


Review Questions and Final Exam

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| Course name: | Individual Income Tax (2009)—Part Two |
| Course number: | 1013.09 |
| Number of questions: | Review 60 Final exam 60 |
| Prerequisite: | None |
| Advance Preparation: | 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 Your Federal Income Tax For Individuals (free download)  305 pages |
| Subject classification: | Taxation |
| Course last updated: | December 21, 2009 |
| Learning objective: | To understand how the income tax law applies to individuals. To gain an understanding of the standard deduction and itemized deductions, as well as how to figure your taxes and credits. |
| 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) Mr. Moore is filing a tax return for a short year, due to a change in his annual accounting period. He should itemize any deductions he has because his standard deduction is zero in this case.
True
False
- 2) If your total itemized deductions are MORE than the standard deduction amount you should itemize deductions.
True
False
- 3) Medical care expenses do not include amounts paid for qualified long-term care services.
True
False
- 4) Self-employed individuals can generally deduct amount paid for medical insurance for themselves, but not for dependents.
True
False
- 5) To include medical expenses you paid for your spouse, you must have been married either at the time your spouse received the medical services or at the time you paid the medical expenses.
True
False
- 6) If you voluntarily enroll in Medicare A, you cannot include the premiums paid for Medicare A as a medical expense.
True
False
- 7) You can include out-of-pocket auto expenses in your medical deductions, such as the cost of gas and oil, when you use your car for medical reasons.
True
False
- 8) You can elect to deduct state and local general sales taxes instead of state and local income taxes.
True
False
- 9) Deductible real estate taxes generally do not include taxes charged for local benefits and improvements tending to increase the value of your property.
True
False

10) Kent bought a home in September and received payment from the seller for property taxes prorated through the purchase date. When Kent remits the entire annual tax payment to the taxing authority at year end, he is entitled to deduct the full tax payment since he made the payment.

True

False

11) Generally, home mortgage interest is any interest you pay on a loan secured by your home.

True

False

12) You generally cannot deduct the full amount of points in the year paid.

True

False

13) If you borrow money to buy property you hold for investment, the interest you pay is classified as mortgage interest.

True

False

14) Personal interest is any interest that is not home mortgage interest, investment interest, business interest, or other deductible interest.

True

False

15) Phil contributes money to the Boy Scouts. This contribution is NOT deductible as a charitable contribution.

True

False

16) Cindy pays \$1,000 for a cruise worth \$1,500 at a fund-raising auction conducted by a charity. Cindy can deduct the entire \$1,000 payment as a charitable contribution.

True

False

17) A check that you mail to a charity is considered delivered on the date you mail it.

True

False

18) Henry's credit union became insolvent. He had a savings account at the credit union, and he lost all of the money in that account. The money he had lost is considered a loss on deposits.

True

False

19) In October 2009, Clarrisa was trying to make "Blackened Tilapia" in her kitchen, but the pan got so hot, it caused a small kitchen fire. The fire caused \$400 in damages to her cabinets. She did not file an insurance claim because she has a \$1,000 deductible on her homeowner's insurance.

Clarrisa CAN deduct the \$400 as a casualty loss.

True

False

- 20) Sam's house was burglarized in 2009 and the loss after insurance reimbursement was \$2,500. His adjusted gross income (AGI) for the year is \$30,000. His theft loss deduction is \$2,500.
True
False
- 21) If you go back to your tax home from a temporary assignment on your days off, you can deduct your travel expenses, including meals and lodging, while traveling between your temporary work place and your tax home.
True
False
- 22) Your trip outside the U.S. is considered entirely for business if you did not have substantial control over arranging the trip.
True
False
- 23) If you buy a ticket to an entertainment event for a customer, you generally can deduct the full price you paid for the ticket even if it is higher than face value.
True
False
- 24) Molly used the standard mileage rate for car expenses the first year she owned her car. She CAN switch to the actual expense deduction the second year she owns the car.
True
False
- 25) The standard meal allowance for most small localities in the United States is \$39 a day for all of 2009.
True
False
- 26) Julie's employer gives her \$450 a month (\$5,400 for the year) for her business expenses. She does not have to provide any proof of her expenses to her employer, and she can keep any funds that she does not spend. Since Julie's employer uses the nonaccountable plan, she CANNOT deduct her business expenses.
True
False
- 27) Education you need to meet the minimum educational requirement for your present trade or business is not qualifying work-related education.
True
False
- 28) If you do not claim reimbursement that you are entitled to receive from your employer, you cannot deduct the expenses that apply to the reimbursement.
True
False
- 29) Travel expenses for qualifying work-related education are treated the same as travel expenses for other employee business purposes.
True

False

30) You must adjust the total of most miscellaneous itemized deductions by 7% of your adjusted gross income.

True

False

31) Legal expenses you incur seeking damages for personal injury are deductible.

True

False

32) John and Belinda are married and filing a joint return. Because their taxable income for regular tax purposes, combined with certain adjustments and tax preference items, is \$72,450, they may have to pay the alternative minimum tax (AMT).

True

False

33) The IRS is not in the business of preparing tax returns and will NOT figure the tax for any individual.

True

False

34) If the custodial parent has remarried, the stepparent is treated as the child's other parent. Therefore, if the custodial parent and the stepparent file a joint return, use that joint return to figure the tax on investment income of the minor child.

True

False

35) If a child has investment income of \$2,500 in 2009, part of that income may be taxed at the parent's tax rate.

True

False

36) A child's investment income does not include income produced by property given as a gift to the child.

True

False

37) The Child and Dependent Care Credit can be up to 35% of your expenses.

True

False

38) Your spouse meets the qualifying person test for the dependent care credit if he or she was unemployed, but physically and mentally was able to care for himself or herself.

True

False

39) Sandy takes her 5-year old to a kindergarten that provides lunch and educational activities. She can use these expenses to figure her child care credit.

True

False

40) If you had child care expenses in 2009 that you did not pay until 2010, you CANNOT count them when figuring your 2009 credit.

True

False

41) If you paid work-related expenses for the care of two or more qualifying persons, the dollar limit must be equally divided among them when figuring the credit.

True

False

42) When you are determining if you are qualified for the credit for elderly or the disabled for tax year 2009, you are considered to be age 65 on the day before your 65th birthday.

True

False

43) If either your AGI or your nontaxable pensions are equal to or more than the income limits, you cannot take the credit for elderly or the disabled.

True

False

44) You are 68 years old and your spouse is 63. Neither of you is disabled. You file a joint return on Form 1040. Your adjusted gross income is \$18,000. Together you received \$4,300 from social security, which was nontaxable. You and your spouse can take the credit for the elderly or the disabled for the year based on the above information.

True

False

45) Two of the requirements for a child to be considered qualified for the purposes of the child tax credit are:

1) that he or she must be under age 17 and

2) a U.S citizen or resident alien.

True

False

46) For the 2009 tax year, the amount of your Hope or lifetime learning credit is gradually reduced if your modified adjusted gross income (MAGI) is between \$94,000 and \$114,000 and you file an individual return.

True

False

47) Sam has two children and pays qualified education expenses for both. He can claim the Hope credit for one student and the lifetime learning credit for another the same year.

True

False

48) For purposes of an education credit, a vocational school is not considered an eligible educational institution.

True

False

49) Qualified educational expenses do NOT include room and board.

True

False

50) You CANNOT deduct higher education expenses on your income tax return and also claim an education credit based on the same expenses.

True

False

51) Josephina is single, has an AGI of \$11,000 for tax year 2009 and does NOT have a qualifying child. She meets the AGI requirement for the Earned Income Credit (EIC).

True

False

52) For tax year 2009, if your investment income is more than \$3,100, you cannot claim the EIC.

True

False

53) Employee pay is considered earned income even if it is nontaxable.

True

False

54) Phil's child is a full-time student age 23. His child meets the age test for the EIC.

True

False

55) A qualifying child can be used by more than one person to claim EIC.

True

False

56) If you do not have a qualifying child and neither you nor your spouse meets the age test, you cannot claim the EIC.

True

False

57) Martin and Melinda adopted a child in 2009. Adoption expenses which they incurred that qualify for the adoption credit include court costs, attorney fees, and traveling expenses related to the adoption process.

True

False

58) You CANNOT take a 2009 tax credit for making eligible contributions to an employer-sponsored retirement plan.

True

False

59) You may be able to take the nonbusiness energy property credit if you replace exterior windows in your home in 2009.

True
False

60) You must include in your income any undistributed capital gain distributions from a mutual fund.

True
False

Exam Name: Individual Income Tax-Part Two (2009)
--Final Exam

1) Sally is married and filing a separate return. Even though her husband itemizes deductions on his return, Sally is still eligible for the standard deduction.

True
False

2) Lois and Lance are married filing jointly, with an AGI for 2009 of \$172,450. They may be subject to a limit on some of their itemized deductions.

True
False

3) Claire and Calvin were married on June 30, 2009. Calvin had reconstructive nose surgery in February 2009, as a result of an argument about the color of the wedding flowers planned. If Claire and Calvin file separate 2009 returns, Claire CANNOT include these expenses in figuring her medical expenses deduction.

True
False

4) Which one of the following is NOT a deductible medical expense?

- a) Amounts paid for qualified long-term care services
- b) Costs of medical diagnosis.
- c) Insurance premiums you pay for insurance that covers the expenses for medical care.
- d) Health club dues.

5) Premiums you pay for Medicare B are includable on Schedule A as a medical expense.

True
False

6) Transportation expenses primarily for, and essential to, medical care can be included in your itemized medical expense amounts. You can include:

- a) Travel for the general improvement of one's health.
- b) Transportation costs for commuting to work in a handicap equipped van (assume you are handicapped).
- c) Transportation expenses of a parent who must go with a child who needs medical care.
- d) Travel to a spa, if recommended by your doctor for rest and relaxation.

7) General sales taxes are deductible IN ADDITION to state and local income taxes.

True
False

- 8) You sold your little cottage in Omaha this year, after living there for 25 years. In order for you to deduct real estate taxes related to this home, the taxes must be:
- a) Pro-rated between the buyer and the seller.
 - b) Paid 100% by the buyer.
 - c) Paid 100% by the seller.
 - d) Paid 100% by whoever owned the home for more than 50% of the year.
- 9) Payments for which of the following are generally deductible as real estate taxes?.
- a) Homeowner's association charges.
 - b) Rent increases due to higher real estate taxes.
 - c) Taxes for local benefits.
 - d) Each tenant's share of real estate taxes paid by their cooperative housing corporation.
- 10) Which of the following conditions is NOT required to be met to deduct home mortgage interest?
- a) The mortgage is a secured debt on a qualified home
 - b) You are legally liable for the loan
 - c) The home must be your primary residence
 - d) You file Form 1040 and itemize deductions on Schedule A (Form 1040)
- 11) You should always deduct the full amount of home mortgage points in the year paid.
- True
 - False
- 12) Deductible investment interest includes:
- a) Qualified home mortgage interest.
 - b) Any interest taken in to account in computing income or loss from a passive activity.
 - c) Interest you incurred to produce tax-exempt income.
 - d) Interest on funds borrowed to purchase property held for investment.
- 13) Which of the following is NOT considered personal interest?
- a) Finance charges on credit cards.
 - b) Interest on car loans.
 - c) FHA mortgage insurance premiums.
 - d) Interest on local income tax.
- 14) Which of the following contributions are deductible as charitable contributions?
- a) \$2,000 to a political group to help re-elect the president.
 - b) Land donated to build a Buddhist temple.
 - c) Value of blood given to a blood bank.
 - d) \$1,000 donated to the Bay Area Chamber of Commerce.
- 15) Frank pays \$300 for a ticket to a gala dinner at his church. He knows that the ticket has a fair market value of \$50. He can deduct --- _____ as a contribution to his church.
- a) \$250

- b) \$300
- c) \$50
- d) \$0

16) If you use the ACCRUAL method of accounting, you can deduct your contributions only in the year you actually make them in cash or other property.

- True
- False

17) Easyliving Savings & Loan went bankrupt. Anita lost money in a certificate of deposit she had purchased there and the deposit was not federally insured. When can this loss be deducted?

- a) Only in the year the bankruptcy was officially declared.
- b) The year in which the CD would have matured.
- c) Never—you cannot take a deduction for a loss on deposits.
- d) As a casualty loss or as an ordinary loss for any year in which she can reasonably estimate how much of her deposits she has lost.

18) In May of this year, Ted noticed that his 25 year old home had extensive termite damage. He immediately had the house treated for termites and had repairs made. The termite treatment was \$2,500, the cost to correct the damage was \$15,000 and none of this was covered by insurance. Ted's casualty loss deduction is:

- a) \$2,500
- b) \$15,000
- c) \$17,500
- d) -0-

19) Phil's house was burglarized. His loss after insurance reimbursement was \$3,500 and his adjusted gross income was \$31,000. His theft loss deduction is:

- a) \$0
- b) \$300
- c) \$400
- d) \$3,500

20) Generally, a temporary job or assignment is one that you expect to last for:

- a) 3 months or less.
- b) 6 months or less
- c) 1 year or less
- d) 2 years or less

21) Which of the following would NOT be considered travel entirely for business for trips outside the U.S.?

- a) The trip combined business and nonbusiness activities while you were outside the U.S. for 5 days.
- b) An employee was sent to Brazil for 4 weeks. He spent 2 days at the beach and the rest of the time in meetings.
- c) An employee was sent to Siberia in the winter for 10 days to meet with suppliers.
- d) The company's CEO went to France for 2 weeks and spent 70% of his time on the beach, 30% of the time in important business meetings.

22) If you purchase tickets to an event and go with a customer, you can choose to treat the cost of the tickets as either a gift expense or an entertainment expense.

- True
- False

23) If you want to use the standard mileage rate for a car you own, you must choose to use it in the first year that the car is available for use in your business.

- True
- False

24) The standard meal allowance:

- a) Has published rates for all localities within the continental US
- b) Has never been adjusted for inflation
- c) Assumes your hotel provides a free breakfast
- d) Is the same, regardless of which part of the country you are traveling to

25) Julie's employer gives her \$450 a month for her business expenses. She does not have to provide any proof of her expenses to her employer, and she can keep any funds that she does not spend. Julie is being reimbursed under a nonaccountable plan.

- True
- False

26) You can deduct the costs of qualifying work-related education as business expenses, even if the education could lead to a degree.

- True
- False

27) An example of educational expenses that CANNOT be deducted is:

- a) Tuition.
- b) The dollar value of vacation time you take to attend classes.
- c) Textbooks.
- d) Cost of having a required research paper typed.

28) Which of the following is true about travel expenses?

- a) You can deduct expenses for personal activities like sightseeing
- b) You can only deduct 25% of the cost of your meals while traveling away from home to obtain qualifying work-related education.
- c) Travel expenses for qualifying work-related education are treated the same as travel expenses for other employee business purposes.
- d) You can deduct the cost of travel as a form of education.

- 29) Which of the following miscellaneous itemized deductions are subject to the 2% limit?
- a) Gambling losses up to the amount of gambling winnings.
 - b) Amortizable premium on taxable bonds.
 - c) Federal estate tax on income in respect of a decedent.
 - d) Business liability insurance.
- 30) Which of the following is an example of a nondeductible expense?
- a) Commuting expenses between home and your main or regular place of work.
 - b) The amount you pay each year to state or local governments for licenses, and regulatory fees for your trade, business, or profession.
 - c) Union dues.
 - d) Depreciation on your home computer if you use it to produce income.
- 31) Sally and Bob are determining their Schedule A (Form 1040) deductions. The deduction on their medical and dental expenses is subject to the overall limit on itemized deductions.
- True
False
- 32) Rebecca and Randy own an aromatherapy business called R & R Creations. They file their return as married filing jointly. The 2009 applicable threshold for applying the alternative minimum tax (AMT) for taxpayers with their status is:
- a) None because they are not in the type of business that produces income subject to the AMT.
 - b) \$70,950
 - c) \$69,950
 - d) \$46,700
- 33) The IRS cannot figure your tax for you in which of these situations:
- a) Your taxable income is \$76,000.
 - b) You do not want your refund directly deposited.
 - c) You itemize deductions.
 - d) Under any circumstances.
- 34) Betty and Henry are married but file separate returns. To figure the tax on the investment income of a child under age 14, they should use the return of the parent with the greater taxable income.
- True
False
- 35) Your 16 year old son Brian had \$1,100 of interest income in 2009. In which of the following instances can you elect to include his interest income on your tax return?
- a) Brian also had \$2,200 earned income from his summer job.
 - b) Brian also had \$350 capital gain distributions.
 - c) Brian made \$300 in estimated tax payments for 2009.
 - d) Brian had \$250 in backup withholding related to his interest income.
- 36) Investment income does NOT include:
- a) All income other than salaries, wages, and other amounts received as pay for work actually done
 - b) Taxable interest, dividends, and capital gains

- c) The taxable part of social security and pension payments
- d) Salaries and wages

37) You may be able to claim the child and dependent care credit even if you pay someone to care for your dependent.

- True
- False

38) Your child and dependent care expenses can be for the care of all EXCEPT which of the following:

- a) Your dependent who was under age 13 when the care was provided and for whom you can claim an exemption
- b) Your dependent, who was physically not able to care for himself, but for whom you cannot claim an exemption.
- c) Your dependent who was mentally not able to care for herself and for whom you can claim an exemption.
- d) Your spouse who was physically or mentally not able to care for himself.

39) Which of the following is NOT true about the work-related expense test?

- a) The purpose of the expense must be to enable you to work
- b) Your work must be full time
- c) Expenses for a qualifying person's care are considered work related if they allow you to work or look for work
- d) Child and dependent care expenses must be work-related to qualify for the credit

40) If you pay for child care or dependent services before they are provided, you can count the prepaid expenses only in the year the care is received.

- True
- False

41) Assume you paid work related expenses for the care of your two qualifying children. You paid \$2,000 for care of your 2-year old and \$4,000 for the care of your 4-year old.

You can use the total \$6,000 to figure your Child and Dependent Care credit.

- True
- False

42) Phyllis is 67. Her filing status is single, her AGI is \$22,000 and she is a U.S. citizen. She CAN take the Credit for the Elderly or the Disabled on her 2009 return.

- True
- False

43) Mary and Malcolm are married filing a joint return. --Mary and Malcolm are 59 and 61, respectively. --Mary is retired on permanent and total disability and received \$13,200 in disability income for the year. When figuring the credit for the elderly or disabled, they should enter _____ as their initial amount.

- a) \$3,500
- b) \$5,000

- c) \$7,500
- d) -0-

44) If your nontaxable social security plus your excess AGI is more than your calculated initial amount, you cannot take the credit for the elderly or the disabled.

- True
- False

45) You may claim the child tax credit if you file 1040EZ.

- True
- False

46) For the 2009 tax year, Sam and Sally file jointly and have modified adjusted gross income (MAGI) of \$157,000. They are eligible to claim the American opportunity credit if they have qualified education expenses.

- True
- False

47) Brad and Janet live in California, file jointly, had MAGI of \$135,000 in 2009, and had qualified education expenses. They can take which of the following tax credits:

- a) American opportunity credit
- b) Hope credit
- c) Lifetime learning credit
- d) Any combination of no more than two of the above.

48) Marilyn enrolled at State University and must pay a separate student activity fee in addition to her tuition. The activity fee is required of all students and is used solely to fund on campus organizations and does not cover any personal expenses. This fee is a qualified education expense.

- True
- False

49) Lucy took a marketing course at the local college in 2009 in hopes of moving into management at her CPA firm. She is not pursuing a degree. Lucy would be an eligible student for purposes of the Lifetime Learning credit.

- True
- False

50) The amount of the lifetime learning credit is _____% of the first \$10,000 of qualified education expenses you paid for all eligible students.

- a) 5 %
- b) 10%
- c) 20%
- d) 25%

51) Jeremy is single, his AGI is \$36,000, has one qualifying child, and meets all of the other Earned Income Credit (EIC) rules. Jeremy can claim the EIC since his AGI is less than \$39,783.

- True

False

52) Which one of the following married filing jointly couples would be eligible for the earned income credit for 2009?

- a) Darla and Don have 5 kids and AGI of \$52,377
- b) Evelyn and Ed have triplets and AGI of \$47,289
- c) Felicia and Frank have 2 kids and AGI of \$45,924
- d) Galinda and Gavin have 1 kid and AGI of \$42,497

53) Earned income includes which of the following types of income?

- a) Interest and dividends.
- b) Pensions and annuities.
- c) Alimony and child support.
- d) Net earnings from self employment.

54) Which of the following is NOT a test for a qualifying child for EIC?

- a) Residency test
- b) Age test
- c) Keeping up a home test
- d) Relationship test

55) Your qualifying child CAN be used by more than one person to claim EIC

True
False

56) Chad and Ann are married, filing jointly, and do not have a qualifying child. Ann is age 26 and Chad is age 24. Chad and Ann do NOT meet the age test for claiming the earned income credit because Chad is not age 25 or older.

True
False

57) Qualifying adoption expenses include expenses:

- a) For carrying out any surrogate parenting arrangement.
- b) For adoption of your spouse's child.
- c) Related to court costs.
- d) Paid or reimbursed by your employer.

58) Annabelle paid Melanie \$2,000 to be a surrogate parent, then subsequently adopted the child Melanie had. The \$2,000 payment to Melanie is a qualified adoption expense for purposes of the adoption credit.

True
False

59) In July 2009 you purchased a new red Honda hybrid for \$20,000, which weighs 1,900 pounds and gets about 100 MPG. This vehicle qualifies for an Alternative Motor Vehicle Credit of:

- a) -0-
- b) \$1,000
- c) \$2,000

d) \$4,000

60) You must include in your income any amounts that a mutual fund company allocated to you as capital gain distributions, even if you did not actually receive them.

True

False