

SOLUTIONS FOR
QUESTIONS AND PROBLEMS

CHAPTER 1

THE INDIVIDUAL INCOME TAX RETURN

Group 1 - Multiple Choice Questions

- | | | |
|--------------------------------------|----------------|---------------------------------------|
| 1. D (LO 1.1) | 7. C (LO 1.5) | 15. A (LO 1.8) |
| 2. D (LO 1.2) | 8. E (LO 1.6) | 16. E $\$25,000 = \$275,000 -$ |
| 3. A (LO 1.3) | 9. C (LO 1.6) | ($\$285,000 - \$35,000$) (LO 1.8) |
| 4. C (LO 1.3) | 10. C (LO 1.6) | 17. C $\$45,000 = \$48,000 - \$3,000$ |
| 5. B $\$98,000 - \$19,000 - \$3,900$ | 11. B (LO 1.6) | (LO 1.8) |
| = $\$75,100$ (LO 1.3) | 12. B (LO 1.7) | 18. B (LO 1.9) |
| 6. C $\$6,100 + \$3,900 = \$10,000$ | 13. B (LO 1.7) | 19. C (LO 1.9) |
| (LO 1.4) | 14. E (LO 1.8) | 20. D (LO 1.11) |

Group 2 - Problems

1.
 - a. Raising revenue to operate the government.
 - b. Furthering economic goals such as reducing unemployment.
 - c. Furthering social goals such as encouraging contributions to charities. (LO 1.1)
2.
 - a. **$\$36,500 = \$41,000 + 500 - 5,000$.**
 - b. **$\$12,200$** , the greater of itemized deductions or the standard deduction of $\$12,200$.
 - c. **$\$16,500 = \$36,500 - 12,200 - (2 \times \$3,900)$.** (LO 1.3)
3.
 - a. **$\$23,000$.**
 - b. **$\$6,100$** , the greater of total itemized deductions or the standard deduction amount.
 - c. **$\$13,000 = \$23,000 - 6,100 - 3,900$.** (LO 1.3)
4.
 - a. **$\$52,700 = \$54,000 + 1,700 - 3,000$** ($\$7,000$ capital loss limited to $\$3,000$)
 - b. **$\$6,100$**
 - c. **$\$3,900$**
 - d. **$\$42,700 = \$52,700 - 6,100 - 3,900$** (LO 1.3)
5.

Gross income	
– Deductions for adjusted gross income	
= Adjusted gross income	
– Greater of itemized deductions or standard deduction	
– Exemptions	
= Taxable income	(LO 1.3)
6.
 - a. **$\$48,079 = \$46,479 + 3,500 - 1,900$.**
 - b. **$\$12,200$** , the greater of itemized deductions or the standard deduction of $\$12,200$.
 - c. **$\$28,079 = \$48,079 - 12,200 - (2 \times \$3,900)$.**
 - d. **$\$3,319$** (Tax Table) (LO 1.3 and 1.5)
7.

Adjusted gross income	$\$17,400$
Less: Itemized deductions	$-2,250$
One exemption	<u>$-3,900$</u>
Taxable income	<u>$\\$11,250$</u>

Ulysses' tax liability from the Tax Table is **$\$1,245$** . (LO 1.3 and 1.5)

8. Adjusted gross income (\$13,000 + 1,400)	\$14,400
Less: Standard deduction	-6,100
Exemption	-3,900
Taxable income	<u>\$ 4,400</u>

(LO 1.3, 1.5, and 1.6)

(Note: See Chapter 6 for the tax computation for dependent college students under age 24.)

9. a. **\$35,000** = \$45,000 – 6,100 – 3,900.
b. Taxpayers with incomes up to \$100,000 must use the tax tables.
c. **\$4,808.** (LO 1.3 and 1.5)
10. a. **\$68,000** = \$50,000 + 10,000 + 5,000 + 3,000.
b. **\$64,800** = \$68,000 – 3,200.
c. **\$13,000.**
d. **5.** Two personal and three dependency exemptions.
e. **\$32,300** = \$64,800 – 13,000 – 19,500 (5 x 3,900).
f. **\$3,956** (LO 1.3, 1.5, 1.6 and 1.7)
11. a. **\$87,000** = \$83,000 + 4,000.
b. **\$7,800** = 2 x \$3,900.
c. **\$66,700** = 87,000 – 12,500 – 7,800. (LO 1.3, 1.5, 1.6 and 1.7)
12. Taxable income is: **\$30,000** = \$40,000 – 6,100 – 3,900. Tax liability: \$4,058. (LO 1.3, 1.5, 1.6, 1.7)
13. Yes. Since Nicoula owes social security taxes on the unreported tips, she must file an income tax return. (LO 1.4)
14. a. No. Income is less than the sum of the \$3,900 exemption plus the \$6,100 standard deduction.
b. Yes. Unearned income was more than \$1,000. Also, gross income is more than the larger of \$1,000 or \$1,900 (earned income of \$1,550 plus \$350).
c. No. Their income is under \$21,200, the total of personal exemptions and the standard deduction.
d. No. Gross income is less than \$20,000, the total of personal exemptions and the standard deduction.
e. Yes. His earnings exceeded the \$400 limit for self-employed persons.
(Note: All answers can be found in the figures in LO 1.4.)
15. Allen **\$2,708.**
Boyd **\$3,233.**
Caldwell **\$4,474.**
Dell **\$3,484.**
Evans **\$7,185.** (LO 1.5)
16. a. D
b. D
c. A
d. A
e. B or C (LO 1.5)
17. a. Because their income exceeds \$100,000, the tax rate schedules must be used.
b. **\$17,357.50** = \$9,982.50 + 7,375 (25%(102,000 – 72,500)). (LO 1.5)
18. They may file either as married filing joint or married filing separately. They must file married, since they were married by year-end. (LO 1.5)
19. Head of household. Maggie's parents meet the tests to qualify as her dependents. Maggie is single. Additionally, she provides a home for her parents. Parents are the only exception to the requirement that dependents must live in the same household as the taxpayer to qualify the taxpayer for head of household status. (LO 1.5)

20. Single. Unmarried with no dependent
Head of household. Single or abandoned spouse, with qualifying dependent
Qualifying widow(er). Spouse died within the past 2 years; qualifying dependent. (LO 1.5)
21. a. Yes, her son qualifies as a dependent.
b. No. Her son must live in the same household as Mary, so Mary cannot use the head of household filing status. (LO 1.5 and 1.6)
22. a. 2. One personal and one dependency.
b. 2. Two personal. The sister does not qualify as a dependent, because her gross income was \$3,900.
c. 2. One personal and one dependency.
d. 2. One personal and one dependency.
e. 2. Two personal. (LO 1.6)
23. **\$11,700.** 3 exemptions at \$3,900 each. (LO 1.6)
24. No. Because Charles is self-supporting, his parents may not claim him as a dependent. The self-support test is applied to both children and relatives who otherwise qualify, so Charles is disqualified either way. (LO 1.6)
25. No. Phillip cannot be claimed as a dependent because he is not a U.S. citizen. (LO 1.6)
26. The standard deduction is an amount that varies with filing status, age and vision, but not by type of individual deduction. Total itemized deductions depend on the amount and type of items, with some items having limitations based on AGI. They include medical expenses, certain taxes, certain interest expense, charitable contributions and miscellaneous deductions
A taxpayer should claim the larger of the standard deduction or the total allowed itemized deductions to reduce the taxpayer's income subject to tax as much as possible. (LO 1.7)
27. \$1,520 = AGI = \$240,000
Threshold \$200,000
 \$ 40,000
Investment Inc. \$ 90,000
Lesser of above \$40,000 x 3.8% (LO 1.9)
28. The answer will vary depending on the date the problem is assigned and completed. The purpose of the problem is to familiarize the student with the Internet sites. (LO 1.10)
29. The blank forms are not reproduced here. By the time the student is assigned this problem, the current year's forms should be available. (LO 1.10)
30. Instructions are not reproduced here. Current year's instructions should be available. (LO 1.10)
31. As of the date this solutions manual was prepared, the answers were:
a. www.ftb.ca.gov
b. www.tax.ny.gov (LO 1.10)

Group 3 - Writing Assignments

1. Research Solution:

Whittenburg, Gill, and Altus-Buller, CPAs
San Diego, CA
February 20, 20xx

Mr. and Mrs. William Carson
3276 Lakeline Drive
San Diego, CA

Dear William and Sheila,

Thanks for requesting my advice concerning the tax treatment of your brother Jerry. I have researched your question and am sorry to say that you cannot claim Jerry as a qualifying child.

Although Jerry meets the relationship, domicile, joint return, citizenship, and self-support test, he does not meet the age test. Even though he is a full-time student and under the age of 24, in order to be your qualifying child, he must be younger than at least one of you.

Although you can't claim him as a qualifying child, there is a possibility that you could claim Jerry as a qualifying relative if he makes less than \$3,900.

My conclusion is based upon the facts that you have provided me. I'm sorry that the news was not more favorable. If you have any questions or would like further explanation, please don't hesitate to call.

Sincerely,
Trevor Malcolm
for Whittenburg, Gill, and Altus-Buller, CPAs

2. Ethics Solution:

Individuals who are married as of the last day of the tax year are considered to be married. Married taxpayers have only two filing status options: married filing joint or married filing separate. In order to file single, taxpayers must be unmarried or legally separated from their spouse as of the last day of the tax year. Not only would it be unethical for Jason and Mary to file single, it would be against the law.

Group 4 - Comprehensive Problems

1. See page 31.
- 2A. See pages 32 and 33.
- 2B. See pages 34 and 35.

Group 5 - Cumulative Software Problem

The solution to the Cumulative Software Problem is posted on the Internet site for the text at <http://www.cengage.com/taxation/whittenburg>.

Comprehensive Problem 2A

Form 1040A		Department of the Treasury—Internal Revenue Service		2013		IRS Use Only—Do not write or staple in this space.	
Your first name and initial <i>Leon</i>		Last name <i>Lazo</i>		OMB No. 1545-0074			
If a joint return, spouse's first name and initial <i>Leslie</i>		Last name <i>Lazo</i>		Your social security number <i>46717414451</i>			
Home address (number and street). If you have a P.O. box, see instructions. <i>143 Snapdragon Drive</i>		Apt. no.		Spouse's social security number <i>46614713311</i>			
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>Reno, NV 82102</i>		Foreign country name		Foreign province/state/county		Foreign postal code	
Filing status Check only one box. 1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see instructions)		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse					
Exemptions 6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input checked="" type="checkbox"/> Spouse c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions) <i>Lytle Lazo 552 52 5552 Son</i> If more than six dependents, see instructions. d Total number of exemptions claimed.		Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶		<i>2</i> <i>1</i> <i>3</i>			
Income Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld. If you did not get a W-2, see instructions.		7 Wages, salaries, tips, etc. Attach Form(s) W-2.		7		<i>50,000</i>	
8a Taxable interest. Attach Schedule B if required.		8a					
b Tax-exempt interest. Do not include on line 8a.		8b					
9a Ordinary dividends. Attach Schedule B if required.		9a					
b Qualified dividends (see instructions).		9b					
10 Capital gain distributions (see instructions).		10					
11a IRA distributions.		11a		11b Taxable amount (see instructions).		11b	
12a Pensions and annuities.		12a		12b Taxable amount (see instructions).		12b	
13 Unemployment compensation and Alaska Permanent Fund dividends.		13					
14a Social security benefits.		14a		14b Taxable amount (see instructions).		14b	
15 Add lines 7 through 14b (far right column). This is your total income. ▶		15		<i>50,000</i>			
Adjusted gross income 16 Educator expenses (see instructions).		16					
17 IRA deduction (see instructions).		17					
18 Student loan interest deduction (see instructions).		18					
19 Tuition and fees. Attach Form 8917.		19					
20 Add lines 16 through 19. These are your total adjustments.		20					
21 Subtract line 20 from line 15. This is your adjusted gross income. ▶		21		<i>50,000</i>			

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Comprehensive Problem 2B

Form 1040A		Department of the Treasury — Internal Revenue Service		2013		IRS Use Only—Do not write or staple in this space.																																				
Your first name and initial <i>Abigail</i>		Last name <i>Boxer</i>		OMB No. 1545-0074		Your social security number <i>676 173 1311</i>																																				
If a joint return, spouse's first name and initial		Last name		Spouse's social security number																																						
Home address (number and street). If you have a P.O. box, see instructions. <i>3456 Alamo Way</i>				Apt. no.		▲ Make sure the SSN(s) above and on line 6c are correct.																																				
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>San Antonio, TX 78249</i>				Foreign province/state/country		Foreign postal code																																				
Foreign country name				Foreign province/state/country		Foreign postal code																																				
Filing status Check only one box.		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input checked="" type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see instructions)																																								
Exemptions		6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse c Dependents: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr> <td><i>Helen</i></td> <td><i>Boxer</i></td> <td><i>676 73 3312</i></td> <td><i>Daughter</i></td> <td><input type="checkbox"/></td> </tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table>						(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)	<i>Helen</i>	<i>Boxer</i>	<i>676 73 3312</i>	<i>Daughter</i>	<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)																																						
<i>Helen</i>	<i>Boxer</i>	<i>676 73 3312</i>	<i>Daughter</i>	<input type="checkbox"/>																																						
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d Total number of exemptions claimed.																																										
Income		7 Wages, salaries, tips, etc. Attach Form(s) W-2. <i>42,500</i> 8a Taxable interest. Attach Schedule B if required. <i>230</i> b Tax-exempt interest. Do not include on line 8a. 8b 9a Ordinary dividends. Attach Schedule B if required. 9a b Qualified dividends (see instructions). 9b 10 Capital gain distributions (see instructions). 10 11a IRA distributions. 11a 11b Taxable amount (see instructions). 11b 12a Pensions and annuities. 12a 12b Taxable amount (see instructions). 12b 13 Unemployment compensation and Alaska Permanent Fund dividends. 13 14a Social security benefits. 14a 14b Taxable amount (see instructions). 14b 15 Add lines 7 through 14b (far right column). This is your total income . ▶ <i>42,730</i>																																								
Adjusted gross income		16 Educator expenses (see instructions). 16 17 IRA deduction (see instructions). 17 18 Student loan interest deduction (see instructions). 18 19 Tuition and fees. Attach Form 8917. 19 20 Add lines 16 through 19. These are your total adjustments . 20 21 Subtract line 20 from line 15. This is your adjusted gross income . ▶ <i>42,730</i>																																								
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Comprehensive Problem 2B, cont.

Form 1040A (2013)		Page 2
Tax, credits, and payments	22 Enter the amount from line 21 (adjusted gross income).	22 42,730
Standard Deduction for— • People who check any box on line 23a or 23b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,100 Married filing jointly or Qualifying widow(er), \$12,200 Head of household, \$8,950	23a Check <input type="checkbox"/> You were born before January 2, 1949, <input type="checkbox"/> Blind } Total boxes checked ▶ 23a <input type="checkbox"/> if: <input type="checkbox"/> Spouse was born before January 2, 1949, <input type="checkbox"/> Blind } b If you are married filing separately and your spouse itemizes deductions, check here ▶ 23b <input type="checkbox"/>	
	24 Enter your standard deduction.	24 8,950
	25 Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25 33,780
	26 Exemptions. Multiply \$3,900 by the number on line 6d.	26 7,800
	27 Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your taxable income.	27 25,980
	28 Tax, including any alternative minimum tax (see instructions).	28 3,259
	29 Credit for child and dependent care expenses. Attach Form 2441.	29
	30 Credit for the elderly or the disabled. Attach Schedule R.	30
	31 Education credits from Form 8863, line 19.	31
	32 Retirement savings contributions credit. Attach Form 8880.	32
	33 Child tax credit. Attach Schedule 8812, if required.	33
	34 Add lines 29 through 33. These are your total credits.	34
	35 Subtract line 34 from line 28. If line 34 is more than line 28, enter -0-. This is your total tax.	35 3,259
	36 Federal income tax withheld from Forms W-2 and 1099.	36 5,160
	37 2013 estimated tax payments and amount applied from 2012 return.	37
	38a Earned income credit (EIC).	38a
	b Nontaxable combat pay election.	38b
	39 Additional child tax credit. Attach Schedule 8812.	39
	40 American opportunity credit from Form 8863, line 8.	40
	41 Add lines 36, 37, 38a, 39, and 40. These are your total payments.	41 5,160
	42 If line 41 is more than line 35, subtract line 35 from line 41. This is the amount you overpaid.	42 1,901
Refund Direct deposit? See instructions and fill in 43b, 43c, and 43d or Form 8888.	43a Amount of line 42 you want refunded to you. If Form 8888 is attached, check here ▶ <input type="checkbox"/> 43a 1,901	
	b Routing number <input type="text"/> ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number <input type="text"/>	
	44 Amount of line 42 you want applied to your 2014 estimated tax.	44
Amount you owe	45 Amount you owe. Subtract line 41 from line 35. For details on how to pay, see instructions.	45
	46 Estimated tax penalty (see instructions).	46
Third party designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No	
	Designee's name ▶	Phone no. ▶
	Personal identification number (PIN) ▶ <input type="text"/>	
Sign here Joint return? See instructions. Keep a copy for your records.	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
	Your signature	Date
	Spouse's signature. If a joint return, both must sign.	Date
	Your occupation	Daytime phone number
	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
Paid preparer use only	Print/type preparer's name	Preparer's signature
	Firm's name ▶	Check <input type="checkbox"/> if self-employed
	Firm's address ▶	PTIN
		Firm's EIN ▶
		Phone no. ▶

Form 1040A (2013)

Key Number Tax Return Summary**Chapter 1****Comprehensive Problem 1**

Adjusted Gross Income (Line 4)	<u>19,400</u>
Taxable Income (Line 6)	<u>9,400</u>
Tax Liability (Line 10)	<u>968</u>
Tax Overpaid (Line 11a)	<u>2,032</u>

Comprehensive Problem 2A

Adjusted Gross Income (Line 21)	<u>50,000</u>
Deductions (Line 24)	<u>12,200</u>
Exemptions (Line 26)	<u>11,700</u>
Tax Liability (Line 35)	<u>3,026</u>
Tax Overpaid (Line 42)	<u>1,574</u>

Comprehensive Problem 2B

Adjusted Gross Income (Line 21)	<u>42,730</u>
Deductions (Line 24)	<u>8,950</u>
Exemptions (Line 26)	<u>7,800</u>
Tax Liability (Line 35)	<u>3,259</u>
Tax Overpaid (Line 42)	<u>1,901</u>