

(1) <i>Gross income</i>	110,000	\$100,000 salary + \$6,000 interest income + \$4,000 long-term capital gain
(2) <i>For AGI deductions</i>	<u>0</u>	
(3) <i>Adjusted gross income</i>	\$110,000	(1) – (2)
(4) <i>Standard deduction</i>	23,625	Head of household
(5) <i>Itemized deductions</i>	25,000	
(6) <i>Greater of standard deduction or itemized deductions</i>	(25,000)	(5) > (4)
(7) <i>Taxable income</i>	\$85,000	(3) + (6)
(8) <i>Income tax liability</i>	\$11,595	\$3,553 [(\$81,000 – \$64,850) × 22%] + \$7,442 + \$600 (\$4,000 × 15%) (see tax rate schedules for head of household)
(9) <i>Child tax credit</i>	(2,200)	Basic child tax credit amount
(10) <i>Tax withholding</i>	(10,000)	
<i>Tax refund</i>	(\$605)	(8) + (9) + (10)

- c. Assume the original facts except that Jeremy had only \$7,000 in itemized deductions. What is Jeremy's tax refund or tax due?

Jeremy is due a tax refund in the amount of \$702, calculated as follows:

<i>Description</i>	<i>Amount</i>	<i>Computation</i>
(1) <i>Gross income</i>	\$106,000	\$100,000 salary + \$6,000 interest income
(2) <i>For AGI deductions</i>	0	
(3) <i>Adjusted gross income</i>	106,000	(1) – (2)
(4) <i>Standard deduction</i>	23,625	Head of household
(5) <i>Itemized deductions</i>	7,000	
(6) <i>Greater of standard deduction or itemized deductions</i>	(23,625)	(4) > (5)
(7) <i>Taxable income</i>	\$82,375	(3) + (6)
(8) <i>Income tax liability</i>	\$11,298	\$3,856 [(\$82,375 – \$64,850) × 22%] + \$7,442 (see tax rate schedule for head of household)
(9) <i>Child tax credit</i>	(2,200)	Basic child tax credit amount
(10) <i>Tax withholding</i>	(10,000)	
<i>Tax refund</i>	(\$902)	(8) + (9) + (10)

34.[LO 1] {Planning} Nitai, who is single and has no dependents, was planning on spending the weekend repairing his car. On Friday, Nitai’s employer called and offered him \$500 in non overtime pay if he would agree to work over the weekend. Nitai could get his car repaired over the weekend at Autofix for \$400. If Nitai works over the weekend, he will have to pay the \$400 to have his car repaired, but he will earn \$500. Assume Nitai’s marginal tax rate is 12 percent.

- a. Strictly considering tax factors, should Nitai work or repair his car if the \$400 he must pay to have his car fixed is not deductible?

If Nitai works, he will receive \$500, but he will have to pay \$60 in taxes ($\$500 \times 12\%$), netting him \$440. He then must pay \$400 for his car to be repaired, which means he will gain \$40 ($\$440 - 400$) by working. If he doesn’t work, he won’t have any income, he won’t pay any taxes, and he won’t have to pay to have his car repaired. Overall, he would be \$40 better off by working.

Note that taxes may not be the only concern here. Nitai would also need to factor in how much he enjoys repairing his car and how much he enjoys working. He could also consider whether he will do a better job repairing his car or whether Autofix could do a better job.

- b. Strictly considering tax factors, should Nitai work or repair his car if the \$400 he must pay to have his car fixed is deductible for AGI?

If Nitai works, he will receive \$500, and he will be allowed to deduct the \$400 repair expense, leaving him with taxable income of \$100 ($\$500 - \400) on which he will pay \$12 in taxes. So, if he works, he will receive \$500, pay \$400 to have his car fixed, and pay \$12 in taxes, leaving him with \$88. If he doesn’t work, he won’t have any income, he won’t pay any taxes, and he won’t be out of pocket because he will do his own repair work (assuming the repair only requires labor). So, he’s \$88 better off by working and having his car repaired by Autofix (considering only tax factors).

35.[LO 1, LO 2] Rank the following three single taxpayers in order of the magnitude of taxable income (from lowest to highest) and explain your results. Assume none of the taxpayers contributed to charity this year.

	<u>Ahmed</u>	<u>Baker</u>	<u>Chin</u>
Gross Income	\$ 90,000	\$ 90,000	\$ 90,000
Deductions for AGI	14,000	7,000	0
Itemized Deductions	0	7,000	18,000
Deduction for qualified business income	0	2,000	10,000

Baker has the highest taxable income, followed by Chin and then Ahmed. Baker's taxable income is highest because he had a small amount of for AGI deductions, his itemized deductions were less than the standard deduction amount so he didn't get any tax benefit from his itemized deductions. Baker also had a small amount of QBI deduction. This was not enough to make up for his lack of other deductions. Chin was next. Chin didn't have any for AGI deductions, but he had enough itemized deductions to exceed the standard deduction by \$2,250. Chin's biggest deduction was the deduction for QBI. This is a from AGI deduction that is not an itemized deduction. Ahmed has the lowest because he had the most for AGI deductions. See the following analysis:

Description	Ahmed	Baker	Chin	Computation
(1) Gross income	\$90,000	\$90,000	\$90,000	
(2) For AGI deductions	<u>(14,000)</u>	<u>(7,000)</u>	<u>0</u>	
(3) Adjusted gross income	\$76,000	\$83,000	\$90,000	(1) + (2)
(4) Standard deduction	(15,750)	(15,750)	(15,750)	Single taxpayer
(5) Itemized deductions	0	(7,000)	(18,000)	
(6) Greater of standard deduction or itemized deductions	(15,750)	(15,750)	(18,000)	Ahmed: (4) > (5) Baker: (4) > (5) Chin: (5) > (4)
(7) Deduction for qualified business income	0	(2,000)	(10,000)	
Taxable income	\$60,250	\$65,250	\$62,000	(3) + (6) + (7)

37.[LO 2] The Samsons are trying to determine whether they can claim their 22-year-old adopted son, Jason, as a dependent. Jason is currently a full-time student at an out-of-state university. Jason lived in his parents' home for three months of the year, and he was away at school for the rest of the year. He received \$9,500 in scholarships this year for his outstanding academic performance and earned \$4,800 of income working a part-time job during the year. The Samsons paid a total of \$5,000 to support Jason while he was away at college. Jason used the scholarship, the earnings from the part-time job, and the money from the Samsons as his only sources of support.

d. Can the Samsons claim Jason as their dependent?

Yes, the Samsons may claim Jason as their dependent. He is their qualifying child. See the following analysis.

Test	Jason
<i>Relationship</i>	<i>Yes, adopted son qualifies</i>
<i>Age</i>	<i>Yes, under age 24 and a full-time student (and younger than parents).</i>
<i>Residence</i>	<i>Yes, temporary absences away at school count as time in the parents' home.</i>
<i>Support</i>	<i>Yes. The Samsons provided \$5,000 of support for Jason. Jason provided \$4,800 of his own support (Jason did not provide more than half of his own support). Jason also received \$9,500 of scholarship money, but this does not count as support provided for himself because he is an actual child of the Samsons.</i>

e. Assume the original facts except that Jason's grandparents, not the Samsons, provided Jason with the \$5,000 worth of support. Can the Samsons (Jason's parents) claim Jason as their dependent? Why or why not?

Yes, the Samsons may claim Jason as their dependent. Jason is their qualifying child. See the following analysis.

Test	Jason
<i>Relationship</i>	<i>Yes, Jason is their (adopted) son.</i>
<i>Age</i>	<i>Yes, under age 24 and a full-time student (and younger than his parents).</i>
<i>Residence</i>	<i>Yes, temporary absences away at school count as time in the parents' home.</i>
<i>Support</i>	<i>Yes, even though Jason's parents did not provide any of his support, Jason did not provide more than half of his own support because his grandparents provided \$5,000 of support for Jason. Jason provided \$4,800 of his own support. Jason also received \$9,500 of scholarship money, but this does not count as support provided for himself because he is an actual child of the Samsons, who are claiming him as a dependent.</i>

- c. Assume the original facts except substitute Jason's grandparents for his parents. Determine whether Jason's grandparents can claim Jason as a dependent.

No, the grandparents may not claim Jason as a dependent. He is neither a qualifying child nor a qualifying relative.

Test	Jason
<i>Relationship</i>	<i>Yes, Jason is the descendant of the taxpayers' child (one of Jason's parents is the child of the taxpayers).</i>
<i>Age</i>	<i>Yes, under age 24 and a full-time student (and younger than his grandparents).</i>
<i>Residence</i>	<i>Yes, temporary absences away at school count as time in the grandparents' home since that is his permanent residence.</i>
<i>Support</i>	<i>No, Jason's grandparents provided \$5,000 of support. Jason provided \$4,800 of his own support through his part time job. He also provided \$9,500 of his own support through a scholarship. In this case, because the taxpayers are not Jason's parents, the \$9,500 scholarship counts as support provided by Jason. So, he provides more than half of his own support, and he does not meet the support test to qualify as a qualifying child of his grandparents. Because the grandparents did not provide more than half of Jason's support, Jason would not qualify as a qualifying relative either.</i>

- d. Assume the original facts except that Jason earned \$6,500 while working part-time and used this amount for his support. Can the Samsons claim Jason as their dependent? Why or why not?

No, the Samsons may not claim Jason as their dependent. He is neither their qualifying child nor their qualifying relative. See the following analysis.

Test	Jason
<i>Relationship</i>	<i>Yes, adopted son qualifies</i>
<i>Age</i>	<i>Yes, under age 24 and a full-time student (and younger than his parents).</i>
<i>Residence</i>	<i>Yes, temporary absences away at school count as time in the parents' home.</i>
<i>Support</i>	<i>No, the Samsons provided \$5,000 of support for Jason. Jason provided \$6,500 of his own support. Jason also received \$9,500 of scholarship money, but this does not count as support provided for himself because he is an actual child of the Samsons. Nevertheless, because Jason provided more than half of his own support, he is neither a qualifying child nor a qualifying relative to his parents. Jason could also not be a qualifying relative because his income of \$6,500 is not less than \$5,200.</i>

39.[LO 2] Francine’s mother Donna and her father Darren separated and divorced in September of this year. Francine lived with both parents until the separation. Francine does *not* provide more than half of her own support. Francine is 15 years old at the end of the year.

f. Is Francine a qualifying child to Donna?

Yes, see analysis below.

Test	Francine
<i>Relationship</i>	<i>Yes, Francine is Donna’s daughter.</i>
<i>Age</i>	<i>Yes, under age 19 at end of year (and younger than Donna)</i>
<i>Residence</i>	<i>Yes, Francine lived with Donna for more than half the year.</i>
<i>Support</i>	<i>Yes, Francine does not provide more than half of her own support.</i>

b. Is Francine a qualifying child to Darren?

Yes, see analysis below.

Test	Francine
<i>Relationship</i>	<i>Yes, Francine is Darren’s daughter.</i>
<i>Age</i>	<i>Yes, under age 19 at end of year (and younger than Darren)</i>
<i>Residence</i>	<i>Yes, Francine lived with Darren for more than half the year.</i>
<i>Support</i>	<i>Yes, Francine does not provide more than half of her own support.</i>

c. Assume Francine spends more time living with Darren than Donna after the separation. Who may claim Francine as a dependent?

Darren. When a child is a qualifying child of both parents, the parent with whom the child resides for the longest period of time during the year is entitled to claim Francine as a dependent. In this case, because Francine lived with Darren longer than she lived with Donna, Darren is entitled to claim Francine as a dependent. However, Darren could agree to allow Donna to claim Francine as a dependent under the divorce agreement. Darren would sign a Form 8332 allowing Donna to claim Francine as a dependent and Donna would attach it to her tax return.

d. Assume Francine spends an equal number of days with her mother and her father and that Donna has AGI of \$52,000 and Darren has AGI of \$50,000. Who may claim Francine as a dependent?

Donna. Because Francine lived with Donna and Darren an equal amount of time during the year, the tiebreaker on who may claim Francine as a dependent is based on each taxpayer’s AGI. In this case Donna’s AGI is higher than Darren’s so she is entitled to claim Francine as a dependent. However, Donna could agree to allow Darren claim Francine as a dependent through the divorce agreement. Donna would sign a Form 8332

allowing Darren to claim Francine as a dependent and Darren would attach it to his tax return.