

Part 1

Section A:

Questions 1-20

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

1. Edna, age 69, is single and receives a pension of \$5,000 plus \$2,000 Social Security. She also had self-employment net earnings of \$900 from a custom monogramming business she operated from her home. Edna is not required to file a return because her taxable income is less than \$8,000, the filing requirement for single persons over age 65.
2. If a child being adopted is eligible to be claimed as a dependent by the adoptive parents, an identifying number must be obtained for the child.
3. Mary is unmarried. Her mother, for whom she can claim an exemption, lived in an apartment by herself. She died on Nov. 14. The cost of the upkeep of her apartment for the year until her death was \$8000. Mary paid \$5600 and her brother paid \$2400. Her brother made no other payments towards their mother's support. Mary's mother had no other income. Mary must use single filing status on her 1998 tax return.
4. If your marriage is annulled, you must file amended returns, claiming single or head of household filing status for all open years affected by the annulment.
5. Roy met all five tests to claim an exemption for his sister who is single. However, he did not claim an exemption for her. Roy's sister can take an exemption for herself on her own return.
6. The tax shown on Janet's 1998 return was \$11,000. Her expected tax liability for 1999 is \$12,000. Tax expected to be withheld in 1999 is \$10,900. Janet will be subject to the estimated tax penalty if she does not adjust her withholding or make estimated tax payments.
7. Persons retired on disability before they reach minimum retirement age may elect to report the payments they receive on line 7 as wages or on line 16 of Form 1040 as pension income.

8. The basis of stock received as a result of a dividend reinvestment plan is fair market value, even if purchased at a discounted price.
9. The amount of dividend income to report as a result of a dividend reinvestment plan is the discounted price of the shares purchased.
10. Capital gain distributions are generally treated as long-term capital gains.
11. Long term gains and losses may include gains taxed at both the 28% and 20% rate.
12. Kate is married to John and they lived together all year. They elected to file separate returns. Kate has \$70,000 in wages, \$15,000 income from a limited partnership, a \$26,000 loss from rental real estate activities in which she actively participated, and less than \$100,000 of modified adjusted gross income. She can use \$15,000 of her \$26,000 rental loss to offset her passive income from the partnership and the remaining \$11,000 to offset her non-passive income.
13. All amounts received under a scholarship are tax free regardless of how the funds are expended.
14. The basis of property received as a gift (after 1976) is its fair market value if the fair market value at the time of the gift was more than the donor's adjusted basis.
15. Property exchanges that involve three party and four party transactions can qualify as like-kind exchanges.
16. In a like-kind exchange, if you pay money in addition to giving up like property, there is no taxable gain or deductible loss.
17. The required two years of having owned and lived in a principal residence within five years of the date of sale, must be continuous to qualify for any part of the \$500,000 exclusion.
18. The standard mileage rate may be used if you own two or more cars that are used for business as long as you alternate using (use at different times) the cars for business.
19. The deduction for medical savings accounts is properly included with other medical insurance and medical expenses as an itemized deduction subject to the 7-½% limitation.
20. Last year Joe's niece was his dependent. This year she no longer qualifies as his dependent. However, he paid \$800 this year for medical expenses she incurred

last year when she was his dependent. Joe can include the \$800 in figuring this year's medical expense deduction.

Section B:

Questions 21 - 45

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

21. All of the following are **correct** except:

- A. A brother-in-law must live with the taxpayer the entire year to be claimed as a dependent even if the other tests are met.
- B. A son age 21 was a full-time student who earned \$2,700 from his part-time job. The money was used to buy a car. Even though he earned \$2,700, his parents can claim him as a dependent if the other exemption tests were met.
- C. For each person claimed as a dependent, the social security number, adoption taxpayer identification number, or individual taxpayer identification number must be listed.
- D. If a married person files a separate return he/she can take an exemption for his/her spouse if the spouse had no gross income and was not the dependent of another taxpayer.

22. You do not have to pay estimated taxes if:

- A. Your tax liability for the previous year was less than \$1,000.
- B. Your withholding covers 90% of the tax liability for the previous year.
- C. Your earned income credit will exceed your tax liability for the current year.
- D. All of the above.

23. The fringe benefit that must be included in wages and reported on Form W-2 is:

- A. Health or accident insurance coverage provided by your employer.
- B. Contributions by your employer to provide long-term care services.
- C. Employer provided parking near the place of business valued at less than \$175 per month.
- D. Group-term life insurance coverage in excess of \$50,000.

24. An ordained minister can not exclude the following from gross income:
- A. Rental allowance.
 - B. Fees for marriages, baptisms and funerals.
 - C. Fair rental value of parsonage.
 - D. Actual cost to provide a home.
25. Which of the following will decrease the basis of property:
- A. Depreciation.
 - B. Return of Capital.
 - C. Recognized losses on involuntary conversions.
 - D. All of the above.
26. Scholarships and fellowships awarded to degree candidates are not taxable unless they are used for:
- A. Tuition.
 - B. Room and board.
 - C. Books.
 - D. Supplies required for the course of study.
27. Which of the following determines the basis of property received in exchange for services?
- A. The value of the services rendered.
 - B. The basis of the property received.
 - C. The fair market value of the property received.
 - D. None of the above.
28. The basis in property inherited from a decedent may be determined as follows:
- A. The decedent's basis plus any inheritance tax paid on the increased value.
 - B. The fair market value at the date of death.
 - C. The fair market value at an alternate valuation date.
 - D. B or C above.

29. On June 1, 1996, Mr. Smart purchased investment land. On January 31, 1997, Mr. Smart traded the land plus cash for some other investment land in a non-taxable exchange. On August 15, 1998, he sold the land received in the non-taxable exchange for a gain. What is the character of Mr. Smart's gain for 1998?

- A. Short-term capital gain.
- B. Long-term capital gain.
- C. Part short-term capital gain and part long-term capital gain.
- D. Ordinary income.

30. Jenny is single and 25 years old. She sold her mobile home on April 1, 1997 and moved in with her mother. Jenny realized a \$5,000 gain. The sale was reported on Form 2119 filed with her 1997 tax return. She did not pay tax on the gain because she planned to buy a new home. In May 1998 she became engaged to Paul. They plan to marry in March, and move into their new home in July 1999, when it will be completed. The new home costs more than Jenny's old home. What must she do about the \$5,000 gain.

- A. Amend her 1997 return to report the purchase of the new home.
- B. Since she purchased a new home she does not have to amend the 1997 return.
- C. She must report the gain on her 1999 joint return.
- D. She must amend her 1997 return to show the gain as a capital gain.

31. If 100 shares of stock is purchased February 14, 1998, what is the earliest date on which the stock can be sold and the gain or loss qualify for the long-term holding period?

- A. August 14, 1999.
- B. February 15, 1999.
- C. February 14, 1999.
- D. August 15, 1999.

32. The 50% limit on deductibility of business related expenses applies to which of the following:

- A. Meals and entertainment while traveling away from home on business.
- B. Employee's reimbursed expenses.
- C. Entertaining customers at your place of business.
- D. A & C above.

33. In which of the following situations would the employee not be required to keep documentation for expenses:

- A. You claim deductions for expenses that are more than reimbursements
- B. Your expenses are reimbursed under a non-accountable plan.
- C. You are related to your employer.
- D. You give records and documentation to your employer and are reimbursed in full.

34. Which of the following items may be considered alimony?

- A. Non-cash property settlement.
- B. Payments you made under a written separation agreement for the mortgage and real estate taxes on a home you owned by yourself and in which your former spouse lived rent-free.
- C. Payments made to a third party on behalf of the former spouse for the former spouse's medical expense.
- D. Payments made for the three-month period after the death of the recipient spouse.

35. Which of the following is deductible as medical insurance:

- A. Medical portion of auto insurance policy that provides coverage for all persons injured in or by your car.
- B. Insurance policy that pays you \$50 a day if you are unable to work due to illness or injury.
- C. Medicare Part B.
- D. None of the above.

36. Taxes deductible as an itemized deduction include all of the following except:

- A. Real estate taxes based on the assessed value of the property and charged uniformly against all property.
- B. State and local income taxes.
- C. Taxes you paid on property owned by your parents or children.
- D. Personal property taxes based on the value of the personal property.

37. Money or property given to the following is deductible as charitable contributions **except**:

- A. Nonprofit schools or hospitals.
- B. Civic leagues and chambers of commerce.
- C. Churches, synagogues, temples, mosques, and other religious organizations.
- D. War veterans' groups.

38. A calendar year taxpayer's home was destroyed by flood in 1998 and was located in a town declared a federal disaster area. A casualty loss of \$10,000 was figured under the usual rules. On what return can the casualty loss be claimed?

- A. Only on the 1998 return.
- B. Only on the 1997 return.
- C. On either the 1998 or the 1997 return.
- D. Split the loss between 1998 and 1997.

39. Which of the following is not allowed as a deductible moving expense?

- A. Moving your household goods and personal effects.
- B. In transit storage expenses for household goods and personal effects.
- C. Meal expense incurred in traveling to your new home.
- D. Traveling, including lodging, to your new home.

40. Which of the following is not reduced by the 2% limitation on miscellaneous deductions?

- A. Tax preparation fee.
- B. Casualty and theft losses from income-producing property.
- C. Work clothes.
- D. None of the above.

41. Which one of the following is not a qualifying person for purposes of the child and dependent care credit?

- A. Spouse who was physically not able to care for himself or herself.
- B. Dependent who was age 12 when the care was provided and for whom you can claim an exemption.
- C. Child who was under age 13 when the care was provided, but who lived with your former spouse all year.
- D. Dependent who was mentally not able to care for himself or herself and for whom you can claim an exemption.

42. Which of the following applies to the allowable credit for prior year minimum tax?

- A. Any unused portion may not be carried forward.
- B. It is allowed in full against the current year's tax.
- C. It may only be carried forward for five years.
- D. The allowable credit cannot reduce the current year's tax below the current year's tentative minimum tax.

43. In an installment sale, if the buyer assumes a mortgage that is greater than the installment sale basis of the property sold:

- A. There is never a profit or a loss.
- B. The transaction is disqualified as an installment sale.
- C. The gross profit percentage is always 100 %.
- D. The gain is treated as short-term capital gain.

44. Patsy loaned money to Scarlett in 1996. Scarlett signed a loan agreement and made the agreed-upon monthly payments until May 1998 when she stopped making payments. Patsy called Scarlett and wrote her a letter requesting payment but received no response. Then Patsy read in the newspaper that Scarlett had filed bankruptcy with no assets. Patsy can take a deduction for a bad debt:

- A. Only on her timely filed 1998 return.
- B. By amending her 1998 return within three years.
- C. By amending her 1996 return.
- D. On her timely filed 1998 return or by amending her 1998 return within seven years.

45. Alternative minimum tax for individuals requires certain adjustments and preferences. Which of the following is a preference or adjustment item for non-corporate taxpayers?

- A. Personal exemptions.
- B. Incentive stock options.
- C. Tax exempt interest on certain private activity bonds.
- D. All of the above.

Section C:

Questions 46 - 80

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

46. Rev. Janice Burton is a full-time minister at the Downtown Missionary Church. The church allows her to use the parsonage that has an annual fair rental value of \$4,800. The church pays an annual salary of \$13,200, of which \$1,200 is designated for utility costs. Her utility costs during the year were \$1,000. What is Rev. Burton's income for self-employment tax purposes?

- A. \$18,000
- B. \$13,200
- C. \$12,200
- D. \$13,400

47. In February 1998, Paul and Jean, a married couple, cashed a qualified series EE savings bond they bought in November 1991. They received proceeds of \$7,132, representing principal of \$5,000 and interest of \$2,132. In 1998, they helped pay for their daughter's college tuition. The qualified education expenses they paid in 1998 totaled \$4,000. They are not claiming an education credit for the expenses and they do not have an education IRA. How much interest income can Paul and Jean exclude?

- A. \$2,132
- B. \$4,000
- C. \$1,000
- D. \$1,196

48. Bob and Gloria sold securities in 1998. The sales resulted in a capital loss of \$7,000. They had no other capital transactions. Their taxable income was \$26,000. How much can they deduct on their joint 1998 return?

- A. \$7,000
- B. \$3,000
- C. \$4,000
- D. \$ -0-

49. You own 50% of Jingles, Inc., an S Corporation, filing tax returns on a calendar year. For tax year 1998, the corporation has an operating loss of \$15,000 and separately stated tax-exempt income of \$10,000. You individually loan the corporation \$4,000. Your basis at January 1, 1998 is \$2,000. What is your basis in the stock at year-end 1998?

- A. \$1,000
- B. \$3,500
- C. (\$9,000)
- D. - 0 -

50. You own 50% of Blaster, Inc., an S Corporation, filing returns on a calendar year basis. For tax year 1998, the corporation has an operating loss of \$13,000 and separately stated tax-exempt income of \$10,000. Your basis at January 1, 1998 is \$2,000. What is the basis at the end of tax year 1998?

- A. \$ - 0 -
- B. (\$1,000)
- C. \$500
- D. None of the above

51. You own 100% of Ricochet, Inc., an S Corporation, filing returns on a calendar year. For tax year 1998, the corporation has an operating loss of \$11,000 and separately stated tax-exempt income of \$10,000. Your basis at January 1, 1998 is \$2,000. What is the basis at the end of 1998?

- A. \$2,000
- B. \$11,000
- C. \$1,000
- D. \$ - 0 -

52. Jose started renting a house to Bill for \$600 per month beginning February 1, 1998. Bill paid \$1200 on January 15, 1998, which included one month's rent and one month's security deposit. The rent is due by the 5th of the month. The lease specifies that the security deposit would also be used as the final month's rent. Bill pays the rent on the 2nd of each month. In July, Bill also paid \$150 for repairs to the air conditioning system and in September he paid \$80 for a roof repair. He deducted the amounts from the rent paid to Jose for those months. Bill was unable to pay December's rent until January of the next year. How much should Jose report as rental income for 1998?

- A. \$6,000
- B. \$6,600
- C. \$6,900
- D. \$7,200

53. John offers his beach cottage for rent from June through August 31 (92 days). His family uses the cottage during the last 2 weeks in May (15 days). He was unable to find a renter for the first week in August (7 days). The person who rented the cottage for July allowed him to use it over a weekend (2 days) without any reduction in or refund of rent. The cottage was not used at all before May 16th or after August 31st. Total income received was \$11,000. Total expenses were \$4,000. What percentage of the expenses for the cottage can John deduct as rental expenses.

- A. 25%
- B. 83%
- C. 85%
- D. 100%

54. William owns a 4-unit apartment building for which he receives \$500 per month per unit. Three of the units were rented for the entire twelve months. The fourth unit was occupied from January 1 to April 30, 1998. Upon vacating the unit the tenant was not refunded his security deposit of \$500 due to damage to the unit. The unit was subsequently rented for one year beginning August 1, 1998. On August 1, 1998 the new tenant paid the first and last month's rent and a refundable security of \$500. What is William's rental income for 1998?

- A. \$22,500
- B. \$23,000
- C. \$23,500
- D. \$24,000

55. Barry is a lawyer. He owns ten apartment buildings that are managed by his brother's real estate business. At the end of the year the apartment buildings resulted in a \$40,000 loss. Barry earned \$80,000 in wages. His wife, Claire, earned \$20,000 from her part time job. Their other income included \$5,000 in dividends from their mutual funds. They had no other income. How much of the rental loss can Barry use?

- A. \$ - 0 -
- B. \$25,000
- C. \$40,000
- D. None of the above

56. George Black is single and files Form 1040 for 1998. He received the following income in 1998:

Fully taxable pension	\$18,600
Wages from part-time job	\$ 9,400
Interest income	<u>\$ 990</u>
Total	\$28,990

George also received social security benefits during 1998. Form SSA-1099 shows \$5,980 in box 5, Net Benefits in 1998. How much of George's social security is taxable?

- A. \$5,980
- B. \$6,980
- C. \$4,700
- D. \$2,990

57. Ruby Diaz is a commissioned salesperson. She is a cash method taxpayer. At the end of 1998, her earnings for the year were \$75,000. During the year, she also received \$10,000 in advances on future commissions and repaid \$8,000. How much income should Ruby report for 1998?

- A. \$77,000
- B. \$75,000
- C. \$87,000
- D. \$85,000

58. Trish Durwood works for a small retail-clothing store. She earned \$26,000 in wages during the year. Because of a cash flow problem in April, Trish did not receive her \$500 weekly check but instead was given a credit of \$500 on the outstanding balance of her account with the store where she had purchased clothing for her family. How much income should be shown on her Form W-2 and reported on her Form 1040?

- A. \$26,000
- B. \$25,500
- C. \$26,500
- D. \$25,000

59. You had an adjusted basis of \$15,000 in real estate you held for investment. You exchange it for other real estate to be held for investment with a fair market value of \$12,500, a truck with a fair market value of \$3,000 and \$1,000 cash. What is the total basis of the real estate and the truck?

- A. \$15,500
- B. \$14,000
- C. \$15,000
- D. \$16,500

60. In 1998 you received a gift of property from your mother that had a fair market value of \$50,000. Her adjusted basis was \$20,000. She paid a gift tax of \$9,000. What is your basis in the property?

- A. \$50,000
- B. \$59,000
- C. \$29,000
- D. \$25,400

61. In 1996 you bought 100 shares of XYZ stock for \$1,000 or \$10 a share. In 1997 you bought 100 shares of XYZ stock for \$1,600 or \$16 a share. In 1998 XYZ declared a 2-for-1 stock split. Which of the following is correct?

- A. You now have 200 shares with a basis of \$5 per share.
- B. You now have 200 shares with a basis of \$8 per share.
- C. You now have 400 shares with a basis of \$6.50 per share.
- D. A & B above.

62. Don invested in Ho Ho Mutual Fund by purchasing 100 shares on March 1, 1997. On the first day of every month, the Ho Ho fund pays a dividend that Don elected to have reinvested in the Ho Ho fund. Don received 5 additional shares each month. On April 15, 1998, Don sold his entire interest (165 total shares) in the Ho Ho fund. How many of the Ho Ho fund shares sold by Don qualifies for the long-term holding period?

- A. 100
- B. 105
- C. 110
- D. 165

63. In 1996, Bernard received a boat as a gift from his father. At the time of the gift, the boat had a fair market value of \$60,000 and an adjusted basis of \$80,000 to Paul's father. After Paul received the boat, nothing occurred affecting Paul's basis in the boat. In 1998, Paul sold the boat for \$75,000. What is the amount and character of Paul's gain?

- A. Ordinary income of \$15,000.
- B. Long-term capital gain of \$15,000.
- C. Long-term capital loss of \$5,000.
- D. Neither a gain nor a loss.

64. John owned a printing business and sold the following assets in 1998.

Printing press:

Sales price	\$25,000
Original cost	20,000
Allowed or allowable depreciation	8,000

Computer equipment:

Sales price	\$30,000
Original cost	28,000
Allowed or allowable depreciation	14,000

John had a net section 1231 loss of \$6,000 in 1997. What is the amount and character of John's gain for 1998?

- A. \$14,000 ordinary income; \$15,000 capital gain
- B. \$22,000 ordinary income; \$ 7,000 capital gain
- C. \$28,000 ordinary income; \$ 1,000 capital gain
- E. \$ - 0 - ordinary income; \$29,000 capital gain

65. Larry sold stock with a cost basis of \$10,500 to his son for \$8,500. Larry cannot deduct the \$2,000 loss. His son sold the same stock to an unrelated party for \$15,000, realizing a gain. What is his son's reportable gain?

- A. \$6,500
- B. \$4,500
- C. \$2,000
- D. No gain

66. Arnold (age 60) and Beatrice (age 45) are married. They sold their home at a profit of \$90,000 on March 1, 1997. Beatrice unexpectedly died in September 1997 of a disease. Arnold remarried in February 1998 and purchased a new, more expensive home in March. Beatrice's mother was appointed as executor of her estate. She elected to file a separate return for Beatrice for 1997. She reported the sale on the separate return and paid the additional taxes. If Beatrice's mother does not join Arnold in electing to exclude gain, how much of the gain can Arnold exclude on his 1997 return?

- A. None
- B. \$ 45,000
- C. \$ 62,500
- D. \$ 90,000

67. Martha, filing single, purchased her home on January 7, 1997, and lived in it continuously until its sale on July 7, 1998. Her gain on the sale of the home is \$300,000. She did not exclude any gain on any other home sale during this time. What is the maximum amount of gain she may exclude on this sale?

- A. \$125,000
- B. \$250,000
- C. \$300,000
- D. \$187,500

68. Billy Luker made several stock sales during 1998. Determine the net capital gain or loss for the following transactions:

Date Purchased	Cost	Date Sold	Sales Price
1-1-98	\$ 4,000	6-2-98	\$ 6,000
7-6-97	\$10,000	7-7-98	\$14,000
7-6-97	\$20,000	7-6-98	\$17,000
4-3-97	\$ 5,000	6-2-98	\$ 4,000

- A. \$2,000 net short-term capital gain.
- B. \$3,000 net long-term capital gain and \$1,000 net short-term capital loss.
- C. \$2,000 net long-term capital gain.
- D. \$4,000 net long-term capital gain and \$2,000 net short-term capital loss.

69. Bob sold securities in 1998. The sales resulted in a capital loss of \$7,000. He had no other capital transactions. He and his wife Gloria decide to file separate returns for 1998. His taxable income was \$26,000. What amount of capital loss can he deduct on his 1998 return and what amount can he carry over to 1999?

- A. \$7,000 in 1998 and \$0 carry over to 1999.
- B. \$3,000 in 1998 and \$4,000 carry over to 1999.
- C. \$4,000 in 1998 and \$3,000 carry over to 1999.
- D. \$1,500 in 1998 and \$5,500 carry over to 1999.

70. In December 1998, Emily sold an antique rug for \$4,100. She had bought the rug in September 1993 for \$1,100. What is her taxable gain and at what maximum rate will it be taxed?

- A. \$3,000 long term capital gain, taxed at regular rate.
- B. \$3,000 long term capital gain, taxed at 28% rate.
- C. \$1,500 long term capital gain, taxed at regular rate.
- D. \$1,500 long term capital gain, taxed at 28% rate.

71. In December 1998, Angela sold 20 shares of Neely Co. stock for \$8,000. This was qualified small business stock that she had bought in September 1993. Her basis is \$2,000. What is her taxable gain?

- A. \$ 0
- B. \$6,000
- C. \$3,000
- D. \$4,500

72. Mr. Jones had a student loan for qualified higher education expenses on which interest was due. The loan payments were required from July 1, 1993, until December 31, 1998. The interest payments were \$1,200 per year. How much may he deduct in arriving at adjusted gross income in 1998?

- A. \$600
- B. \$1000
- C. \$1200
- D. - 0 -

73. George opened a four-year certificate of deposit in January 1997. He earned \$400 in interest for 1997 and reported this on his 1997 return. He withdrew all of the funds in October 1998. However, due to the premature withdrawal provisions, he received only \$230 of the 1997 interest, plus \$195 of interest for 1998. What should he report in 1998?

- A. \$195 interest income on Schedule B.
- B. \$25 interest income on Schedule B.
- C. \$170 interest expense on Schedule A and \$195 interest income on Schedule B.
- D. \$195 interest income on Schedule B and \$170 as an adjustment to gross income.

74. John has a heart ailment. On his doctor's advice, he installed an elevator in his home so that he would not have to climb stairs. The cost of the elevator was \$7,000. An appraisal shows that the elevator increased the value of his home by \$5,000. John can claim a medical deduction of:

- A. \$2,000
- B. \$5,000
- C. \$7,000
- D. None of the above

75. Earl took out a mortgage on his home for \$250,000 in 1989. He filed as single for 1998. In April 1998, when the home had a fair market value of \$430,000, Earl took out a home equity loan for \$140,000. He used the proceeds as follows:

1. \$90,000 for home improvements
2. \$30,000 for payment of credit card debt
3. \$20,000 for purchase of securities which produce tax-free income.

How much of the \$140,000 loan would produce deductible mortgage interest in 1998?

- A. \$ - 0 -
- B. \$90,000
- C. \$120,000
- D. \$140,000

76. Karen is an accountant for XYZ Company. She has met the minimum educational requirements of her employer. XYZ changed the minimum requirements and Karen was required to take a computer course to keep her job. The course cost \$1,000 and XYZ reimbursed Karen \$600 toward the cost of the course under an accountable plan. How much education expense can Karen deduct in 1998?

- A. \$0
- B. \$400
- C. \$600
- D. \$1,000

77. Jerry and Ann Jones are married and keep up a home for their two preschool children, ages 2 and 4. They claim their children as dependents and file a joint return using Form 1040A. Their adjusted gross income (AGI) is \$27,500. Jerry earned \$12,500 and Ann earned \$15,000. During the year they pay work-related expenses of \$3,000 for childcare for their son Daniel at a neighbor's home and \$2,200 for childcare for their daughter Amy at Pine Street Nursery School. How much of their childcare payments are eligible for the child and dependent care credit on their return?

- A. \$0
- B. \$2,400
- C. \$5,200
- D. \$4,800

78. Mary files as head of household and has three dependent children, ages 15, 16 and 17. Mary and the children are U. S. citizens. Her only income is a salary of \$77,500. Her tax is \$13,262. How much child tax credit is she allowed in 1998?

- A. \$1200
- B. \$800
- C. \$150
- D. \$650

79. Karen, filing as head of household, and her son, James, and daughter, Julia are all in graduate school. James and Julia are not dependents on Karen's return, although they live with her and she pays all of their education expenses. Karen paid \$6,000 in qualified tuition expenses for herself in January 1998 for the term starting in January 1998. She also paid \$2500 in qualified tuition expenses for James and another \$2500 for Julia in July 1998 for the terms starting in July 1998. Her adjusted gross income is \$50,000. Which of the following is correct for tax year 1998?

- A. Karen may claim no HOPE credit and \$2,000 Lifetime Learning Credit.
- B. Karen may claim \$5,000 HOPE credit and \$1,000 Lifetime Learning Credit.
- C. Karen may claim neither the HOPE nor the Lifetime Learning Credit.
- D. Karen may claim no HOPE credit and \$1,000 Lifetime Learning Credit.

80. In 1997, Ray sold land with a basis of \$40,000 for \$100,000. He received a \$20,000 down payment and the buyer's note for \$80,000. In 1998, he received the first of four annual payments of \$20,000 each, plus 12% interest. What is the gain to be reported in 1997?

- A. None
- B. \$8,000
- C. \$12,000
- D. \$20,000