Classwork solutions assignment

History, American History

Under the proper conditions (under a written separation agreement or divorce decree that does not designate payments as something Other than alimony, the posses do not live together when the payments are made. And the payments that cease on the recipient’s death), cash payments are deductible alimony whereas property settlements have no immediate tax implications. Because alimony is included in the gross income of the recipient and is deductible by the person making the payment, the choice to make cash payments Will not affect their combined gross income.

However, the choice will affect combined taxes paid if Otto and Fauna do not have the same marginal tax rates on the payments, The combined taxes payable will be lower it Otto has a higher rate than Fauna the alimony deduction reduces taxes at a high rate and the alimony income is taxed at a lower rate) than it Fauna has a higher marginal tax rate than Otto. 30. Rolando purchases a golf cart from his employer, E-Z-Go Golf Carts, for a sizable discount. Explain the rules for determining if Rolando purchase results in taxable income for him.

Although the general rule is that bargain purchases by an employee from an employer creates taxable compensation income to the employee, the tax law does provide a limited exclusion for employee bargain purchases. Specifically, employees may exclude a) a discount on employer- revived goods as long as the discount does not exceed the employer’s gross profit percentage on all property offered to sale to non-employee customers and (b) up to 20 percent employer-provided discount on services. Discounts in excess of these amounts are taxable as compensation.

Thus, if Rolando purchases the golf cart for a price that equals or exceeds his employer’s cost, the purchase Will not result in any taxable income for him. 34. Cassia works in an office and has access to several professional color printers. Her employer allows Cassia and her fellow employees to use the printers to print color postcards for the holidays. This year Cassia printed out two dozen postcards worth almost $76. Must Cassia include this amount in her gross income this year? Explain your answer.

No – the benefit is considered a nontaxable De minims fringe benefit because it is small in amount and infrequent, 44, For the following independent cases, determine whether economic income is present and, it so, whether it must be included in gross income (that is, is it realized and recognized for tax purposes?). A. Asia owns stock that is listed on the New York Exchange, and this year the stock increased in value by $20, 000. B. Ben sold stock for $10, 000 and paid sales commission of $250. Ben purchased the stock several years ago for $4, 000. . Bessie is a partner in SULK Enterprises LLC. This year SULK reported that Bessie? s share of rental income was $2, 700 and her share of municipal interest was $750. A. Economic income of $20, 000 is present, but there is no realization for tax purposes. Without realization, there can be no recognition. Hence this will not be included in the gross income. B. Economic income is present and has been realized through the sale. Return Of capital limits the addition to gross income to the net gain on the sale, $5, 750.

The presumption in the law is that realized income is included in gross income. Thus, absent some additional facts which allow the deferral or exclusion of the income, recognition would follow realization, and the income would be taxed. C. Beside’s share of rental income is included in gross income, and her share of municipal interest is excluded from her gross income. 47. For the following independent cases, determine whether economic income is present and, if so, whether it must be included in gross income.

Identify a tax authority that supports your analysis. A. Hormone discovered a gold nugget valued at SIS, OHO) on her land, b, jay embezzled $20, 000 from his employer and has not yet been apprehended. C. Geisha found $1 , OHO inside an old dresser, She purchased the dresser at a discount furniture store at the end of last year and found the money after the beginning of the new year. No one has claimed the money. A. Hormone must include the value of the nugget in her gross income.

The value of the nugget is realized income because gold is marketable in a nugget form and easily valued. The authorities (Erg 5 1. 61 -14(a)_; Rev. Rule. 61, 1953-1 C. B. 17) refer to the finder off “ treasure trove” and hold that here is gross income (to the extent Of the ascertainable value in LLC_S_ currency) in the tax year in which the property is reduced to the taxpayers undisputed possession. B. Jay might argue that no economic income is present because there is a liability to return the embezzled funds.

The IRS argues that Jay does not intend to return the funds, so no liability exists at the time Of the embezzlement, and therefore, income is present in that period. The Supreme Court has held that embezzled money is included in the embezzler’s gross income if the funds are received without restriction on the use of the funds and thou a consensual recognition, express or implied, of an obligation to repay the funds (see Eugene James v. U. S. , (1961, S. Ct,) 366 US 213). So, Jay is unlikely to win this argument. C.

The answer to this question depends on state law. If she is not required under state law to search for the owner of money or give the money to authorities, she must recognize gross income on the funds. It she is required under state lava to search for the owner or return the funds, she does not recognize the income. If she ignores the law, she must include the amount in gross income because she has taken an undisputed claim on the income. When does she recognize the income? When she bought the dresser (last year) or when she found the money (this year)?

In a Sixth Circuit case the taxpayer bought a piano for $15 at an auction and seven years later discovered $4, 467 hidden inside. The Court held that the money was reduced to undisputed possession in the year of discovery and not in the year the taxpayer bought the piano at an auction (Remembering Cesarean v, (1 970, CA) 428 r-ad 812). G. Jim recently joined the Austin Barter Club, an organization that facilitates the exchange of services between its members. This year Jim provided lawn-mowing arrives to Other club members. Jim received the following from the barter club.

Determine the amount, if any Jim should include in his gross income in each of the following situations: a. Jim received $275 Of car repair services from another member of the club. B. Jim received a $150 credit that gave him the option of receiving a season pass at a local ski resort from another member Of the club. However, he forgot to request the pass by the end of the ski season and his credit expired. C. Jim received a $450 credit that can only be applied for goods or services from club members next year. . In an exchange of services. Income has been received in the amount of the value of services received (gross income includes the receipt officers as well as money and goods), Hence, Jim is taxed on the $275 of car repair services. B. The issue is whether the " credit" represents a valuable right, Be; cause the right could be redeemed for proper worth $150, then under constructive receipt Jim should recognize income of $150. C. If a barter credit can only be redeemed for future services, then the taxpayer could argue that no realization has yet occurred. But, it would be included in his Ross income next year when the credit becomes a valuable right. 3, Clyde is a cash method taxpayer who reports on a calendar-year basis, This year Palate Corporation has decided to pay Clyde a year-end bonus of $1 , OHO. Determine the amount Clyde should include in his gross income this year under the following circumstances: a. Palate Corporation wrote the check and put it in his office mail slot On December 30 of this year, but Clyde did not bother to Stop by the office to pick it up until after year-end. B. Palate Corporation mistakenly wrote the check for $1 Clyde received the remaining $900 after year-end. Palate Corporation mailed the check to Clyde before the end of the year, (and it was delivered before year end). Although Clyde expected the bonus payment, he decided not to collect his mail until after year-end. D. Clyde picked up the check in December, but the check could not be cashed immediately because it was postdated January 10. A. Clyde is taxed on the $1 , OHO under the constructive receipt doctrine. B. Clyde is taxed on the

$100 – the remaining $900 is taxed in the next year. C. Clyde is taxed on IS, OHO unless the mail was not delivered until after year-end.

Clyde would need to check his mail on December 31 or he would have the burden of proving he didn't receive the check before year-end if the IRS alleges that the check was delivered before year-end. D. Clyde is not taxed until next year because the postdated check is a substantial restriction. 55. Sammie received 100 Noose (each option provides a right to purchase 10 shares of ML stock for 510 per share) at the time she started working for ML Corporation four years ago when Mil's stock price was $8 per share. Now that ML; s stock price is $40 per share, she intends to exercise all of her options

After acquiring the 1, 000 ML shares with her options, she held the shares for over one year and sold them at $60 per share. What are Commie's tax consequences on the grant date, the exercise date, and the date she sold the shares assuming her ordinary marginal rate is 30 percent and her capital gains rate is percent? Sammie has no tax consequences on the grant date. Sammie recognizes $30, 000 Of ordinary income and pays tax Of $9, 000 in the year Of exercise, the calculations are as follows: Description Amount Explanation (1) Shares acquired (100 x 10 shares) (2) Exercise price $10. 0 (3) Cash needed to exercise 10, 000 (4) Market price (5) Market value of shares $40, 000 (6) Bargain Element (ordinary income) SIS, oho (7) Marginal Tax Rate Tax due in year of exercise $9, 000 She also recognizes $20, 000 of capital gain and pays tax of $3, 000 in the year to sale, the calculations are as follows: (7) Shares acquired with Noose (8) Market price at sale $60. 00 (3) Amount Realized 560, 000 (10) Basis SAA, oho (11) Long-term capital gain 520, 000 (12) Marginal Tax Rate $3, 000 (12) 62, Grayson is in the 25 percent tax rate bracket and has the sold the following stocks in 2012: Date Purchased Stock A 1/23/1986 Stock B 4/10/2013

Stock C 8/23/2010 Stock D 5/19/2003 Stock E 8/20/2013 Basis Date Sold Amount Realized $ 7, 250 7/22/2013 $4, 500 14, 000 9/13/2013 17, 500 10, 750 10/12/2013 15, 300 5, 230 10/12/2013 12, 400 7, 300 11/14/2013 3, 500 a. What is Grandson's net short-term capital gain or loss from these transactions? B. What is Grandson's net long-term gain or loss from these transactions? C. What is Grandson's overall net gain or loss from these transactions? D. What amount of the gain, if any, is subject to the preferential rate for certain capital gains? A.

Grandson's net short-term capital loss is $300, which is the net of the short-ERM gains and losses for the year. This $300 loss is the shorter capital gain of 53, 500 from Stock B (i. E. $17, 500 – 14, 000) less the short-term capital loss of $3, 800 trot Stock E (i. E. $3, 500 – 7, 300). B. Grandson's net long-term capital gain is $8, 970, which is the net long-term gain less the long-term loss for the year, This is the net of the long-term capital gain of $11 , 720 (i. E. $4, 550 from stock C ($15, 300- 10, 750) and $7, 170 from stock D ($1 2, 400 – 5, 230)) less the long-term capital loss of $2, 750 from Stock A (SO, SOC – 7, 250). . Grandson's net capital gain is $8, 670, which is the net short-term loss offset against the net long-term capital gain for the year because the signs are opposite. This $300 short-term capital loss (from part a) is netted against the 58, 970 net long-term capital loss (from part b). D. Grandson's entire net capital gain Of 58, 670 Will be taxed at the preferential tax rate. 66. For each of the following independent situations, indicate the amount the taxpayer must include in gross income and explain your answer: a. Phil won $500 in the scratch-off state lottery. There is no state income tax. B.

Ted won a compact car worth $17, 000 in a somehow. Ted plans to sell the car next year. C. AY Bore won the Nobel Peace Prize of SASS, OHO this year, Rather than take the prize, AY designated that the entire award should go to Weathered Charity, a tax-exempt organization. D, Jerry was awarded 52, 500 from his employer, Acme Tons, when he was selected most handsome employee tort Valentine’s Day this year. E, Ellen won a $11000 cash prize in a school essay contest, The school is a tax-exempt entity, and Ellen plans to use the floods to pay her college education. F. Gene won $400 in the office March Madness pool. A.

All $500 is economic income realized this year and is, therefore, included in Ross income. B. The value of the car, IS 7, 000, is economic income realized this year and is, therefore, included in gross income. C. The entire award is excluded and therefore tax exempt. The award is excluded because it Vass for scientific, literary, or charitable achievement, and the taxpayer immediately transferred the award to a qualified charity. D. All $2, 500 is economic income realized this year and is, therefore, included in gross income. E. All $1 , OHO is economic income realized this year and is, therefore, included in gross income. . Gene should include $400 in his gross income. 68. George and Wheezy received SIS, 200 of Social Security benefits this yoga ($12, 000 for George; 518, 200 for wheezy). They also received $5, 000 of interest from jointly owned City of Earner Bonds and dividend income. What amount of the Social Security benefits must George and Wheezy' include in their gross income under the following independent situations? A. George and Wheezy file married joint and receive $8, 000 of dividend income from stocks owned by George. B. George and Wheezy file married separate and receive $8, 000 of dividend income from stocks owned by George. . George and Wheezy File married mint and receive $30, 000 of dividend income from stocks owned by George, d, George and Wheezy tile married joint and receive $15, 000 to dividend income from stocks owned by George, a, George and Wheezy exclude the entire $30, 200 of Social Security benefits because the sum of their modified GAG plus 50 percent of their Social Security benefits ($5, 000 $8, 000 SIS, OHIO (50% of Social Security benefits) = $28, 1 00) is below the minimum amount ($32, 000 or less for taxpayers filing married joint) for including Social Security benefits. . 510, 200 for George and $3, 850 for Wheezy. Because George files married separate, he must include in Ross income the lesser of (a) $10, 200 (85% of his $12, 000 Social Security benefits) or (b) $14, 025 (85% of the sum of his modified GAG+50% of his Social Security benefits: x (2, SO interest 58, 000 dividends +50% Because Wheezy files married separate, she must include in gross income the lesser Of (a) IS 5, 470 (85% of her $18, 200 Social Security benefits) or (b) SO, 860 (85% of the sum of her modified GAG+50% of her Social Security benefits: x u SO interest * c. 11 , Because George and Wheezy file married joint and their modified GAG 50% of their social security benefits ($5, COO interest $30, 000 dividends (50% $30, 200)) =$50. 100) exceeds SIS, OHO, they must include in gross income the lesser of (a) 85

percent of their Social security benefits (85% ($30, 200)- 525, 670), (b) 85 percent of (their modified GAG 50% of their Social Security benefits $44, 000 – ($5, 000 interest $30, 000 dividends * (50% ($30, 200) -544, 000) -$6, 100), plus the lesser of (1) $6, 000 or (2) 50 percent of Social Security benefits (50% 100).

Thus, they must include in income the lesser of (a) $25, 670 or (b) 85 percent of 56, 100 (5, 1 85), plus the lesser of (1) SO, 000 or (2) $15, 100 , which simplifies to $11, 185. D. $1, 550.

Because George and Wheezy tile married joint and their modified GAG 4 of their Social Security benefits ($5, 000 interest $15, 000 dividends + (50% ($30, 200)) -$35, 100) falls between $32, 000 and $44, 000, they must include in gross income the lesser of (a) SC percent of their Social Security benefits (50% $15, 100), (b)50 percent of (their modified GAG + of their Social Security benefits – $32, 000 (AS, CO interest SIS, CO dividends + (50% ($30, 200) -$32, 000) =$3, 100). Thus, they must include in income the lesser of (a) 515, 100 or (b) 50 percent of $3, 100 (1, 550). 73. Fred currently earns $9, 000 per month.

Fred has been Offered the chance to work overseas on a temporary assignment next year. His employer is willing to pay Prep 510, 000 per month if he accepts the assignment Assume that the maximum foreign earned income exclusion for next year is $97, 600. A. How much U. S. Gross income Will Fred report if he accepts the assignment abroad on January 1 of next year and works overseas for the entireties? If Fried’s employer also provides him free housing abroad (cost of 516, 000), how much of the $16, 000 is excluding from Fried's income? B. Suppose that Fried's employer has only offered Fred a six. Nth overseas assignment beginning on January 1 of next year. How much US. Gross income will Fred report next year if he accepts the six- month assignment abroad and returns home on July 1 of next year? C. Suppose that Fried's employer offers Fred a permanent overseas assignment beginning on March 1 of next year. How much U. S. Gross income will Fred report next year it he accepts the permanent assignment abroad? Assume that Fred will be abroad tort 305 days out to 365 days next year. It Fried's employer also provides him free housing abroad (cost of 514, 000 for next year), how much of the SIS, CO is excluding from Fried's income? . Fred will earn $120, 000 by going abroad, but he can exclude 597, 600 under the foreign earned income exclusion. Hence, Fred will report gross income of $22, 400 from the salary earned. Since Fred meets the requirements for the foreign-earned income exclusion, he may also exclude the employer-provided housing costs that exceed $15, 616 (16% x $37, 600), up to a maximum exclusion of $13, 664 (14% x $97, 6001 Thus, Prep may exclude $384 (the lesser of ($16, 000 housing cost less $15, 616 = $384) or (b) $13, 664). Thus, Bred includes IS 5, 616 ($1 6, 000 – 5384 exclusion) of the employer-provided sousing in gross income. . Fred will earn $60, 000 during the first half of the year and 554, 000 during the second half Of the year _ However, because he is not physically abroad for 330 days during a consecutive 12-month period, Fred will not be able to claim any foreign earned income exclusion. So, he Will report SSL 14, 000 of gross income next year. C. Fred will earn $18, 000 during January- February and $100, 000 during the remainder Of the year. However, he Will be able to

claim a partial exclusion of $81, 556 based upon his time abroad [$97, 600 full exclusion x 305/365 (days in foreign country,’days in year)].

Thus, Fred will report gross income of $36, 444 ($1 18, 000 – 81 , 556). Note that Fred will be abroad the requisite 330 days during a consecutive 12. Month period beginning in March. Since Fred is not abroad the entire year, the foreign housing exclusion is also reduced. To be excluded, the costs must exceed $13, 049 ($97, 600 x 305/365 x 16%), with a maximum exclusion of $11, 418 ($97, 600 x 305/365 x 14%), Thus, Fred may exclude the lesser to (a) $951 ($14, 000 housing cost less $13, 049-$951) or (b) 511, 418, Thus, Fred includes 513, 049 ($14, 000 – $951) of the employer-provided sousing in gross income. 78.

Terry was ill for three months and missed work during this period. During his illness Terry received $4, 500 in sick pay from a disability insurance policy. What amounts are included in Terry’s gross income under the following independent circumstances? A. Terry has disability insurance provided by his employer as a nontaxable fringe benefit. Terry’s employer paid $2, 800 in disability premiums for Terry this year. B. Terry paid 52, 800 in premiums for his disability insurance this year. C. Terry’s employer paid the $2, 800 in premiums for Terry, but Terry elected to hue his employer include the $2, 800 as compensation on Terry’s MI-2- d.

Terry has disability insurance whose cost is shared with his employer. Terry’s employer paid $1 , CO in disability premiums for Terry this year as a nontaxable fringe benefit, and Terry paid the remaining IS, OHO of premiums from his after- tax salary. A. $4, so. The disability pay of is included in Terry’s gross income because Terry’s employer paid the insurance premiums as a nontaxable fringe benefit to Terry. Consequently, the disability insurance premiums of $2, 800 paid by Terry’s employer are excluded from Terry’s gross income. .