Test Bank for Fundamentals of Taxation 2017 Edition 10th Edition by Cruz

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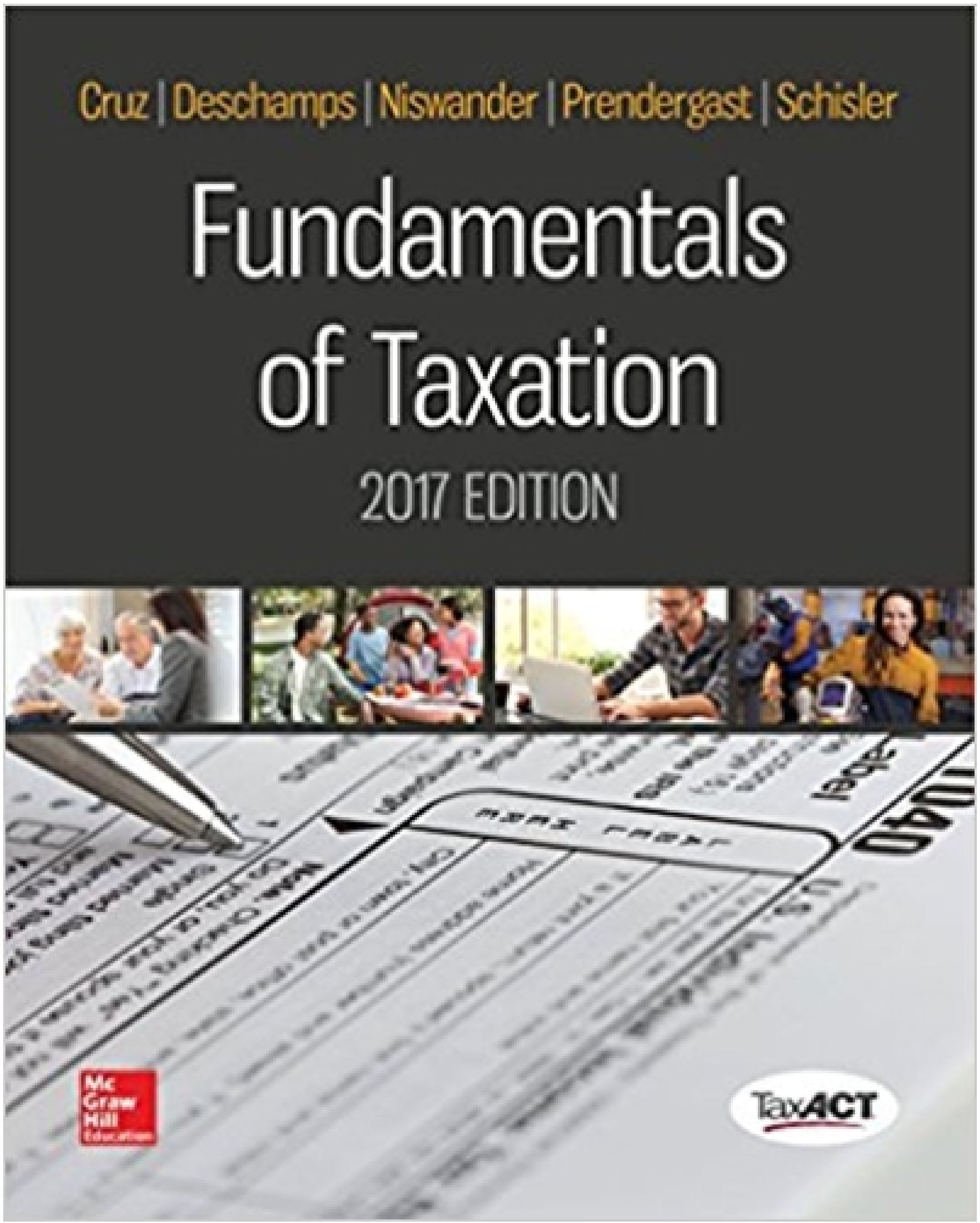

Test Bank

Chapter 02 Expanded Tax Formula, Forms 1040A and 1040, and Basic Concepts

1) The federal individual income tax returns are the 1040ES, 1040A and 1040.
   A) True
   B) False

2) The tax code defines adjusted gross income (AGI) as gross income minus a list of permitted deductions.
   A) True
   B) False

3) The amount of tax liability for a taxpayer depends on many factors, including the filing status of the taxpayer.
   A) True
   B) False

4) A married couple can file a joint return only if both have earned income.
   A) True
   B) False

5) A married couple in the process of obtaining a divorce cannot file a joint tax return.
   A) True
   B) False

6) A taxpayer filing separately must show the name, address, and social security number of the spouse on the tax return.
   A) True
   B) False

7) To qualify for head of household status, a taxpayer must maintain a household that is the principal place of abode of a qualifying person for more than half the year.
   A) True
   B) False

8) A taxpayer can qualify for head of household even though his or her parents are living in a separate household from that of the taxpayer (assume all other requirements are met).
   A) True
   B) False

9) If a taxpayer's spouse dies during the tax year, the taxpayer must file as a qualifying widow(er).
   A) True
   B) False

10) The exemption amount is subject to annual adjustment for inflation.
A) True
B) False

11) The personal exemption for 2016 is $4,050.
A) True
B) False

12) A taxpayer can be claimed as a dependent on another return and still he or she can claim a personal exemption on his or her tax return.
A) True
B) False

13) To be claimed as a dependent, a person must be a qualifying child or a qualifying relative.
A) True
B) False

14) A qualifying child does not have to meet the support test in order to be claimed as a dependent.
A) True
B) False

15) A qualifying relative must be related to the taxpayer (as listed by the IRS), or be a member of the taxpayer's household for the entire year.
A) True
B) False

16) A taxpayer who either is 65 or older or blind can claim an additional standard deduction.
A) True
B) False

17) The standard deduction in 2016 for a married couple, under 65 and not blind, is $12,600.
A) True
B) False

18) In 2016, the additional standard deduction for a single taxpayer, who is 65 or older and not blind, is $1,200.
A) True
B) False

19) Even if the total of the itemized deductions is lower than the standard deduction, a taxpayer should choose to itemize on his or her tax return.
A) True
B) False

20) The tax tables stop at taxable income of $115,000.
A) True
B) False

21) Most taxpayers make payments to the IRS through income tax withholdings and quarterly estimated tax payments.
A) True
B) False

22) A taxpayer may request an automatic seven-month extension of time to file his or her tax return.
A) True
B) False

23) An extension to file a tax return is an extension of time to file and an extension of time to pay.
A) True
B) False

24) The maximum penalty for failure to file a tax return that is not due to fraud is 25%.
A) True
B) False

25) The IRS can impose a 75% penalty on any portion of understatement of tax that is attributable to negligence.
A) True
B) False

26) Taxable income (TI) is computed after subtracting from adjusted gross income (AGI), the standard deduction or itemized deductions and personal and dependency exemptions.
A) True
B) False

27) When a taxpayer's AGI exceeds certain levels, certain tax benefits are reduced or eliminated.
A) True
B) False

28) Marital status of a taxpayer is determined on the last day of the tax year.
A) True
B) False

29) A couple who is legally married on the last day of the tax year cannot file married filing separately.
A) True
B) False

30) Even though the taxpayer is claimed as a dependent on another tax return, he or she can still receive an exemption amount for himself or herself when filing his or her tax return.
A) True
B) False

31) In a multiple support agreement, the taxpayer who will receive the exemption must file all the Forms 2120 with his or her tax return.
A) True
B) False

32) The taxpayer's brother must live with the taxpayer for the entire year to meet the relationship or member of household test under qualifying relatives.
A) True
B) False

33) If a married couple files separate returns and one of them itemizes, the other spouse must also itemize.
A) True
B) False

34) A taxpayer who has income that is not subject to withholding is never required to make estimated payments during the year.
A) True
B) False

35) If the taxpayer still owes tax after April 15, the IRS assesses interest based on the remaining amount owed.
A) True
B) False

36) Many deductions and credits are determined with reference to adjusted gross income (AGI).
A) True
B) False

37) A taxpayer must be married to claim Head of Household status.
   A) True
   B) False

38) Personal exemptions are for the taxpayer and spouse.
   A) True
   B) False

39) The amount of the standard deduction increases for people who are age 62 and have retired.
   A) True
   B) False

40) The accuracy-related penalty applies when negligence or any substantial understatement occurs.
   A) True
   B) False

41) A single taxpayer is 43 years old and has wages only of $16,000. Which is the simplest form this person can file?
   A) 1040ES.
   B) 1040A.
   C) 1040.
   D) 1040EZ.

42) A 36-year-old taxpayer with a dependent child and claiming head of household status has received $29,000 in alimony payments and earned wages of $44,000. Which is the simplest form this person can file?
   A) 1040A.
   B) 1040EZ.
   C) 1040ES.
   D) 1040.

43) A taxpayer is married with a qualifying child (dependent), but she has been living separate from her spouse for the last five months of the year. However, she paid for more than half of the cost of keeping up the household. Her spouse does not want to file jointly. What filing status must she use when filing her tax return? She wants to obtain the maximum legal benefit.
   A) Head of Household.
   B) Qualifying Widow(er).
   C) Married Filing Separately.
   D) Single.

44) The taxpayer's spouse died at the beginning of 2015. He has no qualifying child. Which status should the taxpayer select when filing his tax return for 2016?
A) Married Filing Jointly.
B) Single.
C) Married Filing Separately.
D) Qualifying Widow(er).

45) A legally divorced taxpayer maintains a household for himself and maintains a separate household that is the principal place of abode of his dependent widowed mother. What filing status should he use when filing his tax return?
A) Married Filing Separately.
B) Single.
C) Head of Household.
D) Qualifying widow(er).

46) For tax purposes, marital status is determined as of the ________ day of the year.
A) last
B) first
C) third
D) None of these

47) What was the amount of the personal exemption for 2016?
A) $3,975.
B) $3,900.
C) $4,000.
D) $4,050.

48) Elisa is 21 years of age and a full-time student living with her parents. She had wages of $680 ($70 of income tax withholding) for 2016. Can Elisa claim her exemption on her return even though her parents will claim her as a dependent on their tax return?
A) Yes, Elisa can claim the exemption.
B) Elisa and her parents can both claim the exemption.
C) No one can claim the exemption for Elisa.
D) No, Elisa cannot claim the exemption.

49) A taxpayer can deduct a(an)_________amount from AGI for each dependent.
A) Deduction
B) Adjustment
C) Itemized
D) Exemption

50) Mirtha is 21 years of age and a full-time student living by herself. She had wages of $25,000 for 2016. Can Mirtha claim the exemption for herself on her tax return?

A) Both, Mirtha and her parents can claim the exemption.
B) Mirtha's parents can claim the exemption.
C) No one can claim the exemption for Mirtha.
D) Yes, Mirtha can claim the exemption.

51) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which one is *not* part of the five specific tests?

A) Gross income test.
B) Residency test.
C) Relationship test.
D) Special test for qualifying child of more than one taxpayer.

52) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. What are the three general tests?

A) Dependent taxpayer test, joint return test and citizen or resident test.
B) Dependent taxpayer test, relationship test and citizen or resident test.
C) Relationship test, residency test and gross income test.
D) Support test, age test and relationship test.

53) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is *not* part of the four specific tests?

A) Support test.
B) Relationship test or member of household test.
C) Gross income test.
D) Age test.

54) For a qualifying relative to be claimed as a dependent, this person must either be related to the taxpayer, or be a member of the taxpayer's household for the entire year. Select the relative who must be part of the taxpayer's household for the entire year.

A) Son-in-law.
B) Cousin.
C) Mother.
D) Sister.

55) The taxpayer must provide over__________of the qualifying relative's support to be able to claim a dependency exemption.

A) 49%
B) 75%
C) 51%
D) 50%

56) Which of the following items would not be considered as *support* for a dependency exemption?
A) medical insurance premiums.
B) clothing.
C) life insurance premiums.
D) food.

57) Robert, Fred and Lucas are supporting their mother who lives in a separate apartment. Their contributions towards her support are 10%, 40% and 50%, respectively. In a multiple support agreement, who would be entitled to claim the mother as a dependent?
A) Fred or Lucas.
B) Robert.
C) Robert, Fred or Lucas.
D) None of these.

58) The basic standard deduction in 2016 for a *single* taxpayer, under 65 and not blind, is:
A) $6,200.
B) $6,300.
C) $4,050.
D) $9,300.

59) The basic standard deduction in 2016 for a taxpayer, under 65 and not blind, filing *married filing jointly* is:
A) $9,300.
B) $12,400.
C) $12,200.
D) $12,600.

60) The basic standard deduction in 2016 for a taxpayer, 67 and not blind, filing *head of household* is:
A) $10,850.
B) $9,250.
C) $9,300.
D) $1,550.

61) When a taxpayer can be claimed as a dependent on the tax return of another individual, the basic standard deduction for the taxpayer is limited to the greater of (a)__________, or (b) the taxpayer's earned income plus $350, but not more than the amount of the basic standard deduction.
A) $1,000
B) $350
C) $950
D) $1,050

62) Luisa's parents can claim her as a dependent on their tax return. In 2016, her only source of income was a part-time job as a medical clerk where she earned $2,600 during the year. What is Luisa's standard deduction?

A) $4,050.
B) $1,050.
C) $2,950.
D) $2,600.

63) Ed's parents can claim him as a dependent on their tax return. In 2016, his only source of income was $1,050 of interest income received from Global Bank. What is Ed's standard deduction?

A) $1,000.
B) $1,050.
C) $4,050.
D) $350.

64) What is the amount of the social security wage limitation for 2016?

A) $110,100.
B) $118,500.
C) $117,000.
D) $106,800.

65) What is the amount of the tax liability for a married couple having taxable income of $153,500? All answers should be rounded to the nearest dollar.

A) $29,966.
B) $30,032.
C) $30,233.
D) $38,375.

66) What is the amount of the tax liability for a single person having taxable income of $59,200? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $14,800.
B) $9,300.
C) $10,578.
D) $10,656.

67) What is the amount of the tax liability for a head of household person having taxable income of $87,573? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $16,306.
B) $16,398
C) $16,191.
D) $16,179.

68) What is the amount of the tax liability for a qualifying widow(er) with a dependent child and having taxable income of $18,355? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $2,753.
B) $2,331.
C) $1,838.
D) $1,836.

69) What is the amount of the tax liability for a qualifying widow(er) with a dependent child and having taxable income of $121,600? All answers should be rounded to the nearest dollar.

A) $27,665.
B) $30,400.
C) $21,943.
D) $25,234.

70) Failure to make required estimated payments will subject the taxpayer to a potential underpayment penalty plus interest. However, if the difference between the tax shown on the return and the amount of tax withheld for wages is less than ________, the taxpayer will not be assessed a penalty.

A) $500
B) $850
C) $1,250
D) $1,000

71) The interest charged by the IRS for the first three months of 2016 was:

A) 6%.
B) 4%.
C) 5%.
D) 3%.

72) John forgot to file his tax return by April 15. He did not file an extension. John finally filed his tax return on June 30 and had a remaining tax liability of $1,500. What is John's failure to file penalty? Assume he made all his payments on time.

A) $225.
B) $233.
C) $300.
D) $375.

73) The failure to file penalty is ________ of the tax shown on the return for each month (or fraction of a month) the tax return is not filed, up to a maximum of 25%.

A) 5.5%
B) 0.5%
C) 0.25%
D) 5.0%

74) The IRS can impose a ________ penalty on any portion of understatement of tax that is attributable to fraud.

A) 25%
B) 5%
C) 75%
D) 50%

75) Criminal penalties only apply to:

A) Careless disregard for tax authority.
B) Willful failure to file a return.
C) Willful failure to file a return and tax evasion.
D) Tax evasion.

76) A single taxpayer is 35 years old and has only wages of $16,000. Which is the simplest form this person can file?

A) 1040EZ.
B) 1040A.
C) 1040ES.
D) 1040.

77) The early withdrawal penalty is a *for AGI deduction.* Which form can the taxpayer use to claim this benefit?

A) 1040.
B) 1040A or 1040.
C) 1040A.
D) 1040EZ.

78) A 37- year-old taxpayer with a dependent child and claiming head of household status has received $21,000 in child support payments and earned wages of $46,000. Which is the simplest form this person can file?
A) 1040.
B) 1040A.
C) 1040ES.
D) 1040EZ.

79) The taxpayer's spouse died at the beginning of 2016. He has no qualifying child. Which status should the taxpayer select when filing his tax return?
A) Married Filing Separately.
B) Single.
C) Married Filing Jointly.
D) Qualifying Widow(er).

80) Which condition listed below is not required for a taxpayer to qualify as a qualifying widow(er) with dependent child?
A) Taxpayer was eligible to file a joint return in the year the spouse died.
B) The household was the principal place of abode for the entire year of both the taxpayer and his or her child.
C) Taxpayer must remarry before the end of the tax year in question.
D) Taxpayer paid more than half the cost of keeping up a household.

81) What is the amount of the personal and dependency exemption for 2016?
A) $3,975.
B) $4,050.
C) $6,300.
D) $4,000.

82) George is 21 years of age and a full-time student living with his parents. He had wages of $1,375 ($140 of income tax withholding) for 2016. Can George claim his exemption on his return even though his parents will claim him as a dependent on their tax return?
A) Yes, George can claim the exemption.
B) No, George cannot claim the exemption.
C) No one can claim the exemption for George.
D) George and his parents can both claim the exemption.

83) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is *not* part of the three general tests?
A) Joint return test.
B) Dependent taxpayer test.
C) Citizen or resident test.
D) Support test.

84) Jane, Joseph and John are supporting their father who lives in a separate apartment. Their contribution towards his support is 10%, 35% and 55%, respectively. In a multiple support agreement, who would be entitled to claim the father as a dependent?

A) Jane.
B) Jane, Joseph or John.
C) Joseph or John.
D) None of these.

85) Which of the following items would not be considered as *support* for a dependency exemption?

A) medical and dental care.
B) life insurance premiums.
C) shelter.
D) food.

86) Which amount represents the standard deduction for a taxpayer who is single and 68 years of age?

A) $7,850.
B) $6,300.
C) $7,550.
D) $6,200.

87) The additional standard deduction amount for a taxpayer who is 65, single and blind is:

A) $2,800.
B) $3,100.
C) $3,000.
D) $2,500.

88) Robin's parents can claim him as a dependent on their tax return. In 2016, his only source of income was a part-time job as a supermarket clerk where he earned $3,200 during the year. What is Robin's standard deduction?

A) $6,300.
B) $1,050.
C) $3,550.
D) $3,200.

89) The basic standard deduction in 2016 for a taxpayer, 69 and not blind, filing *head of household* is:

A) $10,300.
B) $9,300.
C) $10,850.
D) $6,300.

90) What is the amount of the tax liability for a head of household person having taxable income of $122,500? All answers should be rounded to the nearest dollar.
A) $24,923.
B) $34,300.
C) $30,625.
D) $27,796.

91) What is the amount of the tax liability for a single person having taxable income of $55,300? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.
A) $9,754.
B) $9,681.
C) $9,603.
D) $8,295.

92) What is the amount of the tax liability for a married couple having taxable income of $96,843? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.
A) $15,749.
B) $15,923.
C) $13,604.
D) $14,526.

93) What is the amount of the tax liability for a married person filing a separate return and having taxable income of $115,715? All answers should be rounded to the nearest dollar.
A) $32,400.
B) $26,435.
C) $25,950.
D) $25,893.

94) The IRS can impose a ________ penalty on any portion of understatement of tax that is attributable to fraud.
A) 20%
B) 5%
C) 75%
D) 25%

95) Peter forgot to file his tax return by April 15. He did not file an extension. Peter finally filed his tax return on July 31 and had a remaining tax liability of $3,500. What is Peter's failure to file penalty? Assume he made all his payments on time.

A) $525.
B) $700.
C) $875.
D) $350.

96) A head of household taxpayer with a dependent child had wages of $47,200. Which is the simplest form this person can file?

A) 1040.
B) 1040A.
C) 1040ES.
D) 1040EZ.

97) The taxpayer's spouse died at the beginning of 2016. She has a qualifying child. Which status should the taxpayer select when filing her tax return for 2017?

A) Qualifying Widow(er).
B) Married Filing Jointly.
C) Single.
D) Head of Household.

98) On December 31, 2016, a taxpayer received the notification that he was legally divorced. However, he lived with his spouse for 8 months during 2016. He has no dependent children. What status should he select when filing his tax return for 2016?

A) Married Filing Jointly.
B) Single.
C) Head of Household.
D) Married Filing Separately.

99) What is the total amount of personal exemptions a taxpayer and spouse can claim for 2016?

A) $9,300.
B) $12,600.
C) $4,050.
D) $8,100.

100) Severin, who is 20 years old and a full- time student, is claimed by his parent as a dependent. However, in 2016, he earned $5,350. What is the amount of the personal exemption that he can claim on his tax return?

A) $4,050.
B) $1,050.
C) $5,400.
D) $0.

101) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which one is *not* part of the three general tests?

A) Citizen or resident test.
B) Joint return test.
C) Support test.
D) Dependent taxpayer test.

102) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is part of the four specific tests?

A) Gross income test.
B) Residency test.
C) Age test.
D) Citizen or resident test.

103) A qualifying relative must earn less than_________for the year 2016.

A) $9,300
B) $6,300
C) $1,050
D) $4,050

104) The basic standard deduction in 2016 for a *single* taxpayer who is 67 years old and not blind is:

A) $7,550.
B) $7,850.
C) $6,300.
D) $1,550.

105) The basic standard deduction in 2016 for a *Head of Household* taxpayer who is 41 years old and not blind is:

A) $9,300.
B) $6,300.
C) $7,850.
D) $12,600.

106) What is the limit on the social security amount for 2016?

A) $118,500.
B) $113,700.
C) $110,100.
D) $117,000.

107) The tax liability for a married couple with taxable income of $141,325 is:
A) $26,874.
B) $20,276.
C) $35,331.
D) $21,199.

108) The tax liability for a single taxpayer with taxable income of $67,350 is:

Use the appropriate Tax Tables or Tax Rate Schedules.
A) $12,615.
B) $12,700.
C) $10,103.
D) $12,638.

109) The tax liability for a head of household taxpayer with taxable income of $124,225 is:
A) $18,634.
B) $31,056.
C) $25,354.
D) $25,701.

110) The IRS can impose a ________ penalty on the tax due on a return where there is negligence.
A) 25%
B) 5%
C) 75%
D) 20%

111) Why is the concept of "Adjusted Gross Income (AGI)" important?

112) What is the simplest tax return form a taxpayer should file if he or she has only $41,000 in wages and is claiming head of household with a dependent child?

113) David and Martha were divorced on December 31, 2016. Can they file their 2016 income tax return using married filing jointly? Why or Why not? What other filing status choices do they have, if any?

114) What qualifications are necessary to file as *qualifying widow(er)*?

115) How many personal exemptions can the taxpayer claim? What is the amount of the personal exemption for 2016?

116) Can Albert, who is a full-time student and earns $1,575 working as a clerk, claim an exemption for himself on his tax return? Assume his parents are claiming him as a dependent.

117) A taxpayer can claim a dependency exemption if the person is a *qualifying child or a qualifying relative* and the person meets three tests. List the three tests this person must meet.

118) List and describe the five tests that a person must meet to qualify as a *qualifying child.*

119) List and describe the four tests that a person must meet to qualify as a *qualifying relative.*

120) Determine the amount of the standard deduction for each of the following taxpayers for tax year 2016.

1. Leo and Mary who are under 65 and filing a joint return. They have no dependents.
2. Sergio who is single.
3. Peter who is over 65 and single.
4. Anna who is 38 and filing as head of household with a dependent child.
5. Frank who is 45 and blind and is filing as married filing separately.

121) What is the amount of the standard deduction for Evelyn who is a full-time student and claimed as a dependent by her parents? She earned $2,700 in wages in 2016.

122) What does the withholding amount on a taxable payment made to the taxpayer represent?

123) Using the appropriate tax tables or tax rate schedules, determine the amount of tax liability in each of the following instances. All answers should be rounded to the nearest dollar.

1. A single person with taxable income of $103,500.
2. A married couple filing jointly with taxable income of $37,700.
3. A head of household with taxable income of $87,925.
4. A person filing married filing separately with taxable income of $64,000.
5. A married couple filing jointly with taxable income of $144,600.

124) Can the taxpayer avoid the failure to pay on time penalty by just filing an automatic extension to file his or her tax return?

125) The IRS can assess criminal penalties if fraud is found on a tax return. Name and describe at least two of those criminal penalties.

Chapter 02 Expanded Tax Formula, Forms 1040A and 1040, and Basic Concepts

Answer Key

1) The federal individual income tax returns are the 1040ES, 1040A and 1040.
   A) True
   B) False

Answer: B
Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

2) The tax code defines adjusted gross income (AGI) as gross income minus a list of permitted deductions.
   A) True
   B) False

Answer: A
Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

3) The amount of tax liability for a taxpayer depends on many factors, including the filing status of the taxpayer.
   A) True
   B) False

Answer: A
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

4) A married couple can file a joint return only if both have earned income.
   A) True
   B) False

Answer: B
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

5) A married couple in the process of obtaining a divorce cannot file a joint tax return.
   A) True
   B) False

Answer: B
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

6) A taxpayer filing separately must show the name, address, and social security number of the spouse on the tax return.
   A) True
   B) False

Answer: B
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

7) To qualify for head of household status, a taxpayer must maintain a household that is the principal place of abode of a qualifying person for more than half the year.
   A) True
   B) False

Answer: A
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

8) A taxpayer can qualify for head of household even though his or her parents are living in a separate household from that of the taxpayer (assume all other requirements are met).
   A) True
   B) False

Answer: A
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

9) If a taxpayer's spouse dies during the tax year, the taxpayer must file as a qualifying widow(er).
A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

10) The exemption amount is subject to annual adjustment for inflation.
A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

11) The personal exemption for 2016 is $4,050.
A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

12) A taxpayer can be claimed as a dependent on another return and still he or she can claim a personal exemption on his or her tax return.
A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

13) To be claimed as a dependent, a person must be a qualifying child or a qualifying relative.
A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

14) A qualifying child does not have to meet the support test in order to be claimed as a dependent.
A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

15) A qualifying relative must be related to the taxpayer (as listed by the IRS), or be a member of the taxpayer's household for the entire year.
A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

16) A taxpayer who either is 65 or older or blind can claim an additional standard deduction.
A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

17) The standard deduction in 2016 for a married couple, under 65 and not blind, is $12,600.
A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

18) In 2016, the additional standard deduction for a single taxpayer, who is 65 or older and not blind, is $1,200.
A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

19) Even if the total of the itemized deductions is lower than the standard deduction, a taxpayer should choose to itemize on his or her tax return.
A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

20) The tax tables stop at taxable income of $115,000.
A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

21) Most taxpayers make payments to the IRS through income tax withholdings and quarterly estimated tax payments.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Tax Due to IRS

Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).

EA: Yes

22) A taxpayer may request an automatic seven-month extension of time to file his or her tax return.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Tax Due to IRS

Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).

EA: Yes

23) An extension to file a tax return is an extension of time to file and an extension of time to pay.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Tax Due to IRS; Interest and Penalties

Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).; 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.

EA: Yes

24) The maximum penalty for failure to file a tax return that is not due to fraud is 25%.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Interest and Penalties

Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.

EA: Yes

25) The IRS can impose a 75% penalty on any portion of understatement of tax that is attributable to negligence.

A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

26) Taxable income (TI) is computed after subtracting from adjusted gross income (AGI), the standard deduction or itemized deductions and personal and dependency exemptions.

A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

27) When a taxpayer's AGI exceeds certain levels, certain tax benefits are reduced or eliminated.

A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

28) Marital status of a taxpayer is determined on the last day of the tax year.

A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

29) A couple who is legally married on the last day of the tax year cannot file married filing separately.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Filing Status

Learning Objective: 02-02 Determine the proper filing status.

EA: Yes

30) Even though the taxpayer is claimed as a dependent on another tax return, he or she can still receive an exemption amount for himself or herself when filing his or her tax return.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Personal Exemptions

Learning Objective: 02-03 Calculate personal exemptions.

EA: Yes

31) In a multiple support agreement, the taxpayer who will receive the exemption must file all the Forms 2120 with his or her tax return.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Depending Exemptions

Learning Objective: 02-04 Calculate dependency exemptions.

EA: Yes

32) The taxpayer's brother must live with the taxpayer for the entire year to meet the relationship or member of household test under qualifying relatives.

A) True

B) False

Answer: B

Explanation:

Diff: 2

Topic: Depending Exemptions

Learning Objective: 02-04 Calculate dependency exemptions.

EA: Yes

33) If a married couple files separate returns and one of them itemizes, the other spouse must also itemize.

A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

34) A taxpayer who has income that is not subject to withholding is never required to make estimated payments during the year.

A) True
B) False

Answer: B
Explanation:
Diff: 1
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

35) If the taxpayer still owes tax after April 15, the IRS assesses interest based on the remaining amount owed.

A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

36) Many deductions and credits are determined with reference to adjusted gross income (AGI).

A) True
B) False

Answer: A
Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

37) A taxpayer must be married to claim Head of Household status.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Filing Status

Learning Objective: 02-02 Determine the proper filing status.

EA: Yes

38) Personal exemptions are for the taxpayer and spouse.

A) True

B) False

Answer: A

Explanation:

Diff: 1

Topic: Personal Exemptions

Learning Objective: 02-03 Calculate personal exemptions.

EA: Yes

39) The amount of the standard deduction increases for people who are age 62 and have retired.

A) True

B) False

Answer: B

Explanation:

Diff: 1

Topic: Standard Deduction

Learning Objective: 02-05 Determine the standard deductions.

EA: Yes

40) The accuracy-related penalty applies when negligence or any substantial understatement occurs.

A) True

B) False

Answer: A

Explanation:

Diff: 2

Topic: Interest and Penalties

Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.

EA: Yes

41) A single taxpayer is 43 years old and has wages only of $16,000. Which is the simplest form this person can file?

A) 1040.
B) 1040ES.
C) 1040EZ.
D) 1040A.

Answer: C

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

42) A 36-year-old taxpayer with a dependent child and claiming head of household status has received $29,000 in alimony payments and earned wages of $44,000. Which is the simplest form this person can file?

A) 1040.
B) 1040A.
C) 1040ES.
D) 1040EZ.

Answer: A

Explanation: A) Alimony is reported on Form 1040.
B) Alimony is reported on Form 1040.
C) Alimony is reported on Form 1040.
D) Alimony is reported on Form 1040.

Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

43) A taxpayer is married with a qualifying child (dependent), but she has been living separate from her spouse for the last five months of the year. However, she paid for more than half of the cost of keeping up the household. Her spouse does not want to file jointly. What filing status must she use when filing her tax return? She wants to obtain the maximum legal benefit.

A) Single.
B) Head of Household.
C) Qualifying Widow(er).
D) Married Filing Separately.

Answer: D

Explanation:
A) The taxpayer must have lived apart from her spouse for at least the last six months of the year to qualify for the Head of Household status.
B) The taxpayer must have lived apart from her spouse for at least the last six months of the year to qualify for the Head of Household status.
C) The taxpayer must have lived apart from her spouse for at least the last six months of the year to qualify for the Head of Household status.
D) The taxpayer must have lived apart from her spouse for at least the last six months of the year to qualify for the Head of Household status.

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

44) The taxpayer's spouse died at the beginning of 2015. He has no qualifying child. Which status should the taxpayer select when filing his tax return for 2016?

A) Married Filing Separately.
B) Qualifying Widow(er).
C) Single.
D) Married Filing Jointly.

Answer: C

Explanation: A) The surviving spouse usually can file a joint return in the year the spouse dies and qualifying widow(er) for the two years following the death of the spouse but only if there is a qualifying child.
B) The surviving spouse usually can file a joint return in the year the spouse dies and qualifying widow(er) for the two years following the death of the spouse but only if there is a qualifying child.
C) The surviving spouse usually can file a joint return in the year the spouse dies and qualifying widow(er) for the two years following the death of the spouse but only if there is a qualifying child.
D) The surviving spouse usually can file a joint return in the year the spouse dies and qualifying widow(er) for the two years following the death of the spouse but only if there is a qualifying child.

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

45) A legally divorced taxpayer maintains a household for himself and maintains a separate household that is the principal place of abode of his dependent widowed mother. What filing status should he use when filing his tax return?

A) Head of Household.
B) Qualifying widow(er).
C) Single.
D) Married Filing Separately.

Answer: A

Explanation: A) The taxpayer's parents can live in a separate household.
B) The taxpayer's parents can live in a separate household.
C) The taxpayer's parents can live in a separate household.
D) The taxpayer's parents can live in a separate household.

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

46) For tax purposes, marital status is determined as of the ________ day of the year.
A) third
B) first
C) last
D) None of these

Answer: C
Explanation: A)
B)
C)
D)

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

47) What was the amount of the personal exemption for 2016?
A) $3,975.
B) $4,050.
C) $4,000.
D) $3,900.

Answer: B
Explanation: A)
B)
C)
D)

Diff: 1
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

48) Elisa is 21 years of age and a full-time student living with her parents. She had wages of $680 ($70 of income tax withholding) for 2016. Can Elisa claim her exemption on her return even though her parents will claim her as a dependent on their tax return?

A) No one can claim the exemption for Elisa.
B) No, Elisa cannot claim the exemption.
C) Yes, Elisa can claim the exemption.
D) Elisa and her parents can both claim the exemption.

Answer: B

Explanation: A) Elisa cannot claim the exemption for herself because she is a dependent of her parents.
B) Elisa cannot claim the exemption for herself because she is a dependent of her parents.
C) Elisa cannot claim the exemption for herself because she is a dependent of her parents.
D) Elisa cannot claim the exemption for herself because she is a dependent of her parents.

Diff: 2
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

49) A taxpayer can deduct a(an)_________amount from AGI for each dependent.

A) Deduction
B) Exemption
C) Adjustment
D) Itemized

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

50) Mirtha is 21 years of age and a full-time student living by herself. She had wages of $25,000 for 2016. Can Mirtha claim the exemption for herself on her tax return?

A) Both, Mirtha and her parents can claim the exemption.
B) Mirtha's parents can claim the exemption.
C) No one can claim the exemption for Mirtha.
D) Yes, Mirtha can claim the exemption.

Answer: D

Explanation:
A) Mirtha can claim the exemption because she provided more than half of her support.
B) Mirtha can claim the exemption because she provided more than half of her support.
C) Mirtha can claim the exemption because she provided more than half of her support.
D) Mirtha can claim the exemption because she provided more than half of her support.

Diff: 2
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

51) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which one is *not* part of the five specific tests?

A) Gross income test.
B) Special test for qualifying child of more than one taxpayer.
C) Relationship test.
D) Residency test.

Answer: A

Explanation:
A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

52) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. What are the three general tests?

A) Dependent taxpayer test, relationship test and citizen or resident test.
B) Support test, age test and relationship test.
C) Relationship test, residency test and gross income test.
D) Dependent taxpayer test, joint return test and citizen or resident test.

Answer: D

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

53) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is *not* part of the four specific tests?

A) Relationship test or member of household test.
B) Support test.
C) Age test.
D) Gross income test.

Answer: C

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

54) For a qualifying relative to be claimed as a dependent, this person must either be related to the taxpayer, or be a member of the taxpayer's household for the entire year. Select the relative who must be part of the taxpayer's household for the entire year.

A) Son-in-law.
B) Mother.
C) Sister.
D) Cousin.

Answer: D

Explanation: A) Cousins are not listed as relatives for this IRS section.
B) Cousins are not listed as relatives for this IRS section.
C) Cousins are not listed as relatives for this IRS section.
D) Cousins are not listed as relatives for this IRS section.

Diff: 2
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

55) The taxpayer must provide over__________of the qualifying relative's support to be able to claim a dependency exemption.

A) 49%
B) 51%
C) 75%
D) 50%

Answer: D

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

56) Which of the following items would not be considered as *support* for a dependency exemption?
A) food.
B) clothing.
C) medical insurance premiums.
D) life insurance premiums.

Answer: D

Explanation: A) Life insurance premiums are not considered support under this IRS section.
B) Life insurance premiums are not considered support under this IRS section.
C) Life insurance premiums are not considered support under this IRS section.
D) Life insurance premiums are not considered support under this IRS section.

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

57) Robert, Fred and Lucas are supporting their mother who lives in a separate apartment. Their contributions towards her support are 10%, 40% and 50%, respectively. In a multiple support agreement, who would be entitled to claim the mother as a dependent?
A) Robert, Fred or Lucas.
B) Fred or Lucas.
C) Robert.
D) None of these.

Answer: B

Explanation: A) Robert is not contributing more than 10% of his mother's support.
B) Robert is not contributing more than 10% of his mother's support.
C) Robert is not contributing more than 10% of his mother's support.
D) Robert is not contributing more than 10% of his mother's support.

Diff: 2
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

58) The basic standard deduction in 2016 for a *single* taxpayer, under 65 and not blind, is:

A) $6,300.
B) $6,200.
C) $4,050.
D) $9,300.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

59) The basic standard deduction in 2016 for a taxpayer, under 65 and not blind, filing *married filing jointly* is:

A) $9,300.
B) $12,200.
C) $12,400.
D) $12,600.

Answer: D

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

60) The basic standard deduction in 2016 for a taxpayer, 67 and not blind, filing *head of household* is:

A) $9,250.
B) $1,550.
C) $9,300.
D) $10,850.

Answer: D

Explanation: A) Standard deduction of $9,300 plus the additional amount of $1,550.
B) Standard deduction of $9,300 plus the additional amount of $1,550.
C) Standard deduction of $9,300 plus the additional amount of $1,550.
D) Standard deduction of $9,300 plus the additional amount of $1,550.

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

61) When a taxpayer can be claimed as a dependent on the tax return of another individual, the basic standard deduction for the taxpayer is limited to the greater of (a)__________, or (b) the taxpayer's earned income plus $350, but not more than the amount of the basic standard deduction.

A) $1,050
B) $1,000
C) $350
D) $950

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

62) Luisa's parents can claim her as a dependent on their tax return. In 2016, her only source of income was a part-time job as a medical clerk where she earned $2,600 during the year. What is Luisa's standard deduction?

A) $4,050.
B) $1,050.
C) $2,950.
D) $2,600.

Answer: C

Explanation: A) Earned income of $2,600 plus $350.
B) Earned income of $2,600 plus $350.
C) Earned income of $2,600 plus $350.
D) Earned income of $2,600 plus $350.

Diff: 2
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

63) Ed's parents can claim him as a dependent on their tax return. In 2016, his only source of income was $1,050 of interest income received from Global Bank. What is Ed's standard deduction?

A) $1,050.
B) $1,000.
C) $350.
D) $4,050.

Answer: A

Explanation: A) Ed has zero earned income.
B) Ed has zero earned income.
C) Ed has zero earned income.
D) Ed has zero earned income.

Diff: 2
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

64) What is the amount of the social security wage limitation for 2016?

A) $118,500.
B) $117,000.
C) $110,100.
D) $106,800.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

65) What is the amount of the tax liability for a married couple having taxable income of $153,500? All answers should be rounded to the nearest dollar.

A) $30,233.
B) $29,966.
C) $38,375.
D) $30,032.

Answer: B

Explanation: A) ($153,500 - $151,900) × 28% plus $29,517.50.
B) ($153,500 - $151,900) × 28% plus $29,517.50.
C) ($153,500 - $151,900) × 28% plus $29,517.50.
D) ($153,500 - $151,900) × 28% plus $29,517.50.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

66) What is the amount of the tax liability for a single person having taxable income of $59,200? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $10,656.
B) $10,578.
C) $14,800.
D) $9,300.

Answer: B

Explanation: A) Look up $59,200 under the tax tables for a single person.
B) Look up $59,200 under the tax tables for a single person.
C) Look up $59,200 under the tax tables for a single person.
D) Look up $59,200 under the tax tables for a single person.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

67) What is the amount of the tax liability for a head of household person having taxable income of $87,573? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $16,398
B) $16,179.
C) $16,306.
D) $16,191.

Answer: D

Explanation: A) Look up $87,573 under the tax tables for a head of household person.
B) Look up $87,573 under the tax tables for a head of household person.
C) Look up $87,573 under the tax tables for a head of household person.
D) Look up $87,573 under the tax tables for a head of household person.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

68) What is the amount of the tax liability for a qualifying widow(er) with a dependent child and having taxable income of $18,355? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $2,331.
B) $1,838.
C) $2,753.
D) $1,836.

Answer: B

Explanation: A) Look up $18,355 under the tax tables for married filing jointly (this column also is used for qualifying widow(er)).
B) Look up $18,355 under the tax tables for married filing jointly (this column also is used for qualifying widow(er)).
C) Look up $18,355 under the tax tables for married filing jointly (this column also is used for qualifying widow(er)).
D) Look up $18,355 under the tax tables for married filing jointly (this column also is used for qualifying widow(er)).

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

69) What is the amount of the tax liability for a qualifying widow(er) with a dependent child and having taxable income of $121,600? All answers should be rounded to the nearest dollar.

A) $21,943.
B) $30,400.
C) $27,665.
D) $25,234.

Answer: A

Explanation: A) ($121,600 - $75,300) × 25% plus $10,367.50.
B) ($121,600 - $75,300) × 25% plus $10,367.50.
C) ($121,600 - $75,300) × 25% plus $10,367.50.
D) ($121,600 - $75,300) × 25% plus $10,367.50.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

70) Failure to make required estimated payments will subject the taxpayer to a potential underpayment penalty plus interest. However, if the difference between the tax shown on the return and the amount of tax withheld for wages is less than ________, the taxpayer will not be assessed a penalty.

A) $850
B) $500
C) $1,000
D) $1,250

Answer: C

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

71) The interest charged by the IRS for the first three months of 2016 was:

A) 3%.
B) 4%.
C) 6%.
D) 5%.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

72) John forgot to file his tax return by April 15. He did not file an extension. John finally filed his tax return on June 30 and had a remaining tax liability of $1,500. What is John's failure to file penalty? Assume he made all his payments on time.

A) $300.
B) $225.
C) $233.
D) $375.

Answer: B

Explanation: A) ($1,500 × 5%) multiplied by 3 months.
B) ($1,500 × 5%) multiplied by 3 months.
C) ($1,500 × 5%) multiplied by 3 months.
D) ($1,500 × 5%) multiplied by 3 months.

Diff: 2
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

73) The failure to file penalty is ________ of the tax shown on the return for each month (or fraction of a month) the tax return is not filed, up to a maximum of 25%.

A) 5.5%
B) 5.0%
C) 0.25%
D) 0.5%

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

74) The IRS can impose a ________ penalty on any portion of understatement of tax that is attributable to fraud.

A) 25%
B) 5%
C) 75%
D) 50%

Answer: C

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

75) Criminal penalties only apply to:

A) Willful failure to file a return and tax evasion.
B) Careless disregard for tax authority.
C) Willful failure to file a return.
D) Tax evasion.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

76) A single taxpayer is 35 years old and has only wages of $16,000. Which is the simplest form this person can file?

A) 1040A.
B) 1040EZ.
C) 1040.
D) 1040ES.

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

77) The early withdrawal penalty is a *for AGI deduction.* Which form can the taxpayer use to claim this benefit?

A) 1040.
B) 1040A.
C) 1040EZ.
D) 1040A or 1040.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

78) A 37- year-old taxpayer with a dependent child and claiming head of household status has received $21,000 in child support payments and earned wages of $46,000. Which is the simplest form this person can file?

A) 1040A.
B) 1040EZ.
C) 1040.
D) 1040ES.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

79) The taxpayer's spouse died at the beginning of 2016. He has no qualifying child. Which status should the taxpayer select when filing his tax return?

A) Qualifying Widow(er).
B) Married Filing Separately.
C) Single.
D) Married Filing Jointly.

Answer: D

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

80) Which condition listed below is not required for a taxpayer to qualify as a qualifying widow(er) with dependent child?

A) The household was the principal place of abode for the entire year of both the taxpayer and his or her child.
B) Taxpayer paid more than half the cost of keeping up a household.
C) Taxpayer was eligible to file a joint return in the year the spouse died.
D) Taxpayer must remarry before the end of the tax year in question.

Answer: D

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

81) What is the amount of the personal and dependency exemption for 2016?

A) $3,975.
B) $6,300.
C) $4,050.
D) $4,000.

Answer: C

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Personal Exemptions; Depending Exemptions
Learning Objective: 02-03 Calculate personal exemptions.; 02-04 Calculate dependency exemptions.
EA: Yes

82) George is 21 years of age and a full-time student living with his parents. He had wages of $1,375 ($140 of income tax withholding) for 2016. Can George claim his exemption on his return even though his parents will claim him as a dependent on their tax return?

A) No, George cannot claim the exemption.
B) No one can claim the exemption for George.
C) George and his parents can both claim the exemption.
D) Yes, George can claim the exemption.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 2
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

83) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is *not* part of the three general tests?

A) Citizen or resident test.
B) Joint return test.
C) Support test.
D) Dependent taxpayer test.

Answer: C

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

84) Jane, Joseph and John are supporting their father who lives in a separate apartment. Their contribution towards his support is 10%, 35% and 55%, respectively. In a multiple support agreement, who would be entitled to claim the father as a dependent?

A) Joseph or John.
B) Jane, Joseph or John.
C) Jane.
D) None of these.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 2
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

85) Which of the following items would not be considered as *support* for a dependency exemption?

A) life insurance premiums.
B) food.
C) medical and dental care.
D) shelter.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

86) Which amount represents the standard deduction for a taxpayer who is single and 68 years of age?
A) $7,550.
B) $7,850.
C) $6,200.
D) $6,300.

Answer: B
Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

87) The additional standard deduction amount for a taxpayer who is 65, single and blind is:
A) $2,500.
B) $3,100.
C) $2,800.
D) $3,000.

Answer: B
Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

88) Robin's parents can claim him as a dependent on their tax return. In 2016, his only source of income was a part-time job as a supermarket clerk where he earned $3,200 during the year. What is Robin's standard deduction?

A) $1,050.
B) $6,300.
C) $3,200.
D) $3,550.

Answer: D

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

89) The basic standard deduction in 2016 for a taxpayer, 69 and not blind, filing *head of household* is:

A) $10,850.
B) $9,300.
C) $10,300.
D) $6,300.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

90) What is the amount of the tax liability for a head of household person having taxable income of $122,500? All answers should be rounded to the nearest dollar.

A) $34,300.
B) $24,923.
C) $30,625.
D) $27,796.

Answer: B

Explanation: A) ($122,500 - $50,400) × 25% plus $6,897.50.
B) ($122,500 - $50,400) × 25% plus $6,897.50.
C) ($122,500 - $50,400) × 25% plus $6,897.50.
D) ($122,500 - $50,400) × 25% plus $6,897.50.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

91) What is the amount of the tax liability for a single person having taxable income of $55,300? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $9,603.
B) $8,295.
C) $9,754.
D) $9,681.

Answer: A

Explanation: A) Look up $55,300 under the tax tables for a single person.
B) Look up $55,300 under the tax tables for a single person.
C) Look up $55,300 under the tax tables for a single person.
D) Look up $55,300 under the tax tables for a single person.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

92) What is the amount of the tax liability for a married couple having taxable income of $96,843? All answers should be rounded to the nearest dollar.

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $15,749.
B) $14,526.
C) $15,923.
D) $13,604.

Answer: A

Explanation: A) Look up $96,843 under the tax tables for a married couple.
B) Look up $96,843 under the tax tables for a married couple.
C) Look up $96,843 under the tax tables for a married couple.
D) Look up $96,843 under the tax tables for a married couple.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

93) What is the amount of the tax liability for a married person filing a separate return and having taxable income of $115,715? All answers should be rounded to the nearest dollar.

A) $26,435.
B) $25,950.
C) $25,893.
D) $32,400.

Answer: C

Explanation: A) ($115,715 - $75,950) × 28% plus $14,758.75.
B) ($115,715 - $75,950) × 28% plus $14,758.75.
C) ($115,715 - $75,950) × 28% plus $14,758.75.
D) ($115,715 - $75,950) × 28% plus $14,758.75.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

94) The IRS can impose a ________ penalty on any portion of understatement of tax that is attributable to fraud.

A) 75%
B) 5%
C) 20%
D) 25%

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

95) Peter forgot to file his tax return by April 15. He did not file an extension. Peter finally filed his tax return on July 31 and had a remaining tax liability of $3,500. What is Peter's failure to file penalty? Assume he made all his payments on time.

A) $525.
B) $875.
C) $700.
D) $350.

Answer: C

Explanation: A)
B)
C)
D)

Diff: 2
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

96) A head of household taxpayer with a dependent child had wages of $47,200. Which is the simplest form this person can file?

A) 1040EZ.
B) 1040.
C) 1040ES.
D) 1040A.

Answer: D

Explanation:
A)
B)
C)
D)

Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

97) The taxpayer's spouse died at the beginning of 2016. She has a qualifying child. Which status should the taxpayer select when filing her tax return for 2017?

A) Qualifying Widow(er).
B) Head of Household.
C) Single.
D) Married Filing Jointly.

Answer: A

Explanation:
A)
B)
C)
D)

Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

98) On December 31, 2016, a taxpayer received the notification that he was legally divorced. However, he lived with his spouse for 8 months during 2016. He has no dependent children. What status should he select when filing his tax return for 2016?

A) Married Filing Separately.
B) Single.
C) Married Filing Jointly.
D) Head of Household.

Answer: B

Explanation: A)
B)
C)
D)

Diff: 2
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

99) What is the total amount of personal exemptions a taxpayer and spouse can claim for 2016?

A) $4,050.
B) $8,100.
C) $12,600.
D) $9,300.

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

100) Severin, who is 20 years old and a full- time student, is claimed by his parent as a dependent. However, in 2016, he earned $5,350. What is the amount of the personal exemption that he can claim on his tax return?

A) $5,400.
B) $0.
C) $4,050.
D) $1,050.

Answer: B

Explanation: A)
B)
C)
D)

Diff: 2
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

101) To be a qualifying child, the taxpayer must meet three general tests and five specific tests. Which one is *not* part of the three general tests?

A) Dependent taxpayer test.
B) Support test.
C) Joint return test.
D) Citizen or resident test.

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

102) To be a qualifying relative, the taxpayer must meet three general tests and four specific tests. Which one is part of the four specific tests?

A) Age test.
B) Gross income test.
C) Residency test.
D) Citizen or resident test.

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

103) A qualifying relative must earn less than__________for the year 2016.

A) $9,300
B) $4,050
C) $6,300
D) $1,050

Answer: B

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

104) The basic standard deduction in 2016 for a *single* taxpayer who is 67 years old and not blind is:

A) $1,550.
B) $6,300.
C) $7,850.
D) $7,550.

Answer: C
Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

105) The basic standard deduction in 2016 for a *Head of Household* taxpayer who is 41 years old and not blind is:

A) $9,300.
B) $12,600.
C) $7,850.
D) $6,300.

Answer: A
Explanation: A)
B)
C)
D)

Diff: 1
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

106) What is the limit on the social security amount for 2016?

A) $118,500.
B) $113,700.
C) $117,000.
D) $110,100.

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

107) The tax liability for a married couple with taxable income of $141,325 is:

A) $35,331.
B) $21,199.
C) $26,874.
D) $20,276.

Answer: C

Explanation: A) ($141,325 - $75,300) × 25% plus $10,367.50.
B) ($141,325 - $75,300) × 25% plus $10,367.50.
C) ($141,325 - $75,300) × 25% plus $10,367.50.
D) ($141,325 - $75,300) × 25% plus $10,367.50.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

108) The tax liability for a single taxpayer with taxable income of $67,350 is:

Use the appropriate Tax Tables or Tax Rate Schedules.

A) $12,638.
B) $12,700.
C) $10,103.
D) $12,615.

Answer: D

Explanation: A) Look up $67,350 under the tax tables for a single person.
B) Look up $67,350 under the tax tables for a single person.
C) Look up $67,350 under the tax tables for a single person.
D) Look up $67,350 under the tax tables for a single person.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

109) The tax liability for a head of household taxpayer with taxable income of $124,225 is:

A) $25,701.
B) $25,354.
C) $31,056.
D) $18,634.

Answer: B

Explanation: A) ($124,225 - $50,400) × 25% plus $6,897.50.
B) ($124,225 - $50,400) × 25% plus $6,897.50.
C) ($124,225 - $50,400) × 25% plus $6,897.50.
D) ($124,225 - $50,400) × 25% plus $6,897.50.

Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

110) The IRS can impose a ________ penalty on the tax due on a return where there is negligence.

A) 20%
B) 75%
C) 25%
D) 5%

Answer: A

Explanation: A)
B)
C)
D)

Diff: 1
Topic: Interest and Penalties
Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.
EA: Yes

111) Why is the concept of "Adjusted Gross Income (AGI)" important?

Answer: The concept of "Adjusted Gross Income (AGI)" is important because many deductions and credits reported on the tax return are computed based on the amount shown as AGI. Furthermore, when a taxpayer's AGI exceeds certain levels, certain tax benefits are reduced or eliminated.

Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

112) What is the simplest tax return form a taxpayer should file if he or she has only $41,000 in wages and is claiming head of household with a dependent child?

Answer: The simplest tax return form he or she should file is the 1040A. A form 1040EZ can only be filed if the taxpayer is single or married filing jointly.

Explanation:
Diff: 1
Topic: Form 1040 and 1040A
Learning Objective: 02-01 Describe the expanded tax formula and the components of the major sections of Form 1040A and Form 1040.
EA: Yes

113) David and Martha were divorced on December 31, 2016. Can they file their 2016 income tax return using married filing jointly? Why or Why not? What other filing status choices do they have, if any?

Answer: No, David and Martha must file as single because they were divorced on December 31. According to the IRS, marital status is determined as of the last day of the tax year. They might be able to file as head of household if certain qualifications are met, including maintaining a household that is the principal place of abode of a qualifying person for more than half the year.

Explanation:
Diff: 2
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

114) What qualifications are necessary to file as *qualifying widow(er)*?

Answer: The qualifications necessary to file as qualifying widow(er) are:

1. Taxpayer was eligible to file a joint return in the year the spouse died.
2. Taxpayer did not remarry before the end of the tax year in question.
3. Taxpayer paid more than half the cost of keeping up a household.
4. The household was the principal place of abode for the entire year (except for temporary absences) of both the taxpayer and a child, stepchild, or adopted child who can be claimed as a dependent by the taxpayer.

Explanation:
Diff: 1
Topic: Filing Status
Learning Objective: 02-02 Determine the proper filing status.
EA: Yes

115) How many personal exemptions can the taxpayer claim? What is the amount of the personal exemption for 2016?

Answer: The taxpayer can only claim a personal exemption for himself or herself and his or her spouse (if married). The amount for 2016 is $4,050 for each personal exemption.

Explanation:
Diff: 1
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

116) Can Albert, who is a full-time student and earns $1,575 working as a clerk, claim an exemption for himself on his tax return? Assume his parents are claiming him as a dependent.

Answer: No. If a taxpayer is claimed as a dependent on another return, no personal exemption is allowed on the return of the taxpayer.

Explanation:
Diff: 1
Topic: Personal Exemptions
Learning Objective: 02-03 Calculate personal exemptions.
EA: Yes

117) A taxpayer can claim a dependency exemption if the person is a *qualifying child or a qualifying relative* and the person meets three tests. List the three tests this person must meet.

Answer: The three tests that this person must meet to be claimed as a dependent are:

1. Dependent taxpayer test.
2. Joint return test.
3. Citizen or resident test.

Explanation:
Diff: 1
Topic: Depending Exemptions
Learning Objective: 02-04 Calculate dependency exemptions.
EA: Yes

118) List and describe the five tests that a person must meet to qualify as a *qualifying child.*

Answer: To be a *qualifying child*, the person must meet five tests:

1. Relationship test.
2. Age test.
3. Residency test.
4. Support test.
5. Special test for *qualifying child* of more than one taxpayer.

The relationship test is met if the dependent is one of the following: child or descendant of child; stepchild; eligible foster child; or brother, sister, half-brother, half-sister, stepbrother, or stepsister, or a descendant of them.

The age test is met if, at the end of the year, the child is under the age of 19, under the age of 24 and a full- time student, or totally and permanently disabled regardless of age. After 2008, the child must be younger than the person claiming the dependency.

The residency test is met if the child lived with the taxpayer for more than half of the year.

The support test is met if the child did not provide more than half of his or her support.

The special test for *qualifying child* of more than one taxpayer applies if the child meets the other four tests and can be the qualifying child for more than one taxpayer. In this case, only one individual can claim the exemption.

Explanation:

Diff: 2

Topic: Depending Exemptions

Learning Objective: 02-04 Calculate dependency exemptions.

EA: Yes

119) List and describe the four tests that a person must meet to qualify as a *qualifying relative.*

Answer: To be a *qualifying relative*, the person must meet four tests:

1. Not a qualifying child test.
2. Relationship or member of household test.
3. Gross income test.
4. Support test.

The *not a qualifying child* test refers to a child who is the taxpayer's *qualifying child or the qualifying child of another person*, who cannot be claimed as a *qualifying relative* by the taxpayer.

The relationship or member of household test is met if the person is related to the taxpayer (child or descendant; stepchild; eligible foster child; brother, sister, half-brother, half-sister, stepbrother, stepsister or descendant; father, mother; brother or sister of parents, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law) or a member of the taxpayer's household for the entire year.

The gross income test is met if this person does not have income equal to or greater than the amount of the exemption ($4,050 for 2016).

The support test is met if the taxpayer provides over 50 percent of this person's support.

Explanation:

Diff: 2

Topic: Depending Exemptions

Learning Objective: 02-04 Calculate dependency exemptions.

EA: Yes

120) Determine the amount of the standard deduction for each of the following taxpayers for tax year 2016.

1. Leo and Mary who are under 65 and filing a joint return. They have no dependents.
2. Sergio who is single.
3. Peter who is over 65 and single.
4. Anna who is 38 and filing as head of household with a dependent child.
5. Frank who is 45 and blind and is filing as married filing separately.

Answer:

1. $12,600.
2. $6,300.
3. $7,850 ($6,300 plus the additional amount of $1,550).
4. $9,300.
5. $7,550 ($6,300 plus the additional amount of $1,250).

Explanation:

Diff: 2

Topic: Standard Deduction

Learning Objective: 02-05 Determine the standard deductions.

EA: Yes

121) What is the amount of the standard deduction for Evelyn who is a full-time student and claimed as a dependent by her parents? She earned $2,700 in wages in 2016.

Answer: Evelyn's standard deduction is $3,050. When a taxpayer can be claimed as a dependent on another return, the basic standard deduction for the taxpayer is limited to the greater of (a) $1,050, or (b) the taxpayer's earned income plus $350, but not more than the amount of the basic standard deduction.

Explanation:
Diff: 2
Topic: Standard Deduction
Learning Objective: 02-05 Determine the standard deductions.
EA: Yes

122) What does the withholding amount on a taxable payment made to the taxpayer represent?

Answer: The withheld amount represents an estimate of the amount of income tax that would be due for the year on the taxable payment. The IRS credits withholdings to the account of the appropriate taxpayer. Withholdings serve to reduce the amount otherwise due the IRS on the due date of the return.

Explanation:
Diff: 1
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

123) Using the appropriate tax tables or tax rate schedules, determine the amount of tax liability in each of the following instances. All answers should be rounded to the nearest dollar.

1. A single person with taxable income of $103,500.
2. A married couple filing jointly with taxable income of $37,700.
3. A head of household with taxable income of $87,925.
4. A person filing married filing separately with taxable income of $64,000.
5. A married couple filing jointly with taxable income of $144,600.

Answer:
1. $22,017. ($103,500 - 91,150) × 28% plus $18,558.75.
2. $4,731. Look up $37,700 under the tax tables for married filing jointly.
3. $16,279. Look up $87,925 under the tax tables for head of household.
4. $11,778. Look up $64,000 under the tax tables for married filing separately.
5. $27,693. ($144,600 - $75,300) × 25% plus $10,367.50.

Explanation:
Diff: 3
Topic: Tax Due to IRS
Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).
EA: Yes

124) Can the taxpayer avoid the failure to pay on time penalty by just filing an automatic extension to file his or her tax return?

Answer: A taxpayer can file an automatic six-month extension of time to file his or her tax return, but this extension will not extend the time to pay the applicable tax. If the taxpayer filing an extension determines that he or she owes additional tax, the payment must accompany the extension request (Form 4868).

Explanation:

Diff: 2

Topic: Tax Due to IRS; Interest and Penalties

Learning Objective: 02-06 Compute the amount of tax due to the Internal Revenue Service (IRS).; 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.

EA: Yes

125) The IRS can assess criminal penalties if fraud is found on a tax return. Name and describe at least two of those criminal penalties.

Answer: 1. *Any person who willfully attempts to evade or defeat any tax.* The charge is a felony punishable by fines of not more than $100,000 or imprisonment of not more than five years or both.

2. *Any person who fails to collect, account for, and pay over any tax.* The charge is a felony punishable by fines of not more than $10,000 or imprisonment of not more than five years or both.

3. *Any person who willfully fails to pay estimated tax or other tax or file a return.* The charge is a misdemeanor punishable by fines of not more than $25,000 or imprisonment of not more than one year or both.

Explanation:

Diff: 2

Topic: Interest and Penalties

Learning Objective: 02-07 Determine what interest and penalties the IRS can assess and in what instances certain penalties are applicable.

EA: Yes