

Gleim CPA Review
Updates to Regulation
2016 Edition, 1st Printing
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NOTE: Text that should be deleted is displayed with a line through it. New text is shown with a blue background.

The updates included in this pdf primarily update tax years and amounts to reflect tax laws that became effective January 1, 2016. These tax laws are testable on the CPA exam beginning July 1, 2016. All Gleim outlines, questions, and simulations have been updated accordingly. Any expired tax provisions that are part of the “extenders” that were renewed for 2015 are expected to be renewed again for 2016 and are treated as such in this update. Any references to an applicable tax year for these “extenders” have been updated to 2016.

This pdf does not include outline sections or questions in which the only changes were to update tax years (including for any “extenders”). Please make note that these need to be updated by you for your book. Our online materials already reflect all tax year updates as well as updated IRS forms.

Study Unit 3 – Individual Taxation and Gross Income

Page 94, Subunit 3.2, item 1.a.:

1. Personal and Dependent Exemptions

- a. An individual’s deduction for exemptions is the sum of a personal exemption amount for the individual and a spouse, along with a dependent exemption amount for each qualified dependent. The amount for each individual is ~~\$4,000~~ 4,050 for 2015 2016.

Page 95, Subunit 3.2, item 2.c.2):

- 2) **Gross taxable income** of the relative must be less than the amount of the dependency exemption (~~\$4,000~~ 4,050 for 2015 2016).

Page 96, Subunit 3.2, item 3.a.:

3. Phaseout of Personal Exemptions

- a. The amount of each exemption that an individual may claim is phased out if the individual’s AGI exceeds a threshold amount. Each exemption amount (~~\$4,000~~ 4,050 in 2015 2016) is reduced by 2% for each \$2,500 (\$1,250 MFS) by which the individual’s AGI exceeds the applicable threshold amount.

Page 97, Subunit 3.2, EXAMPLE:

EXAMPLE

Taxpayer A and B file a joint return for this year. They are entitled to five personal exemptions (three children). Their gross amount of personal exemptions is ~~\$20,000~~ 20,250 (~~\$4,000~~ 4,050 × 5). Their AGI of ~~\$314,900~~ 316,300 exceeds the applicable threshold amount of ~~\$309,900~~ 311,300 by \$5,000. They must reduce the gross exemption amount by ~~\$800~~ 810 ($\$5,000 \div \$2,500 = 2$; $2 \times 2\% = 4\%$; $\$20,000$ 20,250 × .04 = ~~\$800~~ 810). Their allowable deduction for personal exemptions is ~~\$19,200~~ 19,440 (~~\$20,000~~ 20,250 – ~~\$800~~ 810).

THE DEDUCTION FOR PERSONAL EXEMPTIONS – 2015 2016					
Filing Status	Amount per Exemption	Threshold AGI Amount	Step Size	Phaseout Rate	AGI Cap
Married Filing Joint	\$4,000 4,050	\$309,900 311,300	\$2,500	2%	\$432,400 433,800
Surviving Spouse	4,000 4,050	309,900 311,300	2,500	2%	432,400 433,800
Head of Household	4,000 4,050	284,050 285,350	2,500	2%	406,550 407,850
Unmarried (other than above)	4,000 4,050	258,250 259,400	2,500	2%	380,750 381,900
Married Filing Separately	4,000 4,050	154,950 155,650	1,250	2%	216,200 216,900

Page 108, Subunit 3.5, item 9.b.3):

- 3) The taxpayer's modified AGI must not exceed a certain limit. For 2015 2016, the exclusion is reduced when MAGI exceeds a threshold of ~~\$77,200~~ 77,550 (~~\$115,750~~ 116,300 if a joint return). The amount at which the benefit is completely phased out is ~~\$92,200~~ 92,550 (~~\$145,750~~ 146,300 if a joint return).

Page 110, Subunit 3.5, 2nd EXAMPLE:

EXAMPLE

In 2014 2015, a taxpayer who files single elected to itemize deductions, claiming \$7,000 of state income tax paid. In 2015 2016, the state refunded \$2,000. The taxpayer must include the refund in gross income for 2015 2016 to the extent the 2014 2015 deduction exceeded the 2014 2015 standard deduction, which is ~~\$800~~ 700 ($\$7,000$ itemized deduction – ~~\$6,200~~ 6,300 standard deduction for 2014 2015).

Page 111, Subunit 3.5, item 15.a. and c.:

15. Foreign-Earned Income Exclusion

- U.S. citizens may exclude up to ~~\$100,800~~ 101,300 (in calendar year 2015 2016) of foreign-earned income and a statutory housing cost allowance from GI.
- To qualify for exclusion, the taxpayer must either be a resident of one or more foreign countries for the entire taxable year or be present in one or more foreign countries for 330 days during a consecutive 12-month period.
- The ~~\$100,800~~ 101,300 limitation must be prorated if the taxpayer is not present in (or a resident of) the foreign country for the entire year.

Page 114, Subunit 3.2, Questions 9 and 11:

9. Al and Mary Lew are married and filed a joint 2015 2016 income tax return in which they validly claimed the \$4,000 4,050 personal exemption for their dependent 17-year-old daughter, Dora. Since Dora earned \$8,600 in 2015 2016 from a part-time job at the college she attended full-time, Dora was also required to file a 2015 2016 income tax return. What amount was Dora entitled to claim as a personal exemption in her 2015 2016 individual income tax return?

- A. \$0
- B. \$1,050
- C. \$1,550
- D. \$4,000 4,050

11. Jim and Kay Ross contributed to the support of their two children, Dale and Kim, and Jim's widowed parent, Grant. For 2015 2016, Dale, a 19-year-old, full-time college student, earned \$6,150 6,200 as a bookkeeper. Kim, a 23-year-old bank teller, earned \$13,650 13,700. Grant received \$7,825 7,875 in dividend income and \$6,825 6,875 in nontaxable Social Security benefits. Grant, Dale, and Kim are U.S. citizens and were over one-half supported by Jim and Kay. How many exemptions can Jim and Kay claim on their 2015 2016 joint income tax return?

- A. 2
- B. 3
- C. 4
- D. 5

Page 117, Subunit 3.4, Question 19:

19. Easel Co. has elected to reimburse employees for business expenses under a nonaccountable plan. Easel does not require employees to provide proof of expenses and allows employees to keep any amount not spent. Under the plan, Mel, an Easel employee for a full year, gets \$400 per month for business automobile expenses. At the end of the year, Mel informs Easel that the only business expense incurred was for business mileage of 7,965 8,333 at a rate of 57.5 54 cents per mile, the IRS standard mileage rate at the time of travel. Mel encloses a check for \$300 to refund the overpayment to Easel. What amount should be reported in Mel's gross income for the year?

- A. \$0
- B. \$300
- C. \$4,580 4,500
- D. \$4,800

Answer (A) is correct.

REQUIRED: The personal exemption deduction allowed a dependent.

DISCUSSION: An exemption is allowed for each dependent whose gross income for the taxable year is less than the exemption amount (\$4,000 4,050 in 2015 2016) or who is a child of the taxpayer and has not attained the age of 19. No personal exemption may be taken on the return of an individual who can be claimed as a dependent on another taxpayer's return. Dora's parents are entitled to claim her as a dependent on their return. Therefore, Dora is not entitled to a personal exemption herself.

Answer (B) is correct.

REQUIRED: The number of exemptions that a married couple filing a joint return can claim.

DISCUSSION: On a joint return, there are two taxpayers, and an exemption is allowed for each. An exemption is also allowed for each dependent. Kim does not qualify as a dependent because she had gross income in excess of the exemption amount (\$4,000 4,050 in 2015 2016). Although a parent can also qualify as a dependent, Grant has gross income in excess of the exemption and therefore cannot be claimed. The gross income test does not apply to a person such as Dale, who is a child of the claimant, under age 24, and a full-time student. Thus, Jim and Kay can claim themselves and Dale for a total of three exemptions on their return.

Answer (D) is correct.

REQUIRED: The gross income reported for reimbursements from a nonaccountable plan.

DISCUSSION: In a nonaccountable plan, the reimbursements are included in the employee's gross income, and all the expenses are deducted from AGI (below-the-line deductions). These expenses are a miscellaneous itemized deduction subject to the 2% floor. Since the employee accounted to the employer and returned the excess reimbursement, this could have qualified as an "accountable plan." Under an accountable plan, the employee would include nothing in income and take no deduction. However, the company uses a nonaccountable plan, and Mel must include \$4,800 (400×12 months) in his gross income.

Answer (A) is incorrect. Under a nonaccountable plan, Mel must include all reimbursements in gross income (\$4,800). Answer (B) is incorrect. With a nonaccountable plan, the amount included in gross income is the total reimbursement (not limited to overpayment of the reimbursement). Answer (C) is incorrect. Under a nonaccountable plan, Mel must include all reimbursements in gross income (\$4,800).

Study Unit 4 – Self-Employment, Farming, and Adjustments

Page 135, Subunit 4.1, item 9.b.:

9. Automobile Expenses

- a. Actual expenses for automobile use are deductible (e.g., services, repairs, gas).
- b. Alternatively, the taxpayer may deduct the standard mileage rate (\$~~575~~ **.54** per mile for ~~2015~~ **2016**), plus parking fees, tolls, etc.

Page 136, Subunit 4.1, item 12.f.:

- f. The **specific write-off method** must be used for tax purposes. The reserve **allowance** method is used only for financial accounting purposes.

Page 143, Subunit 4.2, item 1.f.:

- f. An employer must pay FICA taxes for all household employees who are paid more than \$~~1,900~~ **2,000** during the year ~~2015~~ **2016**.

Page 146, Subunit 4.3, item 5.:

5. Qualified Transportation Fringe Benefits

- a. Up to \$~~250~~ **255** a month may be excluded for the value of employer-provided transit passes and transportation in an employer-provided “commuter highway vehicle.”
- b. Additionally, an exclusion of up to \$~~250~~ **255** per month is available for employer-provided parking.
- c. Employees may use both of these exclusions.

~~NOTE: The parity for transit and parking benefits expired but is expected to be renewed retroactively.~~

Page 153, Subunit 4.5, item 2.:

2. Educator Expenses

- a. ~~In 2015, p~~ **Primary** and secondary school educators may claim an above-the-line deduction for up to \$250 annually in unreimbursed expenses paid or incurred for books and supplies used in the classroom. Each taxpayer (educator) on a joint return may deduct up to \$250.
 - 1) Books, supplies, computer equipment (including related software and services) and other equipment, and supplementary materials used in the classroom qualify for the deduction.
 - 2) An eligible educator is an individual who, for at least 900 hours during a school year, is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide.
 - 3) The term “school” is defined as one that provides elementary or secondary education, as determined under state law.

~~NOTE: This provision expired but is expected to be renewed retroactively.~~

Page 154, Subunit 4.5, item 3.b.2)b):

- b) For family coverage, the taxpayer or his or her employer can contribute up to ~~\$6,650~~ **6,750** (~~\$8,650~~ **8,750** for taxpayers who have both reached age 55).

Page 155, Subunit 4.5, item 4.d.2)a):

- 2) Include the expenses of actually moving a taxpayer and his or her household goods and personal effects and travel (including lodging) from the former residence to the new residence
 - a) Instead of actual expenses, a mileage rate of ~~\$.23~~ **.19** per mile in ~~2015~~ **2016** can be used for driving one's own automobile.

Page 155, Subunit 4.5, item 5.b.2):

- 2) The most common self-employed retirement plan used is a SEP (Keogh) plan.
 - a) The maximum annual ~~deduction~~ **contribution** is limited to the lesser of 25% of the self-employed earnings or \$53,000 (indexed for inflation).
 - ~~b) The annual contribution limit is the lesser of 100% of the earned income derived from the trade or business or \$53,000.~~
 - e) **b)** Self-employed earnings are reduced by the deductible part of self-employment taxes.
 - e) **c)** Contributions to the plan are subtracted from net earnings to calculate self-employed earnings, creating a circular computation. For convenience, a standard rate of 20% is used to calculate the allowed deduction.

Page 157, Subunit 4.5, item 8.a.5)b):

- b) If an individual's spouse is an active plan participant, that individual's deductible contribution will be phased out when AGI is between ~~\$183,000~~ **184,000** and ~~\$193,000~~ **194,000**.

Page 158, Subunit 4.5, item 8.b.6):

- 6) Contributions to Roth IRAs are phased out when AGI is between ~~\$116,000~~ **117,000** and ~~\$131,000~~ **132,000** (between ~~\$183,000~~ **184,000** and ~~\$193,000~~ **194,000** for joint filers and \$0 and \$10,000 for married filing separate).

Page 158, Subunit 4.5, item 9.b. NOTE:

- b) Taxpayers with an AGI exceeding \$80,000 (\$160,000) do not receive any deduction

~~NOTE: This provision has expired but is expected to be renewed. Until renewal, the 2014 amounts will be used in this Knowledge Transfer Outline.~~

Study Unit 5 – Deductions from AGI, Credits, AMT, and Limitations

Page 175, introduction:

2015 2016 Individual Income Tax Rates and Brackets							
Rate	10%	15%	25%	28%	33%	35%	39.6%
Taxable Income							
Filing Status	The First	Max. up to	Max. up to	Max. up to	Max. up to	Max. up to	Max. up to
Married Filing Jointly and Qualifying Widow(er)	\$18,450 \$18,550	\$74,900 \$75,300	\$151,200 \$151,900	\$230,450 \$231,450	\$411,500 \$413,350	\$464,850 \$466,950	\$Balance
Head of Household	\$13,150 \$13,250	\$50,200 \$50,400	\$129,600 \$130,150	\$209,850 \$210,800	\$411,500 \$413,350	\$439,000 \$441,000	\$Balance
Single	\$9,225 \$9,275	\$37,450 \$37,650	\$90,750 \$91,150	\$189,300 \$190,150	\$411,500 \$413,350	\$413,200 \$415,050	\$Balance
Married Filing Separately	\$9,225 \$9,275	\$37,450 \$37,650	\$75,600 \$75,950	\$115,225 \$115,725	\$205,750 \$206,675	\$232,425 \$233,475	\$Balance

Page 176, Subunit 5.1, item 4. table:

4. Standard Deduction

STANDARD DEDUCTION AMOUNTS -- 2015 2016

Filing Status	Basic	Additional Age 65/Blind
Married Filing Jointly (MFJ)	\$12,600	\$1,250
Qualifying Widow(er)	12,600	1,250
Head of Household (HH)	9,250 9,300	1,550
Single (other than above)	6,300	1,550
Married Filing Separately (MFS)	6,300	1,250

Page 179, Subunit 5.1, item 6.i.2):

- 2) The taxpayer may choose between actual expenditures (e.g., taxis, air fare) or \$23.19 per mile for 2015 2016 (plus the cost of tolls and parking).

Page 181, Subunit 5.1, item 8.a.9):

- 9) Qualified mortgage insurance qualifies as home mortgage interest. The taxpayer may allocate these premiums over the shorter of the mortgage or 84 months. Though expired, the qualified mortgage insurance premium deduction is expected to be renewed for 2015. This outline and the related questions assume renewal.

Page 186, Subunit 5.2, item 2.a.3):

- 3) Employee transportation expenses
 - a) **Transportation expenses** include taxi fares, automobile expenses, tolls and parking fees, and airfare.
 - b) These expenses are treated as travel expenses if the employee is away from home overnight. Otherwise, they are transportation expenses.

- c) Commuting costs are nondeductible.
- d) Actual automobile expenses may be used for the deduction, or the taxpayer may use the standard mileage rate.
 - i) The standard mileage rate is \$.575 .54 per mile for 2015 2016, plus parking fees and tolls.
 - ii) Actual expenses must be allocated between business use and personal use of the automobile. A deduction is allowed only for the business use.
- e) Reimbursements for transportation from an employer not exceeding \$.575 .54 per mile for 2015 2016 must be adequately substantiated by a record of time, place, and business purpose.

Page 188, Subunit 5.2, item 7.a.:

7. Overall Limitation

- a. In 2015 2016, married taxpayers filing a joint return with AGI that exceeds \$309,000 311,300 (\$284,050 285,350 if head of household, \$258,250 259,400 if single, and \$154,950 155,650 if married filing separately) must reduce the aggregate amount of their itemized deductions. The amount of the reduction is the lesser of 80% of otherwise allowable itemized deductions or 3% of the amount by which AGI exceeds the threshold.

Page 189, Subunit 5.3, items 2.d.-e.:

- d. The **Lifetime Learning Credit** is 20% of qualified tuition expenses paid by the taxpayer. The maximum credit allowed per year is \$2,000 and is limited to 20% of the first \$10,000 of expenses.
 - 1) The Lifetime Learning Credit phases out for AGI between \$55,000 and \$65,000 for singles and between \$110,000 111,000 and \$130,000 131,000 on a joint return.
 - 2) The Lifetime Learning Credit is available in years that the American Opportunity Credit is not claimed with respect to the same student.
 - 3) The Lifetime Learning Credit is available for an unlimited number of years and can be used for both graduate- and undergraduate-level courses.
- e. **Retirement Savings Contribution Credit.** Unlike most other tax topics allowing a credit or deduction, this credit is in addition to the exclusion or deduction from GI for qualified contributions. In general, a taxpayer may claim a credit for an eligible contribution to an eligible retirement plan.
 - 1) AGI limit is \$30,500 30,750 (\$61,000 61,500 MFJ, \$45,750 46,125 HH) in 2015 2016.
 - 2) The maximum credit is 50% of \$2,000 contribution (i.e., \$1,000).

Page 190, Subunit 5.3, item 2.g.1)a):

- 1) The credit is equal to 15% multiplied by the initial base amount, which is
 - a) \$5,000 for single filers and married filing jointly with only one qualified spouse
 - b) \$7,500 for married filing jointly (both aged 65 or older)
 - c) \$3,750 for married filing separately

Page 191, Subunit 5.3, items 2.h.3) and 2.i.2):

- 3) **Research Credit.** A credit is allowed for 20% of the amount by which the taxpayer's qualified research expenditures for a tax year exceed its base-period amount. ~~Though expired, this provision is expected to be renewed for 2015. This course, including questions, assumes renewal.~~ Taxpayers may elect an alternative simplified credit equal to 14% of expenses in excess of 50% of the average expense for the preceding 3 years.
- i. **Adoption Credit.** A credit is allowed for qualified adoption expenses incurred by the taxpayer.
- 1) Qualified adoption expenses are reasonable and necessary adoption expenses, including adoption fees, court costs, attorney fees, and other directly related expenses.
 - 2) The maximum credit is ~~\$13,400~~ 13,460 per qualified child, including a special-needs adoption.
 - a) The ~~maximum~~ credit ~~amount is allowed for the adoption of~~ a child with special needs ~~is allowed~~ regardless of the actual expenses paid or incurred in the year the adoption becomes final.
 - b) The amount of the credit allowable for any tax year is phased out for taxpayers with modified adjusted gross income (MAGI) in excess of ~~\$201,010~~ 201,920 and is fully eliminated when MAGI reaches ~~\$241,010~~ 241,920.

Page 193, Subunit 5.3, items 3.c.5) table, 3.c.6) table, and 3.d.2):

- 5) Calculation of EIC. Multiply the individual's earned income by the applicable percentage.

EIC: Maximum Amounts, 2015 2016

Type of Taxpayer	Applicable Percentage	Earned Income Amount	Maximum EIC
0 QC	7.65%	\$ 6,580 6,610	\$ 503 506
1 QC	34%	\$ 9,880 9,920	\$3,359 3,373
2 QC	40%	\$13,870 13,930	\$5,548 5,572
3 or more QC	45%	\$13,870 13,930	\$6,242 6,269

- 6) Phaseout of EIC. Decrease the maximum EIC by any phaseout, which is determined by multiplying the applicable phaseout percentage by the excess of the amount of the individual's AGI (or earned income, if greater) over the beginning amount. No EIC is available when AGI or earned income exceeds the completed phaseout amount.

EIC: Phaseout Amounts, 2015 2016

Type of Taxpayer	Applicable Phaseout Percentage	Beginning Phaseout Amount	Beginning Phaseout Amt. for Joint Filers	Completed Phaseout Amount	Completed Phaseout Amt. for Joint Filers
0 QC	7.65%	\$ 8,240 8,270	\$13,760 13,820	\$14,820 14,880	\$20,340 20,430
1 QC	15.98%	\$18,110 18,190	\$23,630 23,740	\$39,131 39,296	\$44,651 44,846
2 QC	21.06%	\$18,110 18,190	\$23,630 23,740	\$44,454 44,648	\$49,974 50,198
3 or more QC	21.06%	\$18,110 18,190	\$23,630 23,740	\$47,747 47,955	\$53,267 53,505

d. Additional Child Tax Credit

- 1) This credit is available for certain taxpayers who get less than the full amount of the Child Tax Credit.
- 2) Through 2017, the credit is refundable up to the lesser of 15% of earned income in excess of \$3,000, or the unclaimed portion of the nonrefundable credit. The refund is capped at the per child credit amount.

Page 194, Subunit 5.4, item 1. table and item 2.:

1. The alternative minimum tax (AMT) is applied only if the tentative minimum tax exceeds the taxpayer's regular tax liability. Individuals use Form 6251 to calculate AMT. The formula below is an overview of the AMT.

AMT FORMULA

Taxable income			
+ Tax preferences			
+ Personal exemptions			
+ Standard deduction if taxpayer does not itemize			
+/- <u>Certain other adjustments</u>			
= Alternative minimum taxable income (AMTI)			
- Exemption amount			25% phaseout for
Married filing jointly	<u>2015</u>	<u>2016</u>	<u>excess over</u>
Single	\$83,400	83,800	\$158,900
Married filing separately	\$53,600	53,900	119,700
	\$41,700	41,900	\$ 79,450
= Alternative minimum tax base			<u>79,850</u>
× Rate		<u>2015</u>	<u>2016</u>
AMT base (married filing jointly)			
First \$185,400	186,300	(\$92,700	93,150
Excess		26%	
		28%	
= Tentative minimum tax			
- <u>Regular income tax</u>			
= Alternative minimum tax			

2. Tax **preference** items receive favorable treatment in computing regular income tax, e.g., tax-exempt interest on private activity bonds (issued after 1986 but excluding those issued in 2009 and 2010), excess depletion, intangible, drilling cost, small business stock exclusion (purchased prior to September 28, 2010, or after December 31, 2015). (Though expired, the small business stock exclusion is expected to be extended for 2015.)

Page 199, Subunit 5.5, EXAMPLE:

EXAMPLE

For 2015 2016, Sally realized a \$30,000 net loss (sales of \$200,000 less expenses of \$230,000) from operating a sole proprietorship without regard to dispositions of property other than inventory. Other than this, the income tax return showed gross income of \$10,000 (\$4,500 of wages, \$1,000 interest on personal savings, and a \$4,500 long-term capital gain on business property). The excess of deductions over income was ~~\$30,300~~ 30,350 (\$10,000 gross income – \$30,000 loss from business operations – \$6,300 standard deduction – ~~\$4,000~~ 4,050 personal exemption).

To compute Sally's NOL,

- (1) Add back the ~~\$4,000~~ 4,050 personal exemption amount and
- (2) Add the \$5,300 excess of nonbusiness deductions over nonbusiness income (\$6,300 standard deduction – \$1,000 interest).

Thus, Sally's NOL for the current tax year is \$21,000 [\$(~~30,300~~ 30,350) "negative taxable income" + ~~\$4,000~~ 4,050 + \$5,300].

Page 203, Subunit 5.1, Question 2:

2. Poole, 45 years old and single, is in the 15% tax bracket. He had 2015 2016 adjusted gross income of \$30,000. The following information applies to Poole:

Medical expenses	\$11,000
Standard deduction	6,300
Personal exemption	4,000 4,050

The relevant tax brackets are

Income	Tax
≤ \$9,225 9,275	10%
\$9,225 9,275 to \$37,450 37,650	15%

Poole wishes to minimize his income tax. What is Poole's 2015 2016 total income tax rounded to the nearest dollar?

- A. \$3,116 4,037
- B. \$2,494 2,484
- C. \$2,239 2,229
- D. \$1,789 1,779

Answer (C) is correct.

REQUIRED: The income tax of an unmarried individual.

DISCUSSION: Taxable income is defined as adjusted gross income minus the standard deduction (or total itemized deductions, if greater) and the deduction for personal exemptions. For a single taxpayer in 2015 2016, the basic standard deduction is \$6,300. Qualifying medical expenses in excess of 10% of AGI may be deducted as an itemized deduction. Poole's income tax is computed as follows:

Medical expenses	\$11,000
Less: 10% of AGI (\$30,000 × .10)	(3,000)
Allowable medical expenses	\$ 8,000

Use the greater of

Allowable itemized deductions or	\$ 8,000
Standard deduction	6,300

AGI	\$30,000
Itemized deductions	(8,000)
Personal exemption	(4,000) (4,050)
Taxable income	\$18,000 17,950

Tax Computation:

First: \$9,225 9,275 × .10	\$ 903 928
Balance: \$8,775 8,675 × .15	<u>1,316 1,301</u>
Income tax	<u>\$ 2,239 2,229</u>

Answer (A) is incorrect. The AGI must be reduced by the \$4,000 4,050 personal exemption and \$8,000, the greater of the standard deduction or itemized deductions, before calculating the tax. Answer (B) is incorrect. The itemized deductions of \$8,000 should be used because they exceed the standard deduction. The itemized deductions consist of the allowable medical expenses [\$11,000 – (\$30,000 × 10%)]. Answer (D) is incorrect. The medical expenses must be reduced by 10% of AGI to find the allowable itemized deductions.

Page 212, Subunit 5.6, Task 2:

🔊 Tax Credits
Authoritative Literature
Help

In each of the following situations, enter the amount of credit that may be claimed on a taxpayer's income tax return. If the value of a cell is zero or if the cell should be left blank, enter a zero (0) to receive credit for the answer.

Situation	Credit Amount
1. Taxpayer A: Single, AGI \$60,000. Paid \$5,000 of tuition for 5th year of college.	
2. Taxpayer B: MFJ, AGI \$51,000 51,500. Contributed \$5,500 to IRA account and took a \$5,500 deduction for AGI.	
3. Taxpayer C: Qualifying small business. Incurs \$15,000 of qualified first year wages for a LT family assistance recipient, who worked over 500 hours during the year.	
4. Taxpayer D: Qualified adoption expenditures \$5,000, MAGI \$100,000. Finalized the adoption of a special-needs child this year.	
5. Taxpayer E: Single, MAGI \$80,000. Taxpayer has a child age 10, for whom a dependency exemption may be claimed.	
6. Taxpayer F: Single, earned income includes \$3,500 wages and \$3,000 unemployment compensation. Taxpayer does not have any qualifying children.	

📌 = Reminder
Directions

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Page 214, Subunit 5.6, Task 5:

AMT Computation
Authoritative Literature
Help

Herbert, a single taxpayer, has taxable income of \$80,000, which includes the following items, for the 2015 **2016** taxable year:

- Interest income from commercial bonds: \$12,000
- Interest income from private activity bonds purchased in 2007 **2008**: \$3,500
- Cash contributions: \$2,400
- Interest on a home mortgage used to purchase a residence: \$5,600
- Interest on a home mortgage used to consolidate personal debts: \$4,000
- State taxes: \$3,600
- Personal exemption: ~~\$4,000~~ **4,050**

Based on the information above, enter the correct amount in each of the shaded cells below.

Questions	Answer
1. What is Herbert's regular taxable income?	
2. What is the amount of Herbert's tax preference items?	
3. What is the amount of Herbert's other adjustments?	
4. What is Herbert's alternative minimum taxable income?	

▼ = Reminder
Directions

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Page 215, Subunit 5.6, Task 2 Unofficial Answers:

2. Tax Credits (6 Gradable Items)

1. ~~\$500~~. The Lifetime Learning Credit is 20% of qualified expenses and is allowed for any year the American Opportunity Credit is not taken or allowed (post 4th year). The applicable expenses are limited to \$10,000. The credit phases out for a single taxpayer with AGI between \$55,000 and \$65,000. Taxpayer A's credit is calculated as follows: \$5,000 × 20%, i.e., \$1,000, reduced by 50% ($\$60,000 - \$55,000$) ÷ \$10,000, i.e., \$500.
2. ~~\$1,000~~. Despite taking the above-the-line deduction for the contribution to the IRA, Taxpayer B is still allowed a retirement savings contribution credit equal to 50% of \$2,000. Taxpayer B's AGI is below the ~~\$61,000~~ **61,500** phaseout threshold for MFJ taxpayers.
3. ~~\$4,000~~. Qualified employers may take the Work Opportunity Tax Credit (WOTC) equal to 40% of the first \$10,000 wages paid to LT family assistance recipients who work at least 400 hours. Generally, the credit is 40% of the first \$6,000 wages paid to qualifying employees.
4. ~~\$13,400~~ **13,460**. The maximum adoption credit amount of ~~\$13,400~~ **13,460** is allowed regardless of the actual expenses paid or incurred in the year the adoption becomes final for a special-needs child.
5. ~~\$750~~. Taxpayers who have qualifying children are entitled to the child tax credit of \$1,000 per child. Taxpayer E has one qualifying child. The credit for single taxpayers begins to phase out by \$50 per \$1,000 in excess of \$75,000. Taxpayer E's \$1,000 credit is reduced by \$250: $(\$80,000 - \$75,000) \div (\$1,000 \times \$50)$.
6. ~~\$268~~. Qualified taxpayers are allowed an earned income credit based on an applicable percentage. As a single individual with no children, Taxpayer F's credit is 7.65% of the \$3,500 earned income.

Page 216, Subunit 5.6, Task 5 Unofficial Answers:

5. AMT Computation (4 Gradable Items)

1. ~~\$80,000~~. As given in the facts, Herbert's taxable income is \$80,000.
2. ~~\$3,500~~. Tax preference items include any interest income received from private activity bonds purchased after 1986 and not including those purchased in 2009 and 2010.
3. ~~\$41,600~~ **11,650**. Other adjustments represent a limitation on itemized deductions or timing differences. Certain itemized deductions, including home equity refinancing, state and local taxes, and personal exemptions, are not included when calculating AMT. The total other adjustments for Herbert would be the interest paid on the mortgage taken out to consolidate personal debts, state taxes paid, and the personal exemption (\$4,000 + \$3,600 + \$4,000 **4,050**).
4. ~~\$95,100~~ **95,150**. Alternative minimum taxable income is equal to taxable income, plus any tax preference items, plus or minus any other adjustments. In this case, the other adjustments represent deductions that were taken when computing regular tax but are not allowed when computing AMT. Thus, they should be added back to taxable income (\$80,000 + \$3,500 + \$41,600 **11,650**).

Study Unit 6 – Property Transactions

Pages 218-221, Subunit 6.1, items 2.-8.: A new item 2. was added; item 7. from page 221 was moved to page 219 as item 4.; a new item 5. was added.

2. Unit of Property

a. A recent major change in tangible property treatment is the unit of property classification. The determination of whether tangible property costs are deducted or capitalized is determined by examining the unit of property. The unit of property is a group of functionally interdependent components and can either be an asset, group of assets, or a defined portion of an asset.

1) Non-building property generally remains subject to the functional interdependence test.

a) In the case of personal or real property other than a building, all the components that are functionally interdependent comprise a single unit of property.

b) Components of property are functionally interdependent if the placing in service of one component by the taxpayer is dependent on the placing in service of the other component by the taxpayer. The following are included in this classification of unit of property:

- i) Personal and other real property,
- ii) Improvements to a unit of property,
- iii) Components with different property classes,
- iv) Plant property, and
- v) Network assets.

b. Taxpayers must further divide the identified units of property into major components and substantial structural parts. Absent an available exception, costs to replace a major component or substantial structural part must be capitalized.

2-3. Capitalized Costs

* * *

7. 4. Uniform Capitalization Rules

- a. Costs for construction (manufacture) of real or tangible personal property to be used in trade or business and costs of producing or acquiring property for sale to customers (retail) are capitalized.
 - 1) Capitalize all costs necessary to prepare it for its intended use, both direct and most allocable indirect costs, e.g., engineering, permit, material, storage, and equipment rent.
 - a) Costs and losses associated with demolishing a structure are allocated to the land. The basis of any new building constructed on the land is its original cost (not FMV).
 - 2) Construction period interest and taxes must be capitalized as part of building cost.
 - 3) Indirect costs not capitalized include, among others, marketing, selling, advertising, distribution, research, experimental, Sec. 179, strike, warranty, unsuccessful bid, and deductible service costs.
- b. Uniform capitalization rules do not apply if property is acquired for resale and the company's annual gross receipts (for the past 3 years) do not exceed \$10 million.

5. De Minimis Expense

- a. Taxpayers can make an election to deduct a de minimis amount for each transaction relating to tangible property with an economic useful life of at least 12 months.
 - 1) A **de minimis amount** is a cost that is so small that it is not worth tracking. Taxpayers may expense any purchased assets with a cost of less than \$2,500 provided they also use this policy for financial accounting purposes.
 - a) If the taxpayer has audited or other approved financial statements, assets up to \$5,000 may be expensed.
 - b) The determination of the value of an asset includes all capitalized costs but the limit is applied on a per unit basis.

EXAMPLE

Henry, a business owner who does not have his financial statements audited, purchases 2 computers for \$3,000 and pays \$500 to have them installed. The cost per computer is \$1,750 $[(\$3,000 + \$500) \div 2]$, which allows the computers to be expensed as a de minimis expense.

5. 6. Lump-Sum Assets

* * *

8. 10. Adjusted Basis

- a. Initial basis is adjusted consistent with tax-relevant events. Adjustments include the following:
 - 1) Certain expenditures subsequent to acquisition are property costs, and they increase basis, e.g., legal fees to defend title or title insurance premiums.
 - 2) Basis must be increased for expenditures that prolong the life of the property by at least 1 year or materially increase its value, i.e., improve the unit of property. Assessments/improvements that increase the value of property should be capitalized.
 - a) Examples include major improvements (e.g., new roof, addition to building, etc.) and zoning changes.
 - b) Maintenance, repair, and operating costs are not capitalized.

EXAMPLE

In order to save money on their utility bills, Mr. and Mrs. Thrifty paid to replace their old roof with a new one with better insulation. The new roof materially increased the value of the house, so the cost of the roof should be added to the basis of the house.

- 3) Generally, repairs and maintenance expenses are considered a current-period deduction. However, certain repairs may be classified as an improvement, which must be capitalized. There are multiple safe harbors that allow repairs and maintenance to always be classified as a current-period expense instead of capitalized.
 - a) Repairs under \$2,500 are always considered a de minimis expense (\$5,000 for taxpayers with audited or other approved financial statements).
 - b) The costs of performing certain routine maintenance activities for property may result in an improvement to the unit of property, i.e., capitalized costs. However, a safe harbor allows routine repairs and maintenance to be expensed. This safe harbor applies to actions that maintain the asset and is reasonably expected to be performed more than once for the asset's class life under the alternative depreciation system.
- 4) An increase to basis may result from liability to the extent it is secured by real property and applied to extend its life.

Page 225, Subunit 6.2, item 3.f.4):

~~NOTE: Though this provision is expired, it is expected to be renewed and has been treated as though renewed in this course.~~

Page 225, Subunit 6.2, item 4.c.:

- c. For 2015 ~~2016~~, though expired, an extension of the increased limits is expected and, therefore, a deduction may be for no more than either
 - 1) \$500,000 minus the excess of Sec. 179 costs for the year over \$2.01 million or
 - 2) Taxable income from the active conduct of any trade or business during the tax year.

Page 226, Subunit 6.2, item 5.:

5. Bonus Depreciation

- a. A first-year depreciation (also called bonus depreciation) of 50% (40% in 2018, 30% in 2019) of the adjusted basis is allowed for qualified property. ~~This provision is expected to be extended for 2015. The questions in this course treat the topic as being extended for 2015.~~
 - 1) This is in addition to the Section 179 deduction.
 - 2) Qualifying property must be new, generally have a 20-year or less recovery period, and be acquired by the taxpayer after December 31, 2007, and before January 1, 2016 ~~2020~~, and placed in service before January 1, 2016 ~~2020~~ (or before January 1, 2017 ~~2021~~, in the case of property with a longer production period and certain noncommercial aircraft). Qualifying property includes leasehold improvements.

Page 232, Subunit 6.3, item 8.a.:

8. Small Business Stock Exclusion

- a. Under Section 1202, taxpayers may exclude 50% of the gain from the sale or exchange of small business stock. The stock must have been issued after August 10, 1993, and held for more than 5 years. The exclusion increases to 75% for stock acquired after February 17, 2009, and before September 28, 2010. The exclusion increases to 100% for stock acquired after September 27, 2010, and before January 1, 2016. This exclusion expired but is expected to be renewed and applicable for 2015.

Page 239, Subunit 6.6, item 5.c.:

- c. If the stock is acquired after February 17, 2009, and before September 28, 2010, 75% of the gain may be excluded. The exclusion increases to 100% for stock acquired after September 27, 2010, and before January 1, 2016. This exclusion expired but is expected to be renewed and applicable for 2015.

Page 246, Subunit 6.2, Questions 7 and 8:

7. Browne, a self-employed taxpayer, had 2015 2016 business taxable income of \$435,000 prior to any expense deduction for equipment purchases. In 2015 2016, Browne purchased and placed into service, for business use, office machinery costing \$450,000. This was Browne's only 2015 2016 capital expenditure. Browne's business establishment was not in an economically distressed area. Browne made a proper and timely expense election to deduct the maximum amount. Browne was not a member of any passthrough entity. What is Browne's deduction under the election?

- A. \$435,000
- B. \$450,000
- C. \$500,000
- D. ~~\$2,000,000~~ 2,010,000

8. A taxpayer purchased and placed in service during the year a \$100,000 piece of equipment. The equipment is 7-year property. The first-year depreciation for 7-year property is 14.29%. Assume that there is an, of the allowable Sec. 179 limit in for the current year of, \$25,000 is allocated to this piece of equipment. What amount is the maximum allowable depreciation?

- A. \$14,290
- B. \$25,000
- C. \$35,718
- D. \$39,290

Answer (A) is correct.

REQUIRED: The maximum amount of Sec. 179 deduction in 2015 2016.

DISCUSSION: Tangible and depreciable personal property can be expensed by up to \$500,000 in 2015 2016, the year of acquisition. This amount is reduced when the amount of Sec. 179 property placed in service in a given year exceeds ~~\$2,000,000~~ 2,010,000. Since this limit does not apply, the maximum deduction would be \$500,000; however, there are other limits. Section 179(b)(3)(A) limits the deduction to taxable income derived from the active conduct of any trade or business. In this case, the maximum deduction is \$435,000.

Answer (B) is incorrect. The Sec. 179 deduction is limited to taxable income. Answer (C) is incorrect. The maximum Sec. 179 deduction of \$500,000 for 2015 2016 ignores the taxable income limit. Answer (D) is incorrect. The amount of ~~\$2,000,000~~ 2,010,000 is the threshold at which the deduction is reduced dollar-for-dollar, ignoring the taxable income limit in this case.

Answer (C) is correct.

REQUIRED: The maximum allowable depreciation

DISCUSSION: Depreciation for an asset is first determined based upon the election of the taxpayer to take a Sec. 179 expense on the asset. However, if the taxpayer chooses to expense any of the property, the property's adjusted basis is reduced by the Sec. 179 expense in determining the applicable depreciation base. Therefore, the depreciation is calculated as follows:

Purchase price of asset	\$100,000
Less: Sec. 179 expense	<u>(25,000)</u>
Depreciable basis	\$ 75,000
Times: Depreciation rate (14.29%)	<u>(10,718)</u>
New Adjusted Basis of Equipment	<u>\$ 64,282</u>

Total depreciation for the first year equals \$25,000 + \$10,718 = \$35,718.

Answer (A) is incorrect. The Sec. 179 expense deduction may be taken and the depreciable basis of the property must be reduced by the Sec. 179 expense before applying the regular MACRS rate. Answer (B) is incorrect. The MACRS rate of 14.29% is still allowed on the equipment even if the Sec. 179 expense is made. Answer (D) is incorrect. The property's depreciable basis is reduced by the Sec. 179 expense before applying the regular MACRS rate.

Study Unit 7 – Corporate Taxable Income

Page 264, Subunit 7.1, item 4.a.2):

- 2) A Beginning with the 2016 tax year, a C corporation's tax return is due on or before the 15th day of the 3rd 4th month following the close of the tax year (e.g., March April 15 for a calendar year corporation).
 - a) A Through 2025, a corporation that files Form 7004 and pays its estimated unpaid tax liability is allowed an extension of up to 6 5 months (after 2025, it goes back to 6 months) for calendar year C corporations and 6 months for non-calendar year or June 30 fiscal year C corporations.
 - b) An exception to the new rule applies to C corporations with a June 30 fiscal year. These C corporations will continue to have a due date of the 15th day of the 3rd month following the close of the tax year. This will continue until tax years beginning after December 31, 2025. The extension date is April 15, effective for the 2016 fiscal year.

Page 271, Subunit 7.3, item 11.b.:

- b. The reserve allowance method is not allowed (except for financial institutions).

Page 277, Subunit 7.1, Question 4:

4. ABC, a C corporation, ends its tax year on October 30. When must ABC's income tax return be filed for the year ending October 30, Year-1 2017?

- A. January 15, Year-2 2018.
- B. March 15, Year-2 2018.
- C. February 15, Year-2 2018.
- D. April 15, Year-2 2018.

Answer (A C) is correct.

REQUIRED: The proper income tax return due date for a fiscal year corporation.

DISCUSSION: A corporation must file its return on or before the 15th day of the third 4th month following the close of the tax year. For a fiscal-year corporation with a year end of 10/30/Yr-1 October 30, 2017, the return must be filed by 1/15/Yr-2 February 15, 2018.

Answer (B) is incorrect. Calendar year corporations must file by this date. Answer (C) is incorrect. February 15, Year 2, is 1 month late. Answer (D) is incorrect. April 15, Year 2, is 3 months late.

Answer (A) is incorrect. January 15, 2018, is 1 month early. Answer (B) is incorrect. March 15, 2018, is 1 month late. Answer (D) is incorrect. Calendar-year corporations must file by April 15, 2018.

Study Unit 8 – Corporate Tax Computations

Page 302, Subunit 8.4, item 6.a.2):

- 2) Sec. 179 expensing maximum of \$500,000 (~~expired but expecting renewal~~)

Page 303, Subunit 8.5, item 1.c.2)a):

- 2) For individuals, a two-tiered graduated rate schedule applies.
 - a) A 26% rate applies to the first \$185,400 186,300 (\$92,700 93,150 if married filing separately) of AMTI (net of the exemption amount).

Page 303, Subunit 8.5, item 2.b.:

- b. Small business stock. When computing taxable income, noncorporate taxpayers may exclude up to 50% (100% for stock purchased after September 27, 2010 and before January 1, 2015) of gain realized on the sale or exchange of qualified small business stock held more than 5 years.
 - 1) Generally, 7% of the excluded gain is added as an AMT tax preference item. However, stock purchased between after September 27, 2010, and January 1, 2015, is excluded from tax preference treatment (though provision expired post-2014, it is expected to be renewed for 2015).

Page 307, Subunit 8.6, item 1.b.:

1. Due Dates

- a. A corporation is required to make estimated tax payments on the 15th day of the 4th, 6th, 9th, and 12th months of the tax year.
- b. Any difference between the estimated tax and actual tax is due with the return by the 15th day of the 3rd 4th month following the end of the tax year (March April 15 for calendar-year C corporations). The change from the 3rd month to the 4th first applies to C corporations whose tax year begins after December 31, 2015.
- c. An extension of time to file the tax return does not provide an extension of time to pay the tax liability without incurring interest and/or penalty.

Study Unit 9 – Corporate Tax Special Topics

Page 346, Subunit 9.9, item 1.a.:

1. Return Due Date

- a. A C corporation must file a return (postmarked) no later than the 15th day of the 3rd 4th month (3rd month until tax year 2026 for those with a June 30 fiscal year) after the close of its tax year (March April 15 for a calendar-year C corporation). An automatic extension of 6 5 months (6 months for a non-calendar year or 7 months for a June 30 fiscal-year C corporation) is provided to a corporation that files Form 7004 and pays its estimated tax liability on or before the initial due date. In 2026, the automatic extension becomes 6 months for calendar-year and June 30 fiscal-year C corporations.

Study Unit 10 – S Corporations

Page 367, Subunit 10.1, item 7.b.:

- b. The S corporation files a tax return (Form 1120S). The due date is the 15th of the 3rd month following the close of the tax year (e.g., March 15 for calendar-year taxpayers). This no longer matches C corporations, which have, for the most part, moved to the 15th of the 4th month.

Page 369, Subunit 10.2, item 4.a.:

4. Corporate Level Items

- a. Items not required to be separately stated organizational costs (e.g., utilities, noninvestment interest expense, and other ordinary items of income and expense) are combined at the corporate level, and a net amount of ordinary income or loss is passed through to shareholders.

Page 376, Subunit 10.4, item 3.b.1):

- 1) For 2011-2014 After 2010, the recognition period is reduced to 5 years for disposals by S corporations if the 5th taxable year precedes the applicable year (2011-2014 or later).
 - a) Thus, the conversion must have taken place effective 2008 2011 for 2013 2016 disposals.

Study Unit 11 – Partnerships and Exempt Organizations

Page 404, Subunit 11.2, item 13.f.:

- f. A Starting with tax years beginning in 2016, a partnership return is due (postmark date) on or before the 15th day of the 4th 3rd month following the close of the partnership's tax year (April March 15th for calendar-year partnerships).

Study Unit 12 – Estates, Trusts, and Wealth Transfer Taxes

Page 436, Subunit 12.1, item 2.a.:

2. Tax Rates

- a. Tax is imposed on taxable income of a trust or estate at the following rates for 2015 2016:

<u>Fiduciary Taxable Income Brackets</u>	<u>Applicable Rate</u>
\$ 0 - \$ 2,500 2,550	15%
> 2,500 2,550 - 5,900 5,950	25% (+ \$375.00 382.50)
> 5,900 5,950 - 9,050	28% (+ \$1,225.00 1,232.50)
> 9,050 - 12,300 12,400	33% (+ \$2,107.00 2,100.50)
> 12,300 12,400	39.6% (+ \$3,179.50 3,206.00)

Page 437, Subunit 12.1, item 7.a.1):

- 1) The trustee, executor, or administrator must file the return no later than the 15th day of the 4th month after the close of the entity's tax year. For 2016 and later tax years, the extended due date is 5 1/2 months later.

Page 437, Subunit 12.1, new item 8.g.1): Subsequent items in this list were renumbered.

- 1) Expenses that are directly allocable to tax-exempt income are allocated only to tax-exempt income. A reasonable proportion of expenses indirectly allocable to both tax-exempt income and other income must be allocated to each class of income.
- 42) Administration expenses are deductible in full, if not deducted on the estate tax return. The amount of trustee fees deductible is not limited to the excess over 2% of AGI.

Page 440, Subunit 12.1, item 12.a.2):

- 2) Any excess Fiduciary Taxable Income over the amount at which the highest tax bracket for estates and trusts begins for the tax year (\$12,300 12,400 for 2015 2016).

Page 444, Subunit 12.3, item 10.d.:

- d. Applicable credit amount (ACA). Tentative tax may also be reduced by any ACA. The ACA is a base amount (~~\$2,117,800~~ 2,125,800 in 2015 2016) reduced by amounts allowable as credits for all preceding tax years. This excludes the first ~~\$5.43~~ 5.45 million of taxable gifts.

$$\text{Gift tax liability for a current year} = \text{Tentative tax} - (\text{Prior-year gifts} \times \text{Current rates}) - \text{ACA}$$

Page 444, Subunit 12.3, item 11.b.:

- b. A gift tax return is due on the 15th of April following the calendar year in which a gift was made. But a gift tax return for a year of death is due no later than the estate tax return due date (i.e., the earlier of the regular due date or the estate tax due date).

Page 448, Subunit 12.4, item 4.e. and EXAMPLE:

- e. The ACA is a base amount (~~\$2,117,800~~ 2,125,800 in 2015 2016), not reduced by amounts allowable as credits for gift tax for all preceding tax years.
- 1) The ACA offsets the estate tax liability that would be imposed on a taxable estate of up to ~~\$5.43~~ 5.45 million computed at current rates.
 - 2) Any unused amount by a deceased spouse may be used by the surviving spouse in addition to the surviving spouse's own exclusion amount. Under this portability election, the surviving spouse could potentially have an available exclusion amount of ~~\$10.86~~ 10.9 million.

EXAMPLE

The deceased spouse only used ~~\$3.43~~ 3.45 million of the allowed exclusion. The surviving spouse is allowed a ~~\$7.43~~ 7.45 million exclusion (~~\$5.43~~ 5.45 million surviving spouse original amount + \$2 million unused by the deceased spouse).

Page 448, Subunit 12.4, item 5.a.1):

5. Estate Tax Return

- a. The executor is required to file Form 706, *United States Estate Tax Return*, if the gross estate exceeds a threshold.
- 1) The threshold is ~~\$5.43~~ 5.45 million in 2015 2016.
 - 2) Adjusted taxable gifts made by the decedent during his or her lifetime reduce the threshold.

Page 450, Subunit 12.5, item 6.a.:

6. Exemption

- a. Each individual is allowed a ~~\$5.43~~ 5.45 million exemption in 2015 2016 that (s)he, or his or her executor, may allocate to GST property. The exemption is indexed for inflation. Gift splitting applies to GSTTs; ~~\$10.86~~ 10.9 million is allocable.

Page 455, Subunit 12.3, Question 20:

20. George and Suzanne have been married for 40 years. Suzanne inherited \$43,000,000 from her mother. Assume that the annual gift-tax exclusion is \$14,000. What amount of the \$43,000,000 can Suzanne give to George without incurring a gift-tax liability?

- A. \$14,000
- B. \$28,000
- C. ~~\$500,000~~ 1,500,000
- D. ~~\$1,000,000~~ 3,000,000

Answer (D) is correct.

REQUIRED: The amount a spouse can transfer to another spouse without incurring gift tax.

DISCUSSION: There is an unlimited marital deduction for taxable gift transfers made between spouses. George and Suzanne qualify because they were married at the time of the transfer and are both U.S. citizens. Therefore, all \$43,000,000 is excluded from gift tax.

Answer (A) is incorrect. The annual exclusion is equal to \$14,000. There is an unlimited marital deduction for taxable gift transfers made between spouses. George and Suzanne qualify because they were married at the time of the transfer and are both U.S. citizens. Therefore, all \$43,000,000 is excluded from gift tax. Answer (B) is incorrect. The annual exclusion allowed for couples under gift splitting is equal to \$28,000. There is an unlimited marital deduction for taxable gift transfers made between spouses. George and Suzanne qualify because they were married at the time of the transfer and are both U.S. citizens. Therefore, all \$43,000,000 is excluded from gift tax. Answer (C) is incorrect. One-half of the total taxable gift is equal to \$1,500,000. There is an unlimited marital deduction for taxable gift transfers made between spouses. George and Suzanne qualify because they were married at the time of the transfer and are both U.S. citizens. Therefore, all \$43,000,000 is excluded from gift tax.

Page 457, Subunit 12.4, Questions 25 and 26:

25. Alan Curtis, a U.S. citizen, died on March 1, 2014 2016, leaving an adjusted gross estate with a fair market value of \$13.4 million at the date of death. Under the terms of Alan's will, \$2,375,000 was bequeathed outright to his widow, free of all estate and inheritance taxes. The remainder of Alan's estate was left to his mother. Alan made no taxable gifts during his lifetime. In computing the taxable estate, the executor of Alan's estate should claim a marital deduction of

- A. ~~\$250,000~~ 2,250,000
- B. ~~\$375,000~~ 2,375,000
- C. ~~\$700,000~~ 1,700,000
- D. \$1,025,000

Answer (B) is correct.

REQUIRED: The amount of the marital deduction.

DISCUSSION: A marital deduction for the value of any interest in property that passes from the decedent to the surviving spouse (which is not a terminable interest) is allowed, but only to the extent that the interest is included in the gross estate. The outright bequest of \$2,375,000 is includible and deductible in full.

Answer (A) is incorrect. The full \$2,375,000 of the outright transfer by bequest is deductible. Answer (C) is incorrect. The marital deduction is for the amount that passes or passed to the surviving spouse, not an amount that might have passed had intestate succession law applied. Answer (D) is incorrect. The marital deduction is an amount subtracted from the gross estate, not the estate net of the deduction.

26. In 2015 2016, what amount of a decedent's taxable estate is effectively tax-free if the maximum applicable credit amount is taken?

- A. \$0
- B. \$14,000
- C. ~~\$2,117,800~~ 2,125,800
- D. ~~\$5,430,000~~ 5,450,000

Answer (D) is correct.

REQUIRED: The amount of a decedent's taxable estate that is effectively tax-free.

DISCUSSION: The ~~\$2,117,800~~ 2,125,800 ACA for 2015 2016 offsets the estate tax liability that would be imposed on a taxable estate of ~~\$5.43~~ 5.45 million computed at current tax rates.

Answer (A) is incorrect. Some of the taxable estate will be effectively tax-free. Answer (B) is incorrect. Although \$14,000 is the annual amount of gifts excluded per donee, it does not directly affect the tax-free portion of a decedent's estate. Answer (C) is incorrect. This amount is the ACA that offsets the estate tax liability that would be imposed on a taxable estate of ~~\$5.43~~ 5.45 million.

Page 462, Subunit 12.6, Task 4:

🔊 Gift Tax
Authoritative Literature
Help

Select from the list provided to indicate whether each transaction, event, or variable described below will result in an increase or a decrease of federal gift tax liability for 2015 **2016**, or if it will result in no change.

Each choice may be used once, more than once, or not at all.

<i>Transaction, Event, or Factor</i>	<i>Effect on Gift Tax Liability</i>	<i>Choices</i>
1. Kyle's \$23,000 payment to State College on August 25, 2015 2016 , to pay for his nephew's tuition		A) Increase gift tax liability
2. Linda's gift to her husband of a gold watch with a FMV of \$25,000 and \$40,000 cash in 2015 2016		B) Decrease gift tax liability
3. Brandy's taxable gifts of \$5.43 5.45 million during 2014 2015 , if she made a \$37,000 cash gift to her friend Mary on October 13, 2015 2016		C) No change in gift tax liability
4. Corey's receipt of a sports car worth \$85,000 as a gift from his girlfriend on June 20, 2015 2016		
5. Zach's gift of \$8,000 cash to his friend on July 31, 2015 2016 , after having already given her a \$22,000 cash gift on June 12, 2015 2016 , if Zach is a calendar-year taxpayer and had given gifts totaling \$5.5 million in 2014 2015		

📌 = Reminder
Directions

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Page 464, Subunit 12.6, Task 4 Unofficial Answers:

4. Gift Tax (5 Gradable Items)

1. C) No change in gift tax liability. Gift tax liability is computed on the amount of taxable gifts attributable to the taxpayer in the current year. Payments of tuition on behalf of another individual are excluded from taxable gifts.
2. C) No change in gift tax liability. Gifts made to a spouse are not considered taxable gifts.
3. A) Increase gift tax liability. The applicable credit amount (ACA) is applied to the first \$2,117,800 **2,125,800** of gift tax liability (first \$5.43 **5.45** million of taxable gifts). Once that limit has been passed, additional taxable gifts made will increase the gift tax liability.
4. C) No change in gift tax liability. Gift tax is imposed on the donor, not the recipient of a gift.
5. A) Increase gift tax liability. The applicable credit amount (ACA) is applied to the first \$2,117,800 **2,125,800** of gift tax liability (first \$5.43 **5.45** million of taxable gifts). Once that limit has been passed, additional taxable gifts made will increase the gift tax liability. The balance of ACA that is available for a given year is reduced by any amount of the credit that was applied in previous years.

Study Unit 13 – Federal Tax Legislation, Procedures, Planning, and Accounting

Page 475, Subunit 13.2, items 3.b-f.: Add new item b. and renumber and edit the following items.

- b. **C corporation** tax return due dates changed significantly beginning with the 2016 tax year. Eventually, all C corporations will have original due dates on the 15th day of the 4th month following the end of the tax year, and extended due dates 6 months later on the 15th day of the 10th month following the end of the tax year. The following table shows the due dates and extension dates beginning in 2016 through to 2026 when all are again unified. Changes/differences are in bold:

Tax Year Type	2016-2025	2026
Calendar/Dec. 31 Fiscal Year	Original: 4th month (April 15) Extended: 9th month (Sept. 15)	Original: 4th month (April 15) Extended: 10th month (Oct. 15)
June 30 Fiscal Year	Original: 3rd month (Sept. 15) Extended: 10th month (April 15)	Original: 4th month (April 15) Extended: 10th month (April 15)
Other Fiscal Year	Original: 4th month Extended: 10th month	

- bc. **Corporate** tax returns, including for **S corporation** tax returns must be filed (postmarked) no later than the 15th day of the **3rd** month following the close of the tax year. This is March 15 for calendar-year taxpayers.
- 1) An automatic **6-month** extension is available by filing Form 7004. This extends the deadline to September 15 for calendar-year taxpayers.
 - 2) The extension does not grant any additional time to pay taxes due.
- ed. **Partnership and trust** tax returns must be filed (postmarked) no later than the 15th day of the **4th 3rd** month following the close of the tax year. This is ~~April~~ **March 15** for calendar-year taxpayers. ~~Prior to 2016, it was the 4th month following the close of the tax year (e.g., April for calendar-year taxpayers).~~
- 1) An automatic **56-month** extension is available by filing Form 7004. This extends the deadline to September 15 for calendar-year taxpayers.
- de. **Exempt organizations** are generally required to file annual information returns by the 15th day of the **5th** month following the close of the taxable year.
- 1) Form 8868 can be filed to request ~~both~~ an automatic **36-month** extension ~~and an additional 3-month extension~~ if needed. ~~Prior to 2016, the extension period was separated into two 3-month extensions.~~
- ef. ~~Estate tax returns are due within 9 months after the date of the decedent's death. and~~ **trust** tax returns must be filed (postmarked) no later than the 15th day of the 4th month following the close of the tax year. This is April 15 for trusts and calendar-year estates.
- 1) An extension of up to ~~6~~ **5 1/2** months may be granted by filing Form 4768 **7004**. ~~Prior to 2016, the extension period was only 5 months.~~
- fg. If the 15th day falls on a Saturday, Sunday, or legal holiday, the due date is extended until the next business day.