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## **FEDERAL INCOME TAXATION FINAL EXAM**

### **Fall 2017**

Multiple choice questions are worth 2.5 points each; problem questions are worth 5 points each.

Put your letter answers and problem answers on a separate sheet of paper and put in the assignment folder. For the multiple-choice questions just put your letter answer. For the problems please show all your work and label all your work, no matter how little or insignificant the calculation may seem. You will receive zero points on the problems even if you have the correct answer if you do not label and show all your work.

1. Which of the following nominal rates does not apply to a C corporation?
  - a. 10%
  - b. 15%
  - c. 25%
  - d. 35%
  
2. Which of the following is never included in gross income?
  - a. Loss on stock sale
  - b. Social security benefits
  - c. Gifts
  - d. Unemployment benefits
  
3. What is George's gross income if he has the following: Salary = \$78,000; Dividends = \$4,000; interest on city of San Francisco bonds = \$2,000; a gain of \$14,000 on a stock sale and a \$4,000 loss on a small sole proprietorship that he owns.
  - a. \$78,000
  - b. \$84,000
  - c. \$92,000
  - d. \$96,000
  
4. Azure Corporation (a C corporation) sold \$100,000 of merchandise for which it paid \$40,000. It also paid \$35,000 of other expenses. All transactions were in cash. What is Azure's Corporation's after-tax net cash inflow?
  - a. \$21,250
  - b. \$25,000
  - c. \$60,000
  - d. \$100,000

5. Koral Corporation can invest in a project that costs \$400,000. The project is expected to have an after-tax return of \$250,000 in each of years 1 and 2. Koral normally uses a 10 percent discount rate to evaluate projects but feels it should use 12 percent to compensate for inflation. How much difference does the rate make in the after-tax net present value of the project?

- a. \$50,000
- b. \$22,500
- c. \$20,000
- d. \$11,250

6. A decision in the small case division of the Tax Court can be appealed only to

- a. Court of Appeals
- b. Supreme Court
- c. Regular Tax Court
- d. Federal District Court
- e. None of the above

7. Bob sold 100 shares of ABC stock for \$2,100 and 300 shares of XYZ stock for \$8,900. He purchased the ABC stock four years ago for \$1,200 and the XYZ stock two years ago for \$9,100. What is the net effect of these sales on Bob's income?

- a. \$200 net gain
- b. \$700 net gain
- c. \$900 net gain
- d. \$1,100 net gain

8. Belding Corporation received permission to change its tax years-end from December 31 to August 31 in 2017. Its income from January 1 through August 31 is \$278,000. What is Belding's tax liability?

- a. \$141,780
- b. \$91,670
- c. \$94,520
- d. \$108,420

9. John owns 6,000 shares of KLM stock, 2,000 shares of BBT Mutual fund, and 10,000 shares of Centex Corporation. Her 1099-DIV forms from these investments showed the following:

KLM: \$3 per share distribution all reinvested in KLM  
BBT Mutual fund: \$5 per share distribution, \$1 of which represents a capital gain distribution; none of this is reinvested.  
Centex: \$2 per share distribution, all of which represents a return of capital.

How much must John include in his income in the current year?

- a. \$40,000
- b. \$28,000
- c. \$48,000
- d. \$19,000

10. Ron is CEO of and owns 100 percent of WT Enterprises, a cash-basis, calendar-year corporation. The company has always been profitable but over the last five years Ron's salary has increased from over \$400,000 per year to over \$1,000,000 and it has failed to pay dividends. Which of the following will **not** occur if the IRS determines that \$500,000 of his salary is unreasonable?

- a. Ron will pay an additional tax on the \$500,000 re-characterized as dividend.
- b. Ron will be eligible for a refund of Medicare taxes.
- c. WT will lose a \$500,000 deduction for the re-characterized dividend.
- d. WT will be eligible for a refund of a portion of FICA taxes paid.

11. What are Kris's deductible moving expenses for 2017 if he spends \$4,000 for packing and moving household goods, \$1,200 to break the lease on his apartment, and \$1,500 to store the household goods for 45 days? In April he drove his car 1,400 miles to his new home and spent \$250 for motels and \$80 for meals while traveling to the new home.

- a. \$6,596
- b. \$6,516
- c. \$5,596
- d. \$5,516

12. Fred, age 44, wants to contribute the maximum allowed to a Roth IRA in 2017. He is single and his AGI is \$121,000. How much can he contribute to the Roth IRA?

- a. \$3,300
- b. \$4,400
- c. \$5,500
- d. \$6,500

13. In April 2016, Ginny was assigned to a job in the next county for the day. She drove 75 miles each way to the job, paid \$4 in tolls, \$7 for parking and \$9 for lunch. What is her allowable business expense deduction?

- a. \$101
- b. \$92
- c. \$85
- d. \$81

14. How much may Purple Corporation, a calendar-year accrual-basis corporation, deduct if it paid \$3,000 on April 1 for an insurance policy for the next three years, prepaid six months interest of \$450 on November 1, and paid \$2,000 rent for December and January on December 1.

- a. \$1,900
- b. \$2,450
- c. \$2,600
- d. \$5,450

15. In 2016, Tom loaned his friend Janelle \$5,000 to invest in various stocks. Janelle signed a note to repay the principal with interest. In 2017, the stock market plunged and Janelle incurred large losses. In late 2017, Janelle declared personal bankruptcy and Tom was unable to collect any of the loan. Tom had no other gains or losses in 2016 or 2017. His income from wages in both 2016 and 2017 was \$50,000. The result is:

- a. Tom deducts a business bad debt of \$5,000 in 2016.
- b. Tom deducts a \$5,000 capital loss in 2016.
- c. Tom deducts a business bad debt of \$3,000 in 2016 and carries \$2,000 over to subsequent years.
- d. Tom deducts a \$3,000 capital loss in 2016 and carries \$2,000 over to subsequent years.
- e. Tom must amend her 2015 tax return to deduct the loss.

16. Agnes gives an asset valued at \$12,000 with a basis of \$10,000 to Mary; Agnes dies six-months later leaving an asset valued at \$10,000 with a basis of \$12,000 to Larry. What are Mary's and Larry's bases in these assets?

- a. Mary = \$10,000; Larry = \$10,000
- b. Mary = \$12,000; Larry = \$10,000
- c. Mary = \$10,000; Larry = \$12,000
- d. Mary = \$12,000; Larry = \$12,000

17. The first and last years of MACRS depreciation deductions for a 5-year asset costing \$10,000 using the half-year convention are:

- a. \$2,000 and \$576
- b. \$2,000 and \$1,000
- c. \$2,000 and \$1,152
- d. \$2,000 and \$2,000

18. Brandon purchased a new car on August 1, 2016 for \$14,500. His records indicate that he uses the car 45 percent for business and 55 percent for personal use. What are his cost recovery deductions for 2016 and 2017?

- a. \$653; \$1,305
- b. \$1,377; \$2,205
- c. \$1,305; \$2,088
- d. \$798; \$1,595

19. Orange Corporation had income from operations of \$29,000. What is the corporation's taxable income including the following property transactions: Gain on investment stock = \$8,000; loss on machinery held three years = \$6,000; \$4,000 loss on equipment held 10 months; \$4,000 gain on land used for six years for storage of trucks. What is Orange's Corporation's taxable income?

- a. \$33,000
- b. \$27,000
- c. \$31,000
- d. \$25,000

20. Alma sells the following depreciable assets from her sole proprietorship:

Asset	Cost	Age	Gain/Loss
Office furniture	\$10,000	4 years	(\$2,400)
Truck	\$2,000	5 years	3,100
Bakery equipment	\$25,000	9 months	(4,500)

What should Alma report on her income tax return relative to these property transactions?

- a. \$3,800 capital loss
- b. \$3,100 Section 1245 recapture; \$2,400 Section 1231 loss; \$4,500 ordinary loss
- c. \$3,800 ordinary loss
- d. \$700 Section 1231 gain; \$4,500 ordinary loss
- e. None of the above

21. Sue has a \$10,000 loss on some collectibles, a \$5,000 Sec. 1202 gain, and an \$11,000 gain on some securities. If all gains and losses are long-term and Sue is in the 25 percent tax bracket, how is her net gain taxed?

- a. \$5,000 at 25%; \$1,000 at 15%
- b. \$6,000 at 28%
- c. \$5,000 at 28%; \$1,000 at 15%
- d. \$6,000 at 15%
- e. None of the above

22. Owl corporation exchanges a building (fair market value = \$800,000, adjusted basis = \$600,000) that has a \$100,000 mortgage for another building owned by Dan Corporation (fair market value = \$1,100,000, adjusted basis = \$600,000) that is encumbered by a \$400,000 mortgage. Each party assumed the mortgage on the building received. What are Owl's and Dan's realized gains on this exchange, respectively?

- a. \$500,000, \$500,000
- b. \$200,000, \$600,000
- c. \$500,000, \$600,000
- d. \$200,000, \$500,000
- e. None of the above

23. Pat's investment real estate was condemned on November 14, 2016. On February 14, 2017, he received \$250,000 for the property that had a basis of \$210,000. What is the last date that Pat can acquire replacement property to avoid gain recognition?

- a. November 14, 2019
- b. February 14, 2020
- c. December 31, 2019
- d. December 31, 2020
- e. None of the above

24. Dan owned a small rental property, which was condemned by the county to expand a local park. His adjusted basis in the property was \$40,000 and he received a payment of \$75,000 from the county. A year later he purchased a similar piece of real estate for \$70,000. What is Dan's recognized gain on the involuntary conversion of his rental property?

- a. 0
- b. \$35,000
- c. \$30,000
- d. \$10,000
- e. \$5,000

25. Corporation Parent (P)owns 85 percent of Corporation A1; Corporation A1 owns 60 percent of Corporation A2; Corporation A2 owns 90 percent of A3; Corporation A3 owns 60 percent of Corporation A4 and 15 percent of Corporation A2; Corporation A4 owns 100 percent of Corporation A5. Identify the consolidated group(s) of corporations.

- a. P---A1---A2---A3---A4---A5
- b. P---A1 only
- c. P---A1 and A2---A3---A4---A5
- d. P---A1; A2---A3; and A4---A5
- e. P---A1 and A2---A3

26. Craig received a \$25,000 distribution from Yellow Corporation that the corporation identified as \$15,000 dividend and \$10,000 return of capital. What effect does this distribution have on Craig's taxable income if his basis in the stock of Yellow is \$8,000?

- a. Increase of \$25,000
- b. Increase of \$17,000
- c. Increase of \$15,000
- d. Increase of \$10,000

27. Samuel Co. has had taxable income of \$450,000, \$570,000, \$760,000 and \$680,000 in years 2013 through 2016, respectively. What were the equal minimum quarterly estimated tax payments for 2016 that Samuel Co. should have made in 2016 to avoid any penalty?

- a. \$58,000
- b. \$64,676
- c. \$57,676
- d. \$170,000

28. Which of the following is not a separately stated item on a partnership's Schedule K?

- a. A \$5,000 long---term capital loss
- b. \$20,000 of unrecaptured Section 1250
- c. \$3,000 charitable contribution
- d. \$5,000 bond interest
- e. All are separately stated.

29. Ryan is a 30 percent general partner in ABC Partnership. His basis in his partnership interest at the beginning of the year was \$40,000. During the year, the partnership reported a \$30,000 loss and paid off a \$120,000 recourse debt. What is Ryan's year-end basis in his partnership interest?

- a. \$0
- b. \$4,000
- c. \$5,000
- d. \$9,000

30. May and Lori form the ML General Partnership. May contributed \$20,000 cash in exchange for her 50 percent partnership interest. During the first year of partnership operations, the partnership reported net taxable income of \$10,000, May withdrew \$8,000 cash from the partnership, and the partnership took out an \$18,000 loan on the last day of the year. May's adjusted basis for her partnership interest at year end is:

- a. \$38,000
- b. \$30,000
- c. \$26,000
- d. \$25,000
- e. \$20,000
- f. \$17,000

### **Short Answer Questions**

**Show and label all your work, zero points will be given if your work is not labeled and/ or all calculations are not shown, on all the following questions. Show me what you have learned. Show even very simple and obvious calculations.**

1. BeBe had a tough year! She had two different unfortunate casualties during the year. First, her car was in an accident. Her car had a value of \$20,000. Her basis (her cost) had been \$30,000. After the accident, the value was reduced to only \$10,000. Her insurance company reimbursed her for \$3,000 only. Second, she had a separate free-standing storage she on her property, which burned down. The shed had a fair market value of \$4,000, and a cost adjusted basis to BeBe of \$3,500. Her insurance company reimbursed her \$3,000 for her loss. If BeBe's adjusted gross income is \$60,000, what is her deductible casualty loss, if any?
  
2. June uses her personal car for work as an employee. For the year, June drove 5,000 business miles and 30,000 total miles. Her car-related expenses include \$4,000 for gas; \$600 for insurance; \$200 for registration fees; \$3,000 depreciation, and \$100 for business-related parking and tolls. June's employer does not reimburse her for the use of her car. Using the actual method, not mileage method. What is June's car expense?

3. Jackson reports \$60,000 sales from his Schedule C business. He has utility and wages expenses of \$20,000, and depreciation of \$5,000. Jackson also has \$20,000 income from wages as an employee. What is Jackson's self-employment tax for the year?

4. Dana forms a small manufacturing company. Her company places the following properties into service during the year, on the dates indicated:

<u>Type of property</u>	<u>Date placed in service</u>	<u>Cost</u>
Business building	April 6	\$275,000
Furniture	June 5	\$57,000
Machinery	September 2	\$65,000
Computer	December 27	\$25,000

She chooses not to do any Section 179 expense, and also elects not to take bonus depreciation. She uses MACRS depreciation. Calculate the first year depreciation on the building, and also on the machinery:

5. Christina had a \$12,000 gain on the sale of stock purchased three years ago, a \$4,000 loss on selling stock she had only owned for 3 months, a \$5,000 loss on the sale of her personal use auto, and a \$5,000 loss from the sale of land used in her business (owned for six years). Chris had no other property transactions this year. What will be the net effect of these transactions on Chris' tax return, in terms of gains and/or losses?





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