

# CHAPTER 1: GROSS INCOME

## (A) Items Included in Gross Income

1. Mr. and Mrs. Black received the following income for 2006. How much income should be reported on their 2006 joint return?

- W-2 income for Mrs. Black for wages of \$30,000
- W-2 for Mrs. Black for \$2,000, the value of fringe benefits not included in the above W-2. Mrs. Black did not pay for the fringe benefits.
- Benefits of \$5,000 paid to Mr. Black from a health and accident plan for which the premiums were paid by his employer but included in his income.

- A. \$30,000
- B. \$32,000
- C. \$37,000
- D. \$35,000

2. Sandy received the following income in 2006:

Wages (Box 1 of W-2)	\$50,000
Money won at weekly poker games	\$1,000
Christmas ham (fair market value)	\$22
Dependent care benefits (Box 10 of W-2) (Spent \$3,000 for childcare)	\$2,000
Group term life insurance (\$40,000 death benefit)	\$50

How much gross income must be reported by Sandy for tax year 2006?

- A. \$50,022
- B. \$53,000
- C. \$51,000
- D. \$53,072

3. Scott and Marie, husband and wife, are equal partners in a law firm. They had gross receipts of \$120,000, less expense of \$40,000 resulting in net income of \$80,000 for the law firm. Marie received an inheritance of \$20,000. In addition, they had municipal bond interest of \$3,000 and savings account interest of \$2,000. What is their adjusted gross income on a married filing joint return?

**ANSWER: B**

**EXAM:** 04P1C#49  
**PUB:** 17Pg42-44,48  
**CARD:** 2, 3, 6

Fringe benefits received in connection with the performance of services are included in income as compensation unless the taxpayer pays fair market value for them or they are specifically excluded by law. Any amount a taxpayer receives for personal injury or sickness through an accident or health plan that is paid for by the taxpayer's employer is reported as income. If both the taxpayer and his employer pay for the plan, only the amount received that is due to the employer's payments is reported as income. If the taxpayer pays the entire cost of a health or accident insurance plan, any amounts received from the plan for personal injury or sickness is not included in income. In this case, the premiums were paid by the employer but were included in the taxpayer's income. Therefore the taxpayer paid the premiums and the benefits are not taxable.

**ANSWER: C**

**EXAM:** 03P1C#49  
**PUB:** 17Pg42-44,212  
**CARD:** 2, 5, 23, 24, 25

Wages and gambling winnings are included in income. Holiday gifts received from an employer such as a turkey, ham, or other item of nominal value are not included in income. The cost of up to \$50,000 of group-term life insurance coverage provided by an employer is not included in gross income. Employer provided dependent care benefits are not included in income if the entire amount is used for qualified childcare expenses.

Gross income:	
Wages	\$50,000
Gambling winnings	1,000
<b>Gross income</b>	<b><u>\$51,000</u></b>

**ANSWER: C**

**EXAM:** 03P1C#51  
**PUB:** 17Pg6,40,53,57,87  
**CARD:** 2

The net profit from the taxpayer's law firm (gross receipts less expenses) is included in income. The interest

- A. \$105,000
- B. \$142,000
- C. \$ 82,000
- D. \$102,000

4. Cyril, who is 68 years of age, received Social Security benefits of \$12,000, wages of \$5,000, interest and dividends of \$4,000, unemployment compensation of \$3,000 and municipal bond interest of \$1,500. Calculate Cyril's adjusted gross income.

- A. \$22,200
- B. \$25,500
- C. \$19,200
- D. \$12,000

5. How much income should Devin, who uses the cash method of accounting, report on his 2006 return from the following transactions?

- \$300 was garnisheed from his wages to pay his debts
- \$500 (gross) paycheck received December 28, 2006 but not cashed until January 2, 2007
- \$900 (gross) wages paid directly to his mother at his request

- A. \$1,200
- B. \$1,700
- C. \$1,400
- D. \$800

6. Gene Wingo had the following potentially taxable transactions in 2006. How much, if any, should be included on his 2006 return?

- \$200 credited to his savings account on 12/31/06. He did not withdraw any money from the account during the entire year.
- \$2,000 withheld from his paycheck by his employer to satisfy a garnishment by his doctor.
- \$1,000 discount given by his bank when he paid off his home mortgage five years early.
- \$500 check received 12/31/06 from an individual for

on the saving account is also included in income. Property or money received as an inheritance is not included in income. Interest on state or local government obligations is not included in income.

Adjusted gross income:  
 Net profit from business  
 (\$120,000 - \$40,000) ..... \$80,000  
 Interest on savings account ..... 2,000  
**Adjusted gross income** ..... **\$82,000**

**ANSWER: D**

**EXAM:** 03P1C#54  
**PUB:** 17Pg42,52,57,60,84  
**CARD:** 2

Wages, interest and dividends, and unemployment compensation are all taxable. Social security benefits are not taxable if the sum of one-half of the social security benefits plus all other income including tax-exempt income, is less than \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately).

Adjusted gross income:  
 Wages ..... \$ 5,000  
 Interest & dividends ..... 4,000  
 Unemployment income ..... 3,000  
**Adjusted gross income** ..... **\$12,000**

**ANSWER: B**

**EXAM:** 01P1C#52  
**PUB:** 17Pg11  
**CARD:** 1

Income is constructively received when it is credited to taxpayer's account or made available to the taxpayer or his/her agent. If a taxpayer's wages are attached or garnisheed, the amount garnisheed must be included in income. The \$500 paycheck received in December and the \$900 paid to a third party are considered constructively received income and reported in 2006.

**ANSWER: C**

**EXAM:** 00P1C#58  
**PUB:** 17Pg11,52,80  
**CARD:** 1

Income is constructively received when it is credited to taxpayer's account or made available to the taxpayer or his/her agent. The taxpayer need not have physical possession of it. If a taxpayer's wages are attached or garnisheed, the full amount is constructively received by

one of Gene's original drawings. Gene didn't cash or deposit the check until the next year.

- A. \$1,700
- B. \$2,700
- C. \$3,700
- D. \$3,200

7. Susan is a waitress and earned \$15,000 in wages, not including any tips she received in 2006. She received tips of \$17 in March, which she did not report to her employer. Because she became ill in February and did not return to work until late March, she also forgot to report the \$58 for tips that she received in February. She did report the \$7,000 she received as tips for the rest of the year. How much income must she report as wages, tips and other compensation for tax year 2006?

- A. \$22,185
- B. \$22,075
- C. \$15,260
- D. \$15,183

8. Fred received the following from his employer during the year: \$25,000 regular wages, \$5,000 cash bonus, trip valued at \$1,000, and parking valued at \$100 per month at a lot adjacent to the office building. His employer contributed \$200 per month to a 401(k) plan for Fred. Fred chose not to set aside any of his pay for the retirement plan. How much income should Fred report?

- A. \$34,600
- B. \$33,400
- C. \$31,000
- D. \$32,200

the taxpayer and must be included in income. If a financial institution offers a discount for early payment on a mortgage loan, the amount of the discount is canceled debt and must be included in income.

Taxpayer's gross income:	
Interest on savings account .....	\$ 200
Garnishment from pay .....	2,000
Discount on prepayment of mortgage (Canceled debt) .....	1,000
Check received .....	<u>500</u>
<b>Gross Income .....</b>	<b><u>\$3,700</u></b>

**ANSWER: B**

**EXAM:** 03P1C#50

**PUB:** 17Pg42,50

**CARD:** 7

All tips received are income and are subject to federal income tax. Tips of less than \$20 a month do not have to be reported to the taxpayer's employer and are not subject to social security and Medicare tax but are still subject to federal income tax.

**ANSWER: C**

**EXAM:** 00P1C#47

**PUB:** 17Pg42-44

**CARD:** 3 & 24

Bonuses and prizes such as vacation trips are included in income. Qualified parking fringe benefit provided by an employer of up to \$205 a month in 2007 (\$215 in 2007) can be excluded from a taxpayer's income. Employer's contribution to an employee's retirement plan is not included in the employee's income at the time of the contribution.

Taxpayer's gross income:	
Wages .....	\$25,000
Bonus .....	5,000
Trip .....	<u>1,000</u>

**Gross income** ..... **\$31,000**