
Section I: Multiple Choice (1 point each) Choose the one best answer from the choices provided and place the letter corresponding to that answer in the space provided to the left of the question number.

- _____ 1. Tax deductions
- a. reduce taxable income.
 - b. reduce actual tax owed on a dollar for dollar basis.
 - c. increase actual tax owed on a dollar for dollar basis.
 - d. increase taxable income.
- _____ 2. When Tony Soprano reports less income to the IRS than he actually earned, what has he done?
- a. Tax avoidance.
 - b. Tax evasion.
 - c. Legal tax planning.
 - d. Liquidity management
- _____ 3. The MSRP on an automobile
- a. is the "sticker price".
 - b. is the price the dealer pays for the automobile.
 - c. is always less than the invoice price.
 - d. is the price that the buyer actually pays after negotiation.
- _____ 4. Which of the following is true regarding marginal tax rates?
- a. Lower amounts of income are taxed at lower rates than higher amounts of income.
 - b. All income is taxed at the same rate, but people who earn less income pay lower total taxes.
 - c. Marginal tax rates are lower than average tax rates for most taxpayers.
 - d. Marginal tax rates are not used in the United States.
- _____ 5. Which of the following is most accurate regarding tax planning?
- a. You can expand your buying power and lower your tax liability by paying for specific goods and services with pre-tax dollars.
 - b. Tax planning is only useful for high income earners; if you earn less than \$100,000 per year it's a waste of time.
 - c. Contributions to a 401-(k) plan will have no impact on your taxable income.
 - d. All of the above are true.

Section II Short Answer/Essay Use the information provided to completely answer the following questions. Points as indicated.

1. Briefly answer the following questions regarding topics discussed in class. **(2 points each)**

You have leased a car. You don't want to pay extra when the lease expires. What two things do you need to be concerned about at the time the lease expires to avoid paying extra?

What does a tax credit do?

What is an excise tax?

Which two parties pay social security and medicare tax?

2. Here are more questions relating to topics discussed in class. (2 points each)

What do the experts say is the greatest downside to purchasing a new automobile?

What is the maximum amount of a case in Kentucky small claim's court?

Provide a brief description of arbitration.

You want to lessen your income tax liability. You have a choice between paying rent or purchasing a home (which will require taking out a mortgage). Which should you do and why?

Do "the experts" recommend buying extended warranties that are available from retailers?