


Review 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 1ST EDITION OVER 29 MILLION COPIES SOLD</p> <p>J.K.Lasser's Your Income Tax 2010 (For the 2009 Tax Year)</p> <p>Prepared by the J.K. Lasser Institute</p> <p>Paperback (816 pages)</p> <p>Publisher: Wiley ISBN: Seventy-third edition (November 2009)</p> <p>Click for ordering information</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 Final 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) New in 2009, the first time homebuyer credit is available only to homebuyers who have never owned a home before.

- True
- False

2) Lance and Lorraine want to take advantage of the deduction available in 2009 for sales taxes on a car purchase. Their AGI is \$175K and they file jointly. They bought a beautiful red used Ferrari for \$44K.

They are most likely eligible to deduct 100% of the sales tax on this purchase.

- True
- False

3) The filing status you use (i.e. married filing jointly, single, etc.) determines the amount of the standard deduction you may claim if you do not itemize deductions.

- True
- False

4) For federal tax purposes, marriage is defined as a legal union between a man and a woman as husband and wife.

- True
- False

5) In a community property state, property owned before marriage becomes community property.

- True
- False

6) Unless you qualify for relief, you are personally liable for any tax due on a joint return you have filed.

- True
- False

7) Tax rates are higher for a head of household than for those filing as single.

- True
- False

8) Your minor child, Cheswick had only earned income for his modeling jobs and no investment income in 2009. His earned income was \$5,786 for 2009 so a tax return must be filed.

- True
- False

9) An alien's mere presence in the U.S. automatically makes him or her a "resident."

True
False

10) A critical document for reporting pay from an employer is Form W-2.

True
False

11) Francine is employed as a teacher at Snow Ball Ice Skating Center. She receives a check for \$750 and 2 pairs of new ice skates with a fair market value (FMV) of \$900. She should report only \$750 as wages.

True
False

12) Earned commissions are taxable in the year they are credited to your account and subject to your drawing.

True
False

13) Workers' compensation is taxable.

True
False

14) Stock appreciation rights (SARs) enable employees to receive the benefit of an increase in value of the employer's stock between the date the SARs are granted and the date they are exercised.

True
False

15) Employer contributions to health reimbursement arrangements (HRAs) are not taxed to employees.

True
False

16) As an eligible employee, you, your employer, or both may contribute to your health savings account (HSA).

True
False

17) Reimbursements for your dependents' medical expenses are taxable.

True
False

18) If two or more employers provide you with group-term life insurance coverage, you get only one \$50,000 exclusion.

True
False

19) If graduate courses that you take are NOT job related, an employer's payment for education expenses will be taxable.

True
False

20) Lucille is employed as a regular employee and receives \$225 per month in 2009 for subsidized parking at her local train station. She commutes to her office in downtown Houston by train.

The \$225 per month is taxable.

- True
- False

21) The value of employer-furnished meals is not taxable if furnished on your employer's business premises for the employer's convenience.

- True
- False

22) A flexible spending arrangement (FSA) can be used to reimburse an employee for commuting expenses if the employee uses mass transit.

- True
- False

23) Dividends paid out of current or accumulated earnings of a corporation are NOT taxable.

- True
- False

24) Your mutual fund, Janus Twenty, has performed quite well this year and declares a dividend of \$75 per share on November 22nd of this year. You receive the dividend the following year on January 4th, when it is credited to your account.

The dividend is taxable this year, the year it was declared, due to a special rule for mutual fund dividends.

- True
- False

25) You may incur a penalty if you withdraw funds from a certificate of deposit prior to the maturity date of the CD.

- True
- False

26) When you realize a profit on the sale of a market discount bond, the portion of the profit equal to the accrued discount must be reported as ordinary interest income.

- True
- False

27) Interest on securities issued by the federal government is subject to state income taxes.

- True
- False

28) Interest from a U.S. savings bond cannot be deferred.

- True
- False

29) The tax treatment of gains and losses is the same for sales of business and personal property.

- True

False

30) Sales of capital assets held for one year or less are in the short-term category.

True

False

31) Capital losses are fully deductible against capital gains.

True

False

32) A loss on a sale between you and your brother is not deductible.

True

False

33) The law automatically treats inherited property as if it were held for more than one year.

True

False

34) Unadjusted basis is your cash cost plus the value of any property you gave to the seller.

True

False

35) Your basis for inherited property is the basis of the deceased.

True

False

36) If you report a sale of property as an installment sale on Form 6252, your profit is taxed as installments are received.

True

False

37) If, under the contract of the installment sale, the buyer pays off an existing mortgage, the amount is included when calculating the selling price.

True

False

38) If you sell property to a relative on the installment basis, and the relative later resells the property, you could lose the benefit of installment reporting.

True

False

39) A loss of worthless securities is NOT deductible.

True

False

40) A nonbusiness bad debt is fully deductible as an itemized deduction.

True

False

- 41) A qualified like-kind exchange of property allows you to defer a gain from the exchange.
True
False
- 42) Sandy and Frank exchange qualified like-kind property. Frank also pays Sandy \$20,000. Since this was a qualified like-kind exchange, the \$20,000 is a non-taxable gain.
True
False
- 43) In a property settlement accompanying a divorce, a husband plans to transfer to his wife stock worth \$500,000 that cost him \$100,000. If she sells the stock, her basis will be \$100,000 and she will have to pay the tax on the gain.
True
False
- 44) The change from a tenancy in common from a joint tenancy is tax free.
True
False
- 45) Jill began investing in her Roth IRA seven years ago and is age 61. She redeems her entire account to buy a sailboat. The entire distribution is taxable.
True
False
- 46) If a lump-sum distribution is made from a qualified company retirement plan directly to the employee, 20% is automatically withheld.
True
False
- 47) You may take a lump-sum distribution from your qualified retirement plan for any reason as long as you sign a statement confirming that you understand the taxable consequences.
True
False
- 48) If you are your deceased spouse's beneficiary, you may roll over your interest in his or her qualified plan account.
True
False
- 49) Jim is age 52 and makes a \$25,000 distribution from his Traditional IRA to buy a new car. This distribution is a taxable distribution and he will also be assessed a 25% penalty for taking the distribution before age 59 ½.
True
False
- 50) Unless employees affirmatively opt out of a 401(k) plan, a specified percentage of their pay is contributed to the plan, per the Pension Protection Act of 2006.
True
False

- 51) The purchase of a car to replace an old car that no longer works qualifies for a hardship withdrawal from a 401(k) plan.
True
False
- 52) Payments on the complete surrender of an annuity contract are taxable only to the extent they exceed your investment.
True
False
- 53) Ginny is age 45 and has become totally disabled. A withdrawal from her annuity contract may be taxable but is not subject to the 10% penalty for a premature distribution.
True
False
- 54) If you have an investment in the plan and your annuity starting date is after November 18, 1996, you must use the simplified method to figure your taxable employee annuity.
True
False
- 55) All traditional IRA withdrawals are fully tax-free if redeemed after age 59 ½.
True
False
- 56) You must make your contribution to a traditional IRA by December 31st of the tax year the contribution relates to.
True
False
- 57) The spousal IRA rule allows a spouse with minimal earnings to “borrow” compensation from his or her spouse in order to reach the maximum IRA contribution limit.
True
False
- 58) Mandatory required minimum distributions are not required from a Roth IRA.
True
False
- 59) Amanda withdraws \$5,000 dollars from her traditional IRA on June 1st for a trip to Las Vegas in three weeks. She has a lucky vacation and reinvests the \$5,000 in a different traditional IRA account 5 weeks later on July 7th.
She must treat the \$5,000 as a taxable distribution.
True
False
- 60) A penalty exception is allowed for traditional IRA distributions that do not exceed your higher education expenses.

True
False

61) Sam, age 72, has traditional IRAs with XYZ Mutual Funds and ABC Mutual Funds. Both custodians provide him with the required minimum distribution amounts (\$300 at XYZ and \$700 at ABC). Sam may take the entire \$1,000 required minimum distribution from XYZ Mutual Funds.

True
False

62) Distributions that you receive as a beneficiary of a traditional IRA are tax-free.

True
False

63) Your employer's simplified employee pension plan (SEP) contributions are excluded from your pay, unless you exceed the limit.

True
False

64) A SIMPLE IRA is a salary-reduction retirement plan for businesses with at least 100 employees in the prior year.

True
False

65) If you convert a traditional IRA to a Roth IRA, the entire conversion is tax free.

True
False

66) For a married couple to qualify for the tax free treatment on a Roth IRA distribution used for first-time home-buyer expenses, neither spouse may have had a present ownership interest in a principal residence in the two-year period ending on the acquisition date of the new home.

True
False

67) A security deposits received for a rental of property is not usually considered income at the time of receipt.

True
False

68) Rental property maintenance and repair payments receive the same tax treatment as payments for improvements and replacements.

True
False

69) If you rent your residential unit for fewer than 15 days in the taxable year, you do not report the rental income.

True
False

70) A payment for the use of a patent is a royalty.

True

False

71) Real estate rental activities are always treated as passive activity.

True

False

72) Proving your status as a real estate professional and material participation allows you to avoid passive loss limitations.

True

False

73) Portfolio income such as income from interest, dividends and annuities is passive income.

True

False

74) Losses and credits that may not be claimed in one year because of the passive activity limitations are suspended and carried forward to later years.

True

False

75) Marilyn bought the rights to market invisible Silly Putty on the Internet for \$100K plus a non-recourse note for \$1 million. The first year in business, the company lost \$500K. Marilyn's deductible loss is limited to \$100K.

True

False

76) Your favorite Aunt Mabel left you \$250,000 cash in her will. This type of inheritance is usually considered taxable to the recipient.

True

False

77) Compensatory damages for a nonphysical personal injury, such as discrimination, are taxable.

True

False

78) As a shareholder in an S corporation, you report your share of the entity's income or loss.

True

False

79) There is no advantage for the taxpayer to claim any deductions directly from gross income in arriving at adjusted gross income.

True

False

80) You may deduct unreimbursed expenses of moving your household goods and traveling to a new job location provided you meet the distance test and the work test.

To meet the distance test requirements, the distance between your new job location and your former home must be at least 200 miles more than the distance between your old job location and your former home.

True
False

81) A reimbursement for moving expenses that do not qualify for a deduction is reported as compensation on your Form W-2.

True
False

82) The standard deduction is an automatic deduction you may claim regardless of your actual expenses.

True
False

83) Minime, age 14, is claimed as a dependent by his parents. For 2009 he earned \$2,100 working as a ventriloquist at parties. He also had \$500 interest income.

His standard deduction should be \$2,400.

True
False

84) A charitable donation check mailed and dated on the last day of the year is deductible in the year the check is cashed.

True
False

85) If you work without pay for a qualified charitable organization, you may be able to deduct as charitable contributions your unreimbursed expenses (such as meals and lodging on an out-of-town trip) in providing the services.

True
False

86) You may donate EE savings bonds for a charitable deduction.

True
False

87) A deduction is not allowed for giving a charity the free use of your property.

True
False

88) Samantha claimed a deduction for appreciated watercolor paintings on her 2009 return. Although she had the paintings appraised, the paintings were determined to be overvalued, and as a result her tax under payment was \$3,950.

Samantha may be subject to a penalty as well as additional tax for substantial overvaluation of property.

True
False

89) Under the mortgage interest rules, a qualifying "home acquisition loan" is a loan used to buy, build, or substantially improve your principal residence or second home, provided the debt is secured by the same residence.

- True
- False

90) On the purchase of a principal residence, you may deduct as "points" amounts that are for specific lender services, such as an applications fee.

- True
- False

91) Investment interest is all interest paid or accrued on debts incurred to buy or carry investment property.

- True
- False

92) Roger filed and paid his state income tax of \$2,200 on March 17, 2009. He is itemizing his deductions on his federal tax return for 2009.

He CAN include his 2009 payments of state income taxes in his itemized deductions.

- True
- False

93) Payments of state and local real estate taxes on your non-business property can be deducted as an itemized deduction.

- True
- False

94) You may only deduct medical expenses exceeding 7.5% of your AGI.

- True
- False

95) To alleviate an ulcer your doctor puts you on a special diet. The cost of your food and beverages for this diet are deductible as medical expenses.

- True
- False

96) Aspirin is a deductible medical expense.

- True
- False

97) Genevieve weighs 333 pounds and has been diagnosed as obese. She tried to get on "The Biggest Loser" show but didn't make it so she signed up for meal delivery from Nutrisystems.

The cost of her special meals is deductible as a medical expense, to the extent it exceeds 7.5% of her AGI.

- True
- False

- 98) You may deduct as medical expenses, subject to the 7.5% floor, your payments of medical bills for your spouse if you were married either at the time the expenses were incurred or at the time the bills were paid.
True
False
- 99) If your medical condition requires you to make special travel arrangements to work, you may deduct the travel costs as medical expenses.
True
False
- 100) Wages paid for nursing services are medical expenses.
True
False
- 101) To be a deductible casualty loss, property must be damaged or destroyed as a result of a sudden, unexpected, or unusual event.
True
False
- 102) A casualty loss deduction may be claimed only by the owner of the property.
True
False
- 103) Damage to your car in an accident is NOT deductible as a casualty loss.
True
False
- 104) A decline in the value of a publicly traded stock due to misconduct of corporate officers is NOT a deductible theft loss.
True
False
- 105) You have an involuntary conversion when your property is destroyed by a fire.
True
False
- 106) You may deduct 100% of all qualified "miscellaneous expenses" on your Schedule A (Form 1040).
True
False
- 107) Voluntary payments to a union unemployment strike fund are not deductible.
True
False
- 108) A painter may deduct the cost of work clothing consisting of a white cap, a white shirt, white bib overalls, and standard work shoes.
True
False

- 109) You get a job with Microsoft and the company provides you with a computer in your office there. You have access to your office after hours, but you don't like to stay late. You purchase a laptop to use when you catch up on your work after hours and on weekends at home. This home computer is deductible as a miscellaneous expense.
- True
False
- 110) You may deduct the cost of tax return preparation fees.
- True
False
- 111) The cost of travel between your home and place of work is generally not deductible.
- True
False
- 112) A temporary work location is one at which your employment is realistically expected to last, and actually does last, for one year or less.
- True
False
- 113) Your residence is in New York City, but you work in Philadelphia. Your tax home is New York City.
- True
False
- 114) If the primary purpose of a trip within the United States is to transact business you may deduct your lodging expenses even if you spend time vacationing.
- True
False
- 115) To deduct meals and entertainment expenses for customers you must prove that income or other business benefit actually resulted from the expense.
- True
False
- 116) If you make a gift to the spouse of a business associate, it is considered as made to the associate.
- True
False
- 117) Employers may use a per diem allowance to cover meals, lodging, and incidental expenses of employees on business trips away from home.
- True
False
- 118) Your spouse is not your dependent for tax purposes.
- True
False
- 119) Nephews, nieces, uncles, and aunts do not have to be your blood relatives to qualify under the relationship test for a personal exemption.

True
False

120) You must list the Social Security number (SSN) of each dependent you claim on your federal tax return.

True
False

121) The two types of income tax rates are the regular rates and alternative minimum tax (AMT) rates.

True
False

122) The lowest tax bracket for 2009 is 15%.

True
False

123) If you claimed the standard deduction instead of itemizing deductions on Form 1040, you may not claim the standard deduction as an AMT deduction.

True
False

124) The “kiddie tax” applies only to income from wages

True
False

125) For 2009, a tax return must be filed for a dependent child with both investment income exceeding \$300 and gross income of more than \$850.

True
False

126) For 2009, you generally may claim a tax credit of \$1,000 for each qualifying child who is under at 17 at the end of 2009.

True
False

127) The dependent care credit is limited to your tax liability.

True
False

128) The amount you pay to a daycare or nursery school for a dependent child under age 18 is eligible for the dependent care credit.

True
False

129) The household requirement test for the earned income credit (EIC) states that the qualifying child must have lived with you in your main home in the U.S. for the entire year.

True
False

130) Only the original purchaser of a new qualifying hybrid vehicle may claim the hybrid vehicle credit.

True
False

131) Without a Form W-4, your employer must withhold tax as if you are a single person with no exemptions.

True
False

132) Tips of less than \$20 per month are taxable but not subject to withholding.

True
False

133) The backup withholding rate is 28%.

True
False

134) A married couple may NOT pay separate estimated taxes, if they plan to file jointly.

True
False

135) You can defer salary income by not cashing a paycheck at year end.

True
False

136) 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.

True
False

137) If you and your spouse sell your jointly owned home and file separate returns, each of you must figure your own gain or loss according to your ownership interest in the home.

True
False

138) When figuring gain or loss on the sale of your home, you CANNOT include any closing costs incurred when calculating the basis of the home.

True
False

139) Even if you had a home office in your residence, when you sell your home you may be able to exclude some of the gain realized in the sale.

True
False

140) Mabel noticed her neighborhood was going downhill fast, so she decided to sell her residence for much less than she originally paid for it. She moved to an apartment and put her home up for rent while it was on the market. Her home was rented for one month (at a net loss) when it sold. Mabel can most likely deduct a loss on the sale of her residence.

True
False

- 141) Jimbob received some additional Caterpillar stock as a dividend on the stock he bought 20 years ago. When he sells this "dividend stock," the holding period is calculated from the original stock purchase date.
True
False
- 142) The wash-sale rule applies to gains from the sale of a security.
True
False
- 143) You realize no gain or loss when you convert a bond into stock if the conversion privilege was allowed by the bond.
True
False
- 144) Interest on municipal bonds is not subject to federal income tax.
True
False
- 145) You can purchase series EE bonds and cash them 36 months later with no interest penalty.
True
False
- 146) A real estate mortgage investment company (REMIC) is a taxable entity for federal income tax purposes.
True
False
- 147) You may trade real estate held for investment for other investment real estate and incur no immediate tax.
True
False
- 148) On an abandonment of business property, you may claim an ordinary loss for the property's adjusted basis.
True
False
- 149) Dividends from a bond fund that represent tax-exempt interest earned by the fund are not taxable.
True
False
- 150) The specific identification method of identifying the sold shares from a mutual fund allows you to select exactly which shares are being sold.
True
False
- 151) Free tuition for undergraduate studies provided to a faculty member or school employee is usually taxable.
True
False

- 152) You may NOT claim both the Hope credit and the lifetime learning credit for the same student for the same tax year.
True
False
- 153) Coverdell Education Savings Accounts (ESAs) were formerly known as SAR-SEPS.
True
False
- 154) Lindsey stopped working as a secretary for five years after her son was born. When her son enters kindergarten, she decides to go back to work, and takes a few typing courses to "brush up" on her typing skills before she starts job hunting. She CANNOT deduct the cost of these "brush-up" courses on Schedule A as a work-related education expense.
True
False
- 155) If you use your own car for transportation to school, you may use the standard business mileage rate to figure the deductible amount if your courses qualify for a deduction.
True
False
- 156) Social Security retirement benefits are paid automatically once you reach age 65.
True
False
- 157) Warren Piece turned age 65 in June of 2009, is not disabled and he loves to read. He has no tax liability. Warren will be able to claim the tax credit for the elderly on his tax year 2009 return.
True
False
- 158) If you serve in a designated combat zone during any part of a month, all of your qualifying military pay for that month is excluded from your taxable income.
True
False
- 159) Reservists who are called to active duty for over 179 days may withdraw IRA funds before age 59 ½ without penalty.
True
False
- 160) You may elect the exclusion for foreign earned income only if your tax home is in the U.S.
True
False
- 161) To meet the foreign residence test, you must be a U.S. citizen who is a bona fide resident of a foreign country for an uninterrupted period that includes one full tax year.
True
False

- 162) Foreign income reported on your federal income tax return must be stated in U.S. dollars.
True
False
- 163) Only payments of cash, checks, and money orders payable on demand qualify as taxable and deductible alimony.
True
False
- 164) If you hired someone to do household work and you were able to control what work he or she did and how it was done, you had a household employee.
True
False
- 165) As an employer, you must pay FUTA on wages paid to your spouse for household services.
True
False
- 166) Gifts to your spouse are completely tax free under the gift tax marital deduction if your spouse is a U.S. citizen at the time of the gift.
True
False
- 167) The federal estate tax is a tax on the act of transferring property at death.
True
False
- 168) If you do freelance work as an independent contractor, you are self-employed and should use Schedule C.
True
False
- 169) If you have more than one business, you must use the same accounting method for all the businesses.
True
False
- 170) The cost of replacing the siding on your office building is always considered a deductible expense.
True
False
- 171) A kickback includes payments for referral of a client, patient, or customer.
True
False
- 172) The home area can qualify as your principal place of business even if you spend most of your working time providing services at outside locations.
True
False
- 173) Household repairs that benefit a home office space are deductible.

True
False

174) A net operating loss is generally the excess of deductible business expenses over business income.

True
False

175) A partnership may establish a Keogh plan.

True
False

176) You must formally set up a Keogh plan in writing on or before the last day of the taxable year in which you want the plan to be effective.

True
False

177) Depreciation deductions may be claimed only from property used in your business or other income-producing activity.

True
False

178) Lisa Beans bought a \$5,000 espresso machine from Starbucks three years ago to make coffee at home. She rationalized the purchase by calculating the money she saved by not buying espressos at Starbucks every day. This year she moved the machine to her home office, and converted it to business use. Lisa cannot elect first year expensing for this property because it was purchased in a prior year.

True
False

179) If you are starting a new business in which you expect losses or low income at the start, accelerated MACRS depreciation may waste depreciation deductions that may be used in later years when your income increases.

True
False

180) Computers are NOT considered “listed property.”

True
False

181) A covenant not to compete is usually a Section 197 intangible if paid for in connection with the acquisition of a business.

True
False

182) The choice of the mileage allowance must be made in the first year you place the vehicle in service for business travel.

True
False

- 183) If you do not claim the IRS mileage allowance, you may deduct car, truck, or van expenses such as gas, parking and tolls on business trips.
True
False
- 184) The minimum depreciation period for business autos, trucks, and vans is seven years.
True
False
- 185) If you use a leased vehicle for business and personal driving, you may deduct only the lease payments allocated to business travel.
True
False
- 186) Profitable sales of machinery used in your business and held for more than one year are generally treated as capital gain.
True
False
- 187) Self-employment tax provides funds for Social Security and Medicare benefits.
True
False
- 188) When you and your spouse each have self-employment income, you may choose to figure combined self-employment income on the same Schedule SE if you file jointly.
True
False
- 189) Traders in securities who buy and sell securities for their own account do not treat net gains or losses from the sales as self-employment income or loss.
True
False
- 190) The IRS generally takes the position that income earned by a consultant is subject to self-employment tax.
True
False
- 191) If you are a nonresident alien, you must pay Social Security on your self-employment income derived from a trade, business, or profession.
True
False
- 192) Your tax related records should be kept for a minimum of three years after the year to which they are applicable.
True
False
- 193) You can receive an automatic six-month extension to file your tax return by filing a simple form with the IRS.

True
False

194) If the IRS has not yet assessed an underpayment of income tax, you can make a cash deposit in order to suspend the running of interest on a potential underpayment.

True
False

195) If your tax return is filed late without reasonable cause, the IRS may impose both a late payment penalty and interest charges on the taxes due.

True
False

196) You may file for a refund if you wish to take advantage of a retroactive change in the law.

True
False

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

True
False

198) For self-employed individuals, most audits are field audits at their place of business.

True
False

199) Even if you have authorized someone to represent you at an audit, you must appear at the examination with the representative.

True
False

200) If you agree to audit changes regarding a proposed deficiency, you can bring the case to a close by signing the Form 870.

True
False