

# FEDERAL INCOME TAXATION

This test is a comprehensive coverage of the federal income tax structure as it pertains to individuals, partnerships and corporate taxpayers. Topics include: classification of taxpayers, determination of gross income, exemptions, taxable income, computation of tax, special tax computations, and credits against tax. (3 s.h.) ACC-421-TE

This is a three-hour examination in which you must answer 20 multiple-choice questions (worth 1 point each), 7 computational problems (worth 10 points each) and 2 computational problems (worth 5 points each). A passing score is **60** out of 100 points.

This test is revised annually, and is based on current tax law.

**You should bring a tax guide or textbook with you to refer to during this exam.**

**Here are the topics covered and their approximate importance on the test:**

- I. DETERMINATION OF TAX (60%)
  - A. Gross income
  - B. Deductions from AGI
  - C. Additions to AGI
  - D. Itemized deductions and exemptions
  - E. Capital gains and losses
  - F. Tax credits
- II. PROPERTY TRANSACTIONS (25%)
  - A. Determination of gains and losses
  - B. Depreciation, cost recovery, depletion, amortization, and inventory cost
- III. DEDUCTIONS AND LOSSES (5%)
  - A. When an expense is deductible
  - B. Loss and bad debts
- IV. CORPORATIONS AND PARTNERSHIPS (10%)

**Textbooks to help you prepare:**

*Federal Tax Course.* Chicago, IL: Commerce Clearing House

*Prentice-Hall Federal Tax Course.* Upper Saddle River, NJ: Prentice-Hall

*J. K. Lasser's Your Income Tax.* New York: John Wiley

Although most of the test is based on material that is not related to a specific tax year, we recommend that you obtain a current tax guide. Any of the texts on the previous page, used in conjunction with this test description, will adequately prepare you for the test.

If you choose one of the texts listed, you need not read it completely. These are very comprehensive texts which deal with a wide variety of tax matters. The examination you will be taking concerns the tax affairs of individuals, partnerships and corporations.

In preparing for the examination, you should develop a facility for working with your tax reference textbook or guide. It is not necessary for you to memorize this material since you may bring your text to the examination. However, you should be able to interpret the situation and apply the appropriate tax accounting treatment.

## SAMPLE QUESTIONS

### Multiple-Choice

1. Adjusted gross income is used in establishing limits on the following deductions, with the exception of
  - a. charitable contributions
  - b. casualty losses
  - c. employee business expenses reimbursed by the employer
  - d. medical expenses
  
2. An activity is presumed to be a profit-making activity rather than a hobby if the
  - a. activity shows a profit for any three out of five years, ending with the tax year in question
  - b. activity shows a profit for any two out of five years, ending with the tax year in question
  - c. taxpayer conducts the activity with some expertise
  - d. taxpayer conducts the activity in a businesslike manner
  
3. Jared receives a \$5,000 scholarship to Carter College. Jared's expenses for tuition and books amount to \$1,200 during the semester. He would report taxable income of
  - a. \$5,000
  - b. \$3,800
  - c. \$2,500
  - d. \$0
  
4. Which of the following is classified as passive income?
  - a. Bonus income
  - b. Gain on the sale of real estate
  - c. Interest income
  - d. Income from a limited partnership

5. As a result of a lawsuit, Catherine was awarded \$300,000 for compensatory damages and \$400,000 for punitive damages. What is the taxable income resulting from this suit?
- \$0
  - \$300,000
  - \$400,000
  - \$700,000

### **Problems**

6. In addition to social security benefits of \$6,000, Mr. and Mrs. Lopez have adjusted gross income of \$36,000, tax-exempt interest of \$1,000 and will file a joint return.

Determine the taxable portion of their social security benefits.

7. Lucy purchased a rental house a few years ago for \$100,000. Total depreciation to date is \$35,000. In the current year, she sells the house for \$155,000 and pays \$10,000 selling expenses.

Calculate Lucy's gain on the sale.

8. Tom dies in January of the current year and leaves his wife Jeanne a \$50,000 insurance policy. Jeanne elects to receive the proceeds at \$10,000 per year plus interest, for five years. In the current year, she receives \$12,000 (\$10,000 plus \$2,000 interest).

How much must Jeanne include in her gross income?

### **ANSWERS TO SAMPLE QUESTIONS**

1. **c**   2. **a**   3. **b**   4. **d**   5. **c**

6.  $(\$36,000 + \$1,000 + \$3,000) - \$32,000 = \$8,000 \times .50 = \$4,000$  which is subject to the ceiling limit of one-half of social security benefits, which is \$3,000.

7. 

Amount realized	(\$155,000 - \$10,000)	=	\$145,000
Adjusted basis	(\$100,000 - \$35,000)	=	<u>65,000</u>
Taxable gain			80,000

8. \$2,000