- 30) You can assume that any dividend you receive on common or preferred stock is an ordinary dividend unless the paying corporation tells you otherwise.
- True
False
- 31) Which of the following dividends are qualified dividends?
- a) Dividends from a corporation that is a tax-exempt organization.
 - b) Dividends paid by a corporation on employer securities which are held on the date of record by an ESOP plan maintained by that corporation.
 - c) Neither of the above
 - d) Both of the above.
- 32) Advance rent should be included in your rental income in the year that the actual payment was due, not necessarily when the advance rent was received.
- True
False
- 33) You use a dwelling unit as a home during the tax year if you use it for personal purposes more than the greater of 10% of the total days it is rented to others at a fair rental price or:
- a) 7 days
 - b) 14 days
 - c) 31 days
 - d) 60 days
- 34) Which of the following is NOT a factor used to determine how much depreciation you can deduct?
- a) The depreciation method used.

- b) Your basis in the property.
 - c) The recovery period for the property.
 - d) Age of property when acquired.
- 35) If you or your spouse actively participated in a passive rental real estate activity, you can deduct up to _____ of loss from the activity from your nonpassive income.
- a) \$10,000
 - b) \$25,000
 - c) \$50,000
 - d) \$100,000
- 36) You may NOT borrow money from a qualified pension or annuity plan.
- True
 - False
- 37) If you withdraw cash or other assets from a qualified retirement plan in an eligible rollover distribution, you generally must complete the rollover within 60 days to avoid taxes on the distribution.
- True
 - False
- 38) Which of the following Social Security benefits are NEVER taxable?
- a) Social security benefits
 - b) Supplemental security income (SSI)
 - c) Disability benefits
 - d) Monthly survivor benefits
- 39) You are a self-employed attorney who performs legal services for a small corporation. The corporation gives you shares of its stock as payment for your services. You must:
- a) File Form 999 with the IRS, providing notice of non-cash payment.
 - b) Hold the stock for 12 months before selling.
 - c) Include the fair market value of the shares in your income.
 - d) Reject the gift because "barter" is illegal in the U.S.
- 40) If you surrender a life insurance policy for cash, you must include in income any proceeds that are more than the cost of the life insurance policy.
- True
 - False
- 41) Royalties are typically received from:
- a) Oil, gas, and mineral properties
 - b) Copyrights and patents
 - c) Both A & B
 - d) Neither A or B
- 42) When a court awards damages, which of the following should NOT be included as ordinary income?
- a) Punitive damages.
 - b) Compensatory damages for personal physical injury.
 - c) Interest on any award.
 - d) Damages for copyright infringement.

43) If you are the beneficiary of an estate or trust that must distribute all of its current income, you do not have to report your share of the distributable net income until it is actually received.

True

False

44) Which of the following costs are NOT included in the basis of real estate you buy?

- a) Survey fees
- b) Owner's title insurances
- c) Utility installation charges
- d) Fees paid to obtain a loan

45) You did some independent tax work for a car dealership, and they allowed you to buy a Mercedes at a bargain price.

What amount should you include in your income?

- a) Amount you actually paid for the car.
- b) Difference between amount paid and the FMV of the car.
- c) Nothing, since you didn't receive any cash.
- d) Depends on whether the car was new or used.

46) A trade of property is a transfer of property for other property or services and may be taxed in the same way as a sale.

True

False

47) Your father sold you stock for \$8,000 and his cost basis was \$10,000. Later, you sold the stock for \$7,000. You would:

- a) Recognize a loss of \$3,000.
- b) Recognize a loss of \$2,000.
- c) Recognize a loss of \$1,000.
- d) Not recognize a loss because the property was purchased from a related party.

48) Ben bought investment property on June 12th of last year and sold it on June 30th the following year for a \$2,000 loss. Which of the following is true?

- a) This transaction results in an ordinary income loss.
- b) This transaction results in a short-term capital loss.
- c) This transaction results in a long-term capital loss.
- d) Due to recent changes in the law, all sales of investment property result in long-term gain/loss.

49) If you have more than one home, you can exclude gain only from the sale of your main home.

True

False

50) Harrison bought a home but moved out 1 year later. He never lived in the home again and sold it at a gain 5 years later. Harrison has:

- a) Met the ownership test and the use test.
 - b) Met the ownership test only.
 - c) Met the use test only
 - d) Met neither the ownership test nor the use test.
- 51) You can use your total net capital loss to reduce your income dollar for dollar, up to the \$5,000 limit.
True
False
- 52) Anthony and Cleo file a joint return for 2009 as a married couple and are both covered by a retirement plan at work. Their deduction for contributions to a traditional IRA is phased out if their modified adjusted gross income (AGI) is:
a) More than \$10,000
b) More than \$45,000 but less than \$75,000
c) More than \$85,000 but less than \$105,000
d) More than \$89,000 but less than \$109,000
- 53) Cole is a 20 year old unmarried college student working part time as a party magician. In 2009 he earned \$2,000 in taxable income and also received \$200 from his parents for making good grades. He can contribute a maximum of \$2,200 to an IRA this year.
True
False
- 54) Sabrina is 27 years old in 2009 and made a \$4,750 IRA contribution on 12/31/09. She withdraws \$2,500 on March 5, 2010 to buy some items on EBay. This withdrawal is a taxable distribution and may also incur a penalty for premature distribution.
True
False
- 55) Qualified distributions from Roth IRAs are tax free.
True
False
- 56) You can deduct your moving expenses if you meet which of the following requirements:
a) You meet the distance test.
b) You meet the time test.
c) Your move is closely related to the start of your work.
d) You must meet all of the above requirements in order to deduct your moving expenses.
- 57) Alimony includes voluntary payments that are not made under a divorce or separation instrument.
True
False
- 58) Which of the following is NOT true about the student loan interest deduction?
a) Qualified education expenses include tickets to school sporting events, musical events and plays.
b) Student loan interest deduction includes voluntary interest payments.
c) Student loan interest is the interest you paid during the year on a qualified student loan.
d) You cannot deduct interest on a loan from a related person.

59) The maximum benefit of a qualified educational expense tuition and fees deduction in 2009 is \$3,500.

True

False

60) For purposes of the student loan interest deduction, qualified education expenses do NOT include:

a) Tuition and fees.

b) Room and board.

c) Tickets to sporting, musical or other school events as long as they are held on campus.

d) Books, supplies and equipment.