TT TEXTBOOK TESTBANKS

Test Bank for Pearson's Federal Taxation 2026 Individuals 2026 39th Franklin

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Pearson's Federal Taxation 2026: Individuals, 39e **(Franklin)**
Chapter I1: An Introduction to Taxation

LO1: History of Taxation in the United States

1) The federal income tax is the dominant form of taxation by the federal government.
Answer: TRUE
Explanation: The federal income tax provides more revenues than any other tax.
Page Ref.: I:1-2
Objective: 1

2) The Sixteenth Amendment to the U.S. Constitution permits the passage of a federal income tax law.
Answer: TRUE
Explanation: The Sixteenth Amendment amended the Constitution to permit the imposition of an income tax.
Page Ref.: I:1-2
Objective: 1

3) When a change in the tax law is deemed necessary by Congress, the entire Internal Revenue Code must be revised.
Answer: FALSE
Explanation: The federal income tax law is changed on an incremental basis.
Page Ref.: I:1-3
Objective: 1

4) The largest source of federal revenues is the corporate income tax.
Answer: FALSE
Explanation: The largest source is the individual income tax.
Page Ref.: I:1-3
Objective: 1

5) Until about 100 years ago, attempts to impose a federal income tax were ruled unconstitutional. The amendment to the U.S. Constitution allowing the imposition of a federal income tax is the
A) Second Amendment.
B) Thirteenth Amendment.
C) Sixteenth Amendment.
D) Nineteenth Amendment.
Answer: C
Explanation: The Sixteenth Amendment, ratified in 1913, gave Congress the power to impose a federal income tax.
Page Ref.: I:1-2
Objective: 1

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6) The largest source of revenues for the federal government comes from
A) individual income taxes.
B) corporate income taxes.
C) Social Security and Medicare taxes (FICA).
D) estate and gift taxes.
Answer: A
Explanation: The individual income tax has provided the largest source of revenues for many years.
Page Ref.: I:1-3
Objective: 1

LO2: Types of Tax Rate Structures

1) A progressive tax rate structure is one where the rate of tax increases as the tax base increases.
Answer: TRUE
Explanation: Under a progressive tax system, the rate increases as the tax base increases.
Page Ref.: I:1-4
Objective: 2

2) The terms "progressive tax" and "flat tax" are synonymous.
Answer: FALSE
Explanation: A proportional, not progressive, tax and flat tax are synonymous.
Page Ref.: I:1-4
Objective: 2

3) A proportional tax rate is one where the rate of the tax is the same for all taxpayers, regardless of income levels.
Answer: TRUE
Explanation: A proportional tax is essentially a flat tax.
Page Ref.: I:1-4
Objective: 2

4) Regressive tax rates decrease as the tax base increases.
Answer: TRUE
Explanation: Regressive rates increase as the base decreases.
Page Ref.: I:1-5
Objective: 2

5) The marginal tax rate is useful in tax planning because it measures the tax effect of a proposed transaction.
Answer: TRUE
Explanation: The marginal rate applies to the planned addition to income or reduction to income.
Page Ref.: I:1-5
Objective: 2

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6) A taxpayer's average tax rate is the tax rate applied to an incremental amount of taxable income that is added to the tax base.
Answer: FALSE
Explanation: The marginal tax rate is the tax rate applied to an incremental amount of taxable income.
Page Ref.: I:1-5
Objective: 2

7) If a taxpayer's total tax liability is $30,000, taxable income is $100,000, and economic income is $120,000, the average tax rate is 30 percent.
Answer: TRUE
Explanation: The average rate equals the tax liability divided by the taxable income.
Page Ref.: I:1-5
Objective: 2

8) If a taxpayer's total tax liability is $4,000, taxable income is $20,000, and total economic income is $40,000, then the effective tax rate is 20 percent.
Answer: FALSE
Explanation: The effective rate would be $4,000/$40,000 = 10 percent.
Page Ref.: I:1-6
Objective: 2

9) Arthur pays tax of $5,000 on taxable income of $50,000 while taxpayer Barbara pays tax of $12,000 on $120,000. The tax is a
A) progressive tax.
B) proportional tax.
C) regressive tax.
D) None of the above.
Answer: B
Explanation: The tax rate is proportional because the 10% tax rate applies to both taxpayers regardless of their income level.
Page Ref.: I:1-4; Example I:1-3
Objective: 2

10) Which of the following taxes is progressive?
A) sales tax
B) excise tax
C) property tax
D) federal income tax
Answer: D
Explanation: Federal income tax rates increase as a taxpayer's taxable income rises.
Page Ref.: I:1-4; Topic Review I:1-1
Objective: 2

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11) Which of the following taxes is proportional?
A) gift tax
B) income tax
C) sales tax
D) Federal Insurance Contributions Act (FICA)
Answer: C
Explanation: A sales tax is assessed at a fixed rate of the purchase amount, based on state and local law.
Page Ref.: I:1-4; Topic Review I:1-1
Objective: 2

12) Which of the following taxes is regressive?
A) Federal Insurance Contributions Act (FICA)
B) excise tax
C) property tax
D) gift tax
Answer: A
Explanation: For upper income wage earners, the Social Security tax ceases at a maximum wage base. For 2025, wages over $176,100 are not subject to the Social Security tax. In 2026, the limit is expected to increase to $181,800.
Page Ref.: I:1-5; Topic Review I:1-1
Objective: 2

13) The corporate tax rate is
A) progressive.
B) regressive.
C) proportional.
D) None of the above.
Answer: C
Explanation: The corporate tax rate is a flat 21 percent.
Page Ref.: I:1-5
Objective: 2

14) Sarah contributes $25,000 to a church. Sarah's marginal tax rate is 35% while her average tax rate is 25%. After considering her tax savings, Sarah's contribution costs
A) $6,250.
B) $8,750.
C) $16,250.
D) $18,750.
Answer: C
Explanation: [$25,000 × (100% - 35%)] = $16,250
Page Ref.: I:1-5; Example I:1-4
Objective: 2

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15) Helen, who is single, is considering purchasing a residence that will provide an $18,000 tax deduction for property taxes and mortgage interest. If her marginal tax rate is 24% and her effective tax rate is 20%, what is the amount of Helen's tax savings from purchasing the residence?
A) $3,600
B) $4,320
C) $3,200
D) $18,000
Answer: B
Explanation: $18,000 × .24 marginal rate = $4,320 tax savings.
Page Ref.: I:1-5; Example I:1-4
Objective: 2

16) Charlotte pays $8,000 in tax deductible property taxes. Charlotte's marginal tax rate is 24%, effective tax rate is 20% and average rate is 22%. Charlotte's tax savings from paying the property tax is
A) $1,600.
B) $1,760.
C) $1,920.
D) $8,000.
Answer: C
Explanation: $8,000 × 0.24 = $1,920
Page Ref.: I:1-5; Example I:1-4
Objective: 2

17) Briana, who is single, has taxable income for 2025 of $90,000, resulting in a total tax of $14,714. Her total economic income is $100,000. Briana's average tax rate and effective tax rate are, respectively,
A) 16.35% and 14.41%.
B) 16.35% and 22%.
C) 14.41% and 22%.
D) 14.41% and 16.35%.
Answer: A
Explanation: Average tax rate: $14,714 ÷ $90,000 = 16.35%
Effective tax rate: $14,714 ÷ $100,000 = 14.71%
Page Ref.: I:1-5 and I:1-6; Example I:1-5
Objective: 2

18) Larry and Ally are married and file a joint return. They are considering purchasing a personal residence that will generate two deductions: $10,000 in home mortgage interest and $8,000 in real estate taxes. Their marginal tax rate is 24%. What is the total tax savings if Larry and Ally purchase the residence?
Answer: ($10,000 + $8,000) × .24 = $4,320
Page Ref.: I:1-5; Example I:1-4
Objective: 2

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19) Larry and Ally are married and file a joint return. They are considering purchasing a personal residence that will generate two deductions: $10,000 in home mortgage interest and $8,000 in real estate taxes. Their marginal tax rate is 24%. If Larry and Ally purchase the residence, what will be the after-tax cost of this additional $18,000 in expenditures?
Answer: Tax savings of expenditures: ($10,000 + $8,000) × .24 = $4,320
After-tax cost: $18,000 - $4,320 = $13,680
Page Ref.: I:1-5; Example I:1-4
Objective: 2

LO3: Other Types of Taxes

1) All states impose a state income tax which is generally based on an individual's federal adjusted gross income (AGI) with minor adjustments.
Answer: FALSE
Explanation: While many states impose a state income tax, not all states do. In those states that do impose tax, the taxes vary greatly in both form and rates.
Page Ref.: I:1-7
Objective: 3

2) The unified transfer tax system, comprised of the gift and estate taxes, is based upon the total property transfers an individual makes during lifetime and at death.
Answer: TRUE
Explanation: Gift and estate taxes, which comprise a unified transfer tax system, are based on cumulative transfers.
Page Ref.: I:1-7
Objective: 3

3) Gifts between spouses are generally exempt from transfer taxes.
Answer: TRUE
Explanation: The tax law allows for unlimited transfers between spouses.
Page Ref.: I:1-8
Objective: 3

4) The primary liability for payment of the gift tax is imposed upon the donee.
Answer: FALSE
Explanation: The gift tax is imposed on the donor.
Page Ref.: I:1-8
Objective: 3

5) For gift tax purposes, a $19,000 annual exclusion per donee is permitted in 2025.
Answer: TRUE
Explanation: Donors are allowed to exclude $19,000 per donee per year for gift tax purposes.
Page Ref.: I:1-8
Objective: 3

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6) In 2025, an individual will be subject to gift tax on gifts made to a charity greater than $19,000.
Answer: FALSE
Explanation: Contributions to charity are not limited by the gift tax exclusion.
Page Ref.: I:1-8
Objective: 3

7) Property is generally included on an estate tax return at its historical cost basis.
Answer: FALSE
Explanation: Property is generally valued at fair market value at date of death or the alternate valuation date.
Page Ref.: I:1-10
Objective: 3

8) Property transferred to the decedent's spouse is exempt from the estate tax because of the estate tax marital deduction provision.
Answer: TRUE
Explanation: The estate and gift tax law allows tax exempt transfers to spouses.
Page Ref.: I:1-10
Objective: 3

9) Gifts made during a taxpayer's lifetime may affect the amount of estate tax paid by the taxpayer's estate.
Answer: TRUE
Explanation: Gift and estate taxes are applied to cumulative transfers under the uniform tax system.
Page Ref.: I:1-10
Objective: 3

10) While federal and state income taxes, as well as the federal gift and estate taxes, are generally progressive in nature, property taxes are proportional.
Answer: TRUE
Explanation: Property taxes are assessed on the value of property and are proportionate to the value of the property.
Page Ref.: I:1-11
Objective: 3

11) The unified transfer tax system
A) imposes a single tax upon transfers of property during an individual's lifetime only.
B) imposes a single tax upon transfers of property during an individual's life and at death.
C) imposes a single tax upon transfers of property only at an individual's death.
D) None of the above.
Answer: B
Explanation: The gift (transfers during life) tax and estate (transfers after death) tax systems are unified.
Page Ref.: I:1-7
Objective: 3

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12) When property is transferred, the gift tax is based on
A) replacement cost of the transferred property.
B) fair market value on the date of transfer.
C) the transferor's original cost of the transferred property.
D) the transferor's depreciated cost of the transferred property.
Answer: B
Explanation: The gift tax is based on the property's fair market value on the date of transfer.
Page Ref.: I:1-8
Objective: 3

13) Paul makes the following property transfers in 2025:

- $22,000 cash to his wife
- $34,000 cash to a qualified charity
- $220,000 house to his son
- $3,000 computer to an unrelated friend

The total of Paul's taxable gifts, assuming he does not elect gift splitting with his spouse, subject to the unified transfer tax is
A) $201,000.
B) $204,000.
C) $224,000.
D) $217,000.
Answer: A
Explanation: $220,000 - $19,000 = $201,000. The gift to the unrelated friend is below the $19,000 annual gift tax exclusion. The gifts to his wife and to the charity are not subject to gift tax.
Page Ref.: I:1-8 and I:1-9; Example I:1-6
Objective: 3

14) Charlie makes the following gifts in 2025: $40,000 to his spouse, $30,000 to his church, $20,000 to his nephew, and $25,000 to a friend. Assuming Charlie does not elect gift splitting with his wife, his taxable gifts in the current year will be
A) $18,000.
B) $7,000.
C) $31,000.
D) $46,000.
Answer: B
Explanation: ($20,000 - $19,000) + (25,000 - $19,000) = $7,000. The gift to his spouse and the charitable gift are not subject to gift taxes.
Page Ref.: I:1-8 and I:1-9; Example I:1-6
Objective: 3

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15) Shaquille buys new cars for five of his friends during 2025. Each car cost $70,000. What is the amount of Shaquille's taxable gifts?
A) $0
B) $255,000
C) $260,000
D) $350,000
Answer: B
Explanation: 5 × ($70,000 - $19,000) = $255,000
Page Ref.: I:1-8 and I:1-9; Example I:1-6
Objective: 3

16) In 2025, an estate is not taxable unless the sum of the taxable estate and taxable gifts made after 1976 exceeds
A) $5,113,800.
B) $12,920,000.
C) $5,541,800.
D) $13,990,000.
Answer: D
Explanation: The unified credit equivalent for estate and gift taxes is $13,990,000 for 2025. This exclusion amount equates to a unified credit of $5,541,800.
Page Ref.: I:1-9; Example I:1-7
Objective: 3

17) Eric dies in 2025 and has a gross estate valued at $16,500,000. The estate incurs funeral and administrative expenses of $100,000 and also pays off Eric's debts which amount to $250,000. Eric bequeaths $600,000 to his wife. Eric made no taxable transfers during his life. Eric's taxable estate will be
A) $2,630,000.
B) $15,550,000.
C) $2,880,000.
D) $16,500,000.
Answer: B
Explanation: ($16,500,000 - $100,000 - $250,000 - $600,000) = $15,550,000
Page Ref.: I:1-10; Example I:1-8
Objective: 3

18) Jose dies in 2025 and has a gross estate valued at $13,000,000. Over the past ten years, Jose had made taxable gifts of $400,000. The estate incurs funeral and administrative expenses of $100,000 and also pays off Jose's debts which amount to $300,000. Jose bequeaths $500,000 to his wife. What is the amount of Jose's tax base, the amount on which the estate tax is computed?
A) $12,100,000
B) $12,500,000
C) $0
D) $80,000
Answer: B
Explanation: $13,000,000 - $100,000 funeral/administrative expense - $300,000 liabilities - $500,000 marital transfers = $12,100,000 taxable estate + $400,000 gifts = $12,500,000 tax base
Page Ref.: I:1-10; Example I:1-8
Objective: 3

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19) Which of the following statements is incorrect?
A) Property taxes are levied on real estate.
B) Excise taxes are assessed on items such as gasoline and telephone use.
C) Gift taxes are generally imposed on the recipient of a gift.
D) The estate tax is based on the fair market value of property at death or the alternate valuation date.
Answer: C
Explanation: Gift taxes are imposed on the donor of a gift, not the recipient.
Page Ref.: I:1-8 through I:1-11
Objective: 3

20) Kole earns $180,000 in 2025 in his job as a sales manager. What is his FICA tax?
A) $13,528
B) $10,918
C) $12,255
D) $13,770
Answer: A
Explanation: (176,100 × .062) + (180,000 × .0145) = $13,528
Page Ref.: I:1-11
Objective: 3

21) Jillian, a single individual, earns $230,000 in 2025 through her job as an accounting manager. What is her FICA tax?
A) $14,523
B) $14,253
C) $17,595
D) $17,865
Answer: A
Explanation: (176,100 × .062) + (230,000 × .0145) + ((230,000 - 200,000) × .009) = $14,523
Page Ref.: I:1-11
Objective: 3

22) Martha is self-employed in 2025. Her net self-employment income is $180,000. What is her self-employment tax?
A) $26,010
B) $27,056
C) $24,511
D) None of the above.
Answer: B
Explanation: (176,100 × .124) + (180,000 × .029) = $27,056
Page Ref.: I:1-11
Objective: 3

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23) Vincent makes the following gifts during 2025:
Gift of $15,000 cash to wife
Gift of automobile valued at $35,000 to his adult son
Gift of golf clubs valued at $5,000 to a friend
Contribution of $10,000 to church

Although he is married, none of the gifts are considered joint gifts with his wife. What are the total taxable gifts subject to the unified transfer tax?
Answer:

	Gift Value	Adjustment	Taxable Gift
Cash to wife	$15,000	spousal gifts excluded	$ 0
Auto to son	35,000	less $19,000 exclusion	16,000
Golf clubs to friend	5,000	less $19,000 exclusion	0
Cash to church	10,000	charitable gifts excluded	0
Taxable gifts			$16,000

Page Ref.: I:1-8 and I:1-9; Example I:1-6
Objective: 3

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24) Jeffery died in 2025 leaving a $17,000,000 gross estate. Six months after his death, the gross assets are valued at $17,100,000. In years prior to 2025 (but after 1976), Jeffery had made taxable gifts of $300,000. Of the $17,000,000 gross estate, estate assets valued at $3 million were transferred to his wife and $100,000 was used to pay administrative and funeral expenses. Jeffery had debts of $200,000 which were paid by the estate, and the remainder of the estate was transferred to his children.

a. What is the amount of Jeffery's taxable estate?

b. What is the tax base for computing Jeffery's estate?

c. What is the amount of estate tax owed if the unified credit is $5,389,800?

d. Alternatively, if six months after his death, the gross assets in Jeffery's estate declined in value to $16,000,000, can the administrator of Jeffery's estate elect the alternate valuation date?

Answer:

Gross Estate	$17,000,000
Minus: Funeral and administrative expenses	(100,000)
Minus: Debts	(200,000)
Minus: Marital deduction	(3,000,000)
Taxable estate (a)	$13,700,000
Plus: Taxable gifts made after 1976	300,000
Tax base (b)	$14,000,000
Tentative tax on estate tax base $345,800 + [.4 × (14,000,000 - $1,000,000)]	$ 5,545,800
Minus: Tax credits (unified tax credit)	5,541,800
Unified transfer tax due (c)	$ 3,000

d. The alternate valuation date (six months after the date of death) may be elected only if the aggregate value of the gross estate decreases during the six-month period following the date of death and the election results in a lower estate tax liability. In this case, the alternate valuation date can be elected.

Page Ref.: I:1-10; Example I:1-8

Objective: 3

25) Mia is self-employed as a consultant. During 2025, Mia earned $180,000 in net self-employment income. What is Mia's self-employment tax?

Answer: .124 × $176,100 =	$21,836
.029 × $180,000 =	5,220
Self-employment tax	$27,056

Page Ref.: I:1-11

Objective: 4

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