

Income Tax I
Bogdanski
Fall 2022

Sample Multiple-Choice Questions

(In each case, select the best answer to the question posed.)

1. Kaie, a security guard, participates in the employee benefit plan of the hospital at which she works. Among other benefits, Kaie and other employees have the option to take each year \$600 worth of group medical insurance, \$600 of tuition reimbursement, \$600 cash, or any combination of the three totaling \$600 in value. In year 1, Kaie takes \$250 in medical insurance and \$350 in tuition reimbursement. The hospital pays \$250 of medical insurance premiums for Kaie, and reimburses Kaie for \$350 of her tuition at an undergraduate college. Kaie has no other medical expenses in year 1. How much gross income does Kaie have attributable to the two benefits in year 1?
 - A. \$600.
 - B. \$350.
 - C. \$250.
 - D. None.

2. In year 1, the elderly M gives her son, S, the family automobile, which has a fair market value of \$2,000 at the time of the gift. M's basis in the car at the time of the gift is \$3,000. In year 6, S sells the car, now becoming rare, for \$2,500.

M dies in year 2, leaving a family heirloom painting to her daughter, D. For estate tax purposes, the fair market value of the heirloom is determined to be \$5,800; M's basis in the heirloom just before she died was \$100. D sells the heirloom for \$6,000 the same year.

What results on the sales?

 - A. S has a \$500 gain; D has a \$5,900 gain.
 - B. S has no gain or loss; D has a \$5,900 gain.
 - C. S has a \$500 loss; D has a \$200 gain.
 - D. S has no gain or loss; D has a \$200 gain.

3. E is an employee of R, a drug company. Over the years, E has become known and loved by the managers of R as an outstanding person. E develops a cure for a previously incurable disease. In recognition of this discovery, R transfers to E an expensive new automobile. E uses the car for personal pleasure driving and for commuting to and from work. What are the tax consequences to E of receipt of the automobile?
- A. On the stated facts, E clearly has no gross income on account of receipt of the automobile.
 - B. On the stated facts, E clearly has gross income on account of receipt of the automobile.
 - C. The answer depends on whether the transfer was motivated primarily by detached and disinterested generosity on the part of R.
 - D. The answer depends on whether the transfer was in recognition of a civic achievement.
4. Because she needs to be gainfully employed, Crystal, a widow, hires a sitter for her 10-year-old son, Jesse, who lives with Crystal in her home. Crystal has no other children, and no one else lives in the home. Jesse gets all of his support from Crystal. The sitter picks Jesse up from school and supervises him until Crystal gets home from work. Crystal pays the sitter \$5,000 for services rendered. Crystal's adjusted gross income for the year is \$50,000, and she has no losses. The sitter and Jesse have Social Security numbers, which Crystal properly enters on her tax forms. Crystal receives no child care benefits at her job. What are the tax consequences to Crystal of the payments for child care?
- A. Crystal is allowed a \$5,000 deduction.
 - B. Crystal is allowed no deduction and a \$1,000 credit.
 - C. Crystal is allowed no deduction and a \$600 credit.
 - D. Crystal is allowed no deduction or credit because Jesse is already of school age.

5. In year 1, Irv, a physician, borrows \$100,000 on a nonrecourse basis to finance his purchase of Blackacre, rental real estate, for \$100,000. At the end of year 5, after taking depreciation deductions totaling \$20,000 with respect to improvements on Blackacre, Irv's adjusted basis in the property is \$80,000. The principal balance outstanding on the loan throughout year 5 is \$85,000 and the property's fair market value at the end of year 5 is \$75,000. What results to Irv in year 5 if he declares bankruptcy at the end of year 5 and abandons Blackacre to the lender?
- A. No income, but a reduction of favorable tax attributes, including net operating loss carryovers.
 - B. \$5,000 loss.
 - C. \$5,000 gross income.
 - D. \$20,000 gross income.
6. H and W are married to each other; they file a joint income tax return. In 2022, their joint adjusted gross income is \$360,000, and their joint taxable income is \$325,000. They claim no tax credits. Which of the following statements about H and W is true regarding their federal income tax for 2022?
- A. Their marginal rate of tax is greater than 22 percent.
 - B. Their overall effective rate of tax is less than 32 percent.
 - C. If they had a qualifying child, their income would not be too high for them to claim the child credit under section 24 of the Code.
 - D. All of the above.

ANSWERS

1-A

2-D

3-B

4-C

5-C

6-D