FEDERAL INCOME TAXATION

This TECEP® exam is a comprehensive coverage 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, credits against tax. (3 s.h.)

- Test format: 22 multiple-choice questions (1 point each)
- 11 computational problems (3 to 10 points each)
- Passing score: 60% (60/100 points). Your grade will be reported as CR (credit) or NC (no credit).
- Time limit: 3 hours
- You may use a financial, scientific, or graphing calculator while testing.
- You may NOT use a calculator that is on your cellphone, PDA, or any similar device.

This test is revised annually, and is based on current tax law. You should bring your tax text or tax guide with you to use during the exam.

Topics on the test and their approximate distribution

1. **DETERMINATION OF TAX** (65%)
   
   Key Concepts:
   - Gross income; deductions from AGI; additions to AGI; itemized deductions and exemptions; capital gains and losses; tax credits; when an expense is deductible; loss; bad debts, Affordable Care Act tax liabilities

2. **PROPERTY TRANSACTIONS** (20%)
   
   Key Concepts:
   - Determination of gains and losses; depreciation; cost recovery; depletion; amortization; inventory cost

3. **CORPORATIONS AND PARTNERSHIPS** (15%)
   
   Key Concepts:
   - Basis calculations; ‘S’ and ‘C’ corporations; asset classification; short term capital; long term capital gains and losses

Outcomes assessed on the test

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

Many texts and online resources can help you review this subject, including the ones shown below. Whatever resources you select, compare them to the topic outline to make sure everything is covered.

Federal Tax Course, Commerce Clearing House
Prentice-Hall Federal Tax Course, Prentice-Hall

Below is a link to a downloadable version of the current U.S. Master Tax Guide. If you choose this, you will need to print a copy of it to use during the test, because your browser will be locked down.


Although most of the test is based on material that is NOT related to a specific tax year, we recommend that you obtain a current year tax text or guide. If you choose one of the references above, you need not read it completely. These are very comprehensive references which deal with a wide variety of tax matters. The exam you will be taking concerns the tax affairs of individuals, partnerships and corporations.

In preparing for the test, you should develop a facility for working with your tax text or guide. It is not necessary for you to memorize this material since you may use your text or guide during the test. However, you should be able to interpret the situation and apply the appropriate tax accounting treatment.

Sample questions

1. Adjusted gross income is used in establishing limits on all of the following deductions EXCEPT
   a. charitable contributions
   b. casualty losses
   c. medical expenses reimbursed by insurance
   d. employee business expenses reimbursed by the employer

2. When is an activity presumed to be a profit-making activity rather than a hobby?
   a. When the activity shows a profit for any three out of five years, ending with the tax year in question.
   b. When the activity shows a profit for any two out of four years, ending with the tax year in question.
   c. When the taxpayer conducts the activity with the help of another person.
   d. When the taxpayer conducts the activity in a businesslike manner.

3. Alan receives a $5,000 scholarship to Hunt College. His expenses for tuition and books amount to $1,200 during the semester. What is his taxable income?
   a. $0
   b. $2,500
   c. $3,800
   d. $5,000

4. Which of the following is classified as passive income?
   a. Bonus income
   b. Gain on the sale of real estate
   c. Interest income
   d. Income from a limited partnership
5. As a result of a lawsuit, Lauren is awarded $300,000 for compensatory damages due to physical personal injury and $400,000 for punitive damages. What is her taxable income resulting from this lawsuit?
   a. $0
   b. $300,000
   c. $400,000
   d. $700,000

6. Christine is an unmarried individual with no dependents. During 2016 she does NOT have the minimum essential health care coverage and does NOT qualify for an exemption. Her household income is $40,000, her applicable filing threshold is $10,350, and her flat dollar amount is $695. In 2016 the annual national average premium for bronze level coverage is $2,676.

   What is Christine’s responsibility payment for 2016?
   a. $695
   b. $741
   c. $1,934
   d. $2,675

7. In addition to social security benefits of $6,000, Mr. and Mrs. Santiago have adjusted gross income of $36,000, tax-exempt interest of $1,000 and are filing a joint return.

   Determine the taxable portion of their social security benefits. Show your work.

8. 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. Show your work.

9. Scott dies in January of the current year and leaves his wife Rebecca a $50,000 insurance policy. Rebecca 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 should Rebecca include in her gross income?

**Answers to sample questions**

1. (d)  2. (a)  3. (c)  4. (d)  5. (c)  6. (b)

7. \((36,000 + 1,000 + 3,000) - 32,000 = 8,000 \times .50 = 4,000\), which is subject to the ceiling limit of one-half of social security benefits, which is $3,000.

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

9. $2,000