

SWFT 2019 Comprehensive Volume

Chapter 3: Computing the Tax

End-of-Chapter Question, Exercise, and Problem Correlations

Comprehensive 41e (2018)	Comprehensive 42e (2019)	Comprehensive (2019) Learning Objectives	Exact Same	Revised	Brand New	Source Volume: Ind. Income Taxes 42e (2019) OR Corporations 42e (2019)	Source Volume Chapter	Source Volume Question, Problem, or Exercise #
Discussion Questions (DQ)								
DQ.03.01	DQ.03.01	LO1, 5, 8, 9		x		V1	3	DQ1
DQ.03.02	DQ.03.02	LO1	x			V1	3	DQ2
DQ.03.03	DQ.03.03	LO1	x			V1	3	DQ3
DQ.03.04	DQ.03.04	LO1, 8, 9		x		V1	3	DQ4
DQ.03.05	DQ.03.05	LO2		x		V1	3	DQ05
DQ.03.06	DQ.03.06	LO2, 3, 5		x		V1	3	DQ6
DQ.03.07	DQ.03.07	LO4		x		V1	3	DQ07
DQ.03.08	DQ.03.08	LO4		x		V1	3	DQ08
DQ.03.09	DQ.03.09	LO4		x		V1	3	DQ09
DQ.03.10	DQ.03.10	LO4		x		V1	3	DQ10
DQ.03.11	DQ.03.11	LO4		x		V1	3	DQ11
DQ.03.12	DQ.03.12	LO4	x			V1	3	DQ12
DQ.03.13	DQ.03.13	LO4, 5		x		V1	3	DQ14
DQ.03.14	DQ.03.14	LO6		x		V1	3	DQ16
DQ.03.15	DQ.03.15	LO7		x		V1	3	DQ17
DQ.03.16	DQ.03.16	LO8	x			V1	3	DQ18
DQ.03.17	delete							
DQ.03.18	delete							
DQ.03.19	delete							
Computational Exercises (EX)								
EX.03.20	EX.03.17	LO2	x			V1	3	EX20
EX.03.21	EX.03.18	LO2		x		V1	3	EX21
EX.03.22	EX.03.19	LO5, 9		x		V1	3	EX22
EX.03.23	EX.03.20	LO6		x		V1	3	EX23
EX.03.24	EX.03.21	LO7		x		V1	3	EX24
EX.03.25	EX.03.22	LO8	x			V1	3	EX25
EX.03.26	EX.03.23	LO8	x			V1	3	EX26
EX.03.27	delete							
Problems (PR)								
PR.03.28	PR.03.24	LO1		x		V1	3	PR27

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South-Western Federal Taxation 2019 Edition Series End-of-Chapter Question, Exercise, and Problem Correlations:
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PR.03.29	PR.03.25	LO1, 8		x		V1	3	PR28
PR.03.30	PR.03.26	LO1		x		V1	3	PR29
PR.03.31	PR.03.27	LO2		x		V1	3	PR30
PR.03.32	PR.03.28	LO4	x			V1	3	PR31
PR.03.33	PR.03.29	LO3, 4		x		V1	3	PR32
PR.03.34	PR.03.30	LO3, 4		x		V1	3	PR34
PR.03.35	PR.03.31	LO4		x		V1	3	PR35
PR.03.36	PR.03.32	LO4, 9		x		V1	3	PR36
PR.03.37	PR.03.33	LO5		x		V1	3	PR43
PR.03.38	PR.03.34	LO4, 5		x		V1	3	PR44
PR.03.39	PR.03.35	LO4, 9		x		V1	3	PR38
PR.03.40	PR.03.36	LO1, 2, 3, 4, 5, 6		x		V1	3	PR39
PR.03.41	PR.03.37	LO1, 2, 3, 4, 5, 6		x		V1	3	PR40
PR.03.42	PR.03.38	LO5		x		V1	3	PR41
PR.03.43	PR.03.39	LO5, 6, 9		x		V1	3	PR42
PR.03.44	PR.03.40	LO3, 7		x		V1	3	PR37
PR.03.45	PR.03.41	LO1, 3, 7		x		V1	3	PR46
PR.03.46	PR.03.42	LO8		x		V1	3	PR48
PR.03.47	PR.03.43	LO9		x		V1	3	PR50
PR.03.48	delete							
PR.03.49	delete							
PR.03.50	delete							
PR.03.51	delete							
PR.03.52	delete							
Cumulative (Tax Return) Problems (CP)								
CP.03.53	CP.03.44			x		V1	3	CP51
CP.03.54	CP.03.45			x		V1	3	CP52
Research Problems (RP)								
RP.03.01	RP.03.01		x			V1	3	RP2
RP.03.02	RP.03.02		x			V1	3	RP1
RP.03.03	RP.03.03		x					
RP.03.04	RP.03.04		x					
RP.03.05	RP.03.05		x					
RP.03.06	RP.03.06		x					

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RP.03.07	RP.03.07		x					
Becker CPA Review Questions (BCPA)								
RCPA	BCPA.03.01				x	V1	3	BCPA1
RCPA	BCPA.03.02				x	V1	3	BCPA4
RCPA	BCPA.03.03				x	V1	3	BCPA5

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CHAPTER 3
COMPUTING THE TAX
SOLUTIONS TO PROBLEM MATERIALS

DISCUSSION QUESTIONS

1. (LO 1, 5, 8, 9)
 - a. Gambling losses are deductible only to the extent of gambling gains.
 - b. Barring an exception for dependents, no deduction is allowed for payment of some other person's expenses.
 - c. A Federal income tax refund is not income because it is an adjustment of a prior expenditure that was not deductible.
 - d. Fines and penalties are not deductible. It does not matter whether they stem from personal or business activities.
 - e. Political contributions are not deductible. It does not matter that the contribution resulted in a benefit to Addison.
 - f. Borrowing money does not result in income.
 - g. Gains and losses from the sale of personal use assets cannot offset each other. The gains are taxable, and the losses are not deductible.
 - h. No deduction can be claimed for income tax purposes for the funeral expenses.
 - i. Premiums on personal life insurance policies are not deductible even when paid on behalf of a dependent.

2. (LO 1) The items included in gross income are parts b., c., f., g., h., and i. Explanations follow.
 - a. The taxpayer still owns the stock. Because there is no realization event, there is no gross income.
 - b. The police officer has earned income, and it is included in gross income.
 - c. If the jewelry was sold at a gain, it is included in the mother's gross income (this assumes that the son sold it for his mother). If sold at a loss, it is an unallowable loss on a personal use asset.
 - d. Child support payments received are not included in gross income.
 - e. The refunded deposit is a nontaxable return of capital.
 - f. Interest income on corporate bonds is included in gross income.
 - g. The baseball player has earned income, and it is included in gross income.

- h. Tips are earned income and included in gross income.
 - i. Sale of property at a gain, even if the property is personal use property, is included in gross income [less the cost (basis) of the tickets]. If a personal use asset is sold at a loss, the loss is not included in gross income.
 - j. A gift is an exclusion item, so it is not included in gross income. The grandmother may owe gift tax.
3. (LO 1) The treatment of the stated items follows (with the Code Section also noted).

Exclusions	Inclusions (i.e., <i>not</i> excluded from income)
b. Damages for personal injury (§ 104).	a. Alimony received (§ 71).
d. Repayment of a loan does not involve income. Note that any interest received is income.	c. Prizes are taxable (§ 74).
e. Life insurance proceeds (§ 101).	g. Jury duty fees are income and not excluded (§ 61). Note that if the taxpayer must repay the income to his employer, a deduction for AGI should be allowed (§ 62).
f. Interest on municipal bonds (§ 103).	h. Income from any source derived (even if illegal) is taxable unless excluded (§ 61).
	i. A whistleblower award is taxable, and no exclusion applies (§ 61).
	j. Found money is included in income (§ 61 and Reg. § 1.61-14).

4. (LO 1, 8, 9) The sale of the stock investment will result in a capital loss. The capital loss will offset any capital gain, and any excess (up to \$3,000) can be applied against ordinary income to arrive at AGI. The contribution to the traditional IRA is a deduction *for* AGI. Thus, both the capital loss and the IRA contribution reduce AGI. By reducing AGI, the Polks will increase their allowable medical and casualty deductions. [The medical deduction is the excess over 7.5% of AGI, whereas the casualty loss is the excess over 10% of AGI.]
5. (LO 2)
- a. If the taxpayer is 65 or over, an additional standard deduction is available. This might favor the standard deduction choice.
 - b. If the taxpayer is blind, an additional standard deduction is available. This might favor the standard deduction choice.
 - c. If the taxpayer is still making house payments, the interest expense deduction on the home mortgage and real property taxes may make itemizing more attractive.
 - d. Because the amount of the standard deduction varies depending on filing status, this factor is highly relevant to the taxpayer's decision.
 - e. If married persons file separate returns, the returns must be consistent. Thus, if one spouse itemizes, the other spouse also must itemize.

- f. Because a large casualty loss seems probable, this increases the advantage to be gained by itemizing.
 - g. The number of dependents has no effect on whether a taxpayer itemizes or chooses the standard deduction option.
6. (LO 2, 3, 5)
- a. The filing requirements for persons being claimed as dependents by others are more complex than those applicable to regular taxpayers. The requirements depend on whether the dependent has only earned income, only unearned income, or both earned and unearned income and on the amount of gross income.
 - b. In 2018, the basic standard deduction is the greater of \$1,050 or earned income plus \$350. The total basic standard deduction allowed, however, cannot exceed \$12,000 (the 2018 standard deduction for single taxpayers).
 - c. The 2018 additional standard deduction of \$1,600 is allowed in full since he is 78 (age 65 or over).
7. (LO 4) The son is not a qualifying child due to the age requirement. He probably is not a qualifying relative because of the gross income test. The cousin apparently meets all of the requirements of the qualifying relative category.
8. (LO 4)
- a. Heather is a qualifying child to all three parties.
 - b. As the parent, the mother takes precedence. If the mother waives the dependency exemption, the exemption goes to whoever has the higher AGI between the grandmother and the uncle.
9. (LO 4) An ex-spouse can qualify as a dependent under the member-of-the-household rule for the qualifying relative category except in the year of the divorce. This explains Caden's actions with reference to Lily for years 2017 and 2018.
10. (LO 4) Under a multiple support agreement, Isabella, Emma, or Jacob can claim either (or both) of their parents as dependents. Jacob is suggesting that his sisters each claim one of their parents as a dependent via a multiple support agreement.
11. (LO 4) Mark will prevail because custody (not support) controls in a divorce setting.
12. (LO 4) Mario should encourage his parents and two aunts to make the move to Mexico. To be claimed as a dependent, the individual must be a U.S. citizen, a U.S. resident, or a resident of Canada or Mexico for some part of the calendar year in which the taxpayer's year begins.
13. (LO 4, 5)
- a. If the taxpayer meets the support test, he can claim head-of-household filing status as long as at least one of his parents is his dependent. This seems unlikely, however, because their purchase of an automobile is part of their support. Thus, at a minimum, the taxpayer must have contributed *more than* \$62,000 toward total support.
 - b. Is the stay in the nursing home temporary or permanent? If the father can be expected to return to the taxpayer's home, she qualifies for head-of-household filing status. If the stay is permanent, then she would need to pay more than half of the nursing home costs.
 - c. Head-of-household filing status is available because the son is a dependent under the qualifying child category.

- d. Head-of-household filing status is not available. Due to the *age* test, the son is not a qualifying child. (It is assumed that the son is not disabled or a full-time student.) Due to the *gross income* test, the son does not satisfy the requirements of a qualifying relative.
- e. Normally, a married taxpayer cannot use head-of-household filing status. However, if the taxpayer qualifies as an abandoned spouse, this filing status is appropriate.
- f. Head-of-household filing status is not available. The daughter is not a member of the taxpayer's household.
- g. Head-of-household status is not available because the friend, although a dependent, does not meet the relationship test.
14. (LO 6)
- a. The Tax Table method is structured on a taxable income range (e.g., \$30,000 to \$30,050). Using the Tax Table method, the tax is determined on the midpoint (e.g., \$30,025) of the range. Thus, if the taxable income is more or less than this amount, the tax will differ.
- b. The Tax Table *must be used* except in certain limited situations (e.g., taxable income of \$100,000 or more).
15. (LO 7)
- a. The kiddie tax does not apply to earned income.
- b. The kiddie tax does not apply unless unearned income exceeds \$2,100 (in 2018 and 2017).
- c. The kiddie tax does not apply. The age coverage is under 19 or a full-time student under age 24.
- d. The kiddie tax does not apply if the child is married *and* files a joint return.
16. (LO 8) Gain on the sale of the stock is a short-term capital gain and is taxed at ordinary income rates. The gain on the sale of the land and houseboat should be combined. As long-term capital gain, the total is subject to tax at preferential rates—20%, 15%, or 0%. The loss is personal and, therefore, nondeductible.

COMPUTATIONAL EXERCISES

17. (LO 2) Sam's \$2,100 is *unearned* income. Thus, he is allowed the minimum standard deduction of \$1,050. Abby's \$2,100 is *earned* income, so she is allowed a \$2,450 [$\$2,100$ (earned income for the year) + \$350] standard deduction.
18. (LO 2)
- a. \$1,750. When filing her own tax return, Margie is limited to the greater of \$1,050 or \$1,750 (the sum of the earned income for the year plus \$350).
- b. \$26,600. A taxpayer who is age 65 or over or blind in 2018 qualifies for an additional standard deduction of \$1,300 or \$1,600, depending on filing status. Ruby and Woody's standard deduction is \$24,000 (married filing jointly) plus the additional \$1,300 for Ruby being age 65 or older and another \$1,300 for Woody's being age 65 or older.
- c. \$2,650. When filing her own tax return, Shonda is limited to the greater of \$1,050 or \$850 (the sum of the \$500 of earned income for the year plus \$350). This limitation applies only to the "basic" standard deduction. A dependent who is 65 or older or blind is also allowed the additional standard deduction amount on his or her own return. Therefore, Shonda's standard deduction is \$2,650 ($\$1,050 + \$1,600$).

- d. \$0. Frazier is ineligible to use the standard deduction and therefore must itemize because he is married filing a separate return when his spouse itemizes deductions.
19. (LO 5, 9)
- a. If either spouse itemizes deductions *from* AGI, the other spouse also must itemize. Consequently, Paul's suggestion is not proper.
- b. Presuming that they file separately and itemize, their total deduction is \$13,600 (\$13,200 + \$400). If they claim the standard deduction, \$24,000 (\$12,000 + \$12,000) is allowed. The same result takes place on a joint return. For tax purposes, therefore, the standard deduction is the better choice.
20. (LO 6) The basic tax rate structure is progressive, with current rates ranging from 10% to 37%. As 2018 Tax Tables have not yet been released, the solution is determined using the 2018 Tax Rate Schedules (Appendix A). Several terms are used to describe tax rates. The rates in the Tax Rate Schedules are often referred to as statutory (or nominal) rates. The marginal rate is the highest rate applied in the tax computation for a particular taxpayer. The average rate is equal to the tax liability divided by taxable income.
- a. **Chandler:** Using the rates for a single taxpayer, her tax liability is \$17,042.¹ Her marginal rate is 24%. Her average rate is 17.98% (\$17,042/\$94,800).
- b. **Lamar:** Using the rates for filing as a head of household, his tax liability is \$7,099.² His marginal rate is 22%. His average rate is 12.4% (\$7,099/\$57,050).
- ¹ $\$94,800 - \$82,500 = \$12,300.$
 $\$12,300 \times 24\% = \$2,952.$
 $\$2,952 + \$14,089.50 = \$17,041.50,$ rounded to \$17,042.
- ² $\$57,050 - \$51,800 = \$5,250.$
 $\$5,250 \times 22\% = \$1,155.$
 $\$1,155 + \$5,944 = \$7,099.$
21. (LO 7)
- a. In 2018, net unearned income of a dependent child is computed as follows:
- Unearned income
 Less: \$1,050
 Less: The greater of
- \$1,050 of the standard deduction *or*
 - the amount of allowable itemized deductions directly connected with the production of the unearned income
- Equals: Net unearned income
- Simon's net unearned income is \$2,700, computed as follows:
- Unearned income: \$4,800
 Less: \$1,050
Less: \$1,050 of the standard deduction
 Equals: \$2,700

- b. Simon's taxable income is \$3,750 (\$4,800 less his \$1,050 standard deduction). As his taxable income exceeds \$3,600, we determine his tax liability as follows:

1. Taxable income (TI) = \$3,750.
2. Earned taxable income (ETI) = TI – NUI = \$1,050 (\$3,750 – \$2,700).
3. Simon's tax liability is \$396, determined as follows:

- (a) Earned taxable income + \$2,550 (taxed using the Single Tax Rate Schedule):

$$\text{ETI} + \$2,550 = \$1,050 + \$2,550 = \$3,600 \times 10\% \qquad \qquad \qquad \$ 360$$

- (b) Net unearned income (NUI) – \$2,550 (taxed using the Estate and Trust Tax Rate Schedule, but ignoring the 10% tax bracket):

$$\text{NUI} - \$2,550 = \$2,700 - \$2,550 = \$150 \times 24\% \qquad \qquad \qquad \underline{\qquad 36}$$

$$\text{Total Tax Liability} \qquad \qquad \qquad \underline{\underline{\$ 396}}$$

22. (LO 8) The concept of realized gain or loss is expressed as follows: Amount realized from the sale – Adjusted basis of the property = Realized gain or loss. The amount realized is the selling price of the property less any costs of disposition (e.g., brokerage commissions) incurred by the seller. All realized gains are recognized (taxable) unless some specific part of the tax law provides otherwise. Generally, losses realized from the disposition of personal use property (property neither held for investment nor used in a trade or business) are not recognized.

The sale of the scooter results in a realized loss of \$150 (\$700 – \$550). The painting results in a realized gain of \$300 (\$1,200 – \$900). However, Rebecca only recognizes the gain on the painting (the scooter is a personal use asset, and the related loss is not allowed).

23. (LO 8) Individual taxpayers combine capital gains and losses in a specific netting process. To arrive at a net capital gain, capital losses must be taken into account. The capital losses are aggregated by holding period (short-term and long-term) and applied against the gains in that category. If excess losses result, they are then shifted to the category carrying the highest tax rate. A net capital gain will occur if the net long-term capital gain (NLTCG) exceeds the net short-term capital loss (NSTCL).

For individual taxpayers, net capital loss can be used to offset ordinary income of up to \$3,000 (\$1,500 for married persons filing separate returns). If a taxpayer has both short- and long-term capital losses, the short-term category is used first to arrive at the \$3,000. Any remaining net capital loss is carried over indefinitely until exhausted. When carried over, the excess capital loss retains its classification as short- or long-term.

Tamara has a net long-term capital gain of \$1,000 (\$2,000 + \$500 – \$1,500) and a short-term capital loss of \$4,100. When netted, the result is an overall net short-term capital loss of \$3,100. As a result, Tamara is allowed a \$3,000 deduction in the current year and has a \$100 short-term capital loss carryover to the following year.

PROBLEMS

24.	(LO 1)		
	a.	AGI	\$125,000
		Less: Itemized deductions	<u>(27,000)</u>
		Taxable income	<u>\$ 98,000</u>
	b.	AGI	\$ 80,000
		Less: Standard deduction (head of household)	<u>(18,000)</u>
		Taxable income	<u>\$ 62,000</u>
	c.	AGI	\$ 75,000
		Less: Standard deduction (surviving spouse)	<u>(24,000)</u>
		Taxable income	<u>\$ 51,000</u>
	d.	AGI	\$ 58,000
		Less: Standard deduction (head of household)	<u>(18,000)</u>
		Taxable income	<u>\$ 40,000</u>
	e.	AGI	\$ 64,000
		Less: Standard deduction (head of household)	<u>(18,000)</u>
		Taxable income	<u>\$ 46,000</u>

25.	(LO 1, 8)		
		Salary	\$ 85,000
		Interest on bonds	1,100
		Alimony received	6,000
		Capital gain	2,000
		IRA contribution	<u>(5,500)</u>
		AGI	\$ 88,600
		Standard deduction	<u>(12,000)</u>
		Taxable income	<u>\$ 76,600</u>

The alimony payments and bond interest are taxable. The gift is a nontaxable exclusion. The \$2,000 of the capital gain is taxable. Net gambling losses are not deductible.

26.	(LO 1)		
		Salary	\$ 80,000
		Interest on CD	2,000
		Dividend	<u>2,200</u>
		AGI	\$ 84,200
		Standard deduction (head of household)	<u>(18,000)</u>
		Taxable income	<u>\$ 66,200</u>

The interest (\$3,000) on the bonds is an exclusion (not taxable). Also excluded from gross income are the life insurance proceeds (\$200,000) and the inheritance (\$100,000). The loan repayment (\$5,000) is a nontaxable return of capital. Aiden chose *not* to itemize his deductions *from* AGI (\$9,700); the head-of-household standard deduction (\$18,000) provides a larger *from* AGI deduction.

27. (LO 2)
- \$12,000. Although $\$12,200$ (earned income) + $\$350 = \$12,550$, the amount allowed cannot exceed the standard deduction available in 2018 for single taxpayers.
 - \$5,050. $\$4,700$ (earned income) + $\$350$.
 - \$1,150. The greater of $\$1,050$ or $\$1,150$ [$\$800$ (earned income) + $\$350$].
 - \$1,050. The greater of $\$1,050$ or $\$850$ [$\$500$ (earned income) + $\$350$].
 - \$5,150. $\$3,200$ (earned income) + $\$350$ + $\$1,600$ (additional standard deduction).

28. (LO 4)

	Characteristic	Qualifying Child Test	Qualifying Relative Test
a.	Taxpayer's son reports gross income of \$7,000.	Gross income—Not Applicable	Gross income—Not Met
b.	Taxpayer's niece reports gross income of \$3,000.	Gross income—Not Applicable	Gross income—Met
c.	Taxpayer's uncle lives with him.	Relationship—Not Met	Relationship—Met
d.	Taxpayer's daughter is 25 and disabled.	Age—Met	Age—Not Applicable
e.	Taxpayer's daughter is age 18, reports gross income of \$8,000, and does not live with him.	Residence—Not Met Gross income—Not Applicable	Gross income—Not Met
f.	Taxpayer's cousin does not live with her.	Relationship—Not Met Residence—Not Met	Relationship—Not Met
g.	Taxpayer's brother does not live with her.	Residence—Not Met	Relationship—Met
h.	Taxpayer's sister has dropped out of school, is age 17, and lives with him.	Relationship—Met Residence—Met Age—Met	Relationship—Met
i.	Taxpayer's older nephew is age 23 and a full-time student.	Relationship—Met Age—Not Met	Relationship—Met
j.	Taxpayer's grandson lives with her and reports gross income of \$7,000.	Relationship—Met Residence—Met	Relationship—Met Gross Income—Not Met

29. (LO 3, 4)
- Two. Elton is a qualifying child, so his gross income does not matter. Trista is not a qualifying child—although a full-time student, she is not under age 24. However, Trista falls within the qualifying relative category. She passes the gross income test because the tuition portion of a scholarship is nontaxable.
 - One. Clint cannot qualify as a member of Audry's household in the year of the divorce. Olive meets the relationship test.
 - Two. Because Andy is a qualified child, he is not subject to the gross income test. Paige meets the gross income requirements of a qualifying relative.
 - One. As a qualifying child, Andy is still immune from the gross income test. In a community property situation, however, Paige is treated as having $\$4,200$ in gross income. Thus, she does not meet the gross income test and cannot be a qualifying relative.

30. (LO 3, 4)
- Three. The niece is in the qualifying child category. The cousin and son are not, due to the relationship and age tests. They both fall within the qualifying relative category.
 - Two. Both persons fall within the qualifying relative category. The stepmother meets the relationship test, and the family friend's son is a member of the taxpayer's household.
 - None. Helena is not a qualifying child under the exception to the citizenship or residency test. Raul is not her adoptive father.
 - Three. Two fall within the qualifying relative category, and it is assumed that each meets the gross income test. The mother- and brother-in-law satisfy the relationship test. Although the ex-husband is a member of the household, he can qualify except in the year of the divorce. The brother-in-law's age and non-student status have no bearing on the dependency issue.
31. (LO 4)
- Jenny is a qualifying child as to all three parties. Therefore, the father, uncle, and grandmother are eligible to claim her as a dependent.
 - In this tiebreaker situation, the father (as parent) takes precedence. If the father forgoes the exemption, the uncle is next in order of precedence, due to a higher AGI.
32. (LO 4, 9)
- Son, niece, and brother. The cousin and the family friend do not meet the relationship test.
 - No. The eligible parties can rotate the exemptions as they choose.
 - If the eligible person who is awarded the exemption also pays the medical expenses, that person can claim them.
33. (LO 5)
- Winston qualifies for head-of-household filing status as long as one parent is his dependent.
 - Winston must use single filing status. Except in the case of parents, head-of-household status requires that the dependent be a member of the taxpayer's household.
 - The dependent must meet the relationship test. Therefore, Winston must use single filing status.
 - Winston can qualify for head of household if the mother-in-law is his dependent. He does not meet the requirements of a surviving spouse because a mother-in-law is not a child.
 - Because Winston is still married, he cannot use head-of-household filing status. (He does not satisfy the requirements of an abandoned spouse—a mother-in-law is not a child.) Consequently, Winston must use married filing separately filing status.

34. (LO 4, 5)
- For year 1, Chloe's filing status is married filing jointly. Because she is the executor of Christopher's estate, she can consent on his behalf to file jointly. Being under 19 years of age, her son is a dependent as a qualifying child.
 - For year 2, Chloe's filing status is single. She is not a surviving spouse because she cannot claim Dylan as a dependent. Dylan is not a qualifying child (due to the age test) and is not a qualifying relative (due to the gross income test).
 - For year 3, Chloe's filing status is surviving spouse. She can claim Dylan as a dependent. Dylan is a qualifying child—although not under age 19, he is a full-time student. As a qualifying child, he is not subject to the gross income test.
35. (LO 4, 9)
- Regardless of where the parties reside, the damage of the joint return needs to be undone. The joint return test applies to both the qualifying child and qualifying relative categories of dependency exemptions. The situation can be rectified by filing separate returns on or before April 15, 2019. In Louisiana, half of the daughter's income, or \$5,500 ($50\% \times \$11,000$), is assigned to John. Being a qualifying child, the daughter can be claimed as a dependent. John, however, is subject to the gross income test contained in the qualifying relative category. Because \$5,500 exceeds \$4,150, John cannot be claimed as a dependent.
 - As noted in part a., the joint return problem needs to be resolved. In New Jersey, John earns none of the daughter's income. Consequently, John now meets the gross income test of a qualifying relative. The daughter also can be claimed as a dependent because no gross income test is applicable to the qualifying child category.

36. (LO 1, 2, 3, 4, 5, 6)

Salary	\$80,000
Short-term capital loss	(2,000)
Cash prize	<u>4,000</u>
AGI	\$82,000
Less: Standard deduction	<u>(24,000)</u>
Taxable income	<u>\$58,000</u>

Tax on \$58,000 using Surviving Spouse Tax Rate Schedule:

$$\$1,905.00 + 12\%(\$58,000 - \$19,050) = \underline{\$6,579.00}$$

In addition, Charlotte will qualify for the child and dependent tax credit:

4 children (\$2,000 each)	\$ 8,000
2 dependents (\$500 each)	<u>1,000</u>
Total	<u>\$ 9,000</u>

Charlotte's father is a dependent; he does not fail the gross income test because tax-exempt income is not counted. There is no phaseout of the child tax credit as Charlotte's AGI does not exceed \$400,000 (Charlotte is a surviving spouse). Of the \$8,000 child tax credit, \$5,600 is refundable ($\$1,400 \times 4$), since this amount is less than 15% of Charlotte's earned income in excess of \$2,500 [$(\$80,000 - \$2,500) \times 15\% = \$11,625$]. None of the dependent tax credit is refundable.

37. (LO 1, 2, 3, 4, 5, 6, 8)

Gross income	\$95,000
Contribution to traditional IRA	<u>(5,000)</u>
AGI	\$90,000
Less: Standard deduction	<u>(18,000)</u>
Taxable income	<u>\$72,000</u>

Tax on \$72,000 using Head-of-Household Tax Rate Schedule:
 $\$5,944.00 + 22\%(\$72,000 - \$51,800) = \underline{\$10,388.00}$

In addition, Morgan will qualify for a \$1,000 dependent tax credit ($\$500 \times 2$) for Rosalyn and Flo. Although Rosalyn does not meet the relationship test, she is a member of Morgan’s household. Flo meets the relationship test. Although Jerold meets the relationship test (as a resident of Canada), he is not a U.S. citizen or a resident. As a result, he does not qualify for the dependent tax credit. None of the dependent tax credit is refundable.

38. (LO 5)

- Patricia is not required to file. Her gross income is less than \$12,000, and her net earnings from self-employment are less than \$400.
- Mike need not file because his gross income of \$10,800 is less than the \$13,600 filing requirement. Mike, however, should file, even though a return is not required, to obtain a refund if any income taxes were withheld from his pay.
- Ronald is not required to file. His gross income of \$6,800 is less than his \$7,150 standard deduction (earned income plus \$350). However, Ronald should file a return to obtain a tax refund if any income taxes were withheld from his pay.
- Sam and Lana are not required to file because their gross income of \$24,250 is less than the \$26,600 filing requirement ($\$24,000 + \$1,300 + \$1,300$).
- Quinn must file a return. He has unearned income of more than \$1,050 and no additional standard deductions.

39. (LO 5, 6, 9)

If Roy and Brandi *do not* marry, their tax status is as follows:

	<u>Roy</u>	<u>Brandi</u>
Gross income and AGI	\$ 9,000	\$61,000
Standard deduction	<u>(12,000)</u>	<u>(12,000)</u>
Taxable income	<u>\$ -0-</u>	<u>\$49,000</u>

Tax on \$49,000 using the Single Tax Rate Schedule is $\$4,453.50 + 22\%(\$49,000 - \$38,700) = \$6,719.50$. Thus, \$0 (Roy) + \$6,719.50 (Brandi) = \$6,719.50 total tax for *not* being married.

If Roy and Brandi *do* marry:

Gross income ($\$9,000 + \$61,000$)	\$70,000
Standard deduction	<u>(24,000)</u>
Taxable income	<u>\$46,000</u>

Tax on \$46,000 using the Married Filing Jointly Tax Rate Schedule is $\$1,905.00 + 12\%(\$46,000 - \$19,050) = \$5,139.00$.

By getting married and filing a joint return, \$1,580.50 ($\$6,719.50 - \$5,139.00$) is saved.

40.	(LO 1, 3, 6, 7)	
a.	Wages	\$4,000
	Money market interest	1,800
	Bond interest (City of Boston bond interest is tax-exempt.)	<u>-0-</u>
	Gross income	\$5,800
	Less: Standard deduction*	<u>(4,350)</u>
	Taxable income	<u>\$1,450</u>
b.	Net Unearned Income Calculation:	
	Money market account interest	\$1,800
	City of Boston bond interest	<u>-0-</u>
	Total unearned income	\$1,800
	Minus: \$1,050 + \$1,050 standard deduction	<u>(2,100)</u>
	Net unearned income	<u>\$ -0-</u>
	Income taxed at Taylor's rate	<u>\$1,450</u>
	Total tax ($\$1,450 \times 10\%$)**	<u>\$ 145</u>

*A dependent's standard deduction is limited to the greater of \$1,050 or the sum of his or her earned income plus \$350 ($\$4,000 + \$350 = \$4,350$).

**Because Taylor's unearned income is not more than \$2,100, the "kiddie tax" does not apply and her tax is determined using the Single Tax Rate Schedule.

41.	(LO 1, 3, 6, 7)	
	Unearned income	\$4,100
	Minus: \$1,050 base amount + \$1,050 standard deduction	<u>(2,100)</u>
	Net unearned income	<u>\$2,000</u>
	Computation of Paige's taxable income:	
	Earned income	\$3,900
	Interest income	4,100
	Gross income	\$8,000
	Less: Standard deduction [greater of \$1,050 or \$3,900 (earned income) + \$350]	<u>(4,250)</u>
	Taxable income	<u>\$3,750</u>

As Paige has earned income, we determine her tax liability as follows:

1. Taxable income (TI) = \$3,750.
2. Earned taxable income (ETI) = TI - NUI = \$1,750 ($\$3,750 - \$2,000$).
3. Determine the tax liability:

Since Paige's taxable income (\$3,750) is less than "earned taxable income + \$2,550" ($\$4,300 = \$1,750 + \$2,550$), we use the Single Tax Rate Schedule to determine her tax liability. Her tax is \$375 ($\$3,750 \times 10\%$).

42.	(LO 6, 8)	
a.	Inez has the following results:	
	LTCG (land)	\$3,000
	STCG (ADM stock)	4,000
	LTCG (boat and trailer)	1,000
	Loss on camper (nondeductible)	<u>-0-</u>
	Thus, she has a net LTCG of \$4,000 and a net STCG of \$4,000. Her tax is <u>\$1,880</u> [$(\$4,000 \times 15\%) + (\$4,000 \times 32\%)$].	
b.	<u>\$480</u> [$(\$4,000 \times 0\%) + (\$4,000 \times 12\%)$].	

43. (LO 9)

- a. By concentrating the payment of three years of charitable contributions (2017, 2018, and 2019) into one year, the Bateses will be able to itemize their deductions *from* AGI in 2018. Otherwise, their itemized deductions (normally \$20,000) are of no benefit because they do not exceed the standard deduction (\$24,000 in 2018; likely higher in 2019, although not yet determined).
- b. Presuming that the \$20,000 of normal itemized deductions already includes one year of church pledge payments, the additional payment of \$8,000 (\$4,000 for 2017 and \$4,000 for 2019) yields itemized deductions of \$28,000 (\$20,000 + \$8,000) for 2018. This exceeds the standard deduction by \$4,000 (\$28,000 – \$24,000) that the Bateses would have claimed. Therefore, the tax savings they earn by concentrating the charitable contributions becomes \$960 (24% × \$4,000). The Bateses will use the standard deduction in 2019 (assuming that nothing else changes).
- c. Maloney, Raabe, Hoffman, & Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

November 22, 2018

Mr. and Mrs. Tom Bates
8212 Bridle Court
Reston, VA 20194

Dear Mr. and Mrs. Bates:

In response to your inquiry regarding the Federal income tax consequences of consolidating your charitable contributions for 2017, 2018, and 2019 into a single year (2018), here is a brief summary of the outcomes:

- Because individual taxpayers are presumed to be on the cash basis, all cash expenditures during a year will be evaluated in determining deductibility. In this case, combining the three \$4,000 contributions into a single year makes sense from an income tax perspective.
- By combining all three payments in 2018, you will be able to itemize your deductions in that year while using the standard deduction amount in 2019.
- This \$8,000 of additional contributions in 2018 (the \$4,000 payments for 2017 and 2019) means that you will have total itemized deductions of \$28,000 (which exceeds the 2018 married filing jointly standard deduction amount by \$4,000).
- By consolidating these contributions in 2018, your tax savings will be \$960 (the \$4,000 of total itemized deductions in excess of the standard deduction times your marginal tax rate of 24%).

If I can be of further assistance to you in this matter, please do not hesitate to contact me.

Sincerely,

Heywood R. Floyd
Partner

CUMULATIVE PROBLEMS

44.	Salaries (\$60,000 + \$41,000)		\$101,000
	Interest income (Note 1)—		
	Ford Motor Company bonds	\$ 1,100	
	Ally Bank CD	<u>400</u>	1,500
	Child support (Note 2)		—0—
	Gift from parents (Note 3)		—0—
	Injury settlement (Note 4)		—0—
	Lottery winnings (Note 5)		600
	Federal income tax refund (Note 6)		—0—
	IRA contribution (Note 7)		<u>(5,000)</u>
	Adjusted gross income (AGI)		\$ 98,100
	Itemized deductions <i>from</i> AGI (Note 8)		
	Medical [\$7,200 – (7.5% × \$98,100)]	\$ —0—	
	Taxes (\$3,600 + \$4,200)	7,800	
	Interest on home mortgage	6,000	
	Charitable contributions	3,600	
	Life insurance premiums, traffic fines, political contributions, funeral expenses (Note 9)	<u>—0—</u>	
		<u>\$ (17,400)</u>	
	Standard deduction		<u>(24,000)</u>
	Taxable income		<u>\$ 74,100</u>
	Tax on taxable income of \$74,100 based on 2018 Married Filing Jointly Tax Rate Schedule:		
	\$1,905 + 12%(\$74,100 – \$19,050)		\$ 8,511
	Less: Withholdings (\$4,200 + \$2,100)	\$ 6,300	
	Less: Child and dependent tax credit (Note 10)	<u>2,500</u>	<u>(8,800)</u>
	Net tax payable (or refund due)		<u>(\$ 289)</u>

Notes

- (1) Interest on state and local bonds is an exclusion from gross income. See Exhibit 3.1 in the text.
- (2) Child support is an exclusion from gross income, but alimony is not. The \$7,200 that John Allen paid is clearly child support because any alimony obligation terminated when Wanda remarried. See Exhibits 3.1 and 3.2 in the text.
- (3) Gifts are exclusions from gross income (Exhibit 3.1 in the text).
- (4) Damages for a physical personal injury are exclusions from gross income (Exhibit 3.1) unless they are punitive in nature (Exhibit 3.2). There is no reason to assume that any of the \$90,000 settlement is punitive because the matter was never litigated in a court.
- (5) Lottery winnings are included in gross income (Exhibit 3.2). If the taxpayer has substantiation, losses can be claimed to the extent of gains.
- (6) A Federal income tax refund is a return of a nondeductible expenditure and, therefore, is nontaxable.
- (7) A contribution to a traditional IRA is a deduction *for* AGI.
- (8) Because their itemized deductions do not exceed \$24,000 (the married filing jointly standard deduction), the Deans will use the standard deduction.
- (9) Life insurance premiums, traffic fines, political contributions, and funeral costs are not deductible.

- (10) Wanda may claim the children as dependents because she has custody and did not issue a Form 8332 waiver in favor of John Allen (the father). Because Penny is a qualifying child, she is not subject to the gross income limitation. (In terms of age, Penny falls under the student exception.) The facts do not indicate whether Kyle is a student, but this status is not necessary because he has met the age test (i.e., under 19) for a qualifying child. The Deans are able to claim a \$2,000 child tax credit (for Kyle) and a \$500 dependent tax credit (for Penny). As their AGI does not exceed \$400,000, there is no phaseout of the child tax credit. In addition, up to \$1,400 of the child tax credit is refundable [this amount is less than 15% of earned income in excess of \$2,500; $\$14,775 = (\$101,000 - \$2,500) \times 15\%$].

45. *Part 1—Tax Computation*

Salary			\$80,000
Interest income—			
Omni Bank	\$ 300		
Boone State Bank	1,100		
City of Springfield bonds (Note 1)	<u>-0-</u>		1,400
Inheritance (Note 2)			-0-
Life insurance proceeds (Note 3)			-0-
Sale of lot held as an investment (Note 4)			(3,000)
Estate sale (Note 5)			-0-
Federal income tax refund (Note 6)			<u>-0-</u>
Adjusted gross income (AGI)			\$78,400
Itemized deductions <i>from</i> AGI (greater than \$24,000 standard deduction)			
Medical [$\$11,500 - (7.5\% \times \$78,400)$]	\$5,620		
Taxes—			
State income tax	\$4,200		
Property tax	<u>4,500</u>	8,700	
Interest on home mortgage		5,600	
Charitable contributions (Note 7)	<u>4,800</u>		<u>(24,720)</u>
Taxable income			<u>\$53,680</u>
Tax on taxable income of \$53,680 based on 2018 Married Filing Jointly (Surviving Spouse) Tax Rate Schedule (Note 8):			
\$1,905 + 12% $(\$53,680 - \$19,050)$			\$ 6,061
Less: Withholdings	\$4,500		
Less: Dependent tax credit (Note 9)	<u>1,500</u>		<u>(6,000)</u>
Net tax payable (or refund due)			<u>\$ 61</u>

Notes

- (1) Interest on state and local bonds is excluded from gross income. See Exhibit 3.1 in the text.
- (2) Inheritances are excluded from gross income. See Exhibit 3.1 in the text.
- (3) Life insurance proceeds are nontaxable. See Exhibit 3.1 in the text.
- (4) Logan has a realized long-term capital loss of \$5,000 [$\$80,000$ (selling price) – $\$85,000$ (cost basis)] from the sale of the lot. Absent any offsetting capital gains, however, he can deduct only \$3,000 against ordinary income. The \$2,000 unabsorbed capital loss can be carried over to 2019.

- (5) The basis of the property inherited is its fair market value on the date of the decedent's death. The basis of any other property that was sold is its cost (see Chapter 13 in the text). Consequently, the estate sale most likely resulted in a realized loss. Because the loss is personal, it cannot be recognized. Thus, the estate sale results in no income tax consequences.
- (6) A Federal income tax refund is a return of a nondeductible expenditure and, therefore, is nontaxable.
- (7) Charitable contributions are deductible in the year paid ($\$2,400 + \$2,400 = \$4,800$). Therefore, the year for which they were pledged does not matter.
- (8) Logan is a surviving spouse for filing purposes.
- (9) Helen and Mia meet the qualifying relative tests. Asher is a qualifying child (under age 24 and a full-time student), so he is not subject to the gross income test. Logan is able to claim a \$1,500 dependent tax credit ($3 \times \$500$; for Asher, Mia, and Helen). Neither Mia nor Asher qualifies for the child tax credit; both are over 16 years old. The dependent tax credit is not refundable.

Part 2—Follow-Up Advice

Maloney, Raabe, Hoffman, & Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

February 28, 2019

Logan B. Taylor
4680 Dogwood Lane
Springfield, MO 65801

Dear Mr. Taylor:

In response to your inquiry regarding the Federal income tax situation for 2019, the news is not good. The following developments will cause an increase in your taxes:

- Your filing status moves from surviving spouse to single. The result is a shift from the lowest to the highest progressive tax rates.
- The capital loss deduction is \$2,000, or \$1,000 less than last year.
- For various reasons, your children and mother no longer qualify as dependents. As a result, the dependent tax credit (\$1,500 in 2018) will not be available to you in 2019.
- Because of less medical expense and no interest and charitable deductions, your itemized deductions will decrease. As a result, you will use the single standard deduction of \$12,000.

Based on last year's data, an *estimate* of your Federal income tax liability for 2018 is \$10,768* (or \$4,707 more than the \$6,061 for 2018).

If I can be of further assistance to you in this matter, please do not hesitate to contact me.

Sincerely,

Charles Spain
Partner

*\$81,400 (AGI without \$3,000 capital loss deduction) – \$2,000 (capital loss carryover) = \$79,400 (AGI) – \$12,000 (single standard deduction) = \$67,400 (taxable income). Tax is \$10,767.50 [$\$4,453.50 + 22\%(\$67,400 - \$38,700)$] under the 2018 Tax Rate Schedules for single taxpayers.

RESEARCH PROBLEMS

1. a. The Bakers have two dependents: Florence and Darin. With regard to Janet’s parents, the following table summarizes the components involved.

<u>Support Provided</u>	<u>Calvin</u>	<u>Florence</u>
Funds spent on clothing, transportation, and recreation (1/2 of \$8,000)	\$4,000	\$4,000
Fair rental value of lodging (1/7 × \$14,000)	2,000	2,000
Share of food (1/7 × \$10,500)	1,500	1,500
Dental bills	—	1,000
Life insurance premium	—	—
Parents’ total support	<u>\$7,500</u>	<u>\$8,500</u>

Of Calvin’s total support of \$7,500, the Bakers provide only \$3,500 (\$2,000 + \$1,500), which is not more than 50%. Life insurance premiums are not considered to be an item of support. In Florence’s case, however, the Bakers furnish \$4,500 (\$2,000 + \$1,500 + \$1,000), which is more than \$4,250 (50% of \$8,500).

As a qualifying child (under age 19), Darin’s income is immaterial (as long as he is not self-supporting). Because he satisfies the age requirement, his student status does not matter.

Andrea is not a qualifying child as she meets neither the age nor student test. She is not a qualifying relative because the support test is not met. The facts do not state what other types of support (e.g., clothing, recreation, medical) the Bakers pay for, but it would have to be significant for the total (including room and board) to exceed \$21,000.

Morgan could be a qualifying child except that she appears to be self-supporting. Furthermore, she cannot be a qualifying relative due to the support test. As was the case for Andrea, however, the facts do not reflect what other types of support (besides room and board) her parents might provide. It is unlikely that the total would exceed the \$20,000 Morgan furnishes herself.

- b. Calvin could have been a dependent if Janet had not paid the life insurance premium. Instead, she should have applied the funds on Calvin’s behalf toward a support item (e.g., help pay for the vacation). Thus, Calvin could pay the premium from his own funds without jeopardizing the support percentage.

In the case of Andrea, her parents would have had a better chance of meeting the support test if the cost of the car had not been so high. In this regard, could leasing, rather than purchasing, the Camaro have accomplished this result? Perhaps the Bakers could have contributed whatever portion of the cost is needed to satisfy the more-than-50% requirement for the dependency exemption.

2. CLIENT LETTER

Maloney, Raabe, Hoffman, & Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

March 6, 2019

Mr. Brett Ouray
16 Lahinch Parkway
Chicago, IL 60608

Dear Brett:

This letter is in response to your inquiry about which filing status is most appropriate for you in the current tax year.

Generally, married taxpayers who do not file a joint return must file as married filing separately. However, there exists a special classification called abandoned spouse that allows a married person to be treated as being single. Single persons can qualify for head-of-household filing status.

To be considered an abandoned spouse (in other words, to be considered not married for tax purposes), you must satisfy all of the following requirements:

- (1) You maintain a household that for more than half the year is the principal living place of a child whom you claim as a dependent.
- (2) You furnish more than half the cost of maintaining the home.
- (3) Your spouse was not a member of the household for the last six months of the year.

While in your situation the first two requirements are satisfied, the third requirement is likely not satisfied. Both the IRS and the courts have concluded that taxpayers must live in separate residences to be considered living apart. Despite the fact that you and your wife are estranged, because you live in the same house, you will not be considered unmarried for tax purposes. As such, given that you are not yet divorced, the appropriate filing status in the current year would be married filing jointly. If you and your wife are sufficiently estranged that it would not be possible to file jointly, the appropriate filing status would then be married filing separately.

If I can be of further assistance to you in this matter, please feel free to contact me.

Sincerely,

Janice Dodd, CPA

Instructor note: IRC § 7703(b) addresses married taxpayers who live apart and specifies the requirements listed above. Although § 7703(b) does not provide much detail about what being a member of a household involves, Reg. § 1.7703-1(b)(5) clarifies that an individual's spouse is not a member of the household during a taxable year if such household does not constitute such spouse's place of residence at any time during the year. The facts in the problem closely mirror the facts in *Keith Chiosie v. Commissioner*, T.C.Memo. 2000-117. The opinion in this case confirms that not to be considered members of the same household, taxpayers must live apart. The opinion provides a helpful discussion of how courts have interpreted the "living apart" requirement and references other cases that also specify that there must be geographic distance between the taxpayers to satisfy the third requirement.

Research Problems 3 to 7

These research problems require that students utilize online resources to research and answer the questions. As a result, solutions may vary among students and courses. You should determine the skill and experience levels of the students before assigning these problems, coaching where necessary. Encourage students to use reliable websites and blogs of the IRS and other government agencies, media outlets, businesses, tax professionals, academics, think tanks, and political outlets to research their answers.

CHECK FIGURES

17. Sam has \$2,100 *unearned* income.
- 18.a. \$1,750.
- 18.b. \$26,600.
- 18.c. \$2,650.
- 18.d. \$0.
- 19.a. Both spouses must itemize.
- 19.b. Claim standard deduction.
- 20.a. \$17,042; 24%; 17.98%.
- 20.b. \$7,099; 22%; 12.4%.
- 21.a. \$2,700.
- 21.b. \$3,750; \$396.
22. \$150; loss; \$300; gain; painting.
23. Short-term capital loss; \$3,100.
- 24.a. \$98,000.
- 24.b. \$62,000.
- 24.c. \$51,000.
- 24.d. \$40,000.
- 24.e. \$46,000.
25. \$76,600.
26. \$66,200.
- 27.a. \$12,000.
- 27.b. \$5,050.
- 27.c. \$1,150.
- 27.d. \$1,050.
- 27.e. \$5,150.
- 28.a. QC: NA; QR: Not met.
- 28.b. QC: NA; QR: Met.
- 28.c. QC: Not met; QR: Met.
- 28.d. QC: Met; QR: NA.
- 28.e. QC: Residence: Not met; QR: Not met.
- 28.f. QC: No tests met; QR: Not met.
- 28.g. QC: Not met; QR: Met.
- 28.h. QC: All tests met; QR: Met.
- 28.i. QC: Age: Not met; QR: Met.
- 28.j. QC: All tests met; QR: GI: Not met.
- 29.a. Two.
- 29.b. One.
- 29.c. Two.
- 29.d. One.
- 30.a. Three.
- 30.b. Two.
- 30.c. None.
- 30.d. Three.
- 31.a. All three are eligible.
- 32.a. Son, niece, and brother.
- 33.a. Head of household.
- 33.b. Single.
- 33.c. Single.
- 33.d. Potentially head of household.
- 33.e. Married filing separately.
- 34.a. Year 1 married filing jointly.
- 34.b. Year 2 single.
- 34.c. Year 3 surviving spouse.
36. \$6,579.
37. \$10,388.
- 38.a. Patricia is not required to file.
- 38.b. Mike is not required to file.
- 38.c. Ronald is not required to file.
- 38.d. Sam and Lana are not required to file.
- 38.e. Quinn is required to file.
39. Joint return saves \$1,580.50.
- 40.a. \$1,450.
- 40.b. \$145.
41. Taxable income \$3,750; tax \$375.
- 42.a. \$1,880.
- 42.b. \$480.
- 43.b. Saves \$960.
44. Refund due \$289.
45. Part 1—tax due \$61.
Part 2—income tax increases by \$4,707.

SOLUTION TO ETHICS & EQUITY FEATURE

Abandoned Spouse? (p. 3-20). A married individual is not treated as unmarried under the abandoned spouse rules if the individual's spouse occupies the same residence, even if they maintain separate bedrooms and bathrooms {see, for example, *Lyddan v. U.S.* [51 AFTR 2d 83-808 (D.Ct., CT, 1982), *aff'd* 52 AFTR 2d 83-6254 (CA-2, 1983)]}. The same is true if one spouse moves into the basement while the other spouse and children reside in the upper levels (see *Elsawah*, T.C. Summary Opinion 2004-33).

According to *Lyddan*, there is a need for a “bright line” test that does not depend on a factual inquiry into the intimate living details of an estranged couple. Further, according to *Dawkins* (T.C.Memo. 1991-225), Congress did not intend spouses living under the same roof to be treated as living “separated and apart.”

So the question in this case is whether the detached garage would be considered “under the same roof” or “occupying the same residence.” In the Second Circuit decision in *Lyddan*, the Court wrote: “We think the phrase requires a geographical separation and means living in separate residences.” If so, then it is highly likely that Bob and Carol are “occupying the same residence.” As such, they would be considered “married” and Carol would not qualify for head-of-household status.

SOLUTIONS TO BECKER CPA REVIEW QUESTIONS

Detailed answer feedback for Becker CPA Review questions is available on the instructor companion site (www.cengage.com/login).

1. a
2. c
3. b

NOTES