

TECEP® Test Description for ACC-4210-TE

FEDERAL INCOME TAXATION

This exam assesses students' knowledge of the federal income tax structure as it pertains to individuals, partnerships, and corporate taxpayers. Topics include classification of taxpayers, determination of gross income, exemptions, taxable income, computation of tax, special tax computations, and credits against tax. (3 credits)

- **Test format:**
 - 50 multiple-choice questions (1 point each)
 - 9 computational problems (8 problems, 5 points each; 1 problem, 10 points)
- **Passing score:** 60% (60/100). Your grade will be reported as CR (credit) or NC (no credit).
- **Time limit:** 3 hours

Note: The exam is open book, not open notes. You are permitted to use a calculator (scientific, graphing, or financial), but you may **not** use a calculator on a phone, tablet, or any similar device. You may use one sheet of scratch paper at a time; you can request additional sheets. You may use any relevant taxation textbook or IRS publication for this exam.

OUTCOMES ASSESSED ON THE TEST

- TO 1** Apply the steps to prepare individual taxable income and tax.
- TO 2** Indicate which items are included in income and which are excluded.
- TO 3** Recognize deductible business expenses and nonbusiness deductions.
- TO 4** Calculate depreciation, bad debts, losses.
- TO 5** Apply the rules for capital and ordinary gain and loss recognition.
- TO 6** Demonstrate familiarity with available individual tax credits.
- TO 7** Articulate the fundamental principles applied to the taxation of corporations and partnerships.



TOPICS ON THE TEST AND THEIR APPROXIMATE DISTRIBUTION

The table below indicates the main topics covered by this exam and the approximate percentage of the exam devoted to each main topic. Under the main topic heading is a list of related but more specific topics. It is important to review these topics to determine how much prior knowledge you have and/or how much additional study is necessary.

Topic	Sub-outcomes Assessed	Percentage
Determination of Tax - Gross income - Deduction from AGI - Additions to AGI - Itemized deductions and exemptions - Capital gains and losses - Tax credits - When an expense is deductible - Loss - Bad debts	TS 1.1 Explain which items to include or exclude from gross income for individual tax purposes. [TO 2] TS 1.2 Apply tax rules to a variety of income items for tax return preparation for tax planning purposes. [TO 1, TO 2] TS 1.3 Determine if an item can be excluded from gross receipts. [TO 2] TS 1.4 Compute the amount of gross income to be included for tax reporting purposes under a variety of scenarios. [TO 1] TS 1.5 Describe which tax items are deducted before or after adjusted gross income on an individual tax return. [TO 3] TS 1.6 Analyze the tax consequences for a variety of personal and business tax situations as they apply to individuals. [TO 3, TO 4] TS 1.7 Examine the facts of a given tax situation and come up with an appropriate outcome. [TO 3] TS 1.8 Identify casualty and business losses and determine the amount, classification, and deductibility of such losses. [TO 3, TO 4]	65%
Property Transactions - Determination of gains and losses - Depreciation - Cost recovery - Depletion - Amortization - Inventory cost	TS 2.1 Compute depreciation using MACRS (modified accelerated cost recovery system) and the straight line method. [TO 4] TS 2.2 Examine a variety of tax items for individuals and determine their suitable tax deduction treatment. [TO 3] TS 2.3 Differentiate between employee and self-employment tax items for tax deduction purposes. [TO 3]	20%



Corporations and Partnerships • Basis calculations • S and C corporations • Asset classification • Short-term capital • Long-term capital gains and losses	TS 3.1 Explain/calculate the variety of tax credits for individuals and businesses. [TO 6] TS 3.2 Describe how basis and adjusted basis is determined under a variety of scenarios. [TO 5] TS 3.3 Analyze a variety of property transactions regarding their tax implications. [TO 5, TO 6] TS 3.4 Analyze the best selections made by a business entity for tax purposes. [TO 7] TS 3.5 Know the income and deductions applicable to corporate tax for a regular C corporation. [TO 7] TS 3.6 Describe the advantages of a partnership as a tax entity versus another type. [TO 7] TS 3.7 Determine the tax treatment for S corporation tax items. [TO 7] TS 3.8 Analyze the taxation impact of capital transactions for individuals and corporations. [TO 5]	15%
---	---	------------

STUDY MATERIALS

Below is a comprehensive list of the materials used in this test description. We encourage you to explore these resources to make sure that you are familiar with multiple perspectives on the topics above. All of these resources are openly licensed, which means that they are free to be [revised, remixed, reused, redistributed, and retained](#), as long as their unique terms are followed. You can learn more about open licensing at [Creative Commons](#).

The publication [Your Federal Income Tax for Individuals](#) is available online, and it can be printed. You should have a facility with the books and publications you choose to utilize during this exam.

Resource Licensing Guide	
Title	License
Your Federal Income Tax for Individuals (IRS Publication 17)	public domain CC 0
Tax Code, Regulations and Official Guidance (Note: This document is well over 1000 pages.)	public domain CC 0

In addition to the materials above, you may wish to review the resource below.



TECEP Test Description for ACC-4210-TE by Thomas Edison State University is licensed under a [Creative Commons Attribution-NonCommercial 4.0 International License](#).

Title
Young, J. C., Neellen, A, Maloney, D. M., Persellin, M., Cuccia, A. D., Lassar, S., & Cripe, B. (2023). <i>South-Western federal taxation 2023: Comprehensive</i> (46th ed.). Cengage.

SAMPLE QUESTIONS

The questions below are designed to help you study for your TECEP. Answering these questions does not guarantee a passing score on your exam. Please note that the questions below **will not** appear on your exam.

Multiple-Choice Questions

- Adjusted gross income (AGI) is used in establishing limits on the following deductions, with the exception of
 - charitable contributions
 - casualty losses
 - life insurance deductible
 - medical expenses
- An activity is presumed to be a profit-making activity rather than a hobby if the
 - activity shows a profit for any three out of five years, ending with the tax year in question
 - activity shows a profit for any two out of five years, ending with the tax year in question
 - taxpayer conducts the activity with some expertise
 - taxpayer conducts the activity in a businesslike manner
- Jared receives a \$5,000 scholarship to Carter College. Jared's expenses for tuition and books amount to \$1,200 during the semester. He would report taxable income of
 - \$5,000
 - \$3,800
 - \$2,500
 - \$0
- Which of the following is classified as passive income?
 - Bonus income
 - Gain on the sale of real estate
 - Interest income
 - Income from a limited partnership
- As a result of a lawsuit, Catherine was awarded \$300,000 for compensatory damages due to physical personal injury and \$400,000 for punitive damages. What is the taxable income resulting from this suit?



- a. \$0
- b. \$300,000
- c. \$400,000
- d. \$700,000

Computational Problems

6. In addition to Social Security benefits of \$6,000, Mr. and Mrs. Lopez have adjusted gross income of \$36,000, tax-exempt interest of \$1,000, and will file a joint return. Determine the taxable portion of their Social Security benefits.
7. Lucy purchased a rental house a few years ago for \$100,000. Total depreciation to date is \$35,000. In the current year, she sells the house for \$155,000 and pays \$10,000 selling expenses. Calculate Lucy's gain on the sale.
8. Tom dies in January of the current year and leaves his wife Jeanne a \$50,000 insurance policy. Jeanne elects to receive the proceeds at \$10,000 per year plus interest, for five years. In the current year, she receives \$12,000 (\$10,000 plus \$2,000 interest). How much must Jeanne include in her gross income?
9. Harrison has a one-third interest in Trifecta Partnership. He is entitled to a guaranteed annual payment of \$40,000. At the start of the new fiscal year, Harrison's basis in Trifecta is \$(12,000). In the following business year, Trifecta has the following transactions:

Operating profit after consideration of "Harrison's guaranteed annual payment"	\$450,000
Short-term capital loss	\$ 7,500
Long-term capital gain	\$ 6,000
Interest income on Henderson NV municipal bond	\$ 30,000
Working capital funds borrowed at 10%	\$ 36,000

During this tax year, Harrison withdraws \$75,000 to purchase a new car for personal use. What is Harrison's basis in Trifecta Partnership at the finish of the above fiscal year?

10. Can Head of Household status be claimed in the following situations? Explain your answers. (**Note:** Full credit is only given to answers that are correct and have a full and complete explanation. Yes or No without explanation are not fully explained answers.)
 - a. The taxpayer maintains a home for herself and her dependent father. On May 15th of the current tax year, her father enters a nursing facility and is expected to remain "in care" until the following September (a total of 15 months). Can the taxpayer claim Head of Household for the current year?
 - b. The taxpayer, a single parent, maintains a home for her 18-year-old dependent son. The son earned \$4,500 during the tax year. Can the taxpayer claim Head of Household for the current year?



- c. A single taxpayer maintains a home for his dependent daughter. The daughter is married, and a son-in-law occasionally (less than 4 months a year) lives in the home also. The daughter and son-in-law file a joint tax return. Can the taxpayer claim Head of Household for the current year?
 - d. A taxpayer maintains a household that includes an unrelated friend who is a dependent. Can the taxpayer claim Head of Household for the current year?
-



ANSWERS TO SAMPLE QUESTIONS

Multiple-Choice Questions

1. c
2. a
3. b
4. d
5. c

Computational Problems

6. $(\$36,000 + \$1,000 + \$3,000) - \$32,000 = \$8,000 \times .50 = \$4,000$, which is subject to the ceiling limit of one-half of Social Security benefits, which is \$3,000.

7.

Amount realized	$(\$155,000 - \$10,000) =$	\$145,000
Adjusted basis	$(\$100,000 - \$35,000) =$	65,000
Taxable gain		80,000

8. \$2,000 in gross income

9. Harrison's basis in Trifecta Partnership at the beginning of the fiscal year (Jan. 1 to Dec. 31) is:

Basis as of January 1, 2013	\$ (12,000)
Operating profit $(1/3 \times \$450,000)$	150,000
Tax-exempt interest income $(1/3 \times \$30,000)$	10,000
Short-term capital loss $(1/3 \times \$7,500)$	(2,500)
Long-term capital gain $(1/3 \times \$6,000)$	2,000
Share of partnership loan $(1/3 \times \$36,000)$	12,000
Cash withdrawal	<u>(75,000)</u>
Basis as of January 1, 2014	<u>\$ 84,500</u>

10. Head of Household answers:

- a. Since the father is expected to return to the taxpayer's home, she qualifies for Head of Household filing status.
- b. Head of Household filing status is available since the son is a dependent under the qualifying child category.
- c. Head of Household filing status is not available. The filing of a joint tax return by the daughter and son-in-law exclude using the daughter as a dependent in the case of Head of Household. The daughter is not considered by the IRS as a member of the taxpayer's household.
- d. Head of Household status is not available because the friend, although a dependent, does not meet the relationship test.

