TEST BANK FOR

Pearson's Federal Taxation 2023 Individuals, 36th Edition by Timothy J. Rupert, Kenneth E. Anderson, David S Hulse

Chapter 1-18

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
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

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

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 2022, wages over $147,000 are not subject to the Social Security tax.
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