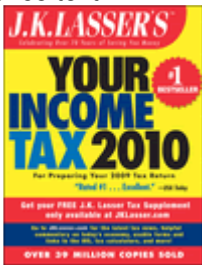




## Review Questions and Final Exam

Course name:	<b>Your Income Tax 2010-Part One</b> (For 2009 Tax Year)
Course number:	1024.09A
Number of questions:	Review            100 Final exam        100
Prerequisite:	None
Course level:	Basic
Recommended CPE credit:	20 CPE hours
Recommended study time:	20 hours
Course format:	Interactive self study CPE credit calculated as 100% of total study time (i.e. 50 minute hour)
Reference text:	 <p><b>J.K.LASSER'S</b> <b>YOUR INCOME TAX 2010</b> 1<sup>ST</sup> EDITION For Preparing Your 2009 Tax Return "The #1 ... Bestseller" - USA Today Get your FREE J.K. Lasser Tax Department only guarantee of satisfaction No 30-day money-back guarantee No 60-day money-back guarantee OVER 29 MILLION COPIES SOLD</p> <p><a href="#">Click for ordering information</a></p> <p><b>J.K.Lasser's Your Income Tax 2010</b> Prepared by the J.K. Lasser Institute Paperback (816 pages) Publisher: Wiley ISBN: 978-0-470-44711-6 <b>Seventy-third edition</b> (November 2009)</p>
Subject classification:	Taxation
Course updated:	November 4, 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 <b>offline</b> .  Please note that you will still need to <b>enter your answers online</b> by logging into the course system with your User ID and Password.

- 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) Jeremy spends \$1,900 on tuition and books for a graduate level course unrelated to his current job. His company reimburses Jeremy the \$1,900 under a qualifying Section 127 plan. This reimbursement is taxable income to Jeremy.  
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

Your Income Tax 2010 (2009 tax year)

Exam Name: Part One  
--Final Exam

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