

Chapter I14

Special Tax Computation Methods, Tax Credits and Payment of Tax

Problems

I14-49 a. Allowable personal tax credits are \$960 (child and dependent care).
b. The total of the business tax credits is \$15,600 ($\$1,000 + \$14,000 + \600). The allowable amount of the credit is \$13,040 ($\$14,000$ tax - \$960 of personal tax credits).
c. The unused business tax credits of \$2,560 ($\$15,600 - \$13,040$) may be carried back one year and carried forward 20 years. pp. I14-9 through I14-19.

I14-54 a. There is a \$40,000 excess for 1997, but only \$10,000 can be carried back to 1995. General business tax credits earned in tax years beginning before January 1, 1998 may be carried back three years and forward 15 years.
b. \$30,000 of credits are carried forward. \$22,000 are used in 1998 and \$8,000 are used in 1999. General business tax credits are applied in a FIFO order.
c. The 1998 credits will be applied in 1999 and 2000 (\$12,000 and \$8,000, respectively). \$7,000 of the 1998 credits will be applied in 2000 and \$8,000 will be carried forward to 2001. All of the 2000 credits (\$15,000) will be carried forward to 2001; therefore, a total of \$23,000 will be carried forward to 2001 (\$8,000 from 1999 and \$15,000 from 2000). pp. I14-16 and I14-17.

I14-55 Laser's tax credit is limited to \$33,417 [$(\$100,000 \text{ divided by } \$300,000) \times \$100,250$], since the effective foreign tax rate exceeds the effective U.S. tax rate. The \$6,583 ($\$40,000 - \$33,417$) unusual credit is carried back two years and forward for five years. pp. I14-15 and I14-16.

I14-56 a. The tentative credit is \$4,800 ($0.40 \times \$6,000 \times 2$).
b. Total general business credits for the current year are \$54,800 ($\$50,000 + \$4,800$). Last may utilize \$40,000 [$\$50,000 - \text{the greater of the tentative minimum tax of } \$10,000 \text{ or } 0.25 (\$50,000 - \$25,000)$] in the current year and may carryforward or carryback \$14,800 ($\$54,800 - \$40,000$).
c. Last Corporation can deduct \$11,200 of the salaries and wages paid to the two youths ($\$16,000 - \$4,800 = \$11,200$). Last Corporation's total deduction for salaries and wages is \$61,200 ($\$50,000 + \$16,000 - \$4,800$). pp. I14-18 and I14-19.

I14-57 a. \$3,000 ($0.20 \times \$15,000$). \$12,000 wages + \$4,000 training expenses but limited to \$15,000 per employee.
b. \$9,000 ($\$12,000$ wages - \$3,000 credit)

pp. I14-19 and I14-20.

I14-58 a. The credit is \$8,000 ($0.20 \times \$40,000$).
b. Straight-line depreciation must be used. The regular MACRS depreciation rules apply to the \$20,000 portion of the basis that is not eligible for the credit.

c. The basis is \$52,000 ($\$20,000 + \$40,000 - \$8,000$). p. I14-18.

I14-60 a. \$353 ($0.0765 \times \$4,610$)

b. \$182 [$\$353 - 0.0765(\$8,000 - \$5,770)$].

c. Yes, the earned income credit is refundable.

d. Yes, Jose would not be entitled to the earned income credit because his investment income exceeds \$2,400 (2000). Taxpayers are ineligible for the EIC if the taxpayer has excessive investment income, i.e., over \$2,400 in 2000. pp. I14-20 and I14-21.