

2002

SPECIAL ENROLLMENT
E X A M I N A T I O N



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PART 1

**SPECIAL ENROLLMENT
EXAMINATION BOOKLET**

**SEPTEMBER 25, 2002
9:00 A.M. TO 12:00 NOON**

Individuals

*Official Use Only
(Declassified After September 25, 2002)*

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, 2001. Unless otherwise stated, all questions relate to the calendar year 2001.

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. You will be allowed to keep your

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

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, 2003.

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 question book and retain it for purposes of your future comparison.

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. Reba, age 88, and Charles, age 90, are married, live together, and file jointly. During 2001, they received interest income of \$3,000, dividend income of \$1,500, a pension of \$10,000 and Social Security of \$17,000. Reba and Charles are **not** required to file a tax return.
2. You must make estimated tax payments for 2001 if you expect to owe at least \$1,000 in tax for 2001, after subtracting your withholding and credits, and you expect your withholding and credits to be less than the smaller of: (1) 90% of the tax to be shown on your 2001 tax return, or (2) 100% of the tax shown on your 2000 tax return (110% if AGI over \$150,000).
3. If the taxpayer files his 2001 Form 1040/1040A by January 31, 2002, and pays the rest of the tax due, he does **not** need to make the estimated tax payment that would have been due on January 15, 2002.
4. If the taxpayer is a minister of a church, his earnings for the services he performs as a minister, whether he is an employee of his church or a self-employed person under the common law rules, are subject to self employment tax unless he has requested and received an exemption from the IRS, taken a vow of poverty, or is subject to the Social Security laws of a foreign country.
5. If a regulated investment company (mutual fund) or real estate investment trust (REIT) declares a dividend (including any exempt-interest dividend) in October, November, or December, payable to shareholders of record on a date in one of those months but actually pays the dividend during January of the next calendar year, the taxpayer is considered to have received the dividend on December 31.
6. Some mutual funds and REITs keep their long-term capital gains and pay tax on them. You must treat your share of these gains as distributions, even though you did not actually receive them.
7. You may receive a return of capital or a tax-free distribution in shares of stock or stock rights. These distributions are **not** treated the same as ordinary dividends or capital gain distributions.
8. Zenith Mortgage Co. offered John a 10% discount on his \$100,000 mortgage if he would pay the mortgage in full. John paid Zenith Mortgage Co. \$90,000 and his mortgage was cancelled. John has to report \$10,000 as other income.
9. If you receive property by gift, your basis is always the donor's basis plus any gift taxes paid.
10. Ezekiel and Ruth sold their primary residence, which they purchased in 1990 for \$250,000. They lived in the home until the date of sale. The home was sold for \$675,000. Since the home was sold for more than \$500,000, they are required to report the sale on their tax return.
11. If you hold a capital asset one year or less, the gain or loss from its disposition is short-term.
12. Generally, you cannot deduct any expenses for the cost of using an entertainment facility that you own, rent, or use for entertainment. Examples include a yacht, hunting lodge, fishing camp, swimming pool, tennis court, bowling alley, car, airplane, apartment, hotel suite, or home in a vacation resort.
13. During 2001, John was self-employed with a net income of \$40,000. As an adjustment to income he can deduct the following: \$2,000 IRA, \$5,000 alimony, 50% of self-employment tax and 100% of self-employed health insurance premiums.
14. You can include medical expenses that you paid for a child before adoption, if the child qualified as your dependent when the medical services were provided, or when the expenses were paid.
15. Martha and Max have two children. Martha and Max each has earned income of \$10,000. They decided to file separate returns, with each one of them claiming one child as a dependent. Neither one is eligible for the earned income credit (EIC) due to their married filing separate status.
16. Tom and Mary both were employed as bookkeepers during the year. Tom earned \$25,000 and Mary earned \$22,500. They had no other form of income. They paid \$2,000 to the Child Care Nursery, Inc. for the care of their four-year old son. Tom and Mary filed a joint tax return claiming their son as a dependent. Based on the foregoing facts, they are entitled to a child-care credit.
17. You can claim the child-care credit on Form 1040EZ.

- 18.** In 1995, Joan sold land for \$100,000 that had cost \$50,000. She received a down payment of \$30,000 with the balance to be amortized over 10 years with interest of 8%. In 2001, Joan had to repossess the property due to the failure of the buyer to make payments. Joan has no tax consequences, as she now owns the land.
- 19.** Ray, who is the principal owner of an engineering firm several years ago loaned \$2,000 to a friend to be repaid on demand with interest at 6%. No payments of interest or principal had been made when the friend declared bankruptcy and this loan was discharged. Ray can write this off as a non-business bad debt including the accrued interest of \$360. Ray files his tax returns on a cash basis.
- 20.** Max, loaned his 16 year old son \$2,000 to buy a car. At age 22, the son declared bankruptcy and he was discharged from all debt including the \$2,000. This would be deductible by Max as a non-business bad debt.

Turn to the next page for Part 1, Section B.

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. All of the following are requirements to claim head of household filing status **except**:
- A. You are unmarried or considered unmarried on the last day of the year.
 - B. Your spouse did **not** live in your home during the last 6 months of the tax year.
 - C. Your parent must live in your home at least 6 months.
 - D. You paid more than half of the cost of keeping up your house for the entire year.
22. Filing Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return gives you:
- A. An extension of time to pay the amount of taxes due.
 - B. A 4-month extension to file the tax return.
 - C. A penalty free period of 4 months if you cannot pay the taxes due by the filing date.
 - D. No interest on the amount due from the original due date of the return, which for most taxpayers is April 15.
23. Milton is 39 years old. He is divorced from his wife since March 1st of the tax year. They have two minor children. One child lives with Milton and the other child lives with the mother. The children have been with their respective parents from March through December of the tax year. Milton provides all of the support for the minor child living with him. The filing status with the lowest rate that Milton qualifies for is:
- A. Married filing separately.
 - B. Single.
 - C. Head of household.
 - D. Married filing jointly.
24. Joe is 37 years old. His wife died during the tax year and he has not remarried. His deceased wife had no income. He has two minor children living with him. Joe paid all of the costs for keeping up his home for the tax year and he has paid for all of the support of his wife and these children. The filing status with the lowest tax rate which Joe qualifies for is:
- A. Qualifying widower with dependent child.
 - B. Married filing separately.
 - C. Head of household.
 - D. Married filing jointly.
25. Sue must make estimated tax payments of \$4,000 for the tax year. She makes the following payments:
- 1st Payment – credit of \$1,000 from her previous year refund.
 - 2nd Payment - \$500 on April 20th
 - 3rd Payment - \$500 on May 31st
 - 4th Payment - \$1,000 on August 15th
 - 5th Payment - \$500 on October 15th.
 - 6th Payment - \$500 on December 30th
- A. She has not made timely payments because her 2nd and 3rd payments were not made by April 15th.
 - B. She has not made timely payments because her 4th payment was not made by June 15th.
 - C. She has made timely estimated payments.
 - D. She has not made any timely payments because none of the payments were made by the required IRS schedule.
26. The following fringe benefits are non-taxable **except**:
- A. A non-statutory option to buy or sell stock or other property as payment for your services when you receive the option or when you exercise the option.
 - B. The value of accident or health plan coverage provided to you by your employer.
 - C. Long-term care coverage contributions made by your employer to provide coverage for long-term care services.
 - D. Contributions by your employer to your medical savings account.
27. The following statements about dividends received from a dividend reinvestment plan are correct **except**:
- A. Reinvested dividends are not taxable if **not** removed from the plan.
 - B. Reinvested dividends are taxable in the year paid.
 - C. Reinvested dividends are taxable and are added to the basis of the stock or mutual fund.
 - D. Reinvested dividends are treated as ordinary dividends.
28. If a taxpayer has capital gains dividends, but has no other capital gain:
- A. Capital gain distributions must be put on Schedule B.
 - B. No Schedule D is required and the amount is put directly on the Form 1040.
 - C. Dividends and capital gains dividends may be added together on Schedule B.
 - D. It must be combined with interest on the Schedule B.

29. A taxpayer has both short-term capital loss and non-taxable distribution from an investment. The following statements are correct **except**:
- A. The basis of the investment is reduced by the non-taxable distribution.
 - B. Non-taxable distribution is a return of capital invested.
 - C. Short-term capital loss reduces the basis of the investment.
 - D. Short-term capital losses have no effect on basis.
30. Passive activity rules apply to:
- A. Closely held corporations.
 - B. Partnerships.
 - C. S corporations.
 - D. Grantor trusts.
31. You incurred the following expenditures in connection with your rental property. Which of them should be capitalized?
- A. New roof.
 - B. Install new cabinets.
 - C. Pave driveway.
 - D. All of the above.
32. Which of the following would be considered passive activity income?
- A. Alaska Permanent Funds dividends.
 - B. State, local, and foreign income tax refunds.
 - C. Personal service income.
 - D. None of the above.
33. You purchased a heating, ventilating and air conditioning (HVAC) unit for your rental property on December 15th. It was delivered on December 28th and was installed and ready for use on January 2nd. When should the HVAC unit be considered placed in service?
- A. December 15th.
 - B. December 28th.
 - C. December 31st.
 - D. January 2nd.
34. Johnny has various investments. He earns interest and dividends on a certificate of deposit (CD), a savings account, mutual funds, corporate stocks and corporate bonds. Johnny files his tax returns using the cash method. The interest on the CD is rolled into a new CD with the old principal. He receives the interest from the corporate bonds and savings account on a semi-annual basis. The earnings from the mutual funds are not distributed and are used to purchase additional shares. The dividends from the corporate stocks are reinvested. What income does Johnny have to report currently?
- A. Savings account and CD interest.
 - B. Corporate stock and mutual fund dividends.
 - C. Corporate bond and savings account interest.
 - D. All of the above.
35. Cost basis of property includes:
- A. Certain settlement fees and other costs.
 - B. Sales taxes charged on the purchase.
 - C. Real estate taxes paid for seller without reimbursement.
 - D. All of the above.
36. Jennifer works for Joyce and received a parcel of land as payment for her services. Joyce's basis in the land was \$6,000 and the land had a FMV of \$10,000. Jennifer's basis in the land is:
- A. \$0
 - B. \$6,000
 - C. \$10,000
 - D. \$4,000
37. Your basis in property you inherit from a decedent is generally one of the following:
- A. The FMV of the property at the date of the individual's death.
 - B. The FMV on the alternate valuation date, if the personal representative for the estate chooses to use alternate valuation.
 - C. The decedent's adjusted basis in land to the extent of the value that is excluded from the decedent's taxable estate as a qualified conservation easement.
 - D. All of the above.
38. If you purchase stock of a small corporation meeting the requirements of Section 1244 (small business) stock, and you sell that stock at a loss, the loss from that stock will be reported as:
- A. Long-term loss.
 - B. Ordinary loss.
 - C. Short-term loss.
 - D. Ordinary loss subject to limitations.

39. All of the following may be deducted by a taxpayer as a transportation expense **except**:
- A. Getting from one workplace to another in the course of your business or profession.
 - B. Commuting expenses if you work during the commuting trip using your telephone to make business calls or have business associates ride with you to and from work and you have a business discussion in the car.
 - C. Visiting clients or customers after going to your office.
 - D. Going to a business meeting away from your regular workplace.
40. The following entertainment activities are considered to have substantial distractions that generally prevent one from actively conducting business **except**:
- A. A meeting or discussion at a nightclub, theater, or sporting event.
 - B. A meeting or discussion during what is essentially a social gathering, such as a cocktail party.
 - C. Attending meetings at a convention or similar event, or at a trade or business meeting sponsored and conducted by a business or professional organization to further your trade or business.
 - D. A meeting with a group that includes persons who are not business associates at places such as cocktail lounges, country clubs, golf clubs, athletic clubs, or vacation resorts.
41. To meet your employer's reimbursement or allowance arrangement accountable plan, which of the following are the requirements of his accountable plan?
- A. Your expenses must have a business connection.
 - B. You must adequately account to your employer for these expenses within a reasonable period of time.
 - C. You must return any excess reimbursement or allowance within a reasonable period of time.
 - D. All of the above.
42. The taxpayer may deduct the cost of medical expenses for the following items **except**:
- A. Doctor prescribed drugs including birth control pills.
 - B. Controlled substances in violation of Federal law.
 - C. Laser eye surgery, contacts, eyeglasses, and hearing aids.
 - D. Guide dogs for the visually impaired and the cost of the dogs care.
43. All of the following capital improvements may be itemized and deducted as medical expenses **except**:
- A. Cost of constructing wheelchair accessible ramps for your home.
 - B. Cost of modifying a car with special hand controls.
 - C. Lowering or modifying kitchen cabinets and equipment.
 - D. An elevator costing \$8,000 that adds \$8,000 to the appraised value of your home.
44. Contribution deductions may be limited to 20%, 30%, or 50% of your adjusted gross income. Organizations that qualify for the 50% limit include:
- A. Churches and conventions of organizations of churches.
 - B. Educational organizations with regular faculty and curriculum and regularly enrolled students.
 - C. Hospitals and certain medical research organizations associated with these hospitals.
 - D. All of the above organizations.
45. If an involuntary conversion occurs when your property is destroyed, stolen, condemned, or disposed of under the threat of condemnation and you receive other property or money in payment, such as insurance or a condemnation award, which of the following statements is correct?
- A. Gain or loss from an involuntary conversion of your property is usually recognized for tax purposes unless the property is your main home.
 - B. You may not have to report a gain on an involuntary conversion if you receive property that is similar or related in service or use to the converted property.
 - C. If you receive money or property that is not similar or related in service or use to the involuntarily converted property and you buy qualifying replacement property within a certain period of time, you can choose to postpone reporting the gain.
 - D. All of the above are true.

Turn to the next page for Part 1, Section C.

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. Dr. Steve and Joyce are married and have total income of \$190,000, itemized deductions of \$15,000, and exemptions totaling \$5,800, leaving estimated taxable income of \$169,200. For 2001 the tax on \$169,200 would be \$43,960. They have withholding of \$36,960 during the year. In 2000 they paid a total of \$42,000 in taxes for the year on an adjusted gross of \$185,000. For 2001 they would need to make:
- A. No estimated tax payments since they have withholding taxes.
 - B. Estimated payments of \$2,604.
 - C. Estimated payments of \$8,652.
 - D. Estimated payments of \$5,040.
47. Mary and Fred filed a joint tax return. They have a son Fred, Jr. and a daughter Joan who are both teenagers and live at home. Fred, Jr. has interest income of \$400 and Joan has interest income of \$600. Mary's widowed mother has lived with them for the entire year. Mary's mother receives a pension of \$3,000, interest income of \$2,000 and dividends of \$1,000. Mary and Fred fully support Mary's mother with the exception of her clothing, the balance of her income she invests. How many exemptions can Mary and Fred claim on their joint tax return?
- A. 2
 - B. 3
 - C. 4
 - D. 5
48. Don and Joyce have adjusted gross income of \$85,000. Their two children Mary, age 14, and David, age 20 (completed his education in the prior year), lived with them all year. Mary had interest income of \$300. David had interest income of \$600 and wages of \$6,500. The parents provided over 50% of the support of both children. How many exemptions can Don and Joyce claim?
- A. 2
 - B. 3
 - C. 4
 - D. 1
49. To meet the dependency test of "Gross Income", the taxpayer had to consider the following income received by his mother who was 81 years of age: Social Security \$3,600, municipal bond interest \$2,200, corporate bond interest \$1,200, stock dividends \$900, rental income \$1,200, rental expenses \$200, and wages \$600. The mother lived with the taxpayer the entire year. What is the correct gross income of the mother for this test?
- A. \$9,700
 - B. \$2,900
 - C. \$5,100
 - D. \$3,900
50. A taxpayer has total tax in the previous year of \$21,000. In this year, the taxpayer received a bonus and his tax increased \$4,500. The taxpayer has long-term capital gain of \$4,000 with a tax of \$800. The taxpayer's withholding was increased to \$23,700. To avoid a penalty for underpayment of estimated tax the taxpayer must:
- A. Do nothing, since the withholding exceeds 100% of last year's tax.
 - B. Pay an additional \$5,300 to equal 100% of tax due.
 - C. Do nothing, since the withholding exceeds 90% of the tax due this year.
 - D. Both A and C are correct.
51. John, a single taxpayer, received interest income of \$40,000 consisting of the following: certificate of deposit \$6,000 (which is reinvested), savings account \$4,000, City of Glendale Municipal Bond \$8,000, mortgage note \$12,000, Cobb County Municipal Bond \$7,000, and corporate bond \$3,000. What is the amount of taxable interest income he will report on his Form 1040?
- A. \$40,000
 - B. \$25,000
 - C. \$19,000
 - D. \$33,000
52. Gene and Claire are partners in a consulting business. Their gross receipts were \$60,000 and their net profit was \$45,000. In addition, Gene had wages of \$25,000. They also had stock dividends of \$2,000, City of Birmingham Bond interest of \$4,000 and savings account interest of \$1,000. What is their adjusted gross income?
- A. \$77,000
 - B. \$92,000
 - C. \$88,000
 - D. \$73,000

53. John and Mary moved into your rental property and paid a \$10,000.00 security deposit. You agreed to use this security deposit as their last month's rent. Additionally, they paid a painting contractor \$2,500 to paint the interior. How much of these payments should be reported as rental income for this year?
- A. \$0
 - B. \$5,000
 - C. \$10,000
 - D. \$12,500
54. John and Mary had a pipe burst in the basement of your rental home. They were unable to reach you on vacation. They had the plumber come out and repair the pipe and damage. They paid the plumber \$575. They deducted \$575 from their rent of \$5,000. How much rent should be considered income that month?
- A. \$5,000
 - B. \$4,425
 - C. \$5,575
 - D. \$5,745
55. You own a vacation home on Amelia Island, Florida, which you rented for 10 days in 2001. In 2001, rental expenses were \$2,000 and rental income was \$5,000. How much of the rental income should be reported on the tax return?
- A. \$5,000
 - B. \$3,000
 - C. \$0
 - D. \$7,000
56. John, who is 63 years of age and single, has wages of \$10,000, interest income of \$3,000, dividends of \$2,000, municipal bond interest of \$3,000, state unemployment compensation of \$4,000 and Social Security benefits of \$4,000. What is John's adjusted gross income?
- A. \$26,000
 - B. \$22,400
 - C. \$22,000
 - D. \$19,000
57. Joan and Jim had income from investments in 2001. They also earned a substantial amount in wages. Most of their dividends and interest is reinvested. The reinvested income included \$2,000 in dividends from mutual funds, interest from savings account of \$3,000, and interest from certificates of deposit of \$4,000. Dividends from stocks of \$5,000 was received and spent. Interest of \$1,000 earned in 2001 on a loan from a friend was not received until the following year. How much interest and dividend income must Joan and Jim report on their tax return for 2001?
- A. \$6,000
 - B. \$13,000
 - C. \$14,000
 - D. \$5,000
58. A taxpayer purchased a rental property for \$100,000. The taxpayer gave \$25,000 as a cash down payment and financed \$75,000. Closing costs were \$4,000 and points were \$4,000. What is his basis in the property?
- A. \$33,000
 - B. \$108,000
 - C. \$104,000
 - D. \$100,000
59. Reba gave Sari a rental property. Reba had purchased the property in 1990 for \$60,000 and took \$9,000 in depreciation. Reba's adjusted basis was \$51,000. The fair market value of the rental house on the day of transfer was \$72,000. Assuming no gift tax was paid, what is Sari's basis in the property?
- A. \$72,000
 - B. \$60,000
 - C. \$51,000
 - D. \$63,000
60. Charles died and left his daughter Sue a commercial rental property. He purchased the property for \$150,000 and had taken \$45,000 in depreciation. The fair market value (FMV) on his death was \$200,000. Six months after his death, the property was re-titled into Sue's name by the estate's representative. There was no alternative valuation done on the transfer. The FMV on that day was \$210,000. Sue's basis in the property is:
- A. \$210,000
 - B. \$200,000
 - C. \$150,000
 - D. \$125,000

- 61.** SSB Tax Corporation declared and distributed a stock dividend of 1 share for each 4 shares held by each stockholder. Donn had 100 shares and received 25 additional shares.
- A.** The stock dividend is not taxable, since the stockholder did not receive cash.
 - B.** The stock dividend is taxable for the fair market value of the shares received on the date of issue.
 - C.** Donn purchased his 100 shares of stock for \$5.00 per share. He must adjust the basis of the 125 shares to \$4.00 a share.
 - D.** This is non-taxable because it is a return of capital.
- 62.** Milton spent \$70,000 for a building that he used in his business. He made improvements at a cost of \$20,000 and deducted depreciation of \$10,000. He sold the building for \$100,000 cash, and received property having a fair market value of \$20,000. The buyer assumed Milton's real estate taxes of \$3,000 and a mortgage of \$17,000 on the building. Selling expenses were \$4,000. The gain on the sale is:
- A.** \$10,000
 - B.** \$56,000
 - C.** \$40,000
 - D.** \$52,000
- 63.** Joe and Jean purchased their primary residence in 1975 for \$100,000. While they lived there, they made renovations at a cost of \$125,000. They lived there until July 1, 1998. On June 15, 2001, the residence was sold for \$800,000. From July 1, 1998, until June 15, 2001, the home was unoccupied. Joe and Jean file a joint return, and they have never excluded a gain from the sale of another home. What is their maximum taxable gain?
- A.** \$575,000
 - B.** \$0
 - C.** \$75,000
 - D.** \$200,000
- 64.** Frances and George sold their principal residence for \$1,000,000. They purchased the home in 1993 for \$250,000. They incurred improvement costs of \$100,000, real estate commissions of \$60,000 and other settlement costs of \$10,000. They lived in this home until the date of sale. Frances and George file a joint return and have not previously excluded a gain on another home. What is their maximum taxable gain?
- A.** \$750,000
 - B.** \$140,000
 - C.** \$80,000
 - D.** \$150,000
- 65.** George and Marie sold their primary residence in 2001 for \$300,000. They purchased the home in 1982 for \$100,000 and lived in the home until the sale. George was a salesman and used 1/6th of the home as a business office. He deducted 1/6th of all costs including depreciation since 1982. The original cost of \$100,000 was assessed at \$40,000 land, and \$60,000 building. In taking depreciation for the office, George used the straight-line method with a 30-year life. What is George and Marie's realized gain on the sale of the business portion?
- A.** None
 - B.** \$200,000
 - C.** \$16,667
 - D.** \$40,000
- 66.** Sue's father purchased 1,000 shares of ABC stock for \$10 per share on December 30, 2000. Sue inherited the 1,000 shares of ABC stock from her father on September 15, 2001. The FMV at the time of the inheritance was \$20 per share. On December 20, 2001, she sold the stock for \$25 per share.
- A.** The gain of \$15,000 is short-term capital gain.
 - B.** The gain of \$15,000 is long-term capital gain.
 - C.** The gain of \$5,000 is long-term capital gain.
 - D.** The gain of \$5,000 is short-term capital gain.
- 67.** Larry purchased 100 shares of ABC stock on May 31, 2000, for \$100 per share. On October 28, 2000, he sold the 100 shares for \$90 per share. On November 22, 2000, his wife, Vickie, purchased 100 shares of ABC stock for \$80 per share. Vickie held the stock until September 30, 2001. On that date, she sold the stock for \$110 per share. They filed married filing separately on all returns.
- A.** Larry has a short-term loss of \$1,000 on his 2000 tax return.
 - B.** Vickie has short-term gain of \$3,000 on her 2001 tax return.
 - C.** Vickie will have a short-term gain of \$3,000 on her 2001 tax return and Larry takes the short term loss \$1,000 on his 2000 tax return.
 - D.** Vickie will have a long-term gain of \$2,000 on her 2001 tax return and Larry will not have any capital loss on his 2000 tax return.

- 68.** Heather purchased 500 shares of Investment Growth Mutual Fund on February 15, 2000, for \$10 per share. On January 31, 2001, she sold the 500 shares for \$1.50 per share. Which of the following is correct?
- A.** Heather will have a short-term capital loss of \$4,250 on her 2001 tax return and she will be allowed to offset \$4,250 of her earnings.
 - B.** Heather has short-term capital loss of \$3,000 on her 2001 tax return.
 - C.** Heather will have a short-term capital loss of \$4,250 on her 2001 tax return and will have to carry forward a short-term loss of \$1,250 to her 2002 tax return.
 - D.** Heather will have a short-term capital loss of \$4,250 on her 2001 tax return and will have to carry forward a long-term capital loss of \$1,250 to her 2002 tax return.
- 69.** Which one of the following criteria is used to determine a taxpayer's "tax home", if the taxpayer does not have a regular or main place of business or work?
- A.** Taxpayer performs part of his business in the area surrounding his main home and uses that home for lodging while doing business in the area.
 - B.** Taxpayer has living expenses at his main home that are duplicated because his business requires him to be away from that home.
 - C.** Taxpayer has not abandoned the area in which both his traditional place of lodging and his main home are located; members of his family live at his main home; or he often uses that home for lodging.
 - D.** All of the above.
- 70.** Maggie is 73 years of age. She received Social Security benefits of \$8,000, which includes \$500 for Medicare premiums. Withdrawals from her IRA were \$16,000 and she received \$22,000 from a pension. She also had other income of \$14,000. How much is Maggie's adjusted gross income?
- A.** \$59,225
 - B.** \$58,800
 - C.** \$60,000
 - D.** \$60,500
- 71.** John is a self-employed carpenter. He reported a profit of \$40,000 on his Schedule C. He had other taxable income of \$10,000. He paid \$4,000 for hospitalization insurance. He contributed \$5,000 to a Keogh Plan. His self-employment tax was \$5,652. He paid his former wife \$3,000 in court-ordered alimony and \$5,000 in child support. What is the amount John can deduct in arriving at AGI?
- A.** \$22,652
 - B.** \$13,226
 - C.** \$17,652
 - D.** \$21,226
- 72.** A taxpayer is a cash basis taxpayer. In 2001, he incurred the following medical expenses for himself and his daughter, Terry, whom he claims as a dependent on his tax return.
- \$250 for glasses for Terry and \$200 for glasses for himself;
 - \$800 for dental work for himself;
 - \$900 for hospital emergency services, of which \$700 was paid by insurance;
 - \$1,250 for Terry's braces which he charged to his credit card in December 2001 and paid in January 2002;
 - \$300 for prescriptions for allergies;
 - \$1,500 medical insurance;
- The taxpayer's medical expense deduction before limitations is?
- A.** \$5,200
 - B.** \$4,500
 - C.** \$4,200
 - D.** \$3,950
- 73.** Mary and George are both employed by H.T. Forest & Co. Her salary was \$35,000 and his was \$30,000. During the year they made the following interest payments: mortgage \$8,000, car loan \$2,000, home equity loan \$3,000, and interest on margin account \$4,000. In addition to their salaries, they had interest income of \$1,500 and dividend income of \$1,000. What is the amount that Mary and George will be able to deduct on Schedule A?
- A.** \$17,000
 - B.** \$13,500
 - C.** \$15,500
 - D.** \$15,000

74. Keith and Margaret had adjusted gross income of \$100,000. They had real estate taxes of \$4,000, mortgage interest of \$12,000, home equity loan interest of \$6,000, and automobile loan interest of \$3,000, second home mortgage interest of \$4,000 and credit card interest of \$2,000. The total allowable interest deduction is?
- A. \$31,000
 - B. \$24,000
 - C. \$22,000
 - D. \$18,000
75. Johnny has been divorced for four years. He failed to make his alimony and support payments. The court ordered him to pay \$1,500 as interest on the back alimony and support payments. He paid interest of \$1,000 on a car loan, \$2,500 on his outstanding credit card balance, \$6,000 on a home equity loan and \$10,000 on his mortgage. Other interest payments amounted to \$2,500 on various appliance loan payments. How much is Johnny's deductible interest?
- A. \$18,500
 - B. \$16,000
 - C. \$23,500
 - D. \$17,500
76. Jean and Robert have total wages of \$95,000 plus interest income of \$3,000 and dividends of \$2,000. They paid mortgage interest of \$7,000, car loan interest of \$2,000, mobile home interest of \$4,000, personal loan interest of \$1,000 and margin interest of \$6,000. How much interest can Jean and Robert deduct on Schedule A?
- A. \$16,000
 - B. \$20,000
 - C. \$12,000
 - D. \$13,000
77. Marilyn and Joe have three children all under the age of ten. The twins, who are three years old, attended Pre-School Nursery, Inc., costing a total of \$4,000. Johnny, who is nine, attended After-School Nursery, Inc. at a cost of \$1,500. Marilyn has earned income of \$14,000 and Joe earns \$25,000. What amount of childcare expenses are to be used to determine the credit?
- A. \$14,000
 - B. \$4,000
 - C. \$5,500
 - D. \$4,800
78. Harry sold 100 acres of land that he had owned for over 30 years. His original cost was \$100,000. He sold the property for \$500,000 and had settlement costs of \$50,000. He received a \$150,000 down payment with the balance to be paid over 10 years. His gross profit percentage is?
- A. 80%
 - B. 70%
 - C. 50%
 - D. 60%
79. Margaret, a widow, sold 100 acres of land she and her husband paid \$20,000 for in 1980. He died in 1995. As of the date of his death, the land was valued at \$100,000 for estate tax purposes. Margaret sold the land for \$200,000 on an installment basis. What is her gross profit percentage?
- A. 90%
 - B. 70%
 - C. 50%
 - D. 60%
80. Ethel and George sold an investment property they purchased in 1993 for \$300,000. The property was sold for \$700,000 with a down payment of \$140,000. What is the gross profit percentage?
- A. 57.14%
 - C. 22.86%
 - C. 28.57%
 - D. None of the above.

End of Part 1.