

Final Exam Questions

Course name:	Your Income Tax 2010 (for 2009 Tax Year)
Course number:	1024.09
Number of questions:	Review 200 Final exam 200
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	40 CPE hours
Recommended study time:	40 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	<p>J.K.LASSER'S YOUR INCOME TAX 2010 <small>The Preparing Your 2009 Tax Return</small> <small>"Third Edition" (2009)</small> <small>Get your FREE J.K. Lasser Tax Supplement only available at JKLasser.com</small> <small>OVER 25 MILLION COPIES SOLD</small></p> <p>Click for ordering information</p> <p>J.K.Lasser's Your Income Tax 2009 Prepared by the J.K. Lasser Institute Paperback (816 pages) Publisher: Wiley ISBN: Seventy third edition (November 2009) Ordering information: http://www.funcpe.com/courses/course_materials/2009/1024.09_materials.htm</p>
Subject classification:	Taxation
Course updated:	November 17, 2009
Learning objectives:	To understand tax law including basics of filing, what must you report as income, what deductions you can claim, how much tax do you owe, strategies to save you taxes, planning ideas for your business and specific filing instructions.
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.

NOTE: The Review Questions Exam for this course is in a separate PDF document due to the large number of questions. Copy and paste this link into your browser if it is not a live link:
http://www.funcpe.com/courses/exams/2009/1024.09_exams.htm

- 1) Marjorie is 47 and wants to retire soon, so she can raise camellias full-time. The maximum annual contribution limit for 2009 to her traditional IRA is:
 - a) \$4,500
 - b) \$4,950
 - c) \$5,000
 - d) \$5,300

- 2) Beginning in 2010, the \$100,000 adjusted gross income limit for converting a traditional IRA to a ROTH IRA will be increased to \$125,000.
 - True
 - False

- 3) Harold lived apart from his wife Bethany for all of 2009. His 11 year old son lived with him all year. He may be able to file as an "unmarried" head of household if he so chooses.
 - True
 - False

- 4) If your spouse died during the year, you are considered married for the entire year and may file a joint return for you and your deceased spouse.
 - True
 - False

- 5) In which of the following states is the income and property you and your spouse acquire during the marriage generally regarded as community property
 - a) Oklahoma
 - b) New York
 - c) Georgia
 - d) Texas

- 6) Sally is a stay-at-home mother whose husband earns all of the household income. After she obtains a divorce, the IRS examines a joint return she filed with her former husband and assesses a tax deficiency attributable to income he failed to report.

She did not know about the omitted income and she elects separate liability treatment in a timely manner. Which of the following is true?

- a) She is liable for half of the tax deficiency.
- b) If the IRS is unable to collect the tax from her husband, she is liable for all of the tax deficiency
- c) She is NOT liable for any part of the tax deficiency.

- d) She is liable for any tax deficiency from income earned prior to the divorce.
- 7) Which of the following is TRUE about qualifying as head of household?
- a) The standard deduction is lower.
 - b) Tax rates are higher for a head of household than for those filing as single.
 - c) You can file as “head of household” for the year if you are unmarried at the end of the year and you maintained a household for your child, parent or other qualifying relative.
 - d) You must be a U.S. citizen or resident for at least six continuous months of the year.
- 8) Your dependent child Lindsey started selling her old toys on Ebay and generated a surprising amount of income. She spends all she makes (no surprise), so she does not have any investment income. A tax return must be filed for 2009 if the earned income exceeded _____.
- a) \$ 500
 - b) \$ 950
 - c) \$1,900
 - d) \$5,700
- 9) A nonresident alien is generally taxed on worldwide income from all sources, just like a U.S. citizen.
- True
False
- 10) Which of the following is considered taxable compensation?
- a) Bonuses
 - b) Employer-paid premiums for health plans
 - c) Medical expense reimbursements
 - d) Group term life-insurance coverage for \$25,000
- 11) An employer is allowed to pay an employee with property instead of cash.
- True
False
- 12) Leo earns commissions based on a percentage of the profits from sales of pedal surrey bikes in his beach town. In 2009 he draws \$15,000 from his account. At the end of the year the full amount of his commissions is unknown because profits for the year have not been figured. His actual commissions for the year are computed in January 2010 to be \$25,000, and the additional \$10,000 was paid to him in 2010. Which of the following is correct?
- a) Leo does not need to pay taxes on the \$15,000 in 2009 because it is a draw against future commissions.
 - b) \$25,000 is taxable in 2010.
 - c) \$10,000 is taxable in 2010.
 - d) \$25,000 is taxable in 2009.
- 13) Which of the following is taxable?
- a) Payments received under accident plans.
 - b) Worker’s compensation.
 - c) Disability pensions from the Veterans Administration.
 - d) Sick pay.
- 14) Options granted under qualified plans are not taxed until you sell the shares acquired from exercising the options.

True
False

- 15) If you are covered under an employer sponsored health and accident plan:
- a) Medicare premiums paid by your employer are taxed if you are age 65 or older.
 - b) Employer contributions to health reimbursement arrangements (HRAs) are taxable to the employees.
 - c) You are not taxed on contributions made by your employer to a health plan covering you.
 - d) Long-term care coverage is not taxable if provided through a cafeteria plan.
- 16) Only your employer is allowed to contribute to your health savings arrangement (HSA).
- True
False
- 17) Reimbursements for _____ do NOT qualify for tax-free treatment.
- a) Elective cosmetic surgery
 - b) Your dependents' medical expenses
 - c) Your child's annual checkup
 - d) You and your dependents' prescription drugs
- 18) You are not taxed on your employer's payments of life insurance premiums on a policy of up to:
- a) \$ 25,000
 - b) \$ 50,000
 - c) \$ 75,000
 - d) \$100,000
- 19) Your employer's payment for graduate or undergraduate courses is tax free up to \$5,250 even if the courses are NOT job related.
- True
False
- 20) The IRS prefers employees be compensated for qualified transportation transit pass benefits with:
- a) Cash reimbursement
 - b) Equivalent value in lottery tickets
 - c) Voucher if readily available
 - d) IOU signed by employer
- 21) Sally is employed at a construction project at a remote job site. Her pay is \$2,000 a week. There are no accessible places near the site for food and lodging. The employer furnishes meals and lodging for which it charges \$500 a week which is taken out of her pay.
- a) The value of the meals and lodging is NOT a tax-free benefit.
 - b) Sally reports \$2,000 as taxable income.
 - c) Sally reports a \$500 short-term capital gain.
 - d) Sally reports \$1,500 as taxable income.
- 22) The tax advantage of a flexible spending arrangement is that your salary-reduction contributions are not subject to federal income tax or social security taxes.
- True
False

- 23) Monty is a 33-year old eligible bachelor in Wyoming. His taxable income from bronc riding is \$24,000 in 2009, which puts him in the 15% tax bracket. He received \$700 in qualified dividends in 2009. The tax rate on these dividends is:
- a) 0 %
 - b) 10 %
 - c) 15 %
 - d) 25 %
- 24) Tax-exempt interest must be reported on your return even though it is not taxable.
- True
 - False
- 25) Hank buys a \$10,000 CD at his local bank, but redeems prematurely. The CD had earned \$30 in interest, but the bank charged a \$40 premature withdrawal penalty.
- a) Hank does not need to report any interest.
 - b) Hank should report only the net loss of \$10 (\$40 -\$30), not the full amount of interest earned and the full penalty amount.
 - c) Hank must report the full amount of interest, and can deduct the penalty on his 1040.
 - d) Hank CANNOT deduct any principal due to penalty-forfeited interest.
- 26) Three years after the bond was originally issued, Anne paid \$9,300 for a \$10,000 bond maturing in 7 years.
- a) Anne must report the market discount as interest income in the year of the redemption.
 - b) Anne must use the ratable accrual method to compute the accrual of market discount amount.
 - c) Anne has the option of reporting the market discount annually instead of at sale.
 - d) Nothing related to this investment (purchase, annual discount amortization, redemption at maturity) is reportable for tax purposes.
- 27) Interest on securities issued by the federal government is tax-free, and not reported on your federal return.
- True
 - False
- 28) Bert bought a series EE savings bond this year.
- a) He must report the interest annually.
 - b) He must make a special election on his tax return in order to defer the interest on the bond.
 - c) If he chooses to report the interest annually he cannot switch to the deferral method.
 - d) He can postpone reporting the interest until the year he redeems the bond or the year in which it reaches final maturity, whichever is earlier.
- 29) You may deduct a capital loss on the sale of assets held for personal use because they are technically capital assets.
- True
 - False
- 30) For 2009 the lowest capital gains rate for long-term gain is:
- a) 0 %
 - b) 5 %
 - c) 10%
 - d) 15%

- 31) Cindy is single and has \$10,000 in net capital gains and \$15,000 in net capital losses. How much can she deduct from ordinary income on Form 1040?
- a) \$ 0-
 - b) \$1,500
 - c) \$3,000
 - d) \$5,000
- 32) Frank sells 500 shares of ABC Co. stock to his daughter for \$5,000. He originally purchased the stock for \$6,000 two years ago. Although his daughter is considered a blood relative, he can deduct the \$1,000 loss.
- True
 - False
- 33) Which of the following is true about holding periods?
- a) When you have an involuntary conversion and elect to defer tax on a gain, the holding period for the qualified replacement property does NOT include the period you held the converted property.
 - b) The holding period for real estate starts the day of offer of sale is accepted by both parties.
 - c) The settlement date is the last day of the holding period when you sell stock on a public exchange.
 - d) The law gives an automatic holding period of more than one year for inherited property.
- 34) Hank buys an office building for a purchase money mortgage of \$20,000 and \$60,000 in cash. The unadjusted basis of the building is:
- a) \$20,000
 - b) \$40,000
 - c) \$60,000
 - d) \$80,000
- 35) Since your basis for inherited property is the value at the decedent's death or alternative valuation date, income tax is completely avoided on the appreciation in value that occurred while the decedent owned the property.
- True
 - False
- 36) Steve and Stephanie, a married couple, jointly purchased a warehouse for \$200,000 in 1993. Fifteen years later, the warehouse was worth \$325,000 when Steve died. Disregarding any depreciation impact, Stephanie's basis in the warehouse is:
- a) \$200,000
 - b) \$225,000
 - c) \$262,500
 - d) \$325,000
- 37) Installment sales:
- a) Can be used to defer tax on the sale of publicly traded securities.
 - b) Can be used to defer tax if you are a dealer of the property sold.
 - c) Allow you to defer tax on a gain if one or more payments are received in a later year or years.
 - d) Allow you to convert a short-term capital gain into a long-term capital gain, by receiving payments over one or more years.
- 38) Which of the following is NOT treated as a payment received on an installment obligation?
- a) Cash

- b) Third-party guarantee, such as a standby letter of credit
 - c) Payments on the buyer's note(s)
 - d) The fair market value of property received
- 39) Sandy held a security that became worthless this year. How many years does she have from the due date of her return to claim a refund based on a deduction of the worthless security?
- a) 1 year
 - b) 3 years
 - c) 5 years
 - d) 7 years
- 40) If you are self-employed and file a Schedule C, you should deduct business bad debts as short-term capital losses on Schedule D.
- True
 - False
- 41) Ronald Thump, a real estate investor, purchased Parcel A for investment in 1990 for \$10,000. In 2009, he exchanged it for another parcel, Parcel B, which had a fair market value of \$30,000.
- a) The gain of \$20,000 was taxable in 2009.
 - b) The gain will never be taxable, even if Parcel B is sold.
 - c) The gain or loss is not calculated until he sells Parcel B.
 - d) The gain of \$20,000 must be declared and tax paid within 2 years of the exchange.
- 42) In an exchange of like-kind property, additional cash or unlike property that is received is called:
- a) Shoe-in
 - b) Bonus
 - c) Cream
 - d) Boot
- 43) Tax free treatment of like-kind exchanges between related persons may be lost if either party disposes of property received in the exchange within _____ years after the date of the last transfer that was part of the exchange.
- a) 2
 - b) 3
 - c) 4
 - d) 5
- 44) Gain on the exchange of common stock for other common stock of the same corporation is not taxable.
- True
 - False
- 45) Which of the following best describes a Roth IRA?
- a) Starting at age 70 ½, you must receive minimum annual distributions to avoid a 50% penalty.
 - b) Withdrawals of contributions are tax free at all times.
 - c) Distributions of earnings are taxable until age 70 ½.
 - d) Contributions to Roth IRAs are sometimes tax deductible.

46) If you are entitled to a lump-sum distribution from a qualified company retirement plan, you may avoid current tax by asking your employer to make a direct rollover of your account to an IRA or another qualified employer plan.

True

False

47) Marty, aged 82, works as an expert tax preparer. Recently he was lured away to a new employer. Which of his following distributions may be eligible for a tax-free rollover?

a) The hardship distribution he recently took from his 401(k) plan.

b) The distribution from his previous employer's qualified employer retirement plan to his new employer's qualified plan.

c) Dividends he received from his employer's stock.

d) His minimum required distributions he's been receiving since he was 70 ½.

48) Cindy quits her job and decides to receive a direct distribution from her qualified plan rather than make a direct rollover of the eligible rollover distribution. How much FIT will be withheld from the taxable portion of her distribution?

a) 0%

b) 10%

c) 20%

d) 25%

49) Bill is 45 years old and has been participating in a SIMPLE IRA plan at work for one year. He is considering taking a distribution from the plan to buy a new plasma television. The IRA penalty for this distribution is:

a) 5%

b) 10%

c) 20%

d) 25%

50) Clareitan is 57, works for Shering-Plough and participates in their 401(k) plan. Assuming the plan allows "catch-up" contributions, the maximum she can contribute for 2009 is:

a) \$3,300

b) \$15,500

c) \$16,500

d) \$22,000

51) Which of the following is NOT considered "financial need" by the IRS when withdrawing from a 401(k)?

a) Preventing your eviction.

b) Paying funeral expenses for a family member.

c) Purchase of a new car.

d) Tuition for post-secondary education for your children.

52) If your annuity is a deferred annuity contract your cost is the total premiums paid.

True

False

53) A withdrawal from an annuity contract is penalized if the payment is received by an estate after the policyholder's death.

True
False

54) A beneficiary receiving a survivor annuity can never use the simplified method for calculating taxable employee annuity.

True
False

55) Which of the following is true about a traditional IRA?

- a) Traditional IRA contributions are always deductible.
- b) If your traditional IRA loses value because of poor investments, you may deduct the loss.
- c) Broker's commissions that are paid when you make investments for you IRA are not considered IRA contributions subject to the contribution limit.
- d) In the year you reach 70 ½, you may no longer make traditional IRA contributions.

56) Chester is 29 years old and made \$51,000 in 2009 as a preschool SAT coach. He can make up to a _____ contribution to a traditional IRA for 2009.

- a) \$4,000
- b) \$5,000
- c) \$6,000
- d) \$6,300

57) Nancy and William, ages 32 and 34, always file a joint return. William was a stay-at-home dad this year and no earned income. Nancy had a salary of \$60,000. Since William had no earned income, he CANNOT make contributions to his traditional IRA this year.

True
False

58) Bernie is 61 years old and takes a 100% redemption from his Roth IRA. He began investing in the Roth IRA six years ago. Which of the following is true?

- a) Bernie must pay a 10% penalty for taking an early distribution.
- b) Bernie must pay taxes on the distribution based on his personal tax rate.
- c) Bernie does not have to pay taxes on this distribution.
- d) Bernie had to redeem all of the Roth IRA because of required minimum distribution rules effective at age 61.

59) Jack withdraws \$10,000 from his mutual fund traditional IRA account on June 1st to celebrate his 50th birthday in Las Vegas. After a lucky weekend, Jack returns home and puts \$10,000 in his IRA account at his local bank. Jack owes no tax on this direct rollover because he returned the entire amount to an IRA within 60 days.

True
False

60) Henry is 30 years old and paid \$5,000 for graduate school expenses (tuition, fees, and books) last year. Henry took an IRA distribution this year to pay for these expenses.

Henry can use the higher education expenses exception for this distribution and will not owe a premature distribution penalty.

True
False

61) Ann reached age 70 ½ during the year but did not take any distribution from her traditional IRA by April 1 of the following year.

Ann is required to pay a penalty tax of ____ of the required minimum distribution amount.

- a) 0%
- b) 10%
- c) 25%
- d) 50%

62) Bill is age 74 and owns four traditional IRA accounts with different investment companies. Although he must calculate his required distribution separately for each IRA account, Bill does not have to make withdrawals from each account.

True
False

63) Which of the following is TRUE about Simplified Employee Pension Plans (SEPs)?

- a) An employee over age 70 ½ may not participate in an employer SEP plan.
- b) A SEP must cover all employees who are at least age 21.
- c) Distributions from a SEP are subject to the regular distribution rules for traditional IRAs.
- d) Your employer's SEP contributions are included in your pay and on your Form W-2.

64) Isabella owns two businesses—a printing company with 15 employees and a shipping company with 40 employees. Most of the employees earned at least \$5,000. Isabella decides to set up a retirement plan for her businesses this year. Which of the following is TRUE?

- a) She CANNOT set up a SIMPLE IRA plan for her businesses because she has less than 100 employees.
- b) She can eliminate the \$5,000 compensation requirement for her employees, if she desires to.
- c) She is required to make matching contributions if she sets up a SIMPLE plan.
- d) She can require that employees work more than 24 hours a week to participate.

65) Henry has \$45,000 in a traditional IRA and his modified adjusted gross income is \$75,000. He is married and filing jointly. Henry can make a tax free conversion of his traditional IRA to a Roth IRA.

True
False

66) Ellen is a qualified first-time home-buyer. She can take a tax-free distribution from her Roth IRA after the first five-year holding period, for up to:

- a) \$ 2,000
- b) \$ 5,000
- c) \$10,000
- d) \$20,000

67) On an accrual basis, you report rent income on your tax return for the year in which you physically receive the check or cash and can deposit it in your bank account.

True
False

- 68) Bill completed some work on his rental property last year. Which project is considered a repair and is deductible against the rental income?
- a) Putting up a fence.
 - b) Paving the driveway.
 - c) Replacing the roof.
 - d) Painting the interior.
- 69) This year Julie rented out her condominium unit at a fair market rental for 250 days. She lived in the unit for 30 days. Julie can treat the unit as rental property for this tax year.
- True
 - False
- 70) Royalties are taxable as ordinary income.
- True
 - False
- 71) Hank lives in Texas and owns a condominium in Colorado that he rents through an agent. Hank sets the rental terms and gives final approval to any rental arrangement. He also has final approval over any repairs ordered by the agent. Because of these circumstances, Hank is considered an active participant and may deduct a rental loss of up to:
- a) \$ 5,000
 - b) \$10,000
 - c) \$25,000
 - d) \$50,000
- 72) Which of the following is one of the activity tests that must be met to qualify as a real estate professional?
- a) More than 250 hours of your services during the tax year are in real property businesses in which you materially participate.
 - b) More than 50% of your personal services in all of your businesses must be performed in real property businesses in which you materially participate.
 - c) 40 hours of qualified real estate related continuing education must be completed each calendar year.
 - d) At least 50 hours per month of your services are in real property businesses in which you materially participate.
- 73) Which of the following is NOT considered portfolio income?
- a) Interest
 - b) Dividends
 - c) Royalties on property held for investment
 - d) Interest income on loans made in the business of lending money
- 74) Helen is a general partner and her partnership fiscal year ends March 31st. During the past fiscal year she was inactive. Since she did not materially participate, her share of partnership income or loss is considered passive income or loss for that year.
- True
 - False
- 75) What rules prevent investors from claiming losses in excess of their actual tax investment?
- a) Personal service rules

- b) FDA rules
 - c) At risk rules
 - d) SEC rules
- 76) Which of the following is true about gambling winnings and losses?
- a) Losses from gambling are always 100% deductible.
 - b) You may deduct a net gambling loss if gambling is legal in your home state.
 - c) You may deduct a gambling loss only if you are a professional gambler.
 - d) Losses from gambling are deductible only up to the gains from gambling.
- 77) Compensatory damages for physical injury are tax free.
- True
 - False
- 78) A common tax-reporting characteristic shared by partnerships, S corporations, trusts, and estates is that the entity itself generally does not pay income taxes.
- True
 - False
- 79) Which of the following is NOT considered gross income?
- a) Tips
 - b) Inheritances
 - c) Income from exchanges of property
 - d) Pensions
- 80) Pete accepted a new job in San Diego this year. He moved in February and his wife and children moved in June after the school year. Since they did not travel together or at the same time, Pete cannot claim a deduction for the unreimbursed expenses incurred by each family member.
- True
 - False
- 81) Which of the following reimbursed moving expenses qualify for a deduction?
- a) Meal costs
 - b) Real estate expenses
 - c) Packing costs.
 - d) Pre-move house hunting costs.
- 82) Brooke Trout is age 39, single and has good eyesight. Her basic standard deduction for 2009 is:
- a) \$11,400
 - b) \$ 8,350
 - c) \$ 5,700
 - d) \$ 2,250
- 83) Jean Poole is age 15, single and claimed as a dependent on her parents' return. She earned \$9,000 in 2009 working as a koi pond specialist in her neighborhood. Her standard deduction is:
- a) -0-
 - b) \$5,700
 - c) \$8,000
 - d) \$9,300

- 84) For charitable donations of \$250 or more, you need to obtain a written acknowledgment that notes any benefits or goods that you received in exchange for your donation.
True
False
- 85) For tax year 2009, the mileage rate for volunteer services is _____ cents per mile.
a) 12
b) 14
c) 24
d) 55
- 86) You may not donate U.S. Savings Bonds because they are nonnegotiable.
True
False
- 87) You contribute to charity antique furnishings you owned for years. The antiques cost you \$1,000 and are now worth \$10,000. The charity uses the furnishing in its offices in the course of carrying on its functions. Which of the following is true?
a) The use of your gift is not related to the amount of your charitable contribution deduction.
b) Your contribution deduction is \$1,000
c) Your contribution deduction is \$10,000
d) Your contribution deduction is \$9,000.
- 88) For cash charitable contributions, the deduction ceiling is generally _____% of adjusted gross income.
a) 25%
b) 50%
c) 75%
d) 100%
- 89) Phyllis and Jack bought a cute beach house in Bolivar, Texas and financed it with a \$225,000 mortgage secured by the beach house. The interest on this mortgage for their second home is fully deductible.
True
False
- 90) You may deduct mortgage points that are fees for lender services.
True
False
- 91) Investment interest includes:
a) Qualified residence mortgage interest
b) Interest on a loan financing a passive activity
c) Interest on business loans
d) Interest on securities in a margin account
- 92) Which of the following taxes is deductible as an itemized deduction?
a) Social Security
b) Gift taxes
c) State income tax

- d) Customs duties
- 93) A person who pays a property tax must have an ownership interest in the property to deduct the payment.
True
False
- 94) Which of the following is true about medical expenses?
a) The cost of joining a health club is a deductible medical expense, providing you have a letter from your doctor recommending it for your general health.
b) You may deduct only medical expenses exceeding 20% of your AGI.
c) Married persons filing joint returns apply the 7.5% floor to their combined adjusted gross income.
d) Deductible medical costs include elective plastic surgery.
- 95) Which of the following is a deductible medical expense?
a) Ear piercing
b) Acupuncture
c) Teeth whitening to reverse age-related discoloration
d) Marijuana, if prescribed by a physician in a state permitting the prescription
- 96) A deduction for over-the-counter medicines is allowed if you have a doctor's prescription.
True
False
- 97) Jill pays premiums of \$300 and \$150 for two personal health insurance policies. Her total medical expenses are \$1,000 and she receives \$800 from one insurance company and \$600 from the other. Which of the following is true?
a) The excess reimbursement is \$950 ($\$800 + \$600 - \$300 - \150).
b) The excess reimbursement is taxable because multiple insurance policies are not allowed.
c) The excess reimbursement of \$400 ($\$1,400 - \$1,000$) is not taxable because she paid the entire premium.
d) Excess reimbursement is always taxable
- 98) If your spouse incurred medical expenses before you married and you pay the bills after you marry, you may deduct the expense.
True
False
- 99) Travel costs to a hospital where you receive medical care ARE deductible medical expenses.
True
False
- 100) The cost of a nurse's services at your home is a deductible medical expense, even if the nurse is not licensed or registered.
True
False
- 101) A casualty loss includes:
a) Corrosion to your beach house.
b) Termite infestation occurring over a period of time.
c) Erosion to your property over the last 10 years.

d) Damage to your car from an earthquake.

102) Sam rents an apartment as his principal residence. The apartment and its contents were completely destroyed by a hurricane and the county was declared a disaster area. Sam received insurance proceeds of \$14,500 for unscheduled personal property in his apartment. The insurance proceeds are NOT taxable.

True

False

103) Emily was involved in a car accident while on vacation and broke her leg when her car slid on an icy road into another vehicle. Which of the following are true?

a) Damage to her car is NOT a deductible casualty loss.

b) Expenses of personal injuries are NOT a deductible casualty loss.

c) Towing costs are deductible as part of the casualty loss.

d) She may deduct legal fees and costs of a court action for damages to the other vehicle.

104) You can deduct a theft loss in the year that you discover that your property was stolen.

True

False

105) An involuntary conversion of property for tax purposes occurs if your property is destroyed, damaged, stolen, or taken by a government authority.

True

False

106) A floor of _____% of AGI applies to the total of most miscellaneous deductions that are claimed on Schedule A of Form 1040.

a) 10%

b) 7.5%

c) 5%

d) 2%

107) Union members may deduct as “miscellaneous” itemized deductions union dues and initiation fees.

True

False

108) Which of the following is true about uniforms and work clothes?

a) If your job requires you to wear expensive clothing, you may deduct the cost of the clothes even if the clothing is suitable for wear off the job.

b) An allowance paid by your employer for work clothes or a uniform is reported as income.

c) Special work clothes that protect you from injury are deductible even if you are not required to wear them to keep your job.

d) You may deduct the cost of ordinary clothes used as work clothes on the grounds that they are soiled after a days work and cannot be worn socially.

109) Listed property requirements apply to:

a) Fax machines

b) Copiers

c) Calculators

d) Cellular phones

110) Even if your investment property held for income does not currently produce income, expenses incurred in managing the property are deductible.

True

False

111) Which of the following is a deductible business expense?

- a) The cost of travel between your home and your remote workplace not serviced by public transportation.
- b) Taxi fares to several business calls on a business trip out of town.
- c) Travel from a union hall to an assigned job.
- d) The cost of the limo service that picks you up at home and drives you to work every day, provided you work while riding in the limo.

112) Cindy lives in Houston, but drives 170 miles to Austin each week to work at her permanent job. She stays at a hotel in Austin and eats meals in a restaurant.

- a) Cindy can deduct transportation, meal and lodging expenses since she lives more than 100 miles from work.
- b) Cindy cannot deduct transportation, but can deduct meals and lodging.
- c) Cindy can deduct transportation, but not meals and lodging.
- d) Transportation, meals, and lodging are personal, nondeductible expense for Cindy.

113) For travel expense purposes, your tax home is always where you maintain your family residence.

True

False

114) Which of the following is correct about business-vacation trips within the United States?

- a) If your trip is primarily for business, and you extend your stay for a few days for nonbusiness reasons, you can deduct travel expenses to and from the business destination.
- b) If the main purpose of the trip is personal, but you also transact some business while there, you may deduct your travel costs to and from the area.
- c) If you spend some time vacationing at the destination before or after a business trip, you CANNOT deduct any of the costs of your transportation to and from the area.
- d) A business trip to Hawaii is considered "offshore" and expenses related to the trip are not deductible.

115) Qualified meal and entertainment costs are deductible subject to a _____% limit.

- a) 10%
- b) 25%
- c) 50%
- d) 75%

116) Deductions for gifts to business customers and clients are limited to \$_____ a person.

- a) \$ 25
- b) \$ 50
- c) \$100
- d) \$500

117) A per diem allowance may be used instead of providing reimbursement for travel expenses of employees on business trips away from home.

True

False

118) Bill and Sandy are married and both work full-time. Which of the following is true about claiming an exemption?

- a) Bill can claim an exemption for Sandy if he files a separate return.
- b) Either spouse, but not both, could claim the other as an exemption if filing separately.
- c) No exemptions are allowed because both work full-time.
- d) On a joint return, each spouse receives an exemption as a taxpayer.

119) On January 2nd of this year, Ellen's mother died. Ellen contributed all support for her mother, who had no gross income for this year. Ellen may claim her mother as a full exemption for this year even though she only contributed for her support for only one day of the year.

True

False

120) Your married daughter Amelia has earned income of \$57,000 and files a joint return with her husband. You cannot claim an exemption for Amelia, even if you provide a substantial amount of support to her.

True

False

121) Which of the following is true about figuring your regular income tax liability?

- a) All tax filers must compute their alternative minimum tax (AMT).
- b) You can still use the IRS Tax Table to calculate taxes if you have a net capital gain.
- c) The Tax Computation Worksheet must be used if taxable income is \$100,000 or more, and you do not have net capital gains or qualified dividends or claim the foreign earned income or housing exclusion.
- d) If your FIT was withheld from your paycheck, you do not have to figure your own tax liability when you file your tax return.

122) Which of the following is true about AMT?

- a) Some people benefit from AMT because it reduces their total tax liability
- b) If you are married filing jointly, and have less than \$100K AGI, you do not need to calculate AMT
- c) Children under age 18 with earned income are not subject to AMT
- d) There are no specific tests to determine whether or not you are liable for AMT.

123) The purpose of AMT is to effectively take back some of the tax breaks allowed for regular tax purposes.

True

False

124) Marybelle is aged 9 this year and heir to the Bump-It hair products fortune. She will be subject to the "kiddie tax" for 2009 if her investment income exceeds _____ .

- a) \$ 300
- b) \$ 600
- c) \$1,350
- d) \$1,900

125) The "kiddie tax" applies to income from wages and self-employment.

True

False

- 126) For 2009 tax returns, the kiddie tax may apply to children up to the maximum age of _____.
a) 12
b) 18
c) 21
d) 23
- 127) You may claim the child and dependent care credit even if you had no earnings from employment.
True
False
- 128) Up to \$_____ a year of outside-the-home care expenses may be taken into account in figuring the dependent care credit for one dependent.
a) \$ 500
b) \$1,000
c) \$3,000
d) \$6,000
- 129) Childless workers CANNOT claim the earned income credit.
True
False
- 130) Your tentative and/or actual alternative minimum tax (AMT) may affect your alternative motor vehicle tax credit.

True
False
- 131) Income tax withholding is required for all EXCEPT:
a) Sick pay paid by your employer.
b) Pay to members of the U.S. Armed Forces.
c) Commission payments.
d) Payments to household workers.
- 132) Failure to report tip income of \$20 or more received during the month to your employer may subject you to a penalty of _____% of the Social Security and Medicare tax due on the unreported tips.
a) 10%
b) 25%
c) 30%
d) 50%
- 133) If you do not give your taxpayer identification number to your bank who is paying you interest income, you may be subject to backup withholding
True
False
- 134) Megan is single and self-employed as a dog tutor. She had net earnings of \$50,000 and paid \$10,000 in taxes last year She expects to earn \$70,000 this year and have a tax liability of \$15,000. Her estimated tax payments must equal at least _____ to avoid an underpayment penalty.

- a) \$ 9,000
- b) \$10,000
- c) \$12,500
- d) \$15,000

135) Long-term capital gains are taxed at higher rates than short-term gains and regular income.

- True
- False

136) Which of the following is true about residence sales?

- a) You may deduct a loss on the sale of a personal residence.
- b) If the sales price is greater than the maximum \$250,000/\$500,000 exclusion, you must report the sale on your return.
- c) If the entire gain on the sale of your principal residence is excludable from income, you do not have to report the sale on your return.
- d) Vacant land adjacent to a taxpayer's residence does NOT qualify for the exclusion.

137) If you and your spouse sell your jointly owned home and file a joint return, you figure your gain or loss as one (joint) taxpayer.

- True
- False

138) Which of the following closing costs is NOT included in your basis?

- a) Legal fees
- b) Fire insurance premiums
- c) Survey fees
- d) Charges for installing utility services

139) If you have a home office, all of any gain on the sale of your home is taxable.

- True
- False

140) You may deduct a loss on the sale of a house received as an inheritance if you personally did not use it and offered it for sale or rental within 12 months of the inheritance.

- True
- False

141) You were smart enough to buy 1,000 shares of Amazon.com stock on April 17, 2004. This year, on September 15th, you receive 20 shares of Amazon.com stock as a tax-free stock dividend. Later the same year, on December 30th, you sell the 20 shares received as a stock dividend at a profit. Which of the following is true?

- a) You should report the sale as a short-term capital gain.
- b) This is considered a wash sale.
- c) The sale is not reported since it was from a tax-free stock dividend.
- d) The holding period of the 20 shares goes back to your original purchase date of April 17, 2004.

142) Under wash-sale rules, your loss deduction from the sale of a security is barred if within _____ days of the sale you buy substantially identical stock or securities.

- a) 5
- b) 15

- c) 30
- d) 60

143) Pete owns convertible bonds that allow the conversion of the bond to stock. When Pete converts the bond, he must recognize any gain or loss, based on the FMV of the stock, on the date of conversion.

- True
- False

144) You are deciding between a tax-exempt bond and a taxable bond. You want to find which will give you more income after taxes. You have a choice between a tax-exempt bond paying 3% and a taxable bond paying 4.5%.

Your tax bracket is 35%. Your tax equivalent rate is:

- a) 4.62%
- b) 4.50%
- c) 3.00%
- d) 6.92%

145) Which of the following is TRUE about Series EE and E bonds?

- a) EE bonds must be held 6 months from the issue date before they can be redeemed.
- b) You must report the interest on a Series E bond annually.
- c) After the final maturity date on a Series EE bond, interest continues to accrue.
- d) If you cash your bonds before the accrual month that applies to your bond, you will lose interest.

146) A real estate mortgage investment company (REMIC):

- a) Is a taxable entity for federal income tax purposes.
- b) Is generally treated as a corporation.
- c) Holds a fixed pool of mortgages.
- d) Receives tax treatment like open-end mutual funds.

147) You have property with a basis of \$30,000, now valued at \$55,000. You exchange the property with another property worth \$55,000. Your basis for depreciation for the new property is \$55,000.

- True
- False

148) A repossession is treated as a sale of property on which you must figure gain or loss.

- True
- False

149) When you redeem shares from a tax-exempt bond fund, you do NOT realize a taxable capital gain or deductible loss.

- True
- False

150) Which of the following is true about redemptions and exchanges of mutual fund shares?

- a) If you redeem shares that you owned for two years, your gain or loss is short term.
- b) You MUST use the specific identification method to identify the shares you are selling.
- c) Your basis includes load charges.

- d) Exchanges of shares within the same family of funds is treated as a sale
- 151) Scholarships for a degree candidate that include tuition, books, and supplies are taxable.
True
False
- 152) Which of the following may only be used for the first two years of post-secondary education?
a) Section 529 Plans
b) Lifetime Learning Credits
c) Hope Credits
d) Coverdell ESAs
- 153) Which of the following is true about Coverdell ESAs?
a) A designated beneficiary of a Coverdell ESA is not taxed on withdrawals that do not exceed qualified education expenses.
b) Total annual contributions per beneficiary are limited to \$4,000.
c) A contribution cannot be made for a beneficiary after he or she reaches age 16 unless the beneficiary is a special needs beneficiary.
d) The designated beneficiary cannot be changed, once the ESA is established.
- 154) If an MBA degree is required to obtain a promotion to a new position, the cost of the MBA courses is deductible.
True
False
- 155) Jim works in Houston, Texas, and after work he drives home. After a quick dinner, he drives to College Station to take classes twice a week for 16 months. The IRS does not consider the course to be temporary. Assuming the course is a valid work-related education expense, which of the following applies to Jim?
a) He can deduct both the cost of dinner and the travel expenses.
b) He may deduct the transportation costs between home and school, but not the return trip.
c) He may deduct all transportation costs for travel to and from school.
d) He cannot deduct any of the transportation costs because the costs of going between home and school are nondeductible when the course is not considered temporary.
- 156) If you are married and file a joint return, your net Social Security benefits are tax free in 2009 if your provisional income is \$_____ or less.
a) \$25,000
b) \$32,000
c) \$37,000
d) \$50,000
- 157) For the first year you claim the credit for the disabled, you need a physician's certification for your disability.
True
False
- 158) Which of the following is subject to tax for a member of the Armed Forces?
a) Combat pay
b) Housing and cost of living abroad

- c) Basic pay for active duty
- d) Dividends on GI insurance

159) If you are unable to pay your tax when you enter the Armed Forces, you may get an extension until six months after your initial period of service ends.

- True
- False

160) If your tax home is in a foreign country and you meet the foreign residence test, you may exclude up to \$ _____ of foreign earned income earned in 2009.

- a) \$ -0-
- b) \$42,200
- c) \$64,500
- d) \$91,400

161) To qualify for the physical presence test, you must show you were on foreign soil _____ days during a 12-month period.

- a) 150
- b) 225
- c) 330
- d) 365

162) If you expect to qualify under the physical presence test after the due date for your return, you may ask for an extension of time for filing your return until after you qualify.

- True
- False

163) Alimony payments are deductible by the payer if they are taxable to the recipient.

- True
- False

164) Sunny and Shayre hired Zelda to do household work every Tuesday. They supplied Zelda with all necessary cleaning products and were able to control what work she did and how it was being done. Which of the following are true?

- a) Income tax must be withheld from Zelda's wages.
- b) Sunny and Shayre are required to get Zelda's name and Social Security number and enter them on Form W-2.
- c) Social Security and Medicare does not need to be withheld from Zelda's wages.
- d) Sunny and Shayre are not required to verify if Zelda is an alien who can legally work in the United States.

165) As an employer, you are liable for FUTA if you pay cash wages of \$ _____ or more during any calendar quarter.

- a) \$ 250
- b) \$ 500
- c) \$ 750
- d) \$1,000

166) Gift tax liability may be avoided in 2009 by making gifts less than the annual per-donee exclusion of \$ _____.

- a) \$ 7,200
- b) \$10,000
- c) \$13,000
- d) \$15,000

167) The federal estate tax must be paid by the beneficiary receiving the property.

- True
- False

168) Ben owns a small business and reports his profit or loss on his personal tax return on a Schedule C. Ben's business is a:

- a) Corporation
- b) Limited Liability Company (LLC) with associates
- c) Partnership
- d) Sole proprietorship

169) Using the cash basis method of accounting, you may defer reporting income by postponing the receipt of income.

- True
- False

170) Self-employed professionals can usually deduct:

- a) The cost of a professional education.
- b) Business lunches with associates.
- c) Dues to professional societies.
- d) Clothing specifically purchased for work.

171) Bribes and kickbacks are NOT deductible if they are illegal under a federal law.

- True
- False

172) Which of the following disqualifies a home office as a principal place of business for a self-employed person?

- a) You occasionally conduct minimal administrative activities at a fixed location outside of your home.
- b) You have suitable space to do the administrative work outside your home but choose to use your home office for such activities.
- c) You have a company send out your bills from its place of business
- d) You do your professional reading in your home office, but all of your administrative work at your office building.

173) Home office expenses are not deductible if you run a sideline business from an office in your home.

- True
- False

174) Net operating loss may include:

- a) Deductions for personal exemptions.
- b) An IRA deduction.
- c) Casualty and theft losses
- d) Capital losses that exceed capital gain.

175) A Keogh defined-contribution plan fixes a specific retirement benefit based on an IRS formula and actuarial assumptions.

True

False

176) You must stop making contributions to a SEP once you reach age 70 ½ even if you have self-employment income.

True

False

177) Which of the following is true about claiming depreciation deductions?

a) If the primary purpose of property is to produce income but it fails to yield any income, the property may still be depreciated.

b) Depreciation may be claimed on property held for personal purposes.

c) If a car is used both for business and pleasure the car CANNOT be depreciated.

d) Land is depreciable.

178) In 2005, you buy a computer for \$2,600 for personal use. Several years later, when it is worth \$600, you convert the computer to business use. The basis for depreciation is:

a) \$0 since computers cannot be depreciated.

b) \$ 600

c) \$2,000

d) \$2,600

179) XYZ Co. placed \$104,000 of equipment in service on the last day of this tax year. The maximum depreciation XYZ Co. can take for this year is 1/365th of the annual depreciation calculation.

True

False

180) Bernie buys a computer in 2009 and uses it exclusively in his regular business office. Bernie CAN claim first-year expensing for this computer purchase.

True

False

181) The costs of Section 197 intangibles are amortized over a _____ year period.

a) 5

b) 7

c) 10

d) 15

182) Which of the following is **NOT** true about deducting car and truck expenses for tax year 2009?

a) You can use the standard mileage allowance for a leased car if it is used for the entire lease period.

b) You can elect to deduct a flat IRS mileage allowance instead of deducting the actual operating expenses if you have a standard business car.

c) You can switch back and forth between the mileage allowance and actual expenses method each year.

d) The standard mileage rate for 2009 is 55 cents per mile.

183) Rebecca Anne does not claim the IRS mileage allowance for her car, and deducts the actual expenses for business mileage. This year

- she drove her car a total of 12,000 miles,
- including 9,000 miles for business trips and
- her actual car expenses for gas, insurance and repairs for the year were \$1,000.

Her car expense deduction is \$ _____.

- a) \$ -0-
- b) \$ 750
- c) \$ 800
- d) \$1,000

184) To use accelerated MACRS rates for cars, trucks, and vans, you must meet the more-than-50%-business-use test in the year the vehicle is placed in business service.

- True
- False

185) If you lease rather than purchase a car exclusively for business use, you may deduct the lease charges as a business expense deduction.

- True
- False

186) Cindy bought a house to be used as residential rental property and placed it into service in 1990. She sold the home this year. Cindy will have to recapture _____ of her depreciation as ordinary income:

- a) 0%
- b) 25%
- c) 50%
- d) 100%

187) Ms. Farrelly Odparent is self-employed as a kid's toy recycling consultant. If her self-employment net earnings are _____ or more in 2009 she will be required to prepare Schedule SE.

- a) \$137
- b) \$300
- c) \$400
- d) \$535

188) If you have one or more self-employed operations, your net profit from all of the operations is combined.

- True
- False

189) Which of the following types of income is included as self-employment income on Schedule SE?

- a) Dividends and interest.
- b) Wages of a statutory employee.
- c) Capital gains from sale of a property.
- d) Fees you earn for freelance work as an independent contractor.

190) Anne is a baby sitter and performs services in a parent's home according to instructions by the parents. Anne is considered to have self-employment earnings and must file Schedule SE.

True

False

191) Which of the following is NOT considered self-employed?

- a) An independent real estate agent paid by commission.
- b) An author who receives royalties from writing books.
- c) A registered nurse who is hired directly by clients for private nursing services.
- d) An individual who gives occasional lectures for a fee.

192) The IRS generally has ____ years from the date your return is filed to audit your return.

- a) 1
- b) 3
- c) 5
- d) 7

193) When you apply for an extension to file request for your 2009 return, you _____.

- a) can get an automatic eleven-month extension to file your return by filing form 4868 by April 15, 2010
- b) extend the time to pay your taxes
- c) will owe interest on any 2009 tax not paid by April 15, 2010, even if you obtain a filing extension
- d) get an automatic extension if you are out of the country on the filing due date

194) If your return is filed late without reasonable cause, the IRS may impose a penalty of 5% of the net tax due for each month the return is late, with a maximum penalty of 25%.

True

False

195) If you file an extension and by the original due date you paid at least _____% of your total tax liability, reasonable cause is presumed and the late payment penalty does not apply for the period covered by the extension.

- a) 50%
- b) 60%
- c) 75%
- d) 90%

196) You must file a refund claim on Form 1040X if you have overpaid your estimated tax.

True

False

197) If your itemized deductions exceed target ranges set by the IRS, the chances of being audited increases.

True

False

198) The IRS is NOT required to notify individuals prior to enforcing a tax lien by seizing property.

True

False

199) You have the right to make an audio recording of any interview with an IRS official.

True

False

200) A _____% penalty applies to the portion of any tax underpayment due to fraud.

- a) 10%
- b) 25%
- c) 50%
- d) 75%