Solutions Manual for Fundamentals of Taxation 2026 Release 1st Cruz

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2025
OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

Your first name and middle initial	Last name	Your social security number
Alex	Montgomery	4 1 2 3 4 5 6 7 0
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☑
3344 Bayview Drive		

City, town, or post office. If you have a foreign address, also complete spaces below.	State	ZIP code
Richmond Hill	GA	31324
Foreign country name	Foreign province/state/county	Foreign postal code

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

Check only one box.

☑ Single
☐ Married filing jointly (even if only one had income)
☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH)
☐ Qualifying surviving spouse (QSS)
If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets

At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☑ No

Dependents

(see instructions)

If more than four dependents, see instructions and check here ☐

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.
(6) Check if	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled
(7) Credits	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents

☐ Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	76,345
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount:	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	76,345
2a	Tax-exempt interest 2a; b Taxable interest	2b	
3a	Qualified dividends 3a; b Ordinary dividends	3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
4a	IRA distributions 4a; b Taxable amount	4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐		
5a	Pensions and annuities 5a; b Taxable amount	5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐		
6a	Social security benefits 6a; b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	76,345
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	76,345

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	76,345
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return c ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	15,750
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	15,750
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**	15	60,595
16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	16	8,241
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	8,241
19	Child tax credit or credit for other dependents from Schedule 8812	19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	0
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	8,241
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	8,241

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

Payments and Refundable Credits

25	Federal income tax withheld from:				
a	Form(s) W-2	25a	9,527		
b	Form(s) 1099	25b			
c	Other forms (see instructions)	25c			
d	Add lines 25a through 25c			25d	9,527
26	2025 estimated tax payments and amount applied from 2024 return			26	
	If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):				
27a	Earned income credit (EIC)	27a			
b	Clergy filing Schedule SE (see instructions) ☐				
c	If you do not want to claim the EIC, check here ☐				
28	Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here ☐	28			
29	American opportunity credit from Form 8863, line 8	29			
30	Refundable adoption credit from Form 8839, line 13	30			
31	Amount from Schedule 3, line 15	31			
32	Add lines 27a, 28, 29, 30, and 31. These are your **total other payments and refundable credits**			32	
33	Add lines 25d, 26, and 32. These are your **total payments**			33	9,527

If you have a qualifying child, you may need to attach Sch. EIC.

Refund

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid**			34	1,286
35a	Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here ☐			35a	1,286
b	Routing number	c Type: ☐ Checking ☐ Savings			
d	Account number				
36	Amount of line 34 you want **applied to your 2026 estimated tax**	36			

Direct deposit? See instructions.

Amount You Owe

37	Subtract line 33 from line 24. This is the **amount you owe**. For details on how to pay, go to *www.irs.gov/Payments* or see instructions			37	
38	Estimated tax penalty (see instructions)	38			

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name | Phone no. | Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Joint return? See instructions. Keep a copy for your records.

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: ☐ Self-employed
Firm's name			Phone no.	
Firm's address			Firm's EIN	

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U.S. Individual Income Tax Return **2025** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

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☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

Your first name and middle initial	Last name	Your social security number
Brenda	Peterson	4 1 2 3 4 5 6 7 0
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☑
567 East Street		

City, town, or post office. If you have a foreign address, also complete spaces below.	State	ZIP code
Marshfield	MA	02043
Foreign country name	Foreign province/state/county	Foreign postal code

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ **You** ☐ **Spouse**

Filing Status Check only one box.

☑ Single
☐ Married filing jointly (even if only one had income)
☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH)
☐ Qualifying surviving spouse (QSS)
If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:
☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ **Yes** ☑ **No**

Dependents (see instructions)
If more than four dependents, see instructions and check here ☐

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.
(6) Check if	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled
(7) Credits	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents

☐ Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a Form W-2, see instructions.
Attach Sch. B if required.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	67,196
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount:	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	67,196
2a	Tax-exempt interest 2a ; b Taxable interest	2b	776
3a	Qualified dividends 3a ; b Ordinary dividends	3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
4a	IRA distributions 4a ; b Taxable amount	4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐		
5a	Pensions and annuities 5a ; b Taxable amount	5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐		
6a	Social security benefits 6a ; b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	67,972
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	67,972

DRAFT — DO NOT FILE

Tax and Credits

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

11b	Amount from line 11a (adjusted gross income)		11b	67,972
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent			
b	☐ Spouse itemizes on a separate return c ☐ You were a dual-status alien			
d	You: ☐ Were born before January 2, 1961 ☐ Are blind			
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind			
e	**Standard deduction or itemized deductions** (from Schedule A)		12e	15,750
13a	Qualified business income deduction from Form 8995 or Form 8995-A		13a	
b	Additional deductions from Schedule 1-A, line 38		13b	
14	Add lines 12e, 13a, and 13b		14	15,750
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**		15	52,222
16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐		16	6,404
17	Amount from Schedule 2, line 3		17	
18	Add lines 16 and 17		18	6,404
19	Child tax credit or credit for other dependents from Schedule 8812		19	
20	Amount from Schedule 3, line 8		20	
21	Add lines 19 and 20		21	0
22	Subtract line 21 from line 18. If zero or less, enter -0-		22	6,404
23	Other taxes, including self-employment tax, from Schedule 2, line 21		23	
24	Add lines 22 and 23. This is your **total tax**		24	6,404

Payments and Refundable Credits

If you have a qualifying child, you may need to attach Sch. EIC.

25	Federal income tax withheld from:			
a	Form(s) W-2	25a 8,109		
b	Form(s) 1099	25b		
c	Other forms (see instructions)	25c		
d	Add lines 25a through 25c		25d	8,109
26	2025 estimated tax payments and amount applied from 2024 return		26	
	If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):			
27a	Earned income credit (EIC)	27a		
b	Clergy filing Schedule SE (see instructions) ☐			
c	If you do not want to claim the EIC, check here ☐			
28	Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here ☐	28		
29	American opportunity credit from Form 8863, line 8	29		
30	Refundable adoption credit from Form 8839, line 13	30		
31	Amount from Schedule 3, line 15	31		
32	Add lines 27a, 28, 29, 30, and 31. These are your **total other payments and refundable credits**		32	
33	Add lines 25d, 26, and 32. These are your **total payments**		33	8,109

Refund

Direct deposit? See instructions.

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid**		34	1,705
35a	Amount of line 34 you want **refunded to you.** If Form 8888 is attached, check here ☐		35a	1,705
b	Routing number c Type: ☐ Checking ☐ Savings			
d	Account number			
36	Amount of line 34 you want **applied to your 2026 estimated tax**	36		

Amount You Owe

37	Subtract line 33 from line 24. This is the **amount you owe.** For details on how to pay, go to *www.irs.gov/Payments* or see instructions		37	
38	Estimated tax penalty (see instructions)	38		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name | Phone no. | Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature | Date | Your occupation | If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Joint return? See instructions. Keep a copy for your records.

Spouse's signature. If a joint return, **both** must sign. | Date | Spouse's occupation | If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)

Phone no. | Email address

Paid Preparer Use Only

Preparer's name | Preparer's signature | Date | PTIN | Check if: ☐ Self-employed

Firm's name | Phone no.

Firm's address | Firm's EIN

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U.S. Individual Income Tax Return 2025
OMB No. 1545-0074 | IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 | See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

Your first name and middle initial	Last name	Your social security number
Jin	Xiang	4 1 2 3 4 5 6 7 0
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☑
2468 North Lake Road		

City, town, or post office. If you have a foreign address, also complete spaces below.	State	ZIP code
Deerwood	MN	56444
Foreign country name	Foreign province/state/county	Foreign postal code

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status
Check only one box.

☑ Single
☐ Married filing jointly (even if only one had income)
☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH)
☐ Qualifying surviving spouse (QSS)
If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets
At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☑ No

Dependents
(see instructions)

If more than four dependents, see instructions and check here ☐

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.
(6) Check if	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled
(7) Credits	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents

☐ Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	55,692
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount:	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	55,692
2a	Tax-exempt interest 2a ; b Taxable interest	2b	229
3a	Qualified dividends 3a ; b Ordinary dividends	3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
4a	IRA distributions 4a ; b Taxable amount	4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐		
5a	Pensions and annuities 5a ; b Taxable amount	5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐		
6a	Social security benefits 6a ; b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	55,921
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	55,921

DRAFT — DO NOT FILE

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	55,921
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return **c** ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	15,750
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	15,750
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**	15	40,171
16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	16	4,583
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	4,583
19	Child tax credit or credit for other dependents from Schedule 8812	19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	0
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	4,583
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	4,583

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

Payments and Refundable Credits

25	Federal income tax withheld from:				
a	Form(s) W-2	25a	5,193		
b	Form(s) 1099	25b			
c	Other forms (see instructions)	25c			
d	Add lines 25a through 25c			25d	5,193
26	2025 estimated tax payments and amount applied from 2024 return			26	
	If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):				
27a	Earned income credit (EIC)	27a			
b	Clergy filing Schedule SE (see instructions) ☐				
c	If you do not want to claim the EIC, check here ☐				
28	Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here ☐	28			
29	American opportunity credit from Form 8863, line 8	29			
30	Refundable adoption credit from Form 8839, line 13	30			
31	Amount from Schedule 3, line 15	31			
32	Add lines 27a, 28, 29, 30, and 31. These are your **total other payments and refundable credits**			32	
33	Add lines 25d, 26, and 32. These are your **total payments**			33	5,193

If you have a qualifying child, you may need to attach Sch. EIC.

Refund

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid**			34	610
35a	Amount of line 34 you want **refunded to you.** If Form 8888 is attached, check here ☐			35a	610
b	Routing number **c** Type: ☐ Checking ☐ Savings				
d	Account number				
36	Amount of line 34 you want **applied to your 2026 estimated tax**	36			

Direct deposit? See instructions.

Amount You Owe

37	Subtract line 33 from line 24. This is the **amount you owe.** For details on how to pay, go to *www.irs.gov/Payments* or see instructions			37	
38	Estimated tax penalty (see instructions)	38			

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name | Phone no. | Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Joint return? See instructions. Keep a copy for your records.

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: ☐ Self-employed
Firm's name			Phone no.	
Firm's address			Firm's EIN	

Form 1040 — Department of the Treasury—Internal Revenue Service — U.S. Individual Income Tax Return 2025

OMB No. 1545-0074 | IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 — See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

Your first name and middle initial: Jose	Last name: Suarez	Your social security number: 4 1 2 3 4 5 6 7 0
If joint return, spouse's first name and middle initial: Maria	Last name: Suarez	Spouse's social security number: 4 1 2 3 4 5 6 7 1
Home address (number and street). If you have a P.O. box, see instructions.: 9876 Main Street	Apt. no.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☑
City, town, or post office. If you have a foreign address, also complete spaces below.: Denver	State: CO / ZIP code: 80205	**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county / Foreign postal code	

Filing Status

Check only one box.

☐ Single
☑ Married filing jointly (even if only one had income)
☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH)
☐ Qualifying surviving spouse (QSS)
If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) ☐ Yes ☑ No

Dependents (see instructions)

If more than four dependents, see instructions and check here ☐

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.
(6) Check if	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled	☐ Full-time student ☐ Permanently and totally disabled
(7) Credits	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents	☐ Child tax credit ☐ Credit for other dependents

☐ Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a	119,261
b	Household employee wages not reported on Form(s) W-2		1b	
c	Tip income not reported on line 1a (see instructions)		1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d	
e	Taxable dependent care benefits from Form 2441, line 26		1e	
f	Employer-provided adoption benefits from Form 8839, line 31		1f	
g	Wages from Form 8919, line 6		1g	
h	Other earned income (see instructions). Enter type and amount:		1h	
i	Nontaxable combat pay election (see instructions)	1i		
z	Add lines 1a through 1h		1z	119,261
2a	Tax-exempt interest	2a	b Taxable interest 2b	301
3a	Qualified dividends	3a	b Ordinary dividends 3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b			
4a	IRA distributions	4a	b Taxable amount 4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐			
5a	Pensions and annuities	5a	b Taxable amount 5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐			
6a	Social security benefits	6a	b Taxable amount 6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐			
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐			
7a	Capital gain or (loss). Attach Schedule D if required		7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)			
8	Additional income from Schedule 1, line 10		8	1,150
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**		9	120,712
10	Adjustments to income from Schedule 1, line 26		10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**		11a	120,712

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Tax and Credits

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

11b	Amount from line 11a (adjusted gross income)	11b	120,712
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return **c** ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	31,500
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	31,500
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**	15	89,212
16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐	16	10,230
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	10,230
19	Child tax credit or credit for other dependents from Schedule 8812	19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	0
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	10,230
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	10,230

Payments and Refundable Credits

If you have a qualifying child, you may need to attach Sch. EIC.

25	Federal income tax withheld from:				
a	Form(s) W-2	25a	11,753		
b	Form(s) 1099	25b	115		
c	Other forms (see instructions)	25c			
d	Add lines 25a through 25c			25d	11,868
26	2025 estimated tax payments and amount applied from 2024 return			26	
	If you made estimated tax payments with your former spouse in 2025, enter their SSN (see instructions):				
27a	Earned income credit (EIC)	27a			
b	Clergy filing Schedule SE (see instructions) ☐				
c	If you do not want to claim the EIC, check here ☐				
28	Additional child tax credit (ACTC) from Schedule 8812. If you do not want to claim the ACTC, check here ☐	28			
29	American opportunity credit from Form 8863, line 8	29			
30	Refundable adoption credit from Form 8839, line 13	30			
31	Amount from Schedule 3, line 15	31			
32	Add lines 27a, 28, 29, 30, and 31. These are your **total other payments and refundable credits**			32	
33	Add lines 25d, 26, and 32. These are your **total payments**			33	11,868

Refund

Direct deposit? See instructions.

34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid**			34	1,638
35a	Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here ☐			35a	1,638
b	Routing number **c** Type: ☐ Checking ☐ Savings				
d	Account number				
36	Amount of line 34 you want **applied to your 2026 estimated tax**	36			

Amount You Owe

37	Subtract line 33 from line 24. This is the **amount you owe**. For details on how to pay, go to *www.irs.gov/Payments* or see instructions			37	
38	Estimated tax penalty (see instructions)	38			

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. ☐ **Yes.** Complete below. ☐ **No**

Designee's name | Phone no. | Personal identification number (PIN)

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: ☐ Self-employed
Firm's name			Phone no.	
Firm's address			Firm's EIN	

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR	**Your social security number**
Jose and Maria Suarez	412-34-5670

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . .

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1	
2a	Alimony received			2a	
b	Date of original divorce or separation agreement (see instructions): ________				
3	Business income or (loss). Attach Schedule C			3	
4	Other gains or (losses). Check if any from Form(s): ☐ 4797 ☐ 4684			4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5	
6	Farm income or (loss). Attach Schedule F			6	
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here ☐ and enter amount repaid: ________			7	1,150
8	Other income:				
a	Net operating loss	8a	( )		
b	Gambling	8b			
c	Cancellation of debt	8c			
d	Foreign earned income exclusion from Form 2555	8d	( )		
e	Income from Form 8853	8e			
f	Income from Form 8889	8f			
g	Alaska Permanent Fund dividends	8g			
h	Jury duty pay	8h			
i	Prizes and awards	8i			
j	Activity not engaged in for profit income	8j			
k	Stock options	8k			
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l			
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m			
n	Section 951(a) inclusion (see instructions)	8n			
o	Section 951A(a) inclusion (see instructions)	8o			
p	Section 461(l) excess business loss adjustment	8p			
q	Taxable distributions from an ABLE account (see instructions)	8q			
r	Scholarship and fellowship grants not reported on Form W-2	8r			
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	( )		
t	Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan	8t			
u	Wages earned while incarcerated	8u			
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v			
z	Other income. List type and amount: ________	8z			
9	Total other income. Add lines 8a through 8z			9	
10	Combine lines 1 through 7 and 9. This is your **additional income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8			10	1,150

Part II Adjustments to Income

11	Educator expenses			11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106			12	
13	Health savings account deduction. Attach Form 8889			13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here ☐			14	
15	Deductible part of self-employment tax. Attach Schedule SE			15	
16	Self-employed SEP, SIMPLE, and qualified plans			16	
17	Self-employed health insurance deduction			17	
18	Penalty on early withdrawal of savings			18	
19a	Alimony paid			19a	
b	Recipient's SSN				
c	Date of original divorce or separation agreement (see instructions):				
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here ☐			20	
21	Student loan interest deduction			21	
22	Reserved for future use			22	
23	Archer MSA deduction			23	
24	Other adjustments:				
a	Jury duty pay (see instructions)	24a			
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b			
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c			
d	Reforestation amortization and expenses	24d			
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e			
f	Contributions to section 501(c)(18)(D) pension plans	24f			
g	Contributions by certain chaplains to section 403(b) plans	24g			
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h			
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i			
j	Housing deduction from Form 2555	24j			
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k			
z	Other adjustments. List type and amount:	24z			
25	Total other adjustments. Add lines 24a through 24z			25	
26	Add lines 11 through 23 and 25. These are your **adjustments to income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10			26	

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CHAPTER 1 – SOLUTIONS
END OF CHAPTER MATERIAL

Discussion Questions

1. (Introduction) Give a brief history of the income tax in the United States.

Answer:

The first federal income tax was enacted in 1861 to help finance the Civil War and was discarded soon thereafter. In 1894, another income tax was promulgated by Congress to raise additional tax revenue and to expand the sources of revenue. In 1895, the Supreme Court ruled that the federal income tax was unconstitutional. In 1913, the sixteenth Amendment to the U.S. Constitution was enacted. This amendment gave Congress the power to levy and collect taxes. In 2022, the federal government collected about $2.28 trillion in individual income taxes.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

2. (Introduction) For fiscal year 2023, what proportion of individual income tax returns was electronically filed?

Answer:

In fiscal year 2023, electronically filed tax returns were about 90.7% of total returns.

Feedback: Calculated from Table 1-1
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

3. Name the three types of tax rate structures and give an example of each.

Answer:

Progressive — U.S. federal income tax
Proportional — "flat-tax" usually levied on property or sales at the state or local level
Regressive — Social Security tax

Feedback:
Learning Objective: 01-01

Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

4. What is a *progressive tax*? Why do you think the government believes it is a more equitable tax than, say, a regressive tax or proportional tax?

Answer:

A progressive rate structure is a structure where the tax rate increases as the tax base increases. The progressive rate structure is viewed as more equitable because the amount of tax paid varies with the ability to pay. For example, the government believes that as an individual makes more income, a smaller percentage of that income is needed to buy necessary living supplies and thus more income is available to pay taxes.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

5. What type of tax is a sales tax? Explain your answer.

Answer:

The sales tax is a proportional tax. A proportional tax is a tax where the tax rate remains the same regardless of the tax base. Most county or state sales tax rates are the same regardless of the amount of sales upon which the tax is levied. With a proportional tax, the marginal tax rate and average tax rate are always the same.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

6. What is the definition of *tax base,* and how does it affect the amount of tax levied?

Answer:

The tax base is the dollar amount upon which the tax rate is applied in order to determine the actual tax. Income, dollar sales, and property value are the more common tax bases in the United States.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

7. What type of tax rate structure is the U.S. federal income tax? Explain your answer.

Answer:

The federal income tax is a progressive tax. As the tax base increases, the rate of tax increases. Tax rates range from a low of 10% to a high of 37%.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

8. A change to a 17% flat tax could cause a considerable increase in many taxpayers' taxes and a considerable decrease in the case of others. Explain this statement in light of the statistics in Table 1-3.

Answer:

Those with taxable income above $200,000 have average tax rates greater than 17%, those with taxable income below $200,000 have average tax rates less than 17%. Thus, on average, if a 17% flat tax were enacted, those with taxable income under $200,000 would see their tax liability go up, and those with taxable income over $200,000 would have lower tax liability.

Feedback: Based on the average tax rates in Table 1-3.
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

9. Explain what is meant by *regressive tax*. Why is the Social Security tax considered a regressive tax?

Answer:

A regressive tax rate is one where the tax rate decreases as the tax base gets larger. The Social Security tax is assessed on the first $176,100 of wages (in 2025). Thus, the Social Security tax rate is 6.2% (12.4% if self-employed) on the first $176,100 of wages and 0% on wages above $176,100.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

10. Define and compare these terms: *average tax rate* and *marginal tax rate.*

Answer:

The average tax rate is the total tax liability divided by the taxable income (or tax base). The marginal tax rate is the tax rate applied to the last dollar (or, more accurately, the *next* dollar) of taxable income. In a progressive rate structure, the average tax rate is always the same as or is lower than the marginal tax rate.

Feedback:
Learning Objective: 01-02
Topic: Average tax rate
Topic: Marginal Tax Rates and Average Tax Rates
Difficulty: 1 Easy
EA: No

11. What is meant by *compensation for services*? Give some examples.

Answer:

Compensation for services is the broad category used by the IRS to encompass all forms of economic benefit a taxpayer may receive because of an employee/employer arrangement. Examples are: wages, salaries, tips, sick pay, bonuses, fringe benefits, commissions, etc.

Feedback:
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

12. What is the definition of *interest*?

Answer:

Interest is compensation for the "use of money" with respect to a bona fide debt or obligation imposed by law (e.g., judgments, loans, installment sales).

Feedback:
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

13. What federal tax forms do taxpayers normally receive to inform them of the amount of wages and interest they earned during the year?

Answer:

Normally, wages are reported to taxpayers on a W-2 form, and interest is reported on a Form 1099-INT.

Feedback:
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

14. Explain why unemployment compensation is taxable.

Answer:

Unemployment compensation is paid to an individual as a result of that person becoming unemployed. The compensation is, in effect, a substitute for taxable

wages. Thus, it is taxable just as wages are taxable.
Feedback:
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

15. What is the amount of the standard deduction for single and married taxpayers who use Form 1040?

Answer:
On Form 1040, taxpayers can take a permitted deduction on line 12 of $15,750 if the taxpayer's filing status is single or $31,500 if their filing status is married filing jointly.
Feedback:
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

16. What is the most common way taxpayers pay their income tax liability during the year?

Answer:
The vast majority of taxpayers pay their annual tax liability through income tax withholding deducted from their paychecks by their employer and remitted to the government on behalf of the taxpayer.
Feedback:
Learning Objective: 01-03
Learning Objective: 01-04
Topic: The Components of a Basic Form 1040
Topic: Calculation of Income Tax
Difficulty: 1 Easy
EA: No

Multiple Choice

17. A tax rate that decreases as the tax base increases is an example of what kind of tax rate structure?
    a. Progressive.
    b. Proportional.
    c. Regressive.
    d. Recessive.

Answer: c.
Feedback:
Learning Objective: 01-01

Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

18. A tax rate that decreases as the tax base decreases is an example of what kind of tax rate structure?
    a. Progressive.
    b. Proportional.
    c. Regressive.
    d. Recessive.

Answer: a.
Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 1 Easy
EA: No

19. Jake had taxable income of $40,000 and paid $1,500 of income tax; Jill had taxable income of $15,000 and paid $4,000 of income tax. The tax rate structure they are subject to is:
    a. Progressive.
    b. Proportional.
    c. Regressive.
    d. Recessive.

Answer: c.
Feedback: $1,500 ÷ $40,000 = 3.75% average rate for Jake. $4,000 ÷ $15,000 = 26% average rate for Jill. Jill has lower income and a higher tax rate compared to Jake, so the tax structure is regressive.
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

20. Margaret earned $15,000 and paid $3,000 of income tax; Marshawn earned $50,000 and paid $10,000 of income tax. The tax rate structure they are subject to is:
    a. Progressive.
    b. Proportional.
    c. Regressive.
    d. Recessive.

Answer: b.
Feedback: $3,000 ÷ $15,000 = 20% average rate for Margaret. $10,000 ÷ $50,000 = 20% average rate for Marshawn. Both had the same average rate with differing amounts of income, so the tax rate structure is proportional.
Learning Objective: 01-01

Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

21. Which of the following is an example of a regressive tax?
    a. Federal income tax.
    b. State and local taxes levied on property.
    c. Sales tax.
    d. Social Security tax.

Answer: d.
Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

22. Which of the following is an example of a progressive tax?
    a. Federal income tax.
    b. State and local taxes levied on property.
    c. Sales tax.
    d. Social Security tax.

Answer: a.
Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

23. Hector, a single taxpayer, has taxable income of $84,775 and the following tax liability:

$11,925 × 10% =	$ 1,192.50
($48,475 − $11,925) × 12% =	4,386.00
($84,775 − $48,475) × 22% =	7,986.00
Total tax liability	$13,564.50

The marginal tax rate is:

a. 10%.
b. 12%.
c. 16%
d. 22%.

Answer: d.
Feedback: Marginal rate is the rate on the last dollar of income, which is 22% in this case.
Learning Objective: 01-02

Topic: Marginal Tax Rates and Average Tax Rates
Difficulty: 2 Medium
EA: No

24. Hector, a single taxpayer, has taxable income of $84,775 and the following tax liability:

$11,925 × 10% =	$ 1,192.50
($48,475 − $11,925) × 12% =	4,386.00
($84,775 − $48,475) × 22% =	7,986.00
Total tax liability	$13,564.50

The average tax rate is:
   a. 10%.
   b. 12%.
   c. 16%.
   d. 22%.

Answer: c.
Feedback: $13,564.50 ÷ $84,775 = 16%
Learning Objective: 01-02
Topic: Marginal Tax Rates and Average Tax Rates
Difficulty: 2 Medium
EA: No

25. Which of the following is not a permitted filing status?
   a. Married filing jointly.
   b. Single filing jointly.
   c. Head of household.
   d. Qualifying widow.

Answer: b.
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

26. Individual taxpayers with only wage income must file a Form:
   a. 1040.
   b. 1040W.
   c. 1099W.
   d. W-2.

Answer: a.
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy

EA: Yes

27. Wage income is reported to a taxpayer on a Form:
    a. W-2.
    b. 1099-G.
    c. 1099-W.
    d. 1099-INT.

Answer: a.
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

28. Interest income is reported to a taxpayer on a Form:
    a. W-2.
    b. W-2-INT.
    c. 1099-G.
    d. 1099-INT.

Answer: d.
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

29. On a Form 1040, the amount of the permitted deduction from income for taxpayers filing a joint return is:
    a. $1,500.
    b. $15,750.
    c. $22,625.
    d. $31,500.

Answer: d.
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

30. Tawanda determined that her tax liability was $2,491. Her employer withheld $2,748 from her paychecks during the year. Tawanda's tax return would show:
    a. a refund of $257.
    b. a refund of $2,491.
    c. tax due of $257.
    d. tax due of $2,748.

Answer: a.
Feedback: $2,491 liability – $2,748 withholding = $257 refund.

Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 2 Medium
EA: Yes

31. Sandra, a single taxpayer, has taxable income of $81,498. Using the tax tables, she has determined that her tax liability is:
    a. $12,844.
    b. $12,839.
    c. $11,100.
    d. $9,300.

Answer: b.
Feedback:
Learning Objective: 01-04
Topic: Calculation of Income Tax
Difficulty: 2 Medium
EA: Yes

32. A married taxpayer has taxable income of $54,288. You have calculated tax liability using the tax tables and using the tax rate schedules. What can you say about the two figures?
    a. Tax liability determined using the tax tables will be more than tax liability determined using the tax rate schedules.
    b. Tax liability determined using the tax tables will be less than tax liability determined using the tax rate schedules.
    c. Tax liability determined using the tax tables will be the same as tax liability determined using the tax rate schedules.
    d. The answer cannot be determined with the information provided.

Answer: b.
Feedback: The tax rate schedules determine tax using a precise taxable amount of $54,288. The tax tables are based on a midpoint amount of $54,275 (the midpoint of the $54,250 to $54,300 range). In this case, the tax tables calculation is based on a slightly smaller taxable income, thus the tax liability will be slightly smaller as well.
Learning Objective: 01-04
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: No

33. Eddie, a single taxpayer, has W-2 income of $40,841. Using the tax tables, he has determined that his tax liability is:
    a. $4,661.
    b. $4,422.
    c. $2,771.
    d. some other number.

Answer: c.
Feedback: Subtract the $15,750 standard deduction from W-2 income to get taxable income which is used for the tax tables.
Learning Objective: 01-03
Learning Objective: 01-04
Topic: Tax Return Components
Topic: Calculation of Income Tax
Topic: Tax Payments
Difficulty: 3 Hard
EA: Yes

34. Arno and Bridgette are married, file a joint return, and have combined W-2 income of $76,440. They paid additional tax of $418 when they filed their taxes. How much income tax did their employers withhold during the year?
    a. $4,496.
    b. $4,914.
    c. $5,332.
    d. The answer cannot be determined with the information provided.

Answer: a.
Feedback: Subtract $31,500 standard deduction from W-2 income to get taxable income which is used for the tax tables. After determining total tax liability of $4,914, subtract the $418 additional tax to get withholding.
Learning Objective: 01-03
Learning Objective: 01-04
Topic: Tax Payments
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

Problems

35. Using the information in Table 1-3, determine the average amount of taxable income per tax return, rounded to the nearest dollar, for each of the ranges of taxable income provided.

Answer:
Under $15,000 = $3,591,780,000 ÷ 29,392,477 = $122
$15,000 to under $30,000 = $159,503,527,000 ÷ 24,863,933 = $6,415
$30,000 to under $50,000 = $633,503,116,000 ÷ 28,847,954 = $21,960
$50,000 to under $100,000 = $1,991,655,307,000 ÷ 39,111,531 = $50,922
$100,000 to under $200,000 = $2,897,084,792,000 ÷ 25,982,949 = $111,499
$200,000 or more = $6,269,183,959,000 ÷ 12,529,286 = $500,362
Feedback: In each case, the average taxable income per return is calculated by dividing total taxable income by the number of tax returns. Remember that the taxable income is shown in thousands, so you need to add three zeros to the taxable income number provided.

Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

36. Using the information in Table 1-3, determine the amount of average income tax liability per tax return, rounded to the nearest dollar, for each income range provided.

Answer:

Under $15,000 = $374,588,000 ÷ 29,392,477 = $13
$15,000 to under $30,000 = $16,089,345,000 ÷ 24,863,933 = $647
$30,000 to under $50,000 = $58,363,691,000 ÷ 28,847,954 = $2,023
$50,000 to under $100,000 = $231,523,584,000 ÷ 39,111,531 = $5,920
$100,000 to under $200,000 = $420,525,310,000 ÷ 25,982,949 = $16,185
$200,000 or more = $1,555,183,998,000 ÷ 12,529,286 = $124,124

Feedback: In each case, the average tax liability per return is calculated by dividing the total tax liability by the number of tax returns. Remember that the total tax liability is shown in thousands, so you need to add three zeros to the tax liability number provided.
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 2 Medium
EA: No

37. Use the information in Table 1-3. If the federal tax system was changed to a proportional tax rate structure with a tax rate of 17%, calculate the amount of tax liability for 2022 for all taxpayers. How does this amount differ from the actual liability?

Answer:

The tax liability assuming a 17% flat rate can be calculated by adding up the taxable income for all income ranges and multiplying it by 17%.

Total taxable income:

$ 3,591,780,000
159,503,527,000
633,503,116,000
1,991,655,307,000
2,897,084,792,000
6,269,183,959,000

$11,954,522,481,000
× .17

$2,032,268,821,770 tax liability for all taxpayers, assuming 17% rate.

==============

Compare that number with the total tax liability on Table 1-3:

```
 $       374,588,000
      16,089,345,000
      58,363,691,000
     231,523,584,000
     420,525,310,000
   1,555,183,998,000
   -----------------
 $ 2,282,060,516,000
   =================
```

A 17% flat tax would raise about $2.032 trillion of tax revenue compared to almost $2.282 trillion of tax revenue under current tax law. Thus, instituting a 17% flat tax on the same tax base would raise about $250 billion less than current law.

Further, the distribution of tax liability would be significantly different across the income ranges presented. On average, those with adjusted gross income of $200,000 or more would pay less with a 17% flat tax, and those with adjusted gross income less than $200,000 would pay more. In effect, the 17% benchmark would make about 12.5 million taxpayers better off and 148.2 million taxpayers worse off.

Feedback:
Learning Objective: 01-01
Topic: Tax Rate Structures
Difficulty: 3 Hard
EA: No

38. What is the income tax formula in simplified form?

Answer:

The income tax formula is the methodology used to determine the amount of tax owed by a taxpayer. In its most simplified form, the income tax formula is:

Income
− Permitted deductions from income

= Taxable income
× Appropriate tax rates

= Tax liability
− Tax payments and tax credits

= Tax refund or tax due with return

Feedback: From page 1-5
Learning Objective: 01-02
Topic: A Simple Income Tax Formula
Difficulty: 1 Easy
EA: Yes

39. What are the five filing statuses that are permitted on a Form 1040?

Answer:

The five filing statuses permitted on a Form 1040 are: single, married filing jointly, married filing separately, head of household, and qualifying widow(er).

Feedback: From page 1-6
Learning Objective: 01-03
Topic: The Components of a Basic Form 1040
Difficulty: 1 Easy
EA: Yes

40. When taxpayers file a tax return, they will either pay an additional amount or receive a refund of excess taxes paid. Briefly explain how this "settling up" process works. Why might a taxpayer pay too much during the year?

Answer:

When a tax return is filed, the taxpayer determines the total amount of tax liability. Normally, during the year, taxpayers pay this liability to the government through income tax withholdings. These withholdings (or other payments) are an estimate of the total tax liability that will be due at the end of the year. There will almost always be a difference between the actual amount due and the amount estimated and paid. The amount due or overpaid is determined when the final tax return is filed.

A taxpayer will pay too much during the year if they estimate a higher tax liability than is actually due. Sometimes taxpayers choose to pay "too much" as a method of forced savings.

Learning Objective: 01-03
Topic: Tax Payments
Difficulty: 2 Medium
EA: Yes

41. Miremba is single and has taxable income of $82,792. For that income, determine tax liability using the tax tables and using the tax rate schedule. Why is there a difference between the two amounts?

Answer:

Miremba's tax using the tax tables is $13,125. Tax using the tax rate schedules is $13,128.24.

There is a $3.24 difference between the two amounts because the tax tables are based on taxable income at the midpoint of the range between $82,750 and $82,800, while the tax rate schedules are precise. Thus, the tax tables are based on a taxable income of $82,775, and the tax rate schedules are based on taxable income of $82,792.

Learning Objective: 01-04
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

42. Havel and Petra are married and will file a joint tax return. Havel has W-2 income of $46,321, and Petra has W-2 income of $49,144. What is their tax liability? Determine their tax liability using both the tax tables and the tax rate schedule.

Answer:

Their tax liability using the tax tables is $7,200, and their liability using the tax rate schedules is $7,198.80.

Feedback: Note that their taxable income is $63,965. Remember that you need to subtract the permitted deduction of $31,500 from their W-2 wages to obtain taxable income.
Learning Objective: 01-04
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

43. Determine the tax liability, marginal tax rate, and average tax rate (rounded to two decimal places) in each of the following cases. Use the tax tables to determine tax liability.
    a. Single taxpayer, taxable income of $32,116.
    b. Single taxpayer, taxable income of $87,267.

Answer:

a. Liability = $3,617 marginal = 12% average = 11.26%
b. Liability = $14,115 marginal = 22% average = 16.17%

Feedback: Liability comes from the tax tables. Marginal rate is the rate on the last dollar of income according to the tax rate schedules. Average rate is the tax liability divided by the taxable income.
Learning Objective: 01-02
Learning Objective: 01-04
Topic: Marginal Tax Rates and Average Tax Rates
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

44. Determine the tax liability, marginal tax rate, and average tax rate (rounded to two decimal places) in each of the following cases. Use the tax tables to determine tax liability.
    a. Married taxpayers, taxable income of $87,267.
    b. Married taxpayers, taxable income of $76,312.

Answer:
a. Liability = $9,996 marginal = 12% average = 11.45%
b. Liability = $8,682 marginal = 12% average = 11.38%
Feedback: Liability comes from the tax tables. Marginal rate is the rate on the last dollar of income according to the tax rate schedules. Average rate is the tax liability divided by the taxable income.
Learning Objective: 01-02
Learning Objective: 01-04
Topic: Marginal Tax Rates and Average Tax Rates
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

45. Determine the tax liability, marginal tax rate, and average tax rate (rounded to two decimal places) in each of the following cases. Use the tax tables to determine tax liability.
    a. Married taxpayers, taxable income of $32,116.
    b. Single taxpayer, taxable income of $76,312.

Answer:
a. Liability = $3,378 marginal = 12% average = 10.52%
b. Liability = $11,706 marginal = 22% average = 15.34%
Feedback: Liability comes from the tax tables. Marginal rate is the rate on the last dollar of income according to the tax rate schedules. Average rate is the tax liability divided by the taxable income.
Learning Objective: 01-02
Learning Objective: 01-04
Topic: Marginal Tax Rates and Average Tax Rates
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

46. Use the tax rate schedules to determine tax liability for each of the cases in problems 43, 44, and 45.

Answer:
Liability for 43a = $3,615.42 Liability for 43b = $14,112.74
Liability for 44a = $9,995.04 Liability for 44b = $8,680.44
Liability for 45a = $3,376.92 Liability for 45b = $11,702.64
Learning Objective: 01-04
Topic: Calculation of Income Tax

Difficulty: 3 Hard
EA: Yes

47. The W-2 income of Sandra, a single taxpayer, was $67,255. Using the tax tables, determine Sandra's tax liability.

Answer:
Sandra's tax liability is $6,250.
Feedback: The problem gives you Sandra's W-2 income. To determine taxable income (the number necessary to use the tax tables), you need to subtract the permitted deduction of $15,750. Sandra's taxable income is $51,505.
Learning Objective: 01-03
Learning Objective: 01-04
Topic: Tax Payments
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

48. The W-2 incomes of Betty and her husband Ronald were $41,434 and $48,378, respectively. If Betty and Ronald use a filing status of married filing jointly, determine their tax liability using the tax tables.

Answer:
Their tax liability is $6,522.
Feedback: The problem gives you Betty and Ronald's W-2 income. To determine taxable income (the number necessary to use the tax tables), you need to subtract the permitted deduction of $31,500. Their taxable income is $58,312
Learning Objective: 01-03
Learning Objective: 01-04
Topic: Tax Payments
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

49. Sheniqua, a single taxpayer, had taxable income of $83,628. Her employer withheld $12,957 in federal income tax from her paychecks throughout the year. Using the tax tables, would Sheniqua receive a refund or would she be required to pay additional tax? What is the amount?

Answer:
$355 additional tax. Sheniqua's tax liability is $13,312. Her employer withheld $12,957 from her paychecks. Sheniqua has underpaid by $355 ($13,312 – $12,957), so she will be required to pay additional tax of that amount.
Feedback:
Learning Objective: 01-03
Learning Objective: 01-04

Topic: Tax Payments
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

50. Xavier and his wife Maria have total W-2 income of $98,156. They will file their tax return married filing jointly. They had a total of $7,722 withheld from their paychecks for federal income tax purposes. Using the tax tables, determine the amount of refund or additional tax due upon filing their tax return. Indicate whether the amount is a refund or additional tax.

Answer:

$198 refund. The problem gives you Xavier and Maria's W-2 income, not their taxable income. To determine taxable income (the number necessary to use the tax tables), you need to subtract the permitted deduction of $31,500. Their taxable income is $66,656, giving them a tax liability of $7,524. They have overpaid by $198 ($7,722 – $7,524), so they are entitled to a tax refund of $198.

Learning Objective: 01-03
Learning Objective: 01-04
Topic: Tax Payments
Topic: Calculation of Income Tax
Difficulty: 3 Hard
EA: Yes

Questions Pertaining to Appendix A

51. Discuss the concept of "tax authority." How does tax authority help taxpayers and tax preparers report tax items properly?

Answer:

Tax authority represents the body of law, regulations, judicial decisions, and other items that provide taxpayers and tax professionals with guidance to correctly report taxable income.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

52. What are the three types of tax authority? Who issues each type?

Answer:

Statutory Authority — issued by Congress
Administrative Authority — issued by the IRS
Judicial Authority — issued by the various courts in the U.S. judicial system

Learning Objective: 01-05
Topic: Tax Authority

Difficulty: 1 Easy
EA: No

53. Discuss the concept of statutory tax authority. Why is there a need for additional types of authority when statutory authority is the law?

Answer:

The most common statutory tax authority is the Internal Revenue Code (IRC). The IRC is written by Congress and is considered the tax law. Other types of authority are necessary because statutory authority is often broad and lacks the detail to answer questions concerning the proper reporting of many different tax transactions. The administrative and judicial authorities (the IRS and the courts) provide interpretations of Congressional intent.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium
EA: No

54. What is the legislative process concerning tax laws? Where does tax legislation often begin?

Answer:

The legislative process is shown in Table 1-4. Tax legislation usually begins in the Ways and Means Committee of the House of Representatives.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

55. What are committee reports, and how can they help the taxpayer or tax preparer?

Answer:

When a tax bill is discussed and voted on by the various congressional committees (Ways and Means, Senate Finance Committee, Joint Conference Committee), a report is produced for that committee. The committee reports set forth the "intent of Congress" as the tax legislation is written. The committee reports are especially useful to taxpayers and professionals because they provide guidance when a new tax law is passed or when there is minimal administrative or judicial authority to help interpret the law.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

56. What is the purpose of the Joint Conference Committee? Its reports are considered more important or are more authoritative. Why?

Answer:

The Joint Conference Committee is composed of members of both the House Ways and Means Committee and the Senate Finance Committee. It is formed when the House and the Senate have passed different versions of a tax bill. The purpose of the joint committee is to resolve any conflicts between the two versions. Thus, the committee reports from the Joint Conference Committee are the last reports and contain the discussion of the intent regarding the final bill sent to the President for signature.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium
EA: No

57. Explain what is meant by Public Law 100-14.

Answer:

Public Law 100-14 is the 14th bill of the 100th Congress that was signed into law. All legislation passed by Congress and signed into law follows this numbering system—whether it is a tax bill or otherwise.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

58. What is administrative authority, and who publishes it?

Answer:

Administrative authority is the IRS's interpretation of the IRC. It is developed and published by the IRS.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

59. What is a Proposed Regulation? Can a taxpayer rely on a Proposed Regulation as authority on how to treat a certain tax item?

Answer:

The IRS writes Proposed Regulations during the hearing process leading up to the issuance of Final or General Regulations. The purpose of Proposed Regulations is to generate discussion and/or criticism of the IRS's interpretation of the IRC. The taxpayer can rely on a Proposed Regulation absent any other contradictory tax authority. However, Proposed Regulations do not have the effect of law, so the tentative position may be overturned. Reliance on a Proposed Regulation is treated as authority for possible imposition of a negligence penalty (the reversed tax position would not be subject to a negligence penalty).

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium
EA: No

60. Can a taxpayer rely on a Temporary Regulation as authority on how to treat a certain tax item? If so, how long is a Temporary Regulation valid?

Answer:

> **Taxpayers can rely on Temporary Regulations. A Temporary Regulation has the same tax authority as a general or final regulation. It is effective as soon as it is issued and expires three years from the date of issuance.**

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

61. Differentiate between a General Regulation and a Legislative Regulation. Which one is the stronger tax authority?

Answer:

> **The IRS writes General Regulations to interpret the IRC under the general authority given to the IRS by Congress. A Legislative Regulation is a regulation written by the IRS under a direct mandate by Congress. In other words, Congress tells (or gives power to) the IRS to write the actual law through a Legislative Regulation. Legislative Regulations have the full effect of law and are the strongest administrative authority.**

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium
EA: No

62. Where are Revenue Rulings and Revenue Procedures found? When might a Revenue Ruling be useful to a taxpayer? When might a Revenue Procedure be useful to a taxpayer?

Answer:

> **The IRS publishes all Revenue Rulings and Procedures in a publication series called the *Cumulative Bulletin*. Rulings and Procedures can also be located on the web at www.irs.gov and other locations. Revenue Rulings are most useful to a taxpayer in determining the proper tax position to use regarding a given fact scenario. Revenue Procedures are used more often to provide resources such as tables, rates, guidelines, and safeguards (e.g., tax depreciation tables, inflation adjusted items, etc.).**

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium

EA: No

63. In what courts are disputes between the IRS and a taxpayer heard?

Answer:

The three trial courts that hear tax disputes between the IRS and taxpayers are the U.S. District Courts, the U.S. Tax Court, and the U.S. Court of Federal Claims.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

64. What are the advantages in petitioning the Tax Court versus other trial courts?

Answer:

The major advantage of filing a case with the Tax Court is that the taxpayer need not pay the amount of disputed tax before filing a petition. Another advantage is that the Tax Court justices are tax law specialists. However, the second advantage can also be a disadvantage if the tax authority is not sufficiently on the taxpayer's side as might be the case if emotional or undue circumstances caused the deficiency.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: Yes

65. When would a taxpayer want to sue the government in a district court versus the Tax Court?

Answer:

A U.S. District Court allows jury trial. A judge who is a tax specialist decides Tax Court cases. Therefore, if the taxpayer's case is an emotional issue, but the tax law is not totally favorable towards their position, a trial by a jury may produce a more positive outcome.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium
EA: No

66. If a taxpayer loses a case against the IRS in one of the three trial courts, does the taxpayer have any avenue for appeals?

Answer:

Any of the trial courts' decisions may be appealed to the U.S. Court of Appeals.

Learning Objective: 01-05

Topic: Tax Authority
Difficulty: 1 Easy
EA: No

67. After the Court of Appeals, does the taxpayer have any additional avenue for appeals? If so, what are the taxpayer's probabilities of receiving an appeal after the Court of Appeals? Why?

Answer:

All of the Court of Appeals cases can be appealed to the U.S. Supreme Court. However, the Supreme Court hears few tax cases each year. The only tax cases the Supreme Court usually agrees to rule on are cases where a conflict occurs between the rulings of several different courts.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

68. Why might a district court's opinion regarding a tax decision be more likely to be reversed on appeal?

Answer:

A district court ruling may be decided by a jury or by a judge that is not a tax specialist. Upon appeal, the tax authority is weighted more heavily, and emotional reasons for a verdict are more likely to be disregarded.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

69. (Longer Answer) What is a Treasury Regulation? What are the four types of regulations and how do they differ?

Answer:

A Treasury Regulation is written by the IRS (the IRS is a division of the U.S. Treasury Department). A Treasury Regulation is the strongest administrative authority and is the IRS's direct interpretation of the IRC.

The four types of regulations are:
***Legislative* — written under a direct mandate from Congress and have the full effect of law.**
***General or Final Regulations* — written by the IRS under its general authority to interpret the IRC.**
***Temporary Regulations* — the IRS issues these regulations to give taxpayers immediate guidance on the effect of a new law. They expire three years after they are issued.**

***Proposed Regulations* — the IRS writes these regulations during the hearing process concerning general regulations. The purpose of these regulations is to generate discussion and/or criticism of the IRS's interpretation of the IRC.**

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

70. (Longer Answer) What is the difference between a Revenue Ruling and a Revenue Procedure? How does the level of authority of a ruling or procedure compare with regulations and statutory authority?

Answer:

With a Revenue Ruling, the IRS reacts to an area of the tax law that is confusing to many taxpayers. Revenue Rulings are usually issued after numerous taxpayers have requested guidance through Private Letter Rulings on a particular tax situation.

The IRS usually issues Revenue Procedures to illustrate the manner in which it wants something reported. In other words, a Revenue Procedure is usually proactive.

Revenue Rulings and Procedures carry less authoritative weight than regulations and statutory authority. However, they are considered strong tax authority. When a tax professional is researching a tax issue, Rulings and Procedures are an especially useful source of information because they reference other tax authorities (law, court cases, etc.) as part of the justification for the position of the IRS.

Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 2 Medium
EA: No

Multiple Choice Questions Pertaining to Appendix A

71. Which of the following is (are) primary sources of tax authority?
    a. Statutory sources.
    b. Administrative sources.
    c. Judicial sources.
    d. All of the above.

Answer: d.
Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy

EA: No

72. Which of the following is a statutory source of tax authority?
    a. Internal Revenue Code.
    b. Regulations.
    c. Revenue Rulings.
    d. Tax Court decision.

Answer: a.
Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

73. Which of the following types of IRS Regulations have the greatest strength of authority?
    a. General or Final Regulations.
    b. Legislative Regulations.
    c. Proposed Regulations.
    d. Temporary Regulations.

Answer: b.
Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

74. Which of the following refers to an income tax regulation?
    a. Reg. §1.162-5.
    b. Reg. §20.2032-1.
    c. Reg. §25.2503-4.
    d. Reg. §31.3301-1.

Answer: a.
Learning Objective: 01-05
Topic: Tax Authority
Difficulty: 1 Easy
EA: No

75. Which of the following trial court(s) hear tax cases?
    a. U.S. Tax Court.
    b. U.S. district courts.
    c. U.S. Court of Federal Claims.
    d. All of the above.

Answer: d.
Learning Objective: 01-05
Topic: Tax Authority

Difficulty: 1 Easy
EA: No

Discussion Questions Pertaining to Appendix B (LO 6)

76. IRS rules for paid tax preparers apply to what types of tax professionals?

Answer:
Paid tax preparer rules under Circular 230 apply to CPAs, attorneys, enrolled agents, registered tax preparers, or any other person who, for compensation, prepares a tax return, provides tax advice, or practices before the IRS.
Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

77. Who must obtain a preparer tax identification number?

Answer:
Any paid preparer must obtain a preparer tax identification number. A paid preparer is someone who, for compensation, prepares all or substantially all of a tax return or tax form submitted to the IRS or a claim for refund.
Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

78. List at least five items that paid preparers must do to comply with Circular 230.

Answer:
The text lists nine items that a paid preparer must do. An appropriate answer would include any five from the list. The list is:

- **Sign all tax returns they prepare.**
- **Provide a copy of the returns to clients.**
- **Return records to clients.**
- **Exercise due diligence.**
- **Exercise best practices in preparing submissions to the IRS.**
- **Disclose all non-frivolous tax positions when such disclosure is required to avoid penalties.**
- **Promptly notify clients of any error or omission on a client tax return.**
- **Provide records and information requested by the IRS unless the records or information are privileged.**
- **Inform a client if the client has made an error or omission in a document submitted to the IRS.**

Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

79. List at least five items that paid preparers must not do to comply with Circular 230.

Answer:

The text lists seven items that a paid preparer must not do. An appropriate answer would include any five from the list. The list is:

- **Take a tax position on a return unless there is a "realistic possibility" of the position being sustained.**
- **Charge a fee contingent on the outcome of the return or any position, except in certain limited situations.**
- **Charge an "unconscionable fee."**
- **Unreasonably delay the prompt disposition of any matter before the IR S.**
- **Cash an IRS check for a client for whom the return was prepared.**
- **Represent a client before the IRS if the representation involves a conflict of interest.**
- **Make false, fraudulent, or coercive statements or claims or make misleading or deceptive statements or claims. In part, this item pertains to claims made with respect to advertising or marketing.**

Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

80. List at least three monetary penalties to which a paid preparer is potentially subject.

Answer:

The text lists seven potential monetary penalties. An appropriate answer would include any three from the list. The list is:

- **Take an unreasonable tax position.**
- **Use willful or reckless conduct to prepare the return.**
- **Fail to furnish a copy of the prepared return to the taxpayer.**
- **Fail to sign the return.**
- **Fail to furnish a PTIN**
- **Negotiate a refund check**
- **Not be diligent to determine taxpayer eligibility for certain tax benefits including education credits, Earned Income Tax Credit, or any dependent credit.**

Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

Multiple Choice Questions Pertaining to Appendix B (LO 6)

81. A preparer tax identification number must be obtained by:
    - a. only C P As, attorneys, and enrolled agents.
    - b. only individuals who are not C P As, attorneys, or enrolled agents.
    - c. any individual who is paid to prepare a tax return.
    - d. only individuals who prepare a Form 1040.

Answer: c.
Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

82. A paid preparer must *not*:
    - a. cash a client's I R S check.
    - b. charge a reasonable fee.
    - c. inform a client if the preparer makes a mistake on the client's tax return.
    - d. provide a client with a copy of their return.

Answer: a.
Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

83. A paid preparer must:
    - a. ignore a conflict of interest when representing a client before the I RS.
    - b. charge a contingent fee.
    - c. sign all tax returns prepared.
    - d. provide records requested by the I R S in all circumstances.

Answer: c.
Learning Objective: 01-06
Topic: IRS Rules for Paid Tax Preparers and Paid Preparer Penalties
Difficulty: 1 Easy
EA: Yes

CHAPTER 1
INTRODUCTION TO TAXATION, THE INCOME TAX FORMULA, AND FORM 1040

Learning Objectives

LO 1. Understand progressive, proportional, and regressive tax structures.
LO 2. Understand the concepts of marginal and average tax rates as well as a simple income tax formula.
LO 3. Understand the components of a basic Form 1040 income tax return.
LO 4. Determine tax liability in instances when a Form 1040 return is appropriate.
LO 5. Understand the types of tax authority and how they interrelate (Appendix A).
LO 6. Understand the provisions of IRS Circular 230 for paid tax preparers as well as paid preparer penalties (Appendix B).

Topics of Primary Importance

- Determination of taxable income.
- Calculation of tax liability.
- The types of tax authority and relative strengths.

Student Confusion Areas

- Understanding tax terminology and the precision inherent in terminology.
- The difference between marginal tax rates and average tax rates.
- The tax refund or amount owed is simply the amount to "settle up" with the IRS. It does not represent the amount of total tax liability.

Note to Instructor

We have designed this text to be used with the TaxACT software, and you can easily incorporate the software in your instruction and student homework. ***Alternatively*****,** you can choose to ignore the software and have students use IRS forms and calculate returns by hand. Some instructors require students to calculate returns by hand for the first three to five chapters and then switch to the software. <u>You have complete flexibility</u>.

If you have your students use the software, make sure you require them to update their software using the online update feature of the program. If they fail to do so, they will not be able to print returns.

Notes Outline

I. Introduction

A. The introduction materials help the student understand the legal basis of income taxation, provide an overview of the types of returns and numbers, and an understanding of the dollar volume of income tax collections.
B. Students find the numbers in Table 1-1 and the material in the preceding paragraph to be interesting.

II. LO 1 – Understand progressive, proportional, and regressive tax structures.

A. Students need to understand the notions of tax base and tax rate.
   1. The base is the dollar amount upon which tax will be calculated.
   2. The rate is the tax proportion to apply to the base.

B. Progressive rate structure
   1. Tax rate increases as the tax base increases.
   2. U.S. individual income tax system is a progressive system.
   3. Refer students to Table 1-2 or the tax rate schedules in Appendix F.
   4. Table 1-3 also illustrates the progressivity of the U.S. tax system.

C. Proportional rate structure
   1. Tax rate is the same regardless of the tax base.
   2. Common example is state or local sales tax.
   3. If we change to a flat tax system, we would be changing from a progressive rate structure to a proportional rate structure.

D. Regressive rate structure
   1. Tax rate decreases as the tax base increases.
   2. Social Security tax is a good example. Stops at $176,100 limit.

III. LO 2 – Understand the concepts of marginal and average tax rates as well as a simple income tax formula.

A. Marginal tax rate is the rate on the next dollar of income.

B. Average tax rate is the total tax liability divided by taxable income.

C. Mathematically, an average tax rate is a combination of a series of marginal rates.

D. The simple income tax formula that forms the basic structure of all returns is:

Income
− Permitted Deductions from Income

= Taxable Income
× Appropriate Tax Rates

= Tax Liability
− Tax Payments and Tax Credits

= Tax Refund or Tax Due with Return

IV. LO 3 – Understand the components of a basic Form 1040 income tax return.

A. The Form 1040 is the form all taxpayers will use to file their individual income tax returns.

B. There are four Schedules that can be included with Form 1040 (including the new Schedule 1-A for tips, overtime, auto interest, and the $6,000 senior exemption). As a tax return becomes more complex, a taxpayer will use one or more of the Schedules.

C. Wages include salaries, tips, commissions, bonuses, severance pay, and other "compensation for services."
   1. Wages are reported to employees on Form W-2.
   2. Tips and overtime pay are excluded from income up to certain limits.

D. Interest is generally taxable. Interest is compensation for the use of money with respect to a bona fide debt.

E. Unemployment compensation is taxable because it is viewed as a substitute for taxable wages.

F. Taxpayers are permitted a standard deduction from income on line 12 of Form 1040.
   1. The line 12 deduction is either $15,000 for single taxpayers or $30,000 for taxpayers filing married.

G. Taxable income (line 15) is equal to the sum of the income items (lines 1 through 8) minus the adjustment on line 10 and minus the deductions totaled on line 14.
   1. Taxable income is the tax base used to determine tax liability.
   2. It is instructive at this point for students to clearly distinguish between total income and taxable income. This is a case where words have a very precise meaning—total income is very different from taxable income.

V. LO 4 – Determine tax liability in instances when a Form 1040 return is appropriate.

A. Tax liability is determined with reference to the tax tables printed in Appendix D and in the instructions to Form 1040 available on the IRS website.

B. Tax tables only go up to taxable income of $100,000. For income over this limit, the tax rate schedules must be used. These schedules are printed in Appendix F.

In-class Example – Students find it helpful to have some in-class practice determining tax liability with reference to the tax tables. The instructor can choose various amounts of taxable income for either single or married taxpayers and have the students "go into" the tax tables to determine tax liability.

C. Point out the effect on tax liability of different filing statuses. Students can see the effect if they refer to the tax tables and read across a row.

D. The tax table liability is calculated using the mid-point of the taxable income range provided. Students can calculate precise tax liability using the tax rate schedules in Appendix F and compare their results to the tax table numbers.

In-class Discussion Point – An instructor may wish to ask the question why the tax tables are necessary when everyone could use the tax rate schedules and get a precise number. One reasonable response is that the tax tables are easier to use and tax returns are not subject to as many errors.

VI. LO 3 – Understand the components of a basic Form 1040 income tax return.

A. Most taxpayers pay some or all of their tax liability prior to the due date of the return. The vast majority of taxpayers do so using income tax withholding from their paycheck. Some taxpayers need to make quarterly estimated tax payments.

B. Taxpayers can take an Earned Income Tax Credit on their Form 1040. The EIC is discussed in Chapter 9 along with other credits.

C. The tax refund or tax due with the return is determined by comparing the tax liability on line 24 with the amount paid on line 33.

D. The refund or amount owed is the amount needed to "settle up" with the IRS.

VII. LO 5 – Understand the types of tax authority and how they interrelate (Appendix A).

Note to Instructors. If you want your students to be able to perform tax research, whether simple or complex, the material in the Appendix is an important starting point.

A. Taxes are complex. While there are some absolute answers, often "it depends" is the initial response to a tax question. To determine an answer, the tax practitioner often needs to refer to "tax authority"—the law, regulations, guidelines, and precedent that form the basis of proper tax reporting. The Appendix exposes students to the various types of tax authority and their relative strengths.

B. There are three types of tax authority.
    1. Statutory Sources
    2. Administrative Sources
    3. Judicial Sources

C. Statutory sources are the U.S. Constitution and tax laws passed by Congress. These tax laws comprise the Internal Revenue Code.

D. Administrative sources, in order of strength, are: IRS Regulations, Revenue Rulings, Revenue Procedures, Private Letter Rulings, and IRS Notices.

E. Judicial sources are the rulings from the courts. Figure 1-1 in the text illustrates applicable courts and appeal tracks.

VIII. LO 6 – Understand the provisions of IRS Circular 230 for paid tax preparers as well as paid preparer penalties (Appendix B).

Students and instructors are encouraged to download Circular 230 from the IRS website.

A. All individuals who, for compensation, prepare a tax return, provide tax advice, or practice before the IRS are subject to the provisions of Circular 230. It is important to note that Circular 230 covers work and activities which are paid (compensated).

B. Failure to comply with Circular 230 will subject the individual to possible suspension or disbarment, public censure, fines, or civil or criminal prosecution.

C. Paid tax preparers must register with the IRS and obtain a preparer tax identification number (PTIN). The PTIN must be renewed annually.

D. Continuing professional education is required annually. Some professionals (CPAs, attorneys) obtain their continuing education as part of their licensure process. Enrolled agents must obtain at least 72 hours every three years, and others must receive at least 15 hours annually. Ethics and professional conduct must be part of the continuing education.

E. Circular 230 sets forth numerous actions which paid preparers must, or must not, do. A summary of these actions is provided in the Appendix.

F. Paid preparers may be subject to monetary penalties. These include penalties for taking an unreasonable tax position, willful or reckless conduct to prepare the return, failure to furnish a copy of the return to the taxpayer, and not being diligent to determine taxpayer eligibility for certain tax benefits and credits.

G. Paid preparers are also subject to civil and/or criminal penalties in the case of committing fraud or making false statements on returns, if they prepare fraudulent returns, or if they recklessly disclose information used to prepare returns.