

**SOLUTIONS FOR
QUESTIONS AND PROBLEMS**

CHAPTER 1

THE INDIVIDUAL INCOME TAX RETURN

Group 1 – Multiple Choice Questions

1. D The income tax includes elements of social and economic policy (LO 1.1)
2. C The income tax was authorized by the 16th Amendment in 1913 (LO 1.1)
3. C The 1040A and 1040-EZ no longer exist and the 1120 is for corporations (LO 1.2)
4. D Partnerships use Form 1065 to report income tax information. A partner will report their share of income from a partnership on a Form 1040 (LO 1.2)
5. D Capital gains and losses are reported directly on the face of the Form 1040 (from Schedule D) (LO 1.2)
6. D A partnership is not generally a tax-paying entity (LO 1.2)
7. C Student loan interest is a for AGI deduction. The other responses are all itemized (from AGI) deductions (LO 1.3)
8. B The deduction for IRA contributions is a for AGI deduction (LO 1.3)
9. D \$98,000 – \$13,000 (standard deduction is less than itemized deductions) (LO 1.3)
10. D For AGI adjustments are deducted to get to AGI (LO 1.3)
11. B The larger of the two may be deducted (LO 1.3)
12. A An exclusion reduces gross income (LO 1.3)
13. B Filing thresholds generally are the same as the standard deduction amount (LO 1.4)
14. D Ben's income would need to exceed the standard deduction to require filing a tax return (LO 1.4)
15. D \$25,900 + \$1,400 (LO 1.4)
16. C Single dependent over 65 and blind threshold is \$4,500 for unearned income (LO 1.4)
17. C Joan qualifies as either single or head of household; however, head of household is more advantageous (LO 1.5)
18. D Although Dorothy does not live with Glenda, since Dorothy is a parent that Glenda supports, Glenda may file as head of household (LO 1.5)
19. D Taxpayer may file married filing jointly in year of spouse's death (LO 1.5)
20. C Surviving spouse is preferred to head of household (LO 1.5)
21. E Either Margaret or her sister (but not both) may claim the mother as a dependent under a multiple support agreement (LO 1.6)
22. D The daughter fails the age test to be a qualifying child and she fails the gross income test (\$4,400 in 2022) to be a qualifying relative (LO 1.6)
23. D The child tax credit in 2022 is \$2,000 (LO 1.6)
24. B The child tax credit for the 13-year-old child is \$2,000. The mother does not meet the support test and cannot be claimed (LO 1.6)
25. B Must be age 16 or under for child tax credit (LO 1.6)
26. A Head of household standard deduction plus additional standard deduction for age 65 (\$19,400 + \$1,750) (LO 1.7)
27. B Taxpayers age 65 or older are eligible for an additional standard deduction amount (LO 1.7)
28. B Taxpayers that are blind are eligible for an additional standard deduction amount (LO 1.7)
29. D Earned income plus \$400 (LO 1.7)
30. E Standard deduction may not exceed typical amount (LO 1.7)
31. D Business inventory is not considered a capital asset (LO 1.8)
32. A Gain of \$15,000 (\$25,000 amount realized less \$10,000 adjusted basis) has been held for more than 12 months and is long-term (LO 1.8)
33. C $\$10,000 = \$240,000 - (\$270,000 - \$40,000)$ (LO 1.8)
34. A $\$43,000 - \$3,000$. Net capital losses of up to \$3,000 may be deducted from ordinary income for individual taxpayers (LO 1.8)
35. C Line 7 is capital gain or (loss) (LO 1.9)
36. B Preparers must get a signed authorization to e-file from the taxpayer. (LO 1.10)
37. B About 90% of returns are filed electronically (LO 1.10)

Group 2 – Problems

1. a. Raising revenue to operate the government.
b. Furthering economic goals such as reducing unemployment.
c. Furthering social goals such as encouraging contributions to charities. (LO 1.1)
2. a. Form 1040
b. Schedule B
c. Schedule D
d. Schedule A
e. Schedule 2
f. Schedule E
g. Schedule 3
h. Schedule C
i. Schedule 1 (LO 1.2)
3. a. $\$36,300 = \$42,000 + \$300 - \$6,000$.
b. $\$25,900$, the greater of itemized deductions or the standard deduction of \$25,900.
c. $\$10,400 = \$36,300 - \$25,900$. (LO 1.3)
4. a. $\$25,000$.
b. $\$12,950$, the greater of total itemized deductions or the standard deduction amount.
c. $\$12,050 = \$25,000 - \$12,950$. (LO 1.3)
5. a. $\$53,800 = \$54,000 + \$2,800 - \$3,000$ (\$7,000 capital loss limited to \$3,000).
b. $\$12,950$
c. $\$40,850 = \$53,800 - \$12,950$. (LO 1.3 and 1.8)
6. a. $\$47,500 = \$48,000 + \$2,500 - \$3,000$.
b. $\$25,900$, the greater of itemized deductions or the standard deduction of \$25,900.
c. $\$21,600 = \$47,500 - \$25,900$.
d. $\$2,184$ (Tax Table) (LO 1.3, 1.5, and 1.7)
7.

| | |
|---------------------------|-----------------|
| Adjusted gross income | \$18,000 |
| Less: Itemized deductions | <u>-2,400</u> |
| Taxable income | <u>\$15,600</u> |

Marco's tax liability from the Tax Table is **\$1,670**. Note: because they are married and filing separately and Marco's spouse Tatiana itemizes her deductions, Marco must also itemize his deductions, even though the itemized deductions total is less than the standard deduction he would be otherwise entitled to. (LO 1.3, 1.5, and 1.7)
8.

| | |
|--|-----------------|
| Adjusted gross income (\$13,200 + \$1,450) | \$ 14,650 |
| Less: Standard deduction | <u>-12,950</u> |
| Taxable income | <u>\$ 1,700</u> |

(LO 1.3, 1.5, and 1.7)
(Note: See Chapter 6 for the tax credit computation for dependent college students under age 24.)
9. a. $\$34,050 = \$47,000 - \$12,950$.
b. Tax tables. Taxpayers with income up to \$100,000 must use the tax tables.
c. $\$3,884$. (LO 1.3, 1.5, and 1.7)
10. a. $\$66,000 = \$50,000 + \$8,000 + \$5,000 + \$3,000$.
b. $\$63,500 = \$66,000 - \$2,500$.
c. $\$27,000$, the greater of itemized deductions or the standard deduction of \$25,900.
d. $\$36,500 = \$63,500 - \$27,000$.
e. $\$3,972$ (LO 1.3, 1.5, and 1.7)