NOTE: Text that should be deleted is displayed with a line through it. New text is shown with a blue background.

The changes included in this update pdf are to update years and amounts so they reflect tax laws that became effective January 1, 2015. These tax laws are testable on the CPA exam beginning July 1, 2015. All Gleim outlines, questions, and simulations have been updated accordingly. Any expired tax provisions that are part of the “extenders” that were renewed for 2014 are expected to again be renewed for 2015 and are treated as such in this update. Any references to an applicable tax year for these “extenders” should be changed to 2015.

The updates in this pdf do not include outline sections or questions where the only changes were to adjust years (including for any “extenders”). Please make note that these need to be updated by you for your book. Our online materials already reflect all year changes as well as updated IRS forms.

Study Unit 3 – Individual Taxation and Gross Income

Page 87, introductory text:

As of the date of publication, the IRS had not yet released all of the 2014 tax forms. Please check www.gleim.com/taxforms for any updates.

Page 88 – New tax form (Form 1040)

Page 89 - New tax form (Form 1040, page 2)

Page 90 – New tax form (Form 1040, Schedule A)

Page 91 – New tax form (Form 1040, Schedule B)

Page 94, Subunit 3.2, item 1.a.:

1. **Personal and Dependent Exemptions**
   a. An individual’s deduction for exemptions is the sum of a personal exemption amount for the individual and a spouse, along with a dependent exemption amount for each qualified dependent. The amount for each individual is $3,950 4,000 for 2014 2015.
Page 95, Subunit 3.2, item 2.c.2):

2) **Gross taxable income** of the relative must be less than the amount of the dependency exemption ($3,950 4,000 for 2014 2015).

Page 96, Subunit 3.2, item 3.a.:

3. **Phaseout of Personal Exemptions**
   a. The amount of each exemption that an individual may claim is phased out if the individual’s AGI exceeds a threshold amount. Each exemption amount ($3,950 4,000 in 2013 2015) is reduced by 2% for each $2,500 ($1,250 MFS) by which the individual’s AGI exceeds the applicable threshold amount.

Page 97, Subunit 3.2, EXAMPLE:

**EXAMPLE**
Taxpayer A and B file a joint return for this year. They are entitled to five personal exemptions (three children). Their gross amount of personal exemptions is $19,750 20,000 ($3,950 4,000 × 5). Their AGI of $310,050 314,900 exceeds the applicable threshold amount of $305,050 309,900 by $5,000. They must reduce the gross exemption amount by $790 800 ($5,000 ÷ $2,500 = 2; 2 × 2% = 4%; $19,750 20,000 × .04 = $790 800). Their allowable deduction for personal exemptions is $18,960 19,200 ($19,750 20,000 – $790 800).

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Amount per Exemption</th>
<th>Threshold AGI Amount</th>
<th>Step Size</th>
<th>Phaseout Rate</th>
<th>AGI Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Filing Joint</td>
<td>3,950 4,000</td>
<td>305,050 309,900</td>
<td>$2,500</td>
<td>2%</td>
<td>$427,550 432,400</td>
</tr>
<tr>
<td>Surviving Spouse</td>
<td>3,950 4,000</td>
<td>305,050 309,900</td>
<td>2,500</td>
<td>2%</td>
<td>427,550 432,400</td>
</tr>
<tr>
<td>Head of Household</td>
<td>3,950 4,000</td>
<td>279,650 284,050</td>
<td>2,500</td>
<td>2%</td>
<td>402,150 406,550</td>
</tr>
<tr>
<td>Unmarried (other than above)</td>
<td>3,950 4,000</td>
<td>254,200 258,250</td>
<td>2,500</td>
<td>2%</td>
<td>376,700 380,750</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>3,950 4,000</td>
<td>152,525 154,950</td>
<td>1,250</td>
<td>2%</td>
<td>243,775 216,200</td>
</tr>
</tbody>
</table>

Page 108, Subunit 3.5, item 9.b.3):

9. **Redemption of U.S. Savings Bonds to Pay Educational Expenses**
   a. If a taxpayer pays qualified higher education expenses during the year, a portion of the interest on redemption of a Series EE U.S. Savings Bond is excluded.
   b. To qualify,
      1) The bond must have been issued to the taxpayer after December 31, 1989, at a discount.
      2) The taxpayer, the taxpayer’s spouse, or a dependent incurs tuition and fees to attend an eligible educational institution.
      3) The taxpayer’s modified AGI must not exceed a certain limit. For 2014 2015, the exclusion is reduced when MAGI exceeds a threshold of $76,000 77,200 ($443,950 115,750 if a joint return). The amount at which the benefit is completely phased out is $94,000 92,000 ($443,950 145,750 if a joint return).
      4) The purchaser of the bonds must be the sole owner of the bonds (or joint owner with his or her spouse).
      5) The issue date of the bonds must follow the 24th birthday(s) of the owner(s).
15. Foreign-Earned Income Exclusion
   a. U.S. citizens may exclude up to $99,200 100,800 (in calendar year 2014 2015) of foreign-earned income and a statutory housing cost allowance from GI.
   b. To qualify for exclusion, the taxpayer must either be a resident of one or more foreign countries for the entire taxable year or be present in one or more foreign countries for 330 days during a consecutive 12-month period.
   c. The $99,200 100,800 limitation must be prorated if the taxpayer is not present in (or a resident of) the foreign country for the entire year.
   d. This exclusion is in lieu of the foreign tax credit.
   e. Deductions attributed to the foreign-earned income (which is excluded) are disallowed.

9. Al and Mary Lew are married and filed a joint 2014 2015 income tax return in which they validly claimed the $3,950 4,000 personal exemption for their dependent 17-year-old daughter, Dora. Since Dora earned $8,500 8,600 in 2014 2015 from a part-time job at the college she attended full-time, Dora was also required to file a 2014 2015 income tax return. What amount was Dora entitled to claim as a personal exemption in her 2014 2015 individual income tax return?

   A. $0
   B. $4,000 1,050
   C. $4,500 1,550
   D. $3,950 4,000

   Answer (A) is correct. REQUIRED: The personal exemption deduction allowed a dependent.

   DISCUSSION: An exemption is allowed for each dependent whose gross income for the taxable year is less than the exemption amount ($3,950 4,000 in 2014 2015) or who is a child of the taxpayer and has not attained the age of 19. No personal exemption may be taken on the return of an individual who can be claimed as a dependent on another taxpayer’s return. Dora’s parents are entitled to claim her as a dependent on their return. Therefore, Dora is not entitled to a personal exemption herself.
Page 114, Subunit 3.2, Question 11:

11. Jim and Kay Ross contributed to the support of their two children, Dale and Kim, and Jim’s widowed parent, Grant. For 2014 2015, Dale, a 19-year-old, full-time college student, earned $6,100 6,150 as a bookkeeper. Kim, a 23-year-old bank teller, earned $13,600 13,650. Grant received $7,775 7,825 in dividend income and $6,775 6,825 in nontaxable Social Security benefits. Grant, Dale, and Kim are U.S. citizens and were over one-half supported by Jim and Kay. How many exemptions can Jim and Kay claim on their 2014 2015 joint income tax return?  

A. 2  
B. 3  
C. 4  
D. 5  

Answer (B) is correct.  

REQUIRED: The number of exemptions that a married couple filing a joint return can claim.  

DISCUSSION: On a joint return, there are two taxpayers, and an exemption is allowed for each. An exemption is also allowed for each dependent. Kim does not qualify as a dependent because she had gross income in excess of the exemption amount ($3,950 4,000 in 2014 2015). Although a parent can also qualify as a dependent, Grant has gross income in excess of the exemption and therefore cannot be claimed. The gross income test does not apply to a person such as Dale, who is a child of the claimant, under age 24, and a full-time student. Thus, Jim and Kay can claim themselves and Dale for a total of three exemptions on their return.

Page 116, Subunit 3.4, Question 18:

18. In 2014 2015, Emil Gow won $10,000 in a state lottery and spent $800 for the purchase of lottery tickets. Emil elected the standard deduction on his 2014 2015 income tax return. The amount of lottery winnings that should be included in Emil’s 2014 2015 gross income is  

A. $0  
B. $3,200 2,900  
C. $4,000 3,700  
D. $10,000  

Answer (D) is correct.  

REQUIRED: The amount of state lottery winnings included in gross income.  

DISCUSSION: Gambling winnings (whether legal or illegal) are included in gross income. Therefore, Emil must include the full $10,000 in gross income. Gambling losses, i.e., amounts spent on nonwinning tickets, may be deductible but only as an itemized deduction to the extent of gambling winnings. Answer (A) is incorrect. All gambling winnings constitute gross income. Answer (B) is incorrect. If the standard deduction is claimed, itemized deductions are not allowed. In addition, the standard deduction reduces AGI, not the amount included in gross income. Answer (C) is incorrect. Although the standard deduction may reduce taxable income, it does not reduce the amount of gambling winnings included in gross income.

Page 117, Subunit 3.4, Question 21:

21. Easel Co. has elected to reimburse employees for business expenses under a nonaccountable plan. Easel does not require employees to provide proof of expenses and allows employees to keep any amount not spent. Under the plan, Mel, an Easel employee for a full year, gets $400 per month for business automobile expenses. At the end of the year, Mel informs Easel that the only business expense incurred was for business mileage of 7,965 at a rate of 56.5 57.5 cents per mile, the IRS standard mileage rate at the time of travel. Mel encloses a check for $300 to refund the overpayment to Easel. What amount should be reported in Mel’s gross income for the year?  

A. $0  
B. $300  
C. $4,500 4,580  
D. $4,800  

Answer (D) is correct.  

REQUIRED: The gross income reported for reimbursements from a nonaccountable plan.  

DISCUSSION: In a nonaccountable plan, the reimbursements are included in the employee’s gross income, and all the expenses are deducted from AGI (below-the-line deductions). These expenses are a miscellaneous itemized deduction subject to the 2% floor. Since the employee accounted to the employer and returned the excess reimbursement, this could have qualified as an “accountable plan.” Under an accountable plan, the employee would include nothing in income and take no deduction. However, the company uses a nonaccountable plan, and Mel must include $4,800 ($400 × 12 months) in his gross income. Answer (A) is incorrect. Under a nonaccountable plan, Mel must include all reimbursements in gross income ($4,800). Answer (B) is incorrect. With a nonaccountable plan, the amount included in gross income is the total reimbursement (not limited to overpayment of the reimbursement). Answer (C) is incorrect. Under a nonaccountable plan, Mel must include all reimbursements in gross income ($4,800).
c. A new rule allows for lodging deductions when not traveling away from home, if qualified under one of two tests or rules.

1) The deduction is allowed if all the facts and circumstances indicate the lodging is for carrying on a taxpayer’s trade or business. One factor under this test is whether the taxpayer incurs an expense because of a bona fide condition or requirement of employment imposed by the taxpayer’s employer.

2) A safe harbor rule applies if

   a) The lodging is necessary for the individual to participate fully in, or be available for, a bona fide business meeting, conference, training activity, or other business function;
   b) The lodging is for a period that does not exceed 5 calendar days and does not recur more frequently than once per calendar quarter;
   c) The employee’s employer requires the employee to remain at the activity or function overnight (if the individual is an employee); and
   d) The lodging is not lavish or extravagant under the circumstances and does not provide any significant element of personal pleasure, recreation, or benefit.

9. Automobile Expenses

   a. Actual expenses for automobile use are deductible (e.g., services, repairs, gas).
   b. Alternatively, the taxpayer may deduct the standard mileage rate ($0.56 per mile for 2014, $0.575 per mile for 2015), plus parking fees, tolls, etc.

4) The employee portion includes an additional 0.9% for high-income earnings, i.e., earnings in excess of $200,000 ($250,000 MFJ, $125,000 MFS).
4.2 FICA AND FUTA TAXES

1. Federal Insurance Contributions Act (FICA) -- Social Security & Medicare Tax
   a. Employers are required to pay tax based on the employee’s pay.
   b. The employer must pay
      1) 6.20% of the first $117,000 (2014) $118,500 (2015) of wages paid for Social Security tax plus
      2) 1.45% of all wages for Medicare tax. There is no cap on this tax.

Page 141, Subunit 4.2, item 3.d.:

d. A self-employed person is allowed a deduction for the employer’s portion of the FICA taxes paid to arrive at his or her AGI. For 2014 2015, this equals
   1) 6.20% of the first $447,000 $118,500 of net self-employment income plus
   2) 1.45% of net self-employment income (no cap).

Page 146 – New tax form (Form 1040, Schedule F)

Page 150, Subunit 4.5, item 3.b.2):

b. Health Savings Account
   1) A Health Savings Account is a tax-exempt account the taxpayer sets up with a U.S. financial institution to save money used exclusively for future medical expenses.
      a) This account must be used in conjunction with a High Deductible Health Plan.
   2) The amount that may be contributed to a taxpayer’s Health Savings Account depends on the nature of his or her coverage and his or her age.
      a) For self-only coverage, the taxpayer or his or her employer can contribute up to $3,300 $3,350 ($4,300 $4,350 for taxpayers who have reached age 55).
      b) For family coverage, the taxpayer or his or her employer can contribute up to $6,550 $6,650 ($8,550 $8,650 for taxpayers who have both reached age 55).

Page 151, Subunit 4.5, item 4.d.:

d. Direct expenses
   1) Are deductible to arrive at AGI
   2) Include the expenses of actually moving a taxpayer and his or her household goods and personal effects and travel (including lodging) from the former residence to the new residence
      a) Instead of actual expenses, a mileage rate of $.235 $.23 per mile in 2014 2015 can be used for driving one’s own automobile.
      b) The cost of meals en route is not deductible as a direct moving expense.
      c) Expenses incurred by members of the taxpayer’s household are deductible.
5. **Self-Employment**
   
a. **Self-Employment Tax**
   
   1) A self-employed person is allowed a deduction for the employer’s portion of the FICA taxes paid to arrive at his or her AGI. The deduction for the employer’s share is equal to 50% of the self-employment tax. For 2014, 2015, the deduction equals
   
   a) 6.2% of the first $47,000 to $117,000 of net self-employment income plus
   b) 1.45% of net self-employment income (no cap).

Page 152, Subunit 4.5, item 5.b.2):

b. **Self-Employed SEP, SIMPLE, and Qualified Plans**

   1) A self-employed individual can deduct specified amounts paid on his or her behalf to a qualified retirement or profit-sharing plan, such as a SEP or SIMPLE plan.

   2) The most common self-employed retirement plan used is a SEP (Keogh) plan.

      a) The maximum annual deduction is limited to the lesser of 25% of the self-employed earnings or $52,000 (indexed for inflation).

      b) The annual contribution limit is the lesser of 100% of the earned income derived from the trade or business or $52,000.

      c) Self-employed earnings are reduced by the deductible part of self-employment taxes.

      d) Contributions to the plan are subtracted from net earnings to calculate self-employed earnings, creating a circular computation. For convenience, a standard rate of 20% is used to calculate the allowed deduction.

Page 152, Subunit 4.5, item 5.b.3):

3) Another option for a self-employed taxpayer is a Savings Incentive Match Plan for Employees (SIMPLE).

   a) Self-employed taxpayers may make both employer contributions and elective employee contributions.

   b) Employee contributions are considered deferred compensation and are limited to $12,000 in 2014, 2015.

   c) An employer match of up to 3% of self-employed earnings may be deducted as an above-the-line deduction.
Page 153, Subunit 4.5, item 8.a.5):

5) If the taxpayer is an active participant in an employer-sponsored retirement plan and has earned income of over $96,000 $98,000 [married filing jointly or qualifying widow(er)] in 2014 2015 ($60,000 $61,000 in 2014 2015 for head of household or single taxpayers, and $0 for married filing separate), the IRA deduction is proportionately reduced over a phaseout range.

   a) An individual is not labeled an active plan participant due to the status of that individual’s spouse.

   b) If an individual’s spouse is an active plan participant, that individual’s deductible contribution will be phased out when AGI is between $484,000 183,000 and $494,000 193,000.

Page 154, Subunit 4.5, item 8.b.6):

6) Contributions to Roth IRAs are phased out when AGI is between $114,000 116,000 and $129,000 131,000 (between $181,000 183,000 and $191,000 193,000 for joint filers and $0 and $10,000 for married filing separate).

Page 163, Subunit 4.5, Question 28:

28. For 2014 2015, Val and Pat White, both age 30, filed a joint return. Val earned $45,000 in wages and was covered by his employer’s qualified pension plan. Pat was unemployed and received $6,000 in alimony payments for the first 4 months of the year before remarrying. The couple had no other income. Each contributed $5,500 to an IRA account. The allowable IRA deduction on their 2014 2015 joint tax return is

   A. $11,000
   B. $5,750
   C. $5,500
   D. $0

Answer (A) is correct.

REQUIRED: The allowable IRA deduction for a married couple filing a joint return.

DISCUSSION: The maximum amount that any taxpayer under the age of 50 may deduct for a contribution to an IRA is limited to the lesser of $5,500 ($6,500 if qualified for a catch-up contribution) or the taxpayer’s compensation gross income for the year. The limit is applied separately to each spouse who has compensation and makes a contribution to a separate IRA account. Taxable alimony is treated as compensation for this purpose. The deduction is for AGI. If one spouse is covered by an employer’s retirement plan, the deduction is proportionately reduced once earned income exceeds $96,000 $98,000 in 2014 2015. Thus, Val and Pat may deduct $11,000.

Answer (B) is incorrect. The additional spousal IRA deduction of $250 previously applied when only one of the spouses had compensation or an election was made to treat one spouse as having no compensation for the year. Taxable alimony is compensation. In addition, the IRA deduction for a nonworking spouse is now $5,500. Answer (C) is incorrect. The spouse is allowed a $5,500 deduction whether or not the spouse has any earned income. Thus, each spouse may deduct $5,500 for contributions to separate IRAs. Answer (D) is incorrect. Although phasing out applies if one spouse is covered by an employer’s retirement plan, phasing out does not begin until earned income exceeds $96,000 $98,000 in 2014 2015.
4. **FICA and FUTA Taxes** (5 Gradable Items)

1. **$4,590.** For 2014-2015, FICA tax withheld from an employee’s wages is 6.20% of the first $117,000 for Social Security and 1.45% for Medicare ($60,000 × 6.25%).

2. **$8,994.** The employer’s share of FICA taxes for self-employment income is 6.20% of the first $117,000 for Social Security and 1.45% for Medicare. The tax is calculated as follows: ($117,000 × 6.20%) + ($120,000 × 1.45%).

3. **$300.** Employers must pay FUTA tax of 6.0% of the first $7,000 of wages for 2014-2015. The FUTA tax on this employee’s wages is $300 ($5,000 × 6.0%).

4. **$360.** Employers must pay FUTA tax of 6.0% of the first $7,000 of wages for 2014-2015. The FUTA tax on this employee’s wages is $360 ($6,000 × 6.0%).

5. **$42.** FUTA tax is imposed on the first $7,000, which this particular employee would have received during the first 6 months of the year; therefore, the applicable rate was 6.0%. In addition, if state unemployment tax is paid, a credit is available, which reduces the applicable tax rate up to 5.4%. The FUTA tax for this employee is $42 ($7,000 × (6.0% – 5.4%)].
Study Unit 5 – Deductions from AGI, Credits, AMT, and Limitations

Page 171, introductory text:

<table>
<thead>
<tr>
<th>2014</th>
<th>2015 Individual Income Tax Rates and Brackets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>10%</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>From 10%</td>
</tr>
<tr>
<td>Filing Status</td>
<td>The First</td>
</tr>
<tr>
<td>Married Filing Jointly and Qualifying Widow(er)</td>
<td>$18,150</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$4,050</td>
</tr>
<tr>
<td>Single</td>
<td>$9,225</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$9,225</td>
</tr>
</tbody>
</table>

Page 172, Subunit 5.1, item 4. table:

4. Standard Deduction

**STANDARD DEDUCTION AMOUNTS -- 2014 2015**

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Basic</th>
<th>Age 65/Blind</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Filing Jointly (MFJ)</td>
<td>$42,400</td>
<td>$12,600</td>
</tr>
<tr>
<td>Qualifying Widow(er)</td>
<td>$42,400</td>
<td>$12,600</td>
</tr>
<tr>
<td>Head of Household (HH)</td>
<td>$9,100</td>
<td>$9,250</td>
</tr>
<tr>
<td>Single (other than above)</td>
<td>$6,200</td>
<td>$6,300</td>
</tr>
<tr>
<td>Married Filing Separately (MFS)</td>
<td>$6,200</td>
<td>$6,300</td>
</tr>
</tbody>
</table>

Page 172, Subunit 5.1, item 4.b.:

b. The basic standard deduction amount depends on filing status and dependency status on another's return. Refer to the table above.

1) The basic standard deduction amount of a child under age 19 or a student under age 24 who can be claimed as a dependent on another individual's income tax return is limited to the greater of either

a) $4,000 or $1,050

b) Earned income for the year plus $350 up to the otherwise applicable standard deduction.

i) Earned income does not include either dividends or capital gains from the sale of stock.

Page 174, Subunit 5.1, new tax form (Form 1040, Schedule A) and form note:

As of the date of publication, the IRS had not yet released all of the 2014 tax forms. Please check www.gleim.com/taxforms for any updates.
Page 175, Subunit 5.1, item 6.i.2):

i. Travel

1) Amounts paid for transportation essential to (and primarily for) medical care are deductible.
   a) This includes the transportation cost of traveling on a doctor’s order to alleviate a specific chronic ailment.

2) The taxpayer may choose between actual expenditures (e.g., taxis, air fare) or
   $0.235 per mile for 2014 2015 (plus the cost of tolls and parking).
3) Expenditures for lodging are deductible up to $50 per night per individual.

Page 181, Subunit 5.2, items 2.a.2) and 3):

2) A new rule allows for lodging deductions when not traveling away from home, if qualified under one of two tests or rules.
   a) The deduction is allowed if all the facts and circumstances indicate the lodging is for carrying on a taxpayer’s trade or business. One factor under this test is whether the taxpayer incurs an expense because of a bona fide condition or requirement of employment imposed by the taxpayer’s employer.
   b) A safe harbor rule applies if
      i) The lodging is necessary for the individual to participate fully in, or be available for, a bona fide business meeting, conference, training activity, or other business function;
      ii) The lodging is for a period that does not exceed 5 calendar days and does not recur more frequently than once per calendar quarter;
      iii) The employee’s employer requires the employee to remain at the activity or function overnight (if the individual is an employee); and
      iv) The lodging is not lavish or extravagant under the circumstances and does not provide any significant element of personal pleasure, recreation, or benefit.

2) 3) Employee transportation expenses
   a) Transportation expenses include taxi fares, automobile expenses, tolls and parking fees, and airfare.
   b) These expenses are treated as travel expenses if the employee is away from home overnight. Otherwise, they are transportation expenses.
   c) Commuting costs are nondeductible.
   d) Actual automobile expenses may be used for the deduction, or the taxpayer may use the standard mileage rate.
      i) The standard mileage rate is $0.56 0.575 per mile for 2014 2015, plus parking fees and tolls.
      ii) Actual expenses must be allocated between business use and personal use of the automobile. A deduction is allowed only for the business use.
   e) Reimbursements for transportation from an employer not exceeding $0.56 0.575 per mile for 2014 2015 must be adequately substantiated by a record of time, place, and business purpose.
Page 183, Subunit 5.2, item 7.a.:

7. **Overall Limitation**
   
a. In **2014**, **2015**, married taxpayers filing a joint return with AGI that exceeds $309,900 (if head of household, $279,600) **284,050 if single**, and $156,000 (if married filing separately) must reduce the aggregate amount of their itemized deductions. The amount of the reduction is the lesser of 80% of otherwise allowable itemized deductions or 3% of the amount by which AGI exceeds the threshold.

Page 185, Subunit 5.3, items 2.d. and e.:

d. **The Lifetime Learning Credit** is 20% of qualified tuition expenses paid by the taxpayer. The maximum credit allowed per year is $2,000 and is limited to 20% of the first $10,000 of expenses.
   
   1) The Lifetime Learning Credit phases out for AGI between $54,000 **55,000** and $64,000 **65,000** for singles and between $108,000 **110,000** and **130,000** on a joint return.
   
   2) The Lifetime Learning Credit is available in years that the American Opportunity Credit is not claimed with respect to the same student.
   
   3) The Lifetime Learning Credit is available for an unlimited number of years and can be used for both graduate- and undergraduate-level courses.

e. **Retirement Savings Contribution Credit.** Unlike most other tax topics allowing a credit or deduction, this credit is in addition to the exclusion or deduction from GI for qualified contributions. In general, a taxpayer may claim a credit for an eligible contribution to an eligible retirement plan.
   
   1) AGI limit is $30,000 **30,500** ($60,000 **61,000** MFJ, $45,000 **45,750** HH) in **2014** **2015**.
   
   2) The maximum credit is 50% of $2,000 contribution (i.e., $1,000).

Page 187, Subunit 5.3, item 2.i.2):

i. **Adoption Credit.** A credit is allowed for qualified adoption expenses incurred by the taxpayer.
   
   1) Qualified adoption expenses are reasonable and necessary adoption expenses, including adoption fees, court costs, attorney fees, and other directly related expenses.
   
   2) The maximum credit is $13,490 **13,400** per qualified child, including a special-needs adoption.

   a) The credit for a child with special needs is allowed regardless of the actual expenses paid or incurred in the year the adoption becomes final.

   b) The amount of the credit allowable for any tax year is phased out for taxpayers with modified adjusted gross income (MAGI) in excess of $237,880 **201,010** and is fully eliminated when MAGI reaches $241,010.

   3) Any unused credit may be carried forward for up to 5 years and is not subject to the MAGI phaseout.
Page 188, Subunit 5.3, item 3.c.1)g):

c. Earned Income Credit (EIC)

1) To qualify for Earned Income Tax Credit, the taxpayer and spouse (if married and filing a joint return), must meet all of the following criteria:

a) Have a valid Social Security number
b) Have earned income from employment, self-employment, or another source
c) Cannot use the married filing separate filing status
d) Must be a U.S. citizen or resident alien all year or a nonresident alien married to a U.S. citizen or resident alien and choose to file a joint return and be treated as a resident alien
e) Cannot be the qualifying child (QC) of another person
f) Have adjusted gross income and earned income less than the thresholds in 6)a) below
g) Have investment income less than $3,350 for 2014, $3,400 for 2015

Page 188, Subunit 5.3, items 3.c.5)a) and 6)a):

5) Calculation of EIC. Multiply the individual’s earned income by the applicable percentage.

a) EIC: Maximum Amounts, 2014, 2015

<table>
<thead>
<tr>
<th>Type of Taxpayer</th>
<th>Applicable Percentage</th>
<th>Earned Income Amount</th>
<th>Maximum EIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 QC</td>
<td>7.65%</td>
<td>$6,480</td>
<td>$496 503</td>
</tr>
<tr>
<td>1 QC</td>
<td>34%</td>
<td>$9,720</td>
<td>$3,305 3,359</td>
</tr>
<tr>
<td>2 QC</td>
<td>40%</td>
<td>$13,650</td>
<td>$5,460 5,548</td>
</tr>
<tr>
<td>3 or more QC</td>
<td>45%</td>
<td>$13,650</td>
<td>$6,143 6,242</td>
</tr>
</tbody>
</table>

6) Phaseout of EIC. Decrease the maximum EIC by any phaseout, which is determined by multiplying the applicable phaseout percentage by the excess of the amount of the individual’s AGI (or earned income, if greater) over the beginning amount. No EIC is available when AGI or earned income excedes the completed phaseout amount.


<table>
<thead>
<tr>
<th>Type of Taxpayer</th>
<th>Applicable Percentage</th>
<th>Beginning Phaseout Amount</th>
<th>Completed Phaseout Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 QC</td>
<td>7.65%</td>
<td>$8,140 8,240</td>
<td>$13,540 13,760</td>
</tr>
<tr>
<td>1 QC</td>
<td>15.98%</td>
<td>$17,830 18,110</td>
<td>$23,260 23,630</td>
</tr>
<tr>
<td>2 QC</td>
<td>21.06%</td>
<td>$17,830 18,110</td>
<td>$23,260 23,630</td>
</tr>
<tr>
<td>3 or more QC</td>
<td>21.06%</td>
<td>$17,830 18,110</td>
<td>$23,260 23,630</td>
</tr>
</tbody>
</table>
Page 189, Subunit 5.4, item 1. table:

<table>
<thead>
<tr>
<th>Taxable income</th>
<th></th>
<th>Phaseout of $.25 per $1 in excess of</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ Tax preferences</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Personal exemptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+ Standard deduction if taxpayer does not itemize</td>
<td></td>
<td></td>
</tr>
<tr>
<td>+/- Certain other adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>= Alternative minimum taxable income (AMTI)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Exemption amount
  - Married filing jointly: $82,100, $83,400, $156,500, $158,900
  - Single: $62,800, $63,600, $117,300, $119,200
  - Married filing separately: $41,050, $41,700, $78,250, $79,450

= Alternative minimum tax base

= Tentative minimum tax

= Alternative minimum tax

Pages 190 and 191 – New tax form (6251 Alternative Minimum Tax – Individuals)

Page 195, Subunit 5.5, EXAMPLE:

**EXAMPLE**

For 2014, Sally realized a $30,000 net loss (sales of $200,000 less expenses of $230,000) from operating a sole proprietorship without regard to dispositions of property other than inventory. Other than this, the income tax return showed gross income of $10,000 ($4,500 of wages, $1,000 interest on personal savings, and a $4,500 long-term capital gain on business property). The excess of deductions over income was $30,150 ($10,000 gross income – $30,000 loss from business operations – $6,200 standard deduction – $3,950 personal exemption).

To compute Sally’s NOL,

1. Add back the $3,950 personal exemption amount and
2. Add the $5,200 excess of nonbusiness deductions over nonbusiness income ($6,200 standard deduction – $1,000 interest).

Thus, Sally’s NOL for the current tax year is $(21,000) [($30,150) “negative taxable income” + $3,950 + $5,200].
Page 198, Subunit 5.1, Question 1:

5.1 Standard and Itemized Deductions

1. Poole, 45 years old and single, is in the 15% tax bracket. He had 2014, 2015 adjusted gross income of $30,000. The following information applies to Poole:

<table>
<thead>
<tr>
<th>Medical expenses</th>
<th>$11,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard deduction</td>
<td>$6,200, $6,300</td>
</tr>
<tr>
<td>Personal exemption</td>
<td>$3,950, $4,000</td>
</tr>
</tbody>
</table>

The relevant tax brackets are:

<table>
<thead>
<tr>
<th>Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $9,075</td>
<td>10%</td>
</tr>
<tr>
<td>$9,076 to $36,900</td>
<td>15%</td>
</tr>
</tbody>
</table>

Poole wishes to minimize his income tax. What is Poole’s 2014, 2015 total income tax rounded to the nearest dollar?

A. $4,047, 3,116
B. $2,524, 2,494
C. $2,264, 2,239
D. $4,894, 1,789

Answer (C) is correct.

REQUIRED: The income tax of an unmarried individual.

DISCUSSION: Taxable income is defined as adjusted gross income minus the standard deduction (or total itemized deductions, if greater) and the deduction for personal exemptions. For a single taxpayer in 2014, 2015, the basic standard deduction is $6,200, $6,300. Qualifying medical expenses in excess of 10% of AGI may be deducted as an itemized deduction. Poole’s income tax is computed as follows:

Medical expenses $11,000
Less: 10% of AGI ($30,000 × .10) (3,000)
Allowable medical expenses $8,000

Use the greater of
Allowable itemized deductions or $8,000
Standard deduction $6,200, $6,300

AGI $30,000
Itemized deductions (8,000)
Personal exemption (3,950, 4,000)
Taxable income $18,050, 18,000

Tax Computation:
First: $9,075 × .10 = $908
Balance: $8,975 × .15 = $1,346
Income tax $2,254, 2,239

Answer (A) is incorrect. The AGI must be reduced by the $3,950, 4,000 personal exemption and $8,000, the greater of the standard deduction or itemized deductions, before calculating the tax. Answer (B) is incorrect. The itemized deductions of $8,000 should be used because they exceed the standard deduction. The itemized deductions consist of the allowable medical expenses ($11,000 – ($30,000 × 10%)). Answer (D) is incorrect. The medical expenses must be reduced by 10% of AGI to find the allowable itemized deductions.

Page 208, Simulation, Tab 2:

In each of the following situations, enter the amount of credit that may be claimed on a taxpayer’s income tax return. If the value of a cell is zero or if the cell should be left blank, enter a zero (0) to receive credit for the answer.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Credit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Taxpayer A: Single, AGI $60,000. Paid $5,000 of tuition for 5th year of college.</td>
<td></td>
</tr>
<tr>
<td>2. Taxpayer B: MFJ, AGI $60,000. Contributed $5,500 to IRA account and took a $5,500 deduction for AGI.</td>
<td></td>
</tr>
<tr>
<td>3. Taxpayer C: Qualifying small business. Incurs $15,000 of qualified first year wages for a LT family assistance recipient, who worked over 500 hours during the year.</td>
<td></td>
</tr>
<tr>
<td>4. Taxpayer D: Qualified adoption expenditures $5,000, MAGI $100,000. Finalized the adoption of a special-needs child this year.</td>
<td></td>
</tr>
<tr>
<td>5. Taxpayer E: Single, MAGI $80,000. Taxpayer has a child age 10, for whom a dependency exemption may be claimed.</td>
<td></td>
</tr>
<tr>
<td>6. Taxpayer F: Single, earned income includes $3,500 wages and $3,000 unemployment compensation. Taxpayer does not have any qualifying children.</td>
<td></td>
</tr>
</tbody>
</table>
Herbert, a single taxpayer, has taxable income of $80,000, which includes the following items, for the 2014-2015 taxable year:

- Interest income from commercial bonds: $12,000
- Interest income from private activity bonds purchased in 2006-2007: $3,500
- Cash contributions: $2,400
- Interest on a home mortgage used to purchase a residence: $5,600
- Interest on a home mortgage used to consolidate personal debts: $4,000
- State taxes: $3,600
- Personal exemption: $3,950

Based on the information above, enter the correct amount in each of the shaded cells below.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is Herbert’s regular taxable income?</td>
<td></td>
</tr>
<tr>
<td>2. What is the amount of Herbert’s tax preference items?</td>
<td></td>
</tr>
<tr>
<td>3. What is the amount of Herbert’s other adjustments?</td>
<td></td>
</tr>
<tr>
<td>4. What is Herbert’s alternative minimum taxable income?</td>
<td></td>
</tr>
</tbody>
</table>

Page 211, Unofficial Answers, Tab 2:

2. **Tax Credits** (6 Gradable Items)

1. **$500.** The Lifetime Learning Credit is 20% of qualified expenses and is allowed for any year the American Opportunity Credit is not taken or allowed (post 4th year). The applicable expenses are limited to $10,000. The credit phases out for a single taxpayer with AGI between $54,000 and $64,000. Taxpayer A’s credit is calculated as follows: $5,000 × 20%, i.e., $1,000, reduced by 50% ($54,000 – $55,000) ÷ $10,000, i.e., $500.

2. **$1,000.** Despite taking the above-the-line deduction for the contribution to the IRA, Taxpayer B is still allowed a retirement savings contribution credit equal to 50% of $2,000. Taxpayer B’s AGI is below the $61,000 phaseout threshold for MFJ taxpayers.

3. **$4,000.** Qualified employers may take the Work Opportunity Tax Credit (WOTC) equal to 40% of the first $10,000 wages paid to LT family assistance recipients who work at least 400 hours. Generally, the credit is 40% of the first $6,000 wages paid to qualifying employees.

4. **$13,400.** The maximum adoption credit amount of $13,400 is allowed regardless of the actual expenses paid or incurred in the year the adoption becomes final for a special-needs child.

5. **$750.** Taxpayers who have qualifying children are entitled to the child tax credit of $1,000 per child. Taxpayer E has one qualifying child. The credit for single taxpayers begins to phase out by $50 per $1,000 in excess of $75,000. Taxpayer E’s $1,000 credit is reduced by $250: ($80,000 – $75,000) ÷ ($1,000 × $50).

6. **$268.** Qualified taxpayers are allowed an earned income credit based on an applicable percentage. As a single individual with no children, Taxpayer F’s credit is 7.65% of the $3,500 earned income.
Page 212, Unofficial Answers, Tab 5:

5. AMT Computation (4 Gradable Items)

1. $80,000. As given in the facts, Herbert's taxable income is $80,000.

2. $3,500. Tax preference items include any interest income received from private activity bonds purchased after 1986 and not including those purchased in 2009 and 2010.

3. $11,550 11,600. Other adjustments represent a limitation on itemized deductions or timing differences. Certain itemized deductions, including home equity refinancing, state and local taxes, and personal exemptions, are not included when calculating AMT. The total other adjustments for Herbert would be the interest paid on the mortgage taken out to consolidate personal debts, state taxes paid, and the personal exemption ($4,000 + $3,600 + $3,950 4,000).

4. $95,050 95,100. Alternative minimum taxable income is equal to taxable income, plus any tax preference items, plus or minus any other adjustments. In this case, the other adjustments represent deductions that were taken when computing regular tax but are not allowed when computing AMT. Thus, they should be added back to taxable income ($80,000 + $3,500 + $11,550 11,600).

Study Unit 6 – Property Transactions

Page 222, Subunit 6.2, item 5.a.3):

3) First-year depreciation of 100% is allowed for assets placed in service between September 8, 2010, and December 31, 2011 January 1, 2012.

Study Unit 7 – Corporate Taxable Income

Page 261 – New tax form (Form 1120)

Pages 287 and 289, Simulation, Tab 6 – New tax form (Form 1120)

Study Unit 8 – Corporate Tax Computations

Page 297, Subunit 8.5, item 1.c.2)a):

c. Tentative AMT is determined by first multiplying a rate times the AMT base and then subtracting the AMT foreign tax credit.

1) For corporations, a 20% rate applies.

2) For individuals, a two-tiered graduated rate schedule applies.

a) A 26% rate applies to the first $182,500 185,400 ($91,250 92,700 if married filing separately) of AMTI (net of the exemption amount).

b) A 28% rate applies to any excess.
Study Unit 11 – Partnerships and Exempt Organizations

Page 416, Subunit 11.7, Question 20:

11.7 Electing Large Partnerships

20. All of the following items are separately reportable items for electing large partnerships except

A. Tax-exempt interest.
B. Taxable income or loss from passive loss limitation activities.
C. Sec. 1231 gains and losses.
D. Net capital gain or loss.

Answer (C) is correct.

REQUIRED: The item that is not separately stated for electing large partnerships.

DISCUSSION: For tax years beginning after December 31, 2000, to simplify reporting of partnership income, the new provision reduces the number of items that must be separately reported to partners by an electing large partnership has been reduced. The taxable income of an electing large partnership considers Sec. 1231 gains and losses. Net Sec. 1231 gain is considered long-term capital gain, while net Sec. 1231 loss is considered ordinary and is consolidated with other partnership ordinary income.

Answer (A) is incorrect. Tax-exempt interest is separately stated for electing large partnerships. Answer (B) is incorrect. Taxable income or loss from passive loss limitation activities is separately stated for electing large partnerships. Answer (D) is incorrect. Net capital gain or loss is separately stated for electing large partnerships.

Study Unit 12 – Estates, Trusts, and Wealth Transfer Taxes

Page 430, Subunit 12.1, item 2.a.:

2. Tax Rates

   a. Tax is imposed on taxable income of a trust or estate at the following rates for 2014 2015:

<table>
<thead>
<tr>
<th>Fiduciary Taxable Income Brackets</th>
<th>Applicable Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0 - $ 2,500</td>
<td>15%</td>
</tr>
<tr>
<td>&gt; $ 2,500 - $ 5,900</td>
<td>25% (+ $375.00)</td>
</tr>
<tr>
<td>&gt; $ 5,900 - $ 9,050</td>
<td>28% (+ $1,200.00, 1,225.00)</td>
</tr>
<tr>
<td>&gt; $ 9,050 - $ 12,300</td>
<td>33% (+ $2,068.00, 2,107.00)</td>
</tr>
<tr>
<td>&gt; $ 12,300</td>
<td>39.6% (+ $3,140.00, 3,179.50)</td>
</tr>
</tbody>
</table>

Page 434, Subunit 12.1, item 12.a.2):

12. Net Investment Income Tax

   a. Estates and Trusts are required to pay a 3.8% net investment income tax on the lesser of

      1) Undistributed net investment income for the tax year or

      2) Any excess Fiduciary Taxable Income over the amount at which the highest tax bracket for estates and trusts begins for the tax year ($12,150 12,300 for 2014 2015).

Page 438, Subunit 12.3, item 10.d.:

d. Applicable credit amount (ACA). Tentative tax may also be reduced by any ACA. The ACA is a base amount ($2,081,800 2,117,800 in 2014 2015) reduced by amounts allowable as credits for all preceding tax years. This excludes the first $5.34 5.43 million of taxable gifts.

   Gift tax liability for a current year = Tentative tax – 
   (Prior-year gifts × Current rates) – ACA
Page 442, Subunit 12.4, item 4.e. and EXAMPLE:

e. The ACA is a base amount ($2,081,800 $2,117,800 in 2014 2015), not reduced by amounts allowable as credits for gift tax for all preceding tax years.

1) The ACA offsets the estate tax liability that would be imposed on a taxable estate of up to $5.34 5.43 million computed at current rates.

2) Any unused amount by a deceased spouse may be used by the surviving spouse in addition to the surviving spouse’s own exclusion amount. Under this portability election, the surviving spouse could potentially have an available exclusion amount of $10.68 10.86 million.

EXAMPLE
The deceased spouse only used $3.34 3.43 million of the allowed exclusion. The surviving spouse is allowed a $7.34 7.43 million exclusion ($5.34 5.43 million surviving spouse original amount + $2 million unused by the deceased spouse).

Page 442, Subunit 12.4, item 5.a.1):

5. Estate Tax Return

a. The executor is required to file Form 706, United States Estate Tax Return, if the gross estate exceeds a threshold.

1) The threshold is $5.34 5.43 million in 2014 2015.

2) Adjusted taxable gifts made by the decedent during his or her lifetime reduce the threshold.

Page 444, Subunit 12.5, item 6.a.:

6. Exemption

a. Each individual is allowed a $5.34 5.43 million exemption in 2014 2015 that (s)he, or his or her executor, may allocate to GST property. The exemption is indexed for inflation. Gift splitting applies to GSTTs; $40.68 10.86 million is allocable.

Page 451, Subunit 12.4, Question 26:

26. In 2014 2015, what amount of a decedent's taxable estate is effectively tax-free if the maximum applicable credit amount is taken?

A. $0
B. $14,000
C. $2,081,800 2,117,800
D. $5,340,000 5,430,000

Answer (D) is correct. REQUIRED: The amount of a decedent's taxable estate that is effectively tax-free.

DISCUSSION: The $2,081,800 2,117,800 ACA for 2014 2015 offsets the estate tax liability that would be imposed on a taxable estate of $5,340,000 5.43 million computed at current tax rates.

Answer (A) is incorrect. Some of the taxable estate will be effectively tax-free. Answer (B) is incorrect. Although $14,000 is the annual amount of gifts excluded per donee, it does not directly affect the tax-free portion of a decedent's estate. Answer (C) is incorrect. This amount is the ACA that offsets the estate tax liability that would be imposed on a taxable estate of $5.34 5.43 million.
Select from the list provided to indicate whether each transaction, event, or variable described below will result in an increase or a decrease of federal gift tax liability for 2014 or 2015, or if it will result in no change. Each choice may be used once, more than once, or not at all.

<table>
<thead>
<tr>
<th>Transaction, Event, or Factor</th>
<th>Effect on Gift Tax Liability</th>
<th>Choices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kyle's $23,000 payment to State College on August 25, 2014 to pay for his nephew's tuition</td>
<td></td>
<td>A) Increase gift tax liability</td>
</tr>
<tr>
<td>2. Linda's gift to her husband of a gold watch with a FMV of $25,000 and $40,000 cash in 2015</td>
<td></td>
<td>B) Decrease gift tax liability</td>
</tr>
<tr>
<td>3. Brandy's taxable gifts of $5.43 million during 2014, if she made a $37,000 cash gift to her friend Mary on October 13, 2014</td>
<td></td>
<td>C) No change in gift tax liability</td>
</tr>
<tr>
<td>4. Corey's receipt of a sports car worth $85,000 as a gift from his girlfriend on June 20, 2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Zach's gift of $8,000 cash to his friend on July 31, 2015, after having already given her a $22,000 cash gift on June 12, 2015, if Zach is a calendar-year taxpayer and had given gifts totaling $5.5 million in 2013</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Page 458, Unofficial Answers, Tab 4:

4. **Gift Tax** (5 Grordable Items)

1. **C) No change in gift tax liability.** Gift tax liability is computed on the amount of taxable gifts attributable to the taxpayer in the current year. Payments of tuition on behalf of another individual are excluded from taxable gifts.

2. **C) No change in gift tax liability.** Gifts made to a spouse are not considered taxable gifts.

3. **A) Increase gift tax liability.** The applicable credit amount (ACA) is applied to the first $2,081,800 of gift tax liability (first $5.43 million of taxable gifts). Once that limit has been passed, additional taxable gifts made will increase the gift tax liability.

4. **C) No change in gift tax liability.** Gift tax is imposed on the donor, not the recipient of a gift.

5. **A) Increase gift tax liability.** The applicable credit amount (ACA) is applied to the first $2,081,800 of gift tax liability (first $5.43 million of taxable gifts). Once that limit has been passed, additional taxable gifts made will increase the gift tax liability. The balance of ACA that is available for a given year is reduced by any amount of the credit that was applied in previous years.
Study Unit 13 – Federal Tax Legislation, Procedures, Planning, and Accounting

Page 468, Subunit 13.2, item 2.a.:

2. **Filing Requirements**
   
a. An individual must file a federal income tax return if gross income is above a threshold, net earnings from self-employment is $400 or more, or (s)he is a dependent with more gross income than the standard deduction or with unearned income over $1,000.

   **NOTE:** In contrast to individuals, corporations (including S corps) must file an income tax return regardless of gross income.

1) The gross income threshold amount generally is the sum of the standard deduction, excluding any amount for being blind, and personal exemption amounts, excluding dependency exemptions.

2) Net unearned income of a dependent child is taxed to the dependent at the parent's marginal rate. This is referred to as the “Kiddie Tax.” Net unearned income is unearned income minus the sum of

a) $4,999 (first $1,000) and

b) The greater of (1) of the standard deduction or (2) the amount of allowable deductions that are directly connected with the production of unearned income.

   **NOTE:** A dependent is allowed at least ($1,000 + $1,000) reduction in unearned income.

Page 488, Subunit 13.2, Question 14:

14. Chris, age 5, has $3,400 of interest income and no earned income this year. Assume the current applicable standard deduction is $1,000, how much of Chris’s income will be taxed at Chris’s parents’ maximum tax rate?

   A. $0
   B. $1,400
   C. $2,400
   D. $3,400

   **Answer (B) is correct.**

   **REQUIRED:** The dependent's unearned income subject to parents' marginal rate.

   **DISCUSSION:** Net unearned income of a dependent child is taxed to the dependent at the parents’ marginal rate. Net unearned income is unearned income minus the sum of

   1. $4,999 (first $1,000)
   2. Greater of (a) $4,999 of the standard deduction or (b) the amount of allowable deductions directly connected with the production of unearned income
   3. Chris’s net unearned income is $1,400

   Answer (A) is incorrect. Chris’s net unearned income will be taxed at the parents’ marginal rate. Answer (C) is incorrect. Chris’s unearned income is reduced by an additional $1,000 of the standard deduction, to arrive at the net unearned income. Answer (D) is incorrect. Only Chris’s net unearned income will be taxed at the parents’ marginal rate.