

Chapter 1

Introduction to Taxation

True-False: Insert **T** for **True** and **F** for **False** before the questions.

- _____ 1. The 16th Amendment to the US Constitution that provided for an income tax was ratified in 1913.
- _____ 2. The first codification of the Internal Revenue Code took place in 1954.
- _____ 3. There are three basic taxable entities: the individual, the fiduciary, and the C corporation.
- _____ 4. All interest paid to a taxpayer must be included in gross income.
- _____ 5. A taxpayer's filing status determines the basic standard deduction allowed.
- _____ 6. A married person filing a separate return has the lowest standard deduction amount.
- _____ 7. The lowest tax rate on the tax rate schedules for taxable incomes is the same for individuals and C corporations.
- _____ 8. The alternative minimum tax is a tax determined on a broadened definition of income with no deductions permitted.
- _____ 9. Only corporations are allowed to carry their operating losses both backwards and forwards.
- _____ 10. All limited liability companies (LLCs) can file their tax returns as partnerships, or electively, as corporations.
- _____ 11. Partnerships and S corporations are flow-through entities.
- _____ 12. Both sales and use taxes are collected in the state in which the sale takes place.
- _____ 13. The person giving the gift pays the gift tax.
- _____ 14. The value added tax is a type of consumption tax.
- _____ 15. A flat tax generally would be considered a regressive tax.
- _____ 16. Adam Smith's four canons of taxation are Equity, Certainty, Economy and Convenience.

Test Bank Answers: True-False

- | | | | | | |
|----------|----------|-----------|-----------|----------|-----------|
| 1. True | 2. False | 3. True | 4. False | 5. True | 6. False |
| 7. False | 8. False | 9. False | 10. False | 11. True | 12. False |
| 13. True | 14. True | 15. False | 16. True | | |

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Short-Answer Questions: Provide a brief written answer to each of the following questions.

1. Explain the difference between a business's gross revenue and its gross income.
2. Explain how horizontal equity differs from vertical equity.
3. Why are S corporations and partnerships called flow-through entities?
4. When does a seller realize a loss of the sale of an asset?
5. When would an individual use the standard deduction instead of itemizing deductions?
6. Which is more advantageous a deduction *for* or a deduction *from* adjusted gross income? Why?
7. What uses are made of adjusted gross income (AGI) in the individual tax model?
8. Explain the difference in owner's liability for the general business debts of a limited liability company (LLC) and a limited liability partnership (LLP).
9. What is the purpose of the alternative minimum tax?
10. What are the fiduciary entities and how are they created?
11. Name and describe two other types of taxes besides the income tax. Give example of each.
12. Compare progressive, proportional, and regressive taxes.
13. Compare a sales tax to a use tax.
14. What are Adam Smith's four canons of taxation? Briefly describe each.

Test Bank Answers: Short-Answer Questions

1. Gross revenue is the total of all revenue, normally from sales of goods or services. Gross income is gross revenue less cost of goods sold.
2. Horizontal equity would require taxpayers with similar incomes to pay a like amount of taxes. Vertical equity would require taxpayers with greater (lesser) incomes to pay a greater (lesser) amount of taxes.
3. S corporations and partnerships are called flow-through entities because they do not pay taxes on their incomes and gains. Instead the revenue and expense items flow through to the entity's owners and are included in and taxed along with the owners' other income.
4. A seller realizes a loss on the sale of an asset if the amount received for the asset is less than the basis of the asset in the seller's hands.
5. An individual uses the standard deduction when the sum of his or her itemized deductions after all limitations are applied does not exceed the standard deduction.

6. A deduction *for* adjusted gross income is more valuable than an equal amount of deduction *from* adjusted gross income because many of deductions *from* AGI have some limitation imposed on their deductibility based on AGI. The deductions for AGI generally are not subject to any reduction but they do reduce the amount of AGI before the limitations on deductions *from* AGI are imposed—meaning the limitations based on AGI are smaller. In addition, deductions *for* AGI are allowed to be deducted regardless of the taxpayer's filing status; deductions *from* AGI are only valuable if they exceed the taxpayer's standard deduction.
7. The intermediate income concept of adjusted gross income provides a number that can be used as a limit for some itemized deductions, as a threshold minimum for the deduction of other itemized deductions, and as a basis for determining the phase-out of other benefits.
8. The owners of a limited liability company are not liable for the general debts of the company. The general partners in a limited liability partnership are personally liable for the general debts of the partnership.
9. The alternative minimum tax is designed to ensure that higher income taxpayers pay some amount of income tax. The tax base on which the tax is levied is broadened by including certain income items that are exempt from tax for regular tax purposes and disallowing certain regular tax deductions.
10. The two fiduciary entities are the trust and the estate. A trust is created by a grantor who places assets in trust for the benefit of another person. A trustee manages the trust assets. An estate is created anytime a person who owns or has an interest in assets subject to estate taxes dies.
11. Wealth taxes are those taxes levied on the value of property owned by a taxpayer. Examples include real estate taxes, tangible taxes, intangible taxes, and inventory taxes.
Wealth transfer taxes are those taxes levied on the value of property transferred to another. Examples are the gift, estate, and inheritance taxes.
Consumption taxes are taxes levied on the value of goods or services that are purchased for consumption. Examples include sales, use, excise, and value added taxes.
12. The tax rate in a progressive system of taxation increases at a greater rate than the rate of increase in income. The higher the income, the greater the percentage of taxes paid.
The tax rate in a proportional system of taxation increases at the same rate as the rate of increase in income. The percentage of taxes paid would be the same over all income levels.
The tax rate in a regressive system of taxation increases at a slower rate than the rate of increase in income. The higher the income, the smaller the percentage of taxes paid.
13. A sales tax is levied on a purchase at the point of sale regardless of the state of residence of the purchaser. A use tax is levied on a purchased item brought into a different state for use when a sales tax is not paid by the purchaser in the state where the item was purchased. Normally the sales and use taxes in a specific state are levied at identical rates.
14. Certainty—A taxpayer knows what the tax consequences of a transaction will be when the transaction is undertaken.
Equity—The tax is fair relative to the taxpayer's level of income and circumstances.
Economy—The costs of administering and complying with the tax are small relative to the amount of taxes collected.
Convenience—The payment of taxes is simple and easy.

Problems: Provide numerical solutions for each of the following.

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Note to Instructor: Problems 4, 5, 11, 12, and 15 require the use of individual tax rate schedules; problems 3, 6, 7, 8, 10, 12, and 15 require the use of the corporate tax rate schedule.

1. Janis purchased an asset for \$40,000. During the five years she owned the asset she deducted \$30,000 of depreciation expense and spent \$5,000 on a major improvement. Determine Janis's gain or loss on the sale of the asset for: a. \$19,000; b. \$8,000
2. Conrad sold an asset for \$27,000. The asset originally cost \$98,000 and depreciation deductions on the asset were \$59,000. What is Conrad's gain or loss on the sale of the asset?
3. The Walstore Shoe Market had \$1,875,000 of shoe sales and its cost for these shoes was \$688,000. In addition, the Shoe Market received \$5,000 of corporate bond interest and \$6,000 of interest on State of California bonds. It paid \$512,000 in salaries and had \$542,000 of other operating expenses. What is Shoe Market's taxable income? What is its income tax liability?
4. Walter is married, files a joint return, and has three dependent children. If his adjusted gross income is \$64,000 and he has \$6,000 in itemized deductions, what is his taxable income? What is his income tax liability?
5. Susie is single, has salary income of \$26,000, and \$6,000 of itemized deductions. What is her taxable income? What is her income tax liability?
6. Cragen Corporation has gross income of \$625,000 and operating expenses of \$418,000. What is its taxable income? What is its income tax liability?
7. Zenith Corporation has \$900,000 of gross income and \$720,000 of operating expenses. It has alternative minimum taxable income of \$520,000. What is its alternative minimum tax?
8. Allred Corporation has taxable income of \$467,000 and a general business credit of \$46,000. Determine the corporation's refund or net tax due if it made estimated tax payments of \$80,000.
9. Harold is a 40 percent partner in HDT Partnership. At the beginning of the year, his partnership interest basis was \$20,000. The partnership had net income of \$58,000 for the year and it made an \$8,000 distribution to Harold. What is Harold's basis at the end of the year?
10. Darden Corporation has taxable income of \$420,000. If it distributes all of its after-tax income to its sole shareholder who is in the 35 percent marginal tax bracket, what is the total tax burden on this \$420,000 of income?
11. Chloe and Bill plan to marry either immediately before or immediately after year-end. Chloe's taxable income for 2011 is \$89,000 and Bill's is \$86,000 before their exemptions and deductions. Neither has any dependents nor itemized deductions. Would they have a marriage penalty or a marriage benefit if they married at the end of 2011?
12. Karen, single with no dependents, wants to set up a business. She will use either a sole proprietorship or incorporate as a regular corporation. She expects the business to earn \$45,000 after all expenses and payments to Karen except for federal taxes. Karen will take \$25,000 from the business for living expenses (as a distribution from a sole proprietorship or a salary from a corporation). Considering only income taxes for 2011, should she establish the business as a C corporation or as a sole proprietorship?

13. Joe is in the 28 percent marginal tax bracket. He has \$50,000 to invest. He can invest in taxable bonds paying 5 percent interest or tax-exempt bonds paying 3.75 percent interest. Which bonds should he invest in?
14. Carlyle needs to borrow some money for some unexpected bills. He can get a home equity loan at 8 percent interest for which the interest is deductible. Alternatively, he can borrow on his life insurance at 5 percent, but the interest is not deductible. Which is his best alternative if his marginal tax rate is 35 percent?
15. Sylvester is single and has no dependents. His sole proprietorship averages net income of \$125,000. He needs \$50,000 per year to live on. If he incorporates his business, would he pay more or less in total income taxes if he takes a salary of \$50,000 for his living expenses? (Consider only income taxes.)

Test Bank Answers: Problems

1. Adjusted basis = $\$40,000 - \$30,000 + \$5,000 = \$15,000$
 - a. $\$19,000 - \$15,000 = \$4,000$ gain
 - b. $\$8,000 - \$15,000 = \$7,000$ loss
2. Adjusted basis = $\$98,000 - \$59,000 = \$39,000$; $\$27,000 - \$39,000 = \$12,000$ loss
3. Taxable income = $\$1,875,000 - \$688,000 + \$5,000$ interest - $\$512,000$ salaries - $\$542,000$ expenses = $\$138,000$
Income tax = $(\$50,000 \times .15) + (\$25,000 \times .25) + (\$25,000 \times .34) + (\$38,000 \times .39) = \$37,070$
4. Taxable income = $\$64,000 - (5 \times \$3,700)$ exemptions - $\$11,600$ standard deduction = $\$33,900$
Income tax = $(\$17,000 \times .10) + [(\$33,950 - \$17,000) \times .15] = \$1,700 + 2,535 = \$4,235$
5. Taxable income = $\$26,000 - \$3,700 - \$6,000 = \$16,300$
Income tax = $(\$8,500 \times .10) + [(\$16,300 - \$8,500) \times .15] = \$850 + \$1,170 = \$2,020$
6. Taxable income = $\$625,000 - \$418,000 = \$207,000$
Income tax = $(\$50,000 \times .15) + (\$25,000 \times .25) + (\$25,000 \times .34) + (\$107,000 \times .39) = \$63,980$
7. Tentative alternative minimum tax = $\$520,000 \times .20 = \$104,000$
Taxable income = $\$900,000 - \$720,000 = \$180,000$. Income tax = $(\$50,000 \times .15) + (\$25,000 \times .25) + (\$25,000 \times .34) + (\$80,000 \times .39) = \$53,450$
Alternative minimum tax - $\$104,000 - \$53,450 = \$50,550$
8. Income tax = $\$467,000 \times .34 = \$158,780$; $\$158,780 - \$46,000 - \$80,000 = \$32,780$ tax due
9. $\$20,000 + .40 (\$58,000) - \$8,000 = \$35,200$ basis
10. $\$400,000 \times .34 = \$136,000$ corporate tax. $(\$400,000 - \$136,000) \times .15 = \$39,600$ individual tax. Total tax = $\$136,000 + \$39,600 = \$175,600$.
11. As single taxpayers:
Chloe's taxable income: $\$89,000 - \$3,700 - \$5,800 = \$79,500$. Bill's taxable income: $\$86,000 - \$3,700 - \$5,800 = \$76,500$.

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Chloe's income tax: $(\$8,500 \times .10) + (\$26,000 \times .15) + (\$45,000 \times .25) = \$16,000$

Bill's income tax: $(\$8,500 \times .10) + (\$26,000 \times .15) + (\$42,000 \times .25) = \$15,250$

Total tax as single taxpayers: $\$16,000 + \$15,250 = \$31,250$

As a married couple:

Taxable income: $\$89,000 + \$86,000 - (2 \times \$3,700) - \$11,600 = \$156,000$

Their income tax: $(\$17,000 \times .10) + (\$52,000 \times .15) + (\$70,350 \times .25) + (\$16,650 \times .28) = \$31,749.50$

If they married, they would have a marriage penalty of $\$499.50$ ($\$31,749.50 - \$31,250.00$).

12. As a C corporation: Income tax on corporation = $\$45,000 \times .15 = \$6,750$. Tax on $\$25,000$ salary: taxable income = $\$25,000 - \$5,800 - \$3,700 = \$15,500$; income tax = $(\$8,500 \times .10) + (\$7,000 \times .15) = \$1,900$; total tax = $\$6,750 + \$1,900 = \$8,650$.

As a sole proprietorship, Karen would be taxed on $\$70,000$ of income ($\$45,000 + \$25,000$).

Taxable income = $\$70,000 - \$3,700 - \$5,800 = \$60,500$; income tax = $(\$8,500 \times .10) + (\$26,000 \times .15) + (\$26,000 \times .25) = \$11,250$.

Based on income taxes alone, Karen should incorporate as she will pay $\$2,600$ ($\$11,250 - \$8,650$) less in taxes.

13. $[.05 \times (1 - .28)] = .036$. Joe should invest in the tax-exempt bonds.

14. $[.08 \times (1 - .35)] = .052$; Carlyle should borrow on his insurance as the interest rate is lower.

15. As a sole proprietorship:

Taxable income: $\$125,000 - \$3,700 - \$5,800 = \$115,500$;

Income tax: $\$8,500 \times .10 + (\$26,000 \times .15) + (\$49,100 \times .25) + (\$31,900 \times .28) = \$25,957$

As a corporation:

Corporate taxable income: $\$125,000 - \$50,000 = \$75,000$;

Income tax: $(\$50,000 \times .15) + (\$25,000 \times .25) = \$13,750$;

Sylvester's taxable income: $\$50,000 - \$3,700 - \$5,800 = \$40,500$;

Income tax: $(\$8,500 \times .10) + (\$26,000 \times .15) + (\$6,000 \times .25) = \$6,250$

Total tax: $\$6,250 + \$13,750 = \$20,000$.

If he incorporates, Sylvester will save $\$5,957$ ($\$25,957 - \$20,000$) in tax

Other Objective Questions

1. Below is a list of items that are found in the tax models. Use **C** to identify items only found in the corporate tax model; use **I** to identify those items only found in the individual tax model; use **B** to identify those items found in both models.

_____ a. Gross income tax liability

_____ f. Gross income

_____ b. Tax credits

_____ g. Gross revenue

_____ c. Taxable income

_____ h. Personal exemption

_____ d. Standard deduction

_____ i. Cost of goods sold

_____ e. Adjusted gross income

_____ j. Total income

2. Identify the following items with an **R** if it is a deduction **For** adjusted gross income. Identify with an **M** if it is a deduction **From** adjusted gross income.

- | | |
|----------------------------------|--|
| _____ a. Moving expenses | _____ f. State income taxes |
| _____ b. Medical expense | _____ g. Gambling losses |
| _____ c. Charitable contribution | _____ h. Health savings account contribution |
| _____ d. Alimony paid | _____ i. Contribution to a pension plan |
| _____ e. Student loan interest | _____ j. Theft loss |

Test Bank Answers: Other Objective Questions

1. a. B b. B c. B d. I e. I f. B g. C h. I i. C j. C
 2. a. R b. M c. M d. R e. R f. M g. M h. R i. R j. M

Multiple Choice: Select the best answer for each of the following questions.

Note to Instructor: Questions 21 and 40 require the use of the corporate tax rate schedule; question 22 requires the use of the individual tax rate schedules; question 41 requires use of the trust income tax rate schedule.

1. Which of these persons never pays taxes directly?
 - a. Individual
 - b. Partnership
 - c. C corporation
 - d. Fiduciary

2. Which of the following nominal rates does not apply to a C corporation?
 - a. 10%
 - b. 15%
 - c. 25%
 - d. 35%

3. Which of these entities is taxed directly on its income?
 - a. Limited Liability Company
 - b. C Corporation
 - c. Partnership
 - d. Sole Proprietorship

4. Which of the following types of taxes is not levied by the federal government?
 - a. Excise tax
 - b. Income tax
 - c. Value added tax
 - d. Gift tax

5. Which of the following is a tax?
 - a. Dog license
 - b. Parking fine
 - c. Water usage fee

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- d. Import duty
6. By what right does the U.S. levy an income tax on individuals?
- a. The 13th Amendment to the Constitution
 - b. Public Law 1913
 - c. The 16th Amendment to the Constitution
 - d. An Act of Congress ratified by the states
7. When was the last time the Internal Revenue Code was recodified?
- a. 1913
 - b. 1939
 - c. 1954
 - d. 1986
8. Which of the following is an objective of taxation?
- a. Raise revenue
 - b. Foster social goals
 - c. Stimulate the economy
 - d. All of the above
 - e. None of the above
9. Which of the following best describes horizontal equity?
- a. All taxpayers should pay some taxes on their incomes
 - b. As income increases, taxes should increase
 - c. Persons with equal incomes should pay the same amount of taxes
 - d. A person with capital gains should pay less tax than a person with the same amount of salary income
10. Which of the following best describes vertical equity?
- a. All taxpayers should pay some taxes on their incomes
 - b. As income increases, taxes should increase
 - c. Persons with equal incomes should pay the same amount of taxes
 - d. A person with capital gains should pay less tax than a person with the same amount of salary income
11. Which of the following is not a business organization for tax purposes?
- a. Estate
 - b. Limited liability partnership
 - c. C corporation
 - d. Sole proprietorship
12. Which of the following is not a deduction FROM adjusted gross income?
- a. Standard deduction
 - b. Personal exemption
 - c. Tax credit
 - d. Itemized deduction
13. What is an individual's maximum annual deduction for capital losses?
- a. \$3,000
 - b. An amount equal to capital gains plus \$3,000
 - c. \$10,000

- d. Individuals cannot deduct capital losses
14. What is a corporation's annual deduction for capital losses?
- a. \$3,000
 - b. An amount equal to capital gains only
 - c. \$10,000
 - d. Corporations cannot deduct capital losses
15. Which of the following is never included in gross income?
- a. Loss on stock sale
 - b. Social security benefits
 - c. Unemployment benefits
 - d. Gifts
16. What is the gain or loss on the sale of an asset for \$68,000 if the asset cost \$185,000, depreciation expense deducted was \$124,000, and there was a \$19,000 major addition to the asset?
- a. \$0
 - b. \$12,000 loss
 - c. \$7,000 gain
 - d. \$117,000 loss
17. Which of the following is normally not included in gross income?
- a. Cash dividend
 - b. Corporate bond interest income
 - c. Stock dividend
 - d. All are included in gross income
 - e. None are included in gross income
18. 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
19. Wilma and Barney are married and have 4 dependent children. What is the total amount of their personal and dependency exemptions for 2011?
- a. \$7,400
 - b. \$14,800
 - c. \$22,200
 - d. \$33,300
20. Sara is single and has no dependents. What is the total amount of her standard deduction and personal exemption for 2011?
- a. 0
 - b. \$3,700
 - c. \$5,800
 - d. \$9,500
21. What is the marginal tax rate for a corporation with \$110,000 of taxable income?

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- a. 15%
 - b. 25%
 - c. 34%
 - d. 39%
22. What is the marginal tax rate for a single individual with \$60,000 of taxable income?
- a. 15%
 - b. 25%
 - c. 28%
 - d. 33%
23. What is the earliest year to which a corporation can carry a net operating loss realized in 2011?
- a. 2010
 - b. 2009
 - c. 2008
 - d. 2007
24. What is a corporation's alternative minimum tax rate?
- a. 15%
 - b. 20%
 - c. 26%
 - d. 28%
25. Which of the following is not a tax credit allowed a corporation?
- a. Foreign tax credit
 - b. Education credit
 - c. Investment tax credit
 - d. Orphan drug credit
26. Which of the following business entities does not file a separate tax return to report business operations?
- a. Sole proprietorship
 - b. S corporation
 - c. C corporation
 - d. Partnership
27. Jason purchased a 20 percent interest in JKL Partnership for \$20,000 at the beginning of the year. At year-end, the partnership reported net income of \$15,000 and distributed \$2,000 cash to Jason. What is Jason's year-end basis?
- a. \$20,000
 - b. \$21,000
 - c. \$23,000
 - d. \$33,000
28. Which of the following business entities has no provision that limits some or all of the liability of the owner?
- a. C Corporation
 - b. Sole Proprietorship
 - c. S Corporation
 - d. Limited Liability Company

29. Terri owns a 50 percent interest in the TT Partnership. At the beginning of the year, her basis in her partnership interest was \$75,000. The partnership reports a \$40,000 loss for the year and distributes \$4,000 cash to Terri. What is her basis in her partnership interest at the end of the year?
- a. \$111,000
 - b. \$75,000
 - c. \$51,000
 - d. \$31,000
30. Which of the following is not a characteristic of an S corporation?
- a. Owners have limited liability
 - b. The corporation is taxed directly on operating income
 - c. The corporation can have no more than 100 shareholders
 - d. Shareholders must consent to the S election by the corporation
31. In which of the following entities may an owner-employee benefit from all employee tax-free fringe benefits?
- a. C Corporation
 - b. S Corporation
 - c. Partnership
 - d. Sole Proprietorship
32. Which of the following is not a characteristic of both S corporations and partnerships?
- a. Both are flow through entities
 - b. Owners increase basis for debt undertaken by S corporation or partnership
 - c. Both forms limit owner's participation in tax-free fringe benefits
 - d. Owner's increase basis for gains and decrease basis for losses
33. Which of the following is a type of wealth tax?
- a. A tax on a person's salary
 - b. A tax on stocks owned by the taxpayer
 - c. A tax on purchases made at a department store
 - d. A tax on property given to a grandchild
34. John earns \$25,000 and pays \$2,000 in taxes. Marcy earns \$60,000 and pays \$4,000 in taxes. How would you characterize this tax system?
- a. A flat tax system
 - b. A proportional system
 - c. A regressive system
 - d. A progressive system
35. The Mercury Corporation must decide whether to invest in some new machinery for its business. Which tax rate is the most relevant for making this decision?
- a. The average tax rate
 - b. The marginal tax rate
 - c. The nominal tax rate
 - d. The effective tax rate
36. Which of the following are included in Adam Smith's characteristics of a good tax?
- a. Certainty
 - b. Economy
 - c. Convenience

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- d. All are included
e. None are included
37. Ted owns 20% of Genco (a C corporation) that had taxable income of \$100,000 and paid a total of \$50,000 in dividends to its shareholders. Ted also owns a 10% of Subco (an S corporation) that had \$100,000 of taxable income and distributed a total of \$60,000 to its shareholders. How much must Ted include in his gross income as a result of being a shareholder in these two corporations?
- a. \$16,000
b. \$20,000
c. \$26,000
d. \$30,000
38. Lisa invested \$18,000 in Carson (a C corporation) for a 10% interest and also invested \$30,000 in Samson (an S corporation) for a 20% interest. For the current year, Carson had a taxable loss of \$80,000 and Samson had a taxable loss of \$60,000. No distributions were made. If Lisa is in the 35% marginal tax bracket, what is the maximum that she would be able to save in taxes in the current year as a result of these corporate losses?
- a. \$16,800
b. \$12,000
c. \$7,000
d. \$4,200
e. \$2,800
39. Crystal invested \$8,000 cash in CRK Partnership for a 30% general partnership interest. In its first year of operations, CRK lost \$15,000. In its second year of operations, CRK lost an additional \$14,000. How much of the second year's losses can Crystal deduct?
- a. \$700
b. \$2,400
c. \$3,500
d. \$4,200
40. Hoku Corporation (a C corporation) had the following history of income and loss:
- | <u>Year</u> | <u>Income (Loss)</u> |
|-------------|----------------------|
| 2009 | \$40,000 |
| 2010 | \$70,000 |
| 2011 | (\$10,000) |
- How much of a tax refund can Hoku Corporation receive by carrying back its 2011 loss?
- a. \$1,500
b. \$2,500
c. \$3,500
d. None; it cannot carry its loss back
41. How much income tax must the Benton Trust pay in 2011 if its taxable income (after all deductions) is \$4,600?
- a. \$460
b. \$690
c. \$920
d. \$1,150

Test Bank Answers: Multiple Choice

1. b
2. a
3. b
4. c
5. d
6. c
7. c
8. d
9. c
10. b
11. a
12. c
13. b
14. b
15. d
16. b; $[\$68,000 - (\$185,000 - \$124,000 + \$19,000)] = (\$12,000)$
17. c
18. c; $[\$78,000 + \$4,000 + \$14,000 - \$4,000 = \$92,000]$
19. c; $[6 \times \$3,700 = \$22,200]$
20. d; $(\$5,800 + \$3,700 = \$9,500)$
21. d
22. b
23. b
24. b
25. b
26. a
27. b; $[\$20,000 + (.2 \times \$15,000) - \$2,000 = \$21,000]$
28. b
29. c; $[\$75,000 - (.5 \times \$40,000) - \$4,000 = \$51,000]$
30. b
31. a
32. b
33. b
34. c; $[\$2,000/\$25,000 = .08; \$4,000/\$60,000 = .0667]$
35. b
36. d
37. b; $[(.20 \times \$50,000) + (.10 \times \$100,000)]$
38. d; $[(\$60,000 \times .20) \times .35]$
39. c; $[\$8,000 - (\$15,000 \times .30) = \$3,500 \text{ basis at beginning of second year}] (\$14,000 \times .30 = \$4,200 \text{ but limited to } \$3,500 \text{ basis})$
40. a; $(\$10,000 \times .15 \text{ marginal tax bracket for 2009} = \$1,500)$
41. c; $[(\$2,300 \times .15) + (\$2,300 \times .25)] = \$920.$