

**2004**

**SPECIAL ENROLLMENT  
EXAMINATION**



**IRS**

Department of the Treasury  
**Internal Revenue Service**

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# Part 1

## **SPECIAL ENROLLMENT EXAMINATION BOOKLET**

**September 22, 2004**  
**9:00 a.m. TO 12:00 noon**

**Individuals**

Official Use Only  
(Declassified after September 22, 2004)

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# Special Enrollment Examination

## Part 1

### Individuals

#### Instructions:

**The time allotted for this part of the examination is 3 hours. No additional time will be granted. On your answer sheet in the spaces provided you should enter the following:**

1. Print your name (First, M.I., Last).
2. Sign your name (First, M.I., Last).
3. Place of examination (City and State).
4. Date of this examination.
5. Print your name (Last, F.I., M.I.) in the boxes provided. Immediately below the boxes, darken the oval corresponding to the letter you have printed, as in the sample Name Grid. Darken only one oval in each column below a box in which you have printed a letter. Make no marks in the columns below boxes you have left blank.
6. Enter your candidate number and immediately below, darken the oval corresponding to each number you have entered.
7. Enter your Social Security Number and immediately below, darken the oval corresponding to each number you have entered.

#### Important:

The answer sheet should not be folded or torn since it will be machine graded.

**Read the examination questions carefully. All references are to the Internal Revenue Code as amended through December 31, 2003. Unless otherwise stated, all questions relate to the calendar year 2003.**

You will be given a No. 2 pencil by the monitor. Darken completely only one oval under the corresponding letter on the answer sheet. In making corrections, erase errors completely.

Scratch paper will be provided, but you may make necessary computations in the questions books. Raise your hand to attract the monitor's attention when you need extra supplies or for permission to leave the room.

#### **!! New procedures!!**

**All materials must be turned in to the monitor before leaving the room:**

**Answer sheet:** When you finish the examination, your answer sheet must be turned in to the monitor before leaving the room. You must turn in your answer sheet at the end of each test session or your test will not be graded and no credit received. **Answers noted in examination booklets will not be graded.** The examination will be graded in Washington, D.C., by the Office of Professional Responsibility, Internal Revenue Service. You will receive formal notification of your examination results on or about January 31, 2005.

**Examination booklets, scratch paper:** You must also turn in your examination booklet and scratch paper (used and unused). These materials will be mailed to you after the examination has been administered at all sites.

**Challenges** must be received by the Office of Professional Responsibility on or before **October 22, 2004**. Challenges must be on the form or in the format as prescribed on **www.irs.gov**

#### **General Grading Information:**

The questions in this examination have been assigned values of 1 to 3 points. All true or false questions have a value of 1 point each; the multiple choice questions in Section B have a value of 2 points each; and the multiple choice questions in Section C have a value of 3 points each.

The examination is graded on the basis of correct answers. If more than one oval is darkened in answering a question, the answer will be considered incorrect.

The Service will include the answers with your formal notification of examination results. Therefore, you may want to mark your answers in this examination questions book and retain it for future comparison.

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**Part 1**  
**Section A:**  
**Questions 1– 20**

**The following statements are either true or false. Select the most appropriate answer and darken the oval under A for True or B for False.**

1. April is age 18 and single. Her only income in 2003 was \$600 of self employment income from selling cosmetics. April is not required to file a return for 2003.
2. To obtain an automatic extension of time to file an individual tax return for 2003, Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, must be filed by March 15, 2004.
3. No estimated tax payments are required if enough tax is paid through withholding to keep the amount owed with the return under \$2,000.
4. Ms. Winter owns an apartment complex. She received \$5,000 in December 2003 to cover the January rents for tenants who will be on vacation January 15, 2004, when the rent is due. Although she is a cash basis taxpayer for purposes of filing her return she uses the accrual method of accounting to maintain her books on the rental property. Since she uses the accrual method of accounting, she should report the \$5,000 in 2004.
5. Ms. Flyer owns a house and rents it to a painter. The painter lost his job in April and volunteered to paint the outside of the house in lieu of rent for the months of May and June. Ms. Flyer determines the \$1,000 rent due from her renter is approximately the amount she would have to pay someone else to paint the house. She decides to accept his offer. Since she did **not** receive any cash rent for the months of May and June, she need **not** include the \$1,000 in income.
6. Interest was credited to Jane's savings account on December 31, 2003. As long as Jane leaves the interest in the account and does not withdraw it, the interest is **not** taxable to her.
7. Jack, a U.S. citizen, was a resident of England for all of 2003. He received \$100,000 in wages from an English corporation, and paid taxes to England on this income. The entire \$100,000 is exempt from U.S. income tax.
8. Mr. Barley, an accountant, accepted a painting for his office from his client in lieu of payment of his customary fee of \$400 for preparation of a tax return. He must include the \$400 in income.
9. Basis in property inherited from a decedent is generally the same as the decedent's basis at the date of death.
10. Upon the death of her mother, Janice inherited a home. At the time of her mother's death, the fair market value of the home was \$100,000. Her mother had purchased the home as a primary residence in 1980 at a cost of \$35,000. Janice's basis in the property is \$100,000.
11. Sandy bought investment property on March 1, 2002, and sold it on March 1, 2003. The character of her gain or loss is long-term.
12. Mr. and Mrs. Black purchased their primary residence in 1995 and lived in it until they sold it in 2003. They purchased the home for \$250,000 and sold it for \$650,000. Since their home was sold for more than the maximum exclusion of \$500,000, they are required to report the sale of their home on their 2003 tax return.
13. The sale of Section 1244 stock can be deducted as an ordinary loss.
14. Jasmine is paid a flat rate of \$5,000 a year to cover any business expenses. She is not required to give her employer any accounting of these expenses. Her employer includes the \$5,000 in her W-2. If she wishes to deduct her business expenses, she must complete Form 2106.
15. Jim's W-2 comprises his entire adjusted gross income of \$9,000. In 2003, he files as single and has no qualifying child. If all other Earned Income Credit rules are met, Jim can claim the credit.
16. Franz and Hilda are married and file a joint return. They have one qualifying child. Franz worked as a gardener and earned \$9,000 in 2003. Hilda is a non-citizen and cannot get a social security number. They can claim the Earned Income Credit.
17. All amounts paid to a person who both cares for a qualifying child and provides household services, such as cleaning or cooking, while the parents work, are included in the computation of the child care credit.
18. You may be able to take a credit against your regular tax if you had unused alternative minimum tax credit that you are carrying forward from 2002 to 2003.
19. If property is repossessed after making an installment sale, a gain or loss may be realized on the repossession.
20. Sam is a used car dealer and sells his cars to the public. He takes a 20% down payment and receives the remaining amount in equal monthly payments for the three years following the sale. Sam can report these sales using the installment method.

**Turn the page for Part 1, Section B.**

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**Part 1**  
**Section B:**  
**Questions 21 - 45**

**The following questions are multiple choice. Select the most appropriate answer and darken the oval under the corresponding letter on the answer sheet.**

21. Which of the following is **true** regarding the filing of Form 4868, Application for Automatic Extension of Time to File a U.S. Individual Income Tax Return?
- A. Filing Form 4868 provides an automatic 2-month extension of time to file and pay income tax.
  - B. Any U.S. citizen who is out of the country on April 15, 2004 is allowed an automatic 4-month extension of time to file his/her 2003 return and pay any federal income tax due.
  - C. Interest is charged on tax not paid by the due date of the return even if an extension is obtained.
  - D. Electronic filing cannot be used to get an extension of time to file.
22. Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, will provide the taxpayer with the following:
- A. An automatic extension of 2 months for taxpayers out of the country on April 15
  - B. An automatic extension of 4 months to pay the taxes due
  - C. An automatic extension of 4 months to file the return
  - D. An automatic extension of 6 months to file the return
23. Who would **not** be a qualifying person for purposes of filing as Head of Household in 2003?
- A. Your mother whom you can claim as a dependent.
  - B. Your adopted child who lives with you, is married, and can be claimed as your dependent
  - C. Your foster child who lived with you all year and is your dependent
  - D. Your aunt, related to you by blood. She does not live with you but is your dependent
24. Mr. & Mrs. Rose are both over 65. Their adjusted gross income is \$100,000. During the year their 35-year-old single son, Tom, lived with them while attending college and earned \$4,000. Mr. Rose's mother, Ivy, lived with them until June 1 when she was placed in a nursing home for an indefinite period of time to receive medical care. Ivy received no income and was supported solely by Mr. and Mrs. Rose. Determine the number of exemptions Mr. and Mrs. Rose can claim on their 2003 joint return.
- A. 2
  - B. 3
  - C. 4
  - D. 6
25. Holly and Harp Oaks were divorced in 2002. The divorce decree was silent regarding the exemption for their 12-year-old daughter, June in 2003. Holly has legal custody of her daughter and did not sign a statement releasing the exemption. Holly earned \$8,000 and Frank earned \$80,000. June had a paper route and earned \$3,000. June lived with Harp 4 months of the year and with Holly 8 months. Who may claim the exemption for June in 2003?
- A. June may, since she had gross income over \$3,000 and files her own return.
  - B. Since June lived with both Holly and Harp during the year, they both may claim her as an exemption.
  - C. Holly may, since she has legal custody and physical custody for more than half the year.
  - D. Harp may, since he earned more than Holly and, therefore, is presumed to have provided more than 50% of June's support.
26. Violet made no estimated tax payments for 2003 because she thought she had enough tax withheld from her wages. In January 2004, she realized that her withholding was \$2,000 less than the amount needed to avoid a penalty for the underpayment of estimated tax so she made an estimated tax payment of \$2,500 on January 10. Violet filed her 2003 return on March 1, 2004, showing a refund due her of \$100. Which of the following statements is **not** true regarding the estimated tax penalty?
- A. Violet will not owe a penalty for the quarter ending December 31, 2003, because she made sufficient payment before January 15, 2004.
  - B. Violet will not owe a penalty for any quarter because her total payments exceed her tax liability.
  - C. Violet could owe a penalty for one or all of the first 3 quarters even though she is due a refund for the year.
  - D. If Violet owes a penalty for any quarter, the underpayment will be computed from the date the amount was due to the date the payment is made.
27. Sherwood received disability income of \$6,000 for 2003. All premiums on the health and accident policy were paid by his employer and included in Sherwood's income. In addition, he received compensatory damages of \$10,000 as a result of inadvertent poisoning at a local restaurant. He received no other income this year. How much income must Sherwood include on his 2003 tax return?
- A. \$16,000
  - B. \$10,000
  - C. \$6,000
  - D. \$0
28. Mr. Bus paid \$950,000 for an office building and furnishings on January 1, 2003. He plans to use the General Depreciation System (GDS) under MACRS for the depreciation of his property. What recovery period must he use for the following items?
- \$900,000 for the building
  - \$50,000 for office desks and file cabinets
- A. 27.5 years for the entire asset, building and furniture
  - B. 39 years for the building and 5 years for the office furniture.
  - C. 27.5 years for the building and 7 years for the office furniture
  - D. 39 years for the building and 7 years for the office furniture

29. The cost basis of rental property includes:
- Fees paid to the settlement attorney
  - Recording fees and transfer taxes
  - Real estate taxes paid to the seller without reimbursement
  - All of the above
30. Ms. Miller set up a computer system for Mr. Town's business. In return, Mr. Town gave Ms. Miller a storage facility. Ms. Miller plans to use this facility for business purposes and plans to depreciate it. The fair market value of Ms. Miller's services and the storage facility was \$50,000. Mr. Town's basis in the storage facility was \$30,000. How should Ms. Miller treat the transaction and what is her depreciable basis for the property.
- Ms. Miller should include the \$50,000 in income and use \$30,000 as the depreciable basis for the storage facility she received.
  - Mr. Town should include the \$30,000 in his income and use the \$50,000 as the depreciable basis for the storage facility.
  - Ms. Miller should include \$30,000 in income and \$50,000 as the depreciable basis for the storage facility.
  - Ms. Miller should include \$50,000 in income and use \$50,000 as the basis for the storage facility.
31. Jerry received two acres of land valued at \$10,000 as a gift. The donor's adjusted basis was \$12,000. Jerry subsequently sold the land for \$20,000. For purposes of computing his gain, what is Jerry's basis in the land?
- \$12,000
  - \$10,000
  - \$ 8,000
  - \$ 2,000
32. Harry purchased one share of common stock in a computer company for \$90. Shortly after he purchased it, the corporation distributed two new shares of common stock for each share held. What is his basis for each of the three shares of common stock?
- \$90
  - \$180
  - \$30
  - \$0
33. Arthur lived and worked in Florida for 8 months in 2003 and earned \$30,000. He then worked in California at a seasonal job at a race track the last 4 months of the year and earned \$12,000 before returning to Florida. What is Arthur's "tax home?"
- Since he does not have a regular place of business, he is considered a transient and his tax home is wherever he works.
  - Since Arthur was working in California at the end of the year, it is his tax home for 2003.
  - Since Arthur had significant earnings at two locations, it is impossible to determine his tax home.
  - Since most of his time and income were from the job in Florida, it is considered his tax home.
34. Sam uses his personal vehicle to make business deliveries. He submits the number of miles he drives to his employer and is reimbursed an amount per mile which exceeds the federal rate. Sam's actual expenses are more than the federal rate. His employer includes the amount up to the federal rate in box 12 of Form W-2 where it is not taxable to Sam. The excess allowance is included in box 1 of the Form W-2 as wages. How should Sam report or claim this mileage?
- File Form 2106 to deduct the excess expenses.
  - Repay the excess to his employer.
  - He cannot claim any of the expenses since his employer reimbursed him for all expenses.
  - If he files Form 2106 he need not reduce his mileage expense by his reimbursed amount.
35. Which of the following is **not** a payment deductible as alimony?
- Payments for life insurance premiums required by the divorce decree.
  - Payments for medical expenses of your spouse under the terms of the divorce decree.
  - Half of the mortgage payment on a home jointly owned with your ex-spouse when required by the divorce decree
  - Payments for child support required by the divorce decree
36. Which of the following may **not** be deducted as medical expenses? (Disregard any limitations which may apply.)
- \$1,000 long-term care insurance.
  - \$600 for eyeglasses.
  - \$300 for maternity clothes.
  - \$3,000 to a family physician for medical care.
37. Which of the following statements is **not** true regarding documentation requirements for charitable contributions?
- If the total deduction for all noncash contributions for the year is more than \$500, Section A of Form 8283, Noncash Charitable Contributions, must be completed.
  - A noncash contribution of less than \$250 must be supported by a receipt or other written acknowledgement from the charitable organization.
  - A deduction of more than \$1,000 for one property item generally requires that a written appraisal be obtained and attached to the return.
  - A contribution charged to a credit card is a noncash contribution for purposes of documentation requirements.
38. In 2003, Jorge's pleasure boat was destroyed by a flood. He had purchased the boat in 2001 for \$30,000. His insurance policy had lapsed at the time of the flood. On what form(s) will Jorge report this loss?
- Schedule A, Itemized Deductions, and Form 4684, Casualties and Thefts
  - Schedule D, Capital Gains and Losses, and Form 4684, Casualties and Theft
  - Schedule D, Capital Gains and Losses, and Form 4797, Sales of Business Property and Involuntary Conversions
  - On the first page of Form 1040



39. Which of the following taxpayers may claim earned income credit for 2003?
- A. Ginger, 50 years of age, who has a qualifying child for whom she provides sole support. She received \$15,000 in Social Security benefits and \$500 in interest income in 2003.
  - B. Cinnamon, 42 years old, who was divorced the entire year. She had investment income of \$2,500 and had W-2 wages of \$7,000.
  - C. Woody, age 51, who is single and lived in a homeless shelter during 2003 and received retirement benefits of \$5,000.
  - D. Cherrie, age 35, who is single and has one qualifying child. She had \$35,000 in wages and her adjusted gross income is \$37,000.
40. Which of the following are miscellaneous itemized deductions **not** subject to the 2% adjusted gross income limitation?
- A. Federal estate tax on income in respect of a decedent
  - B. Gambling losses up to the amount of gambling winnings
  - C. Casualty and theft losses from income-producing property
  - D. Burial and funeral expenses
41. Mr. and Mrs. Pine both work full time. They have three children ages 18, 6, and 3. For purposes of claiming the Child Care Credit, which of the following expenses qualify?
- A. Payments to the taxpayer's 18-year-old daughter to care for her 3-year-old sister
  - B. Payments to the taxpayer's 20-year-old niece who lives with them and can be claimed as their dependent
  - C. Payments to the taxpayer's mother who lives with them but does not qualify as their dependent
  - D. Payments to a private school for their 6-year-old to attend first grade
42. For purposes of claiming the Child Tax Credit, which of the following is **not** a requirement for a qualifying child:
- A. Child must be under age 16 at the end of the year.
  - B. Child must be a citizen or resident of the United States.
  - C. Child must be claimed as your dependent.
  - D. Child must be an eligible foster child.
43. Which of the following statement is **not** true regarding tax benefits for education?
- A. The Hope credit may be claimed for tuition expenses incurred in the first 2 years of post-secondary education.
  - B. The dollar limitations for the Hope credit are calculated on a per student basis.
  - C. The Lifetime Learning Credit is allowed for tuition paid for graduate program studies.
  - D. Room and board are qualifying expenses for the Hope credit.
44. Which of the following is true regarding a nonbusiness bad debt?
- A. It is deductible as a short-term capital loss.
  - B. It is not deductible.
  - C. It is deductible only if you itemize.
  - D. It is deductible as a long-term capital loss.
45. Which of the following items are **not** adjustments or tax preference items for computing alternative minimum tax?
- A. Personal exemptions.
  - B. Standard deduction.
  - C. Interest income.
  - D. Itemized deduction for state and local taxes.

**Turn the page for Part 1, Section C.**

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**Part 1**  
**Section C:**  
**Questions 46 - 80**

**The following questions may require some computation. Select the most appropriate answer and darken completely the oval under the corresponding letter on the answer sheet.**

46. Phil is unmarried in 2003. His dependent daughter, Susan, lived with him all year. Property taxes of \$2,500 and mortgage interest of \$5,000 on the home where he and Susan live are divided equally with his ex-wife. Phil paid the utilities of \$200 per month. What amount may Phil use as the costs of keeping up a home to qualify for head of household filing status?
- A. \$6,150
  - B. \$4,950
  - C. \$3,750
  - D. \$9,900
47. Thomas and Rebecca are the parents of four children, ages 10, 12, 15, and 22. Their 22-year-old child is a full-time student with income of \$5,600. Thomas and Rebecca provided more than 50% of the support for all their children. If they file a joint return, how many exemptions can they claim for the above family members?
- A. 5
  - B. 4
  - C. 6
  - D. 3
48. In meeting the gross income test for claiming his father as a dependent, Doug considered the income received by his father. This income included gross rents of \$4,000 (expenses were \$2,000), municipal bond interest of \$1,200, dividends of \$1,400, and Social Security of \$4,000. What is Doug's father's gross income for dependency test purposes?
- A. \$3,400
  - B. \$5,400
  - C. \$9,400
  - D. \$8,600
49. Mr. and Mrs. Black received the following income for 2003. How much income should be reported on their 2003 joint return?
- W-2 income for Mrs. Black for wages of \$30,000
  - W-2 for Mrs. Black for \$2,000, the value of fringe benefits not included in the above W-2. Mrs. Black did not pay for the fringe benefits.
  - Benefits of \$5,000 paid to Mr. Black from a health and accident plan for which the premiums were paid by his employer but included in his income.
- A. \$30,000
  - B. \$32,000
  - C. \$37,000
  - D. \$35,000
50. Pastor Green received an annual salary of \$20,000 as a full-time minister in 2003. The church also paid him \$1,000 designated as a housing allowance to pay for his utilities. His church owns a parsonage that has a fair rental value of \$6,000 in which he lives rent free. Neither the rental allowance nor the rental value of the parsonage is included in his W-2. All amounts are considered provided for services he renders as a licensed pastor. He is not exempt from self employment tax. Compute the amount of Pastor Green's income that is subject to income tax on his 2003 return.
- A. \$ 19,000
  - B. \$ 20,000
  - C. \$ 27,000
  - D. \$ 26,000
51. Mr. and Mrs. Apple received the following income during 2003:
- \$200 in interest credited to their bank account but not withdrawn or used by them during the year
  - \$2,000 in interest received as a beneficiary in a trust established by Mr. Apple's father and included on Schedule K-1 from the trust
  - \$100 in interest on a bond issued by the state of Georgia
  - \$1,000 bond interest, City of Atlanta municipal bond.
- How much taxable interest income must Mr. and Mrs. Apple report on their 2003 tax return?
- A. \$3,300
  - B. \$0
  - C. \$2,200
  - D. \$1,300
52. Mr. and Mrs. Beet own a house which they rent to non-related parties. They had some major expenses during 2003 as follows:
- \$2,000 to replace the cabinets in the kitchen
  - \$500 to replace the stove
  - \$600 to replace the built-in dishwasher
  - \$400 to resurface the tub in the master bathroom
- What is the amount and character of their expenses?
- A. \$2,000 capital improvements and \$1,500 repairs expense.
  - B. \$2,600 capital improvements and \$900 repairs expense.
  - C. \$400 capital improvements and \$3,100 repairs expense.
  - D. \$3,100 capital improvements and \$400 repairs expense.

53. Mr. Brown is a college student working on a degree in accounting. He received the following in 2003:
- A \$4,000 scholarship used for tuition at State University
  - A \$1,000 scholarship used for fees and books
  - An \$8,000 fellowship used for his room and board
- Compute the amount Mr. Brown must include in income for 2003.
- A. \$8,000
  - B. \$5,000
  - C. \$13,000
  - D. \$9,000
54. Mr. and Mrs. Garden filed a joint return for 2003. Mr. Garden received \$8,000 in Social Security benefits and Mrs. Garden received \$4,000. Their income also included \$10,000 taxable pension income and interest income of \$2,000. What part of their Social Security benefits will be taxable for 2003? (The base amount for married filing jointly is \$32,000 for 2003.)
- A. \$0
  - B. \$6,000
  - C. \$24,000
  - D. \$12,000
55. Ms. Red, age 28, is single and received \$10,000 in unemployment benefits from the state for 2003. She also received \$3,000 from the state to reduce the costs of her winter fuel bill. What amount of income should Ms. Red report for 2003?
- A. \$10,000
  - B. \$13,000
  - C. \$3,000
  - D. \$0
56. John, a cash basis taxpayer, had a \$5,000 loan from his local credit union. He lost his job and was unable to make the payments on this loan. The credit union determined that the legal fees to collect might be higher than the amount John owed so they canceled the \$3,000 remaining amount due on the loan. John did not file bankruptcy nor was he insolvent. How much must John include in his income as a result of this occurrence?
- A. \$5,000
  - B. \$3,000
  - C. \$0
  - D. \$8,000
57. A taxpayer purchases rental property for \$160,000. She uses \$25,000 cash and obtains a mortgage for \$135,000. She pays closing costs of \$10,000, which includes \$5,000 in points on the mortgage and \$5,000 for bank fees and title costs. Her initial basis in the property is:
- A. \$35,000
  - B. \$170,000
  - C. \$165,000
  - D. \$160,000
58. Mr. Rabbitt purchased a home for \$200,000. He incurred the following additional expenses:
- \$200 fire insurance premiums
  - \$500 mortgage insurance premiums
  - \$400 recording fees
  - \$250 owner's title insurance
- Compute his basis in the property.
- A. \$201,350
  - B. \$200,000
  - C. \$200,650
  - D. \$201,150
59. Tom gave Fred a rental house. Tom had purchased the property in 1993 for \$80,000 and has taken \$9,000 in depreciation. Tom's adjusted basis was \$71,000. The fair market value of the rental house on the day of transfer was \$90,000. If Fred sells the house at a gain, his basis in the property will be:
- A. \$90,000
  - B. \$80,000
  - C. \$71,000
  - D. \$81,000
60. Maggie trades stock in ABC Company with an adjusted basis of \$7,000 for DEF Company stock with a fair market value of \$10,000. She had no other transactions during the year. What is the amount realized and what is her gain or loss on this transaction?
- A. The amount realized is \$10,000 and the amount of gain is \$3,000.
  - B. The amount realized is \$10,000 and the amount of loss is \$3,000.
  - C. The amount realized is \$7,000 and the amount of gain is \$4,000.
  - D. The amount realized is \$17,000 and the amount of gain is \$3,000.
61. A married couple, who are both self-employed, and work out of their home, purchased a new home in July 2000 for \$420,000. In September 2000, they converted two bedrooms into office space where they meet clients in their home. In April 2002, they sold their home, on which they had taken \$40,000 depreciation. Their home sold for \$600,000. What amount of the gain is includable in their income on their joint return?
- A. \$0
  - B. \$40,000
  - C. \$180,000
  - D. \$220,000
62. Karen, who is single, paid \$150,000 for her residence in January 1998 and lived in it until January 2002. She then moved away and rented her home from February 2002 until she sold it August of 2003 for \$240,000. While it was rental property, she deducted \$20,000 of depreciation. What amount of gain on the sale of her residence is excludable from income?
- A. \$250,000
  - B. \$90,000
  - C. \$110,000
  - D. \$240,000

63. Anne, who is single, owned and used her house as her main home from January 1998 until January 2002. She then moved away and rented her home from February 2002 until she sold it in August 2003. Her home sold for \$240,000, which included \$20,000 of depreciation and \$12,000 of selling expenses. Using a zero basis, compute the amount that is excludable from income.
- \$208,000
  - \$220,000
  - \$228,000
  - \$240,000
64. Herb files single and had the following capital gains and losses in 2003:
- \$500 loss on the sale of stock he purchased on January 14, 2003 and sold on August 10, 2003.
  - \$5,000 loss on the sale of stock purchased October 1, 2002 and sold November 1, 2003.
  - \$1,000 gain on the sale of a vacant lot held for 5 years.
- How should Herb's capital gains and losses be initially reported on Schedule D?
- \$4,500 long term loss.
  - \$4,000 long term loss and \$500 short term loss.
  - \$4,500 long term loss and \$1,000 short term loss.
  - \$5,500 long term loss and \$1,000 short term gain.
65. Bill and Gladys sold securities in 2003. The sale resulted in a capital loss of \$7,000. They had no other capital transactions. The taxable income on their joint return was \$26,000. What amount of the loss can they carry over to 2004?
- \$7,000
  - \$3,000
  - \$0
  - \$4,000
66. Lisa travels to various locations during her work week. Using the following data, determine the number of miles she may claim as transportation expenses for this period:
- Monday – 40 miles, round trip, from home to her full-time job
  - Tuesday – 20 miles from home to her full-time job, then 10 miles from her full-time job to her part-time job, then 30 miles to her home
  - Wednesday – 60 miles, round trip, from her home to her part-time job; she did not work at her full-time job
- 160 miles
  - 40 miles
  - 60 miles
  - 10 miles
67. James works in sales and does not receive any reimbursement for his entertainment expenses from his employer. In May, he had the following expenses:
- \$500 for use of a yacht for a day's fishing with two clients.
  - \$50 lunch with a client with whom he discusses a new product line.
  - \$200 for dues to the country club where he plays golf with a client who provides James with 40% of his commissions.
  - \$50 for a cheese package given to one of his clients on the client's birthday.
- Before the consideration of any limitations, what is the total of his deductible expenses for May?
- \$75
  - \$100
  - \$800
  - \$600
68. The following items are reported on Mr. and Mrs. Spice's 2003 joint return:
- Net profit on Mrs. Spice's Schedule C of \$40,000
  - Mr. Spice paid court-ordered alimony of \$5,000
  - Self-Employment Tax of \$6,120 on Mrs. Spice's Schedule profit
- Compute their adjusted gross income for 2003.
- \$31,940
  - \$35,000
  - \$28,880
  - \$40,000
69. Mr. Cedar broke his hip and must now use a wheelchair. He modified his home to accommodate the wheelchair. He had his home appraised for refinancing just before the improvements to his home. The value of his home was \$200,000. After he made the modifications and improvements listed below, the value was \$202,000. Mr. Cedar incurred the following expenses during the year. Without consideration of adjusted gross income limitations, compute the amount Mr. Cedar may claim on his 2003 tax return as a medical expense:
- \$3,000 to construct a ramp in the entrance of his home to accommodate his wheelchair
  - \$4,000 for installation of a lift to transport the wheelchair from the first to the second floor of his house
  - \$1,000 for adding handrails around his tub
  - \$200 to repair his chimney
- \$8,200
  - \$6,200
  - \$6,000
  - \$8,000

**70.** Jill divorced her husband, James, in 2002. Their son, Harry, lived with Jill for all of 2003 and qualified as her dependent. However, the divorce decree indicates James can take the exemption. Jill paid \$1,200 in expenses for Harry and James paid \$2,000. Jill entered into a multiple support agreement with her 3 brothers to assist with their mother's care. Jill provided one-fourth of her mother's support and paid \$1,500 in medical expenses, which was her quarter share. Without regard to adjusted gross income limitations, compute Jill's medical expense deduction for 2003.

- A. \$1,200
- B. \$1,500
- C. \$2,700
- D. \$0

**71.** Jeremy decided to itemize on his 2003 return. He has the following receipts. Compute the amount of taxes deduction he can take on his Schedule A, Itemized Deductions.

- State income tax \$3,000.
- Federal income tax \$12,000.
- County real estate tax \$2,000.
- Fee for his car inspection that he uses only personally \$50.
- Homeowners' association fees on his personal home \$500.
- Self-employment tax of \$1,000

- A. \$18,550
- B. \$6,000
- C. \$5,000
- D. \$5,500

**72.** Matt paid interest in 2003 as follows:

- \$100 on his personal credit card
- \$200 on funds borrowed in order to purchase \$6,000 in tax-exempt securities
- \$500 interest on his personal car loan. He does not use his car for business
- \$10,000 on his home mortgage

What is the amount of Matt's deductible interest in 2003?

- A. \$17,400
- B. \$10,600
- C. \$10,000
- D. \$10,800

**73.** Mr. Hardwood has an adjusted gross income of \$50,000. In 2003, he donated capital gain property valued at \$25,000 to his church and did not choose to reduce the fair market value of the property by the amount that would have been long-term capital gain if he had sold it. His basis in the property was \$20,000. In addition, he made the following contributions:

- \$500 to upgrade the city public park.
- \$1,000 to the Hill City Chamber of Congress.
- \$5,000 to a charitable organization in Germany.

Compute Mr. Hardwood's deduction for charitable contributions in the current year (without regard to any carry over or carry back amounts).

- A. \$25,000
- B. \$31,500
- C. \$16,500
- D. \$15,500

**74.** Trudy, age 46, is single. Her 2003 wages were \$14,600. Her permanently disabled child, Brandy, age 26, and her 10-year-old son, Juniper, lived with her the entire year. Use the following excerpt of the Earned Income Tax Credit table to compute Trudy's earned income credit for 2003.

2003 Earned Income Credit Table – (Excerpt, not full table)

Income: At Least	But Less Than	For Single, Head of Household, Wid- ower and you have-----		
		No Chil- dren	One Child	Two Children
14,450	14,500	0	2,428	4,047
14,500	14,550	0	2,420	4,037
14,550	14,600	0	2,412	4,026
14,600	14,650	0	2,404	4,016
14,650	14,700	0	2,396	4,005

- A. \$2,412
- B. \$4,026
- C. \$4,016
- D. \$2,396

75. Jack received \$3,000 in educational assistance benefits from his employer during 2003 to reimburse him for the cost of course tuition and fees for him to earn a degree. The benefits were paid under an accountable plan and were not included in Jack's W2. He has a modified adjusted gross income of \$20,000 and he files single. A list of Jack's 2003 expenses follows. What is Jack's deductible tuition and fee expense?
- \$500 for a bowling class not required for his degree
  - \$2,000 for accounting courses required for his degree
  - \$1,000 for room and board
  - \$500 for textbooks
  - \$500 for lab fees for courses required for his degree.
- A. \$0  
B. \$4,500  
C. \$4,000  
D. \$3,000
76. Ms. Hazelnut works in sales. None of her expenditures are reimbursed by her employer. Her adjusted gross income is \$100,000. She has the following expenditures during 2003:
- Cost of computer class needed for her job, \$500.
  - Business liability insurance , \$250.
  - Dues to chamber of commerce where she obtains leads for her business, \$250.
  - Airfare to visit her mother, \$1,000.
  - Cost of two new business suits, \$500.
- Compute Ms. Hazelnut's miscellaneous itemized deductions after limitations.
- A. \$0  
B. \$500  
C. \$1,000  
D. \$2,500
77. Virginia's earned income for 2003 was \$24,000. She paid \$3,000 to a qualifying child care center for the care of her 2-year-old son while she worked. She received \$2,000 from Social Services to assist with her child care expenses. Compute Virginia's child care credit for 2003 from the following excerpt from the child and dependent care table:

<b><u>IF your adjusted gross income is:</u></b>		<b><u>THEN the percentage is:</u></b>
<b><u>Over</u></b>	<b><u>But not over</u></b>	
\$ 0	\$15,000	35%
\$15,000	\$17,000	34%
\$17,000	\$19,000	33%
\$19,000	\$21,000	32%
\$21,000	\$23,000	31%
\$23,000	\$25,000	30%
\$25,000	\$27,000	29%

- A. \$300  
B. \$900  
C. \$930  
D. \$310

78. Jean is a U.S. citizen living and working in France for all of 2003. She received wages of \$150,000, dividends of \$10,000 and alimony of \$20,000 in 2003. She decides to use the foreign earned income exclusion available to her and file Form 2555. What is the amount of Jean's foreign earned income before any limitations are applied?
- A. \$0  
B. \$80,000  
C. \$150,000  
D. \$180,000
79. Ginger is a United States citizen who paid the following 2003 foreign income taxes:
- \$10,000 tax paid to England on consulting fee income
  - \$5,000 tax paid to Spain on earned income for which she claimed the foreign earned income exclusion
  - \$1,000 tax paid to France which she deducted as an itemized deduction
- These were Ginger's only sources of income during 2003. Her U.S. tax liability was \$23,000. What amount of foreign tax credit can she claim on her 2003 return?
- A. \$16,000  
B. \$0  
C. \$10,000  
D. \$7,000
80. Jim and Jean purchased a vacation home in 1997 for \$100,000. They sold the property for \$500,000 in 2003 and received a down payment of \$200,000. They took a mortgage from the purchaser for the remaining \$300,000. What is Jim and Jean's gross profit percentage on this sale?
- A. 40%  
B. 60%  
C. 80%  
D. None of the above

**End of Part 1.**

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