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An expat U.S. citizen is living and working in a foreign country. This year, the expat reports the following foreign-source income on their Form 1040:

\$60,000 wages

\$20,000 dividend income

\$18,000 bonus

\$22,000 self-employment income

If this year's foreign earned income exclusion (FEIE) is capped at \$130,000, what amount of FEIE may the expat claim on this year's return?

- A. \$98,000
 - B. \$100,000
 - C. \$102,000
 - D. \$120,000
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Question 2 of 40

Green, an employee of Argon Industries, earned a salary of \$60,000 in Year 2. In addition, the following two transactions between Green and Argon occurred in Year 2: Green received a bonus of 100 shares of publicly-traded stock worth \$13,000 with a basis to Argon of \$8,000, and Green purchased 1,000 shares of unrestricted Argon stock pursuant to a nonqualifying stock option plan for \$10 per share when stock was valued at \$25 per share. What amount of compensation should Argon report in Green's Form W-2 for Year 2?

- A. \$60,000
 - B. \$73,000
 - C. \$88,000
 - D. \$93,000
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Question 3 of 40

A debtor must borrow funds to purchase a personal automobile. Which of the following scenarios would require imputed interest to be reported by the lender?

- A. The debtor receives \$5,000 as a gift loan from her father at 0% interest.
 - B. The debtor enters into an \$11,000 compensation loan from her employer at 0% interest.
 - C. The debtor borrows \$8,000 from her brother at 0% interest.
 - D. The debtor borrows \$9,000 each from two friends in the same year at 0% interest.
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On January 1, Year 2, an individual lent \$110,000 to a friend as a gift loan to help the friend buy a home. The loan terms require the friend to repay the loan in three equal annual installments of \$30,000, with the first payment due on December 31, Year 2. The loan does not require payment of interest. For Year 2, what are the income tax consequences to the individual lender?

- A. The individual has no income tax consequences because no interest is due under the loan terms.
 - B. The individual must recognize interest income because the loan was issued at a premium.
 - C. The individual has no income tax consequences because the loan is de minimis.
 - D. The individual must recognize interest income because interest income must be imputed.
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Question 5 of 40

A 22-year-old full-time student earned \$11,000 in salary and received \$9,000 in interest from corporate bonds. The bonds were a gift from the student's grandparents. The student's parents pay more than half of the student's support, including \$25,000 in tuition. Which of the following statements is correct regarding the student's current-year income tax?

- A. The student's salary income and **no** other income will be subject to the kiddie tax.
 - B. A portion of the student's interest income and **no** other income will be subject to the kiddie tax.
 - C. Both the student's salary and a portion of the interest income will be subject to the kiddie tax.
 - D. Neither the student's salary nor the interest income will be subject to the kiddie tax.
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Question 6 of 40

In the current year, a U.S. citizen taxpayer reported \$100,000 of Spain-sourced interest income on which they paid \$15,000 in Spanish income tax. The taxpayer reported no foreign earned income. Additionally, the taxpayer reported \$200,000 of U.S. sourced compensation and paid \$50,000 in U.S. income tax on worldwide income. What is the maximum amount of foreign tax credit the taxpayer may claim in the current year?

- A. \$0
 - B. \$15,000
 - C. \$16,667
 - D. \$25,000
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Question 7 of 40

The parents of a three-year-old taxpayer gifted him stock when he was born. This year, the taxpayer has \$20,000 of qualified dividends, \$0 earned income, and \$4,000 of itemized deductions related to the dividends. Assuming the current dependent child standard deduction is \$1,350, how much of the taxpayer's dividends will be taxed at his parents' rate?

- A. \$1,350
 - B. \$14,650
 - C. \$18,650
 - D. \$20,000
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Question 8 of 40

A child, age five, is claimed as a dependent on the parents' tax return. The child has \$3,000 of interest income, no earned income this year, and will file a tax return. Assuming the current applicable standard deduction is \$1,350, how much of the child's income will be taxed at the parents' tax rates?

- A. \$300
 - B. \$1,650
 - C. \$2,700
 - D. \$3,000
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Question 9 of 40

Assuming a taxpayer itemizes deductions, which of the following statements about the effect of regular tax items on alternative minimum taxable income (AMTI) is correct?

- A. A regular tax casualty loss deduction requires no adjustment to AMTI.
 - B. The state income tax deducted from regular taxable income requires no adjustment to AMTI.
 - C. Qualified private activity bond interest is included in regular taxable income and decreases AMTI.
 - D. A state income tax refund included in regular taxable income increases AMTI.
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Question 10 of 40

Which of the following can be an advantage of a health care flexible spending account (FSA) over a health savings account (HSA)?

- A. Low deductible insurance plans can be used.
 - B. The account is portable if employment changes.
 - C. Unused funds can be invested and grow tax free.
 - D. Larger annual contributions are permitted.
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Question 11 of 40

Millie, age six, has \$5,000 of long-term capital gain from stocks gifted to her by her parents and no earned income or itemized deductions attributable to unearned income this year. Assume the current dependent child standard deduction is \$1,350. How much of Millie's income will be taxed at her marginal tax rate?

- A. \$0
 - B. \$1,350
 - C. \$2,300
 - D. \$5,000
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In Year 3, XYZ Corp. awarded its CEO 1,000 nonqualified stock options, each with an option price of \$60. There is no readily available determined fair market value for the options on the grant date. In Year 4 the CEO exercised 500 of the stock options at a time when the price of XYZ stock was \$90. Based on this information, what amount should the CEO include in Year 4 gross income?

- A. \$0
 - B. \$5,000
 - C. \$10,000
 - D. \$15,000
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Question 13 of 40

From an employee's standpoint, the tax benefit of a qualified stock option is that:

- A. There is no AMT impact when stock is acquired through option exercise.
 - B. The gain recognized when stock acquired through option exercise is sold may be taxed at preferential rates.
 - C. The compensation income recognized is deferred until option exercise.
 - D. The compensation income recognized at grant date is taxed at preferential rates.
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Question 14 of 40

In Year 6, a taxpayer was granted an incentive stock option (ISO) by ABC Corp. as part of an executive compensation package. The taxpayer exercised the ISO in Year 7 and sold the stock in Year 9 at a gain. The taxpayer was subject to regular tax for the year in which the

- A. ISO was granted.
 - B. ISO was exercised.
 - C. Stock was sold.
 - D. Employer claimed a compensation deduction for the ISO.
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Question 15 of 40

An individual's income is earned through compensation for performing services as an independent contractor. No income tax was withheld from the taxpayer's compensation. Last year, the individual's income tax liability was \$40,000 and AGI was \$155,000. This year, the individual's income tax liability is expected to be \$60,000 and AGI is expected to be \$175,000. The income is earned evenly throughout the year. What amount of estimated tax should the individual pay each quarter this tax year?

- A. \$10,000
 - B. \$11,000
 - C. \$13,500
 - D. \$15,000
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Question 16 of 40

A 20-year-old full-time student earned \$15,000 in wages from a part-time job and received \$5,000 in dividends and \$1,200 in interest income. The student's parents pay more than half of the student's support. Which of the following statements is correct regarding the student's current-year income tax?

- A. Only the dividends will be subject to the kiddie tax.
 - B. Only interest income will be subject to the kiddie tax.
 - C. Both the dividends and interest will be subject to the kiddie tax.
 - D. All of the income (wages, dividends, and interest) will be subject to the kiddie tax.
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Question 17 of 40

A taxpayer has gross wages of \$100,000, a marginal tax rate of 25%, and a FICA tax rate of 7.65%. The taxpayer contributed \$3,000 to a health savings account (HSA) during the year. Distributions from the account for qualified medical expenses totaled \$2,000. The taxpayer does not itemize deductions. What is the net tax savings of using the HSA?

- A. \$500
 - B. \$653
 - C. \$750
 - D. \$980
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Question 18 of 40

On January 2, Year 2, an individual lent \$60,000 to her son as a gift. The loan terms require the son to make three \$20,000 repayments annually beginning on December 31, Year 2. The loan does not require the son to pay interest. The son's net investment income (NII) for Year 2 is \$2,000, and the applicable federal rate (AFR) for Year 2 is 5%. What amount of interest income must the individual report for Year 2?

- A. \$0
 - B. \$1,000
 - C. \$2,000
 - D. \$3,000
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A client, whose filing status is single, wants to know the minimum amount of estimated tax payments necessary to avoid an underpayment penalty in the current year. The client's prior-year tax return reported AGI of \$160,000 and an income tax liability of \$32,000. The following items are estimated by the client for the current tax year.

<u>Items</u>	<u>Amount</u>
W-2 wages	\$230,000
Interest income	100,000
Itemized deductions	30,000
Income tax withheld	40,000

Assuming a marginal tax rate of 30%, what is the minimum amount of tax the client must pay during the current year through withholding and estimated tax payments in order to avoid an underpayment penalty?

- A. \$0
 - B. \$32,000
 - C. \$35,200
 - D. \$41,000
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Question 20 of 40

A single taxpayer, age 35, contributed \$5,500 to an HSA account and incurred \$2,000 of qualified medical expenses in the current year. Assume current year contributions to an HSA account are capped at \$4,150 for single coverage. What amount, if any, must the taxpayer withdraw from the HSA account to avoid penalties?

- A. \$0
 - B. \$1,350
 - C. \$3,500
 - D. \$5,500
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A single taxpayer has the following income tax return reporting for Years 1 and 2:

	<u>AGI</u>	<u>Tax Liability</u>	<u>Income Tax Withholding</u>
Year 1	\$40,000	\$4,000	\$3,400
Year 2	80,000	16,000	15,500

What is the total amount of minimum required estimated tax payments, if any, for Year 2?

- A. \$0
 - B. \$450
 - C. \$500
 - D. \$600
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Janyce, an individual taxpayer, has used the standard deduction for the last three years. Her itemized deductions are \$1,000 less than her standard deduction for the current year, and her itemized deductions this year include \$9,875 of state income taxes before considering the following items. Which of the following independent alternatives would result in Janyce claiming itemized deductions, rather than the standard deduction, this year?

- A. Paying next year's charitable contribution pledge of \$4,500 before the end of the current tax year.
 - B. Paying \$4,500 to satisfy next year's property taxes on her residence before the end of the current tax year.
 - C. Paying \$4,500 in the current tax year for a medical procedure to be performed in January of the next tax year.
 - D. Paying the first two months of rent totaling \$4,500 for office space used for her sole proprietorship, which uses the cash method of reporting.
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Question 23 of 40

Which of the following statements is true about computation of alternative minimum taxable income?

- A. Excess tax depreciation on personal property is added back.
 - B. Taxable state refunds are added back.
 - C. Private activity bond interest is deducted.
 - D. Excess percentage depletion tax deduction over the property's adjusted basis is deducted.
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An individual taxpayer is contemplating which of his assets he should donate to a local church, a qualified charitable organization. All four assets have the same fair market value of \$80,000 on the date of the contribution.

Publicly traded DEF stock, 400 shares, purchased six months ago for \$50 per share.

A sculpture purchased for \$60,000 and held for two years. The charity will display the sculpture in its lobby.

Publicly traded ABC stock, 500 shares, purchased one year ago for \$100 per share.

Undeveloped land acquired 5 years ago for \$90,000.

Ignoring any income limitations, which of the following assets would provide the greatest charitable deduction for the taxpayer?

- A. The DEF publicly traded stock.
 - B. The sculpture.
 - C. The ABC publicly traded stock.
 - D. The undeveloped land.
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Question 25 of 40

Which of the following items could decrease alternative minimum taxable income for an individual taxpayer?

- A. State and local income tax refunds.
 - B. Income from exercising incentive stock options.
 - C. Interest income from qualified private activity bonds.
 - D. Gain on small business stock.
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