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Question: 1

Which of the following is a red flag for the IRS?

- A. You filed Form 8283 for a non cash charitable gift valued at more than \$500.
- B. You received Form 1099 from the bank where you kept a savings account.
- C. You took a home office deduction.
- D. You had a 401k contribution.

Answer: C

Explanation:

The IRS looks at returns with home office deductions closely because there are many ways to misinterpret the regulation. You must include Form 8283 if the non cash gift is more than \$500, so choice A is incorrect. You will always receive a Form 1099 for interest you earned on a savings account and Retirement (401k) offer tax advantages but are not considered a red flag so neither Choice B nor D is correct.

Question: 2

To qualify for a tax filing status as Head of Household you must

- A. file your return separately from your spouse
- B. not be married and pay more than half the upkeep on a home for you and a dependent
- C. have a spouse who died within two years of the tax year
- D. complete a Form W-4 designating this tax status

Answer: B

Explanation:

This filing status is intended to help single parents with dependent children. Choice A describes married filing separately taxpayers, so it is incorrect. If your spouse died within two years, you would file as a qualifying widow or widower, so this one is incorrect also. And form W-4 is completed when one starts employment to determine the amount of federal income taxes withheld.

Question: 3

Which of the following is not considered taxable income?

- A. Farm earnings

- B. FICA payments
- C. Alimony received
- D. Annuities

Answer: B

Explanation:

This isn't income. It is payroll taxes deducted for Social Security and Medicare. Choice A is income and taxable, as are Choices C and D, so those are both incorrect, also.

Question: 4

Adjustments to gross income are which of the following?

- A. Paid alimony
- B. Lottery winnings
- C. Capital gains
- D. Medicare tax

Answer: A

Explanation:

Paid alimony is deducted from your gross income. Lottery winnings are added to gross income, so choice B is incorrect. Any capital gain is taxable income and Medicare tax is part of the taxes withheld, making Choices C and D incorrect as well.

Question: 5

An example of a tax credit is

- A. itemized deductions
- B. tax preparation computer software
- C. portfolio earnings
- D. child and dependent care expenses

Answer: D

Explanation:

Child care expenses are a tax credit that reduce taxes owed instead of taxable income. Itemized deductions are subtracted from gross income, so choice A is incorrect, as is Choice B. Software is used by many to prepare their own taxes, but does not constitute a tax credit. Choice C is incorrect as well. Portfolio earnings are income and taxable.

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