CHAPTER 3

COMPUTING THE TAX

SOLUTIONS TO PROBLEM MATERIALS

DISCUSSION QUESTIONS

1. (LO 1, 5, 8, 9)
   - Gambling losses are deductible only to the extent of gambling gains.
   - Barring an exception for dependents, no deduction is allowed for payment of some other person’s expenses.
   - A Federal income tax refund is not income because it is an adjustment of a prior expenditure that was not deductible.
   - Fines and penalties are not deductible. It does not matter whether they stem from personal or business activities.
   - Political contributions are not deductible. It does not matter that the contribution resulted in a benefit to Addison.
   - Borrowing money does not result in income.
   - Gains and losses from the sale of personal use assets cannot offset each other. The gains are taxable, and the losses are not deductible.
   - A dependency exemption is available for the aunt. The full amount is allowed.
   - No deduction can be claimed for income tax purposes for the funeral expenses.
• Premiums on personal life insurance policies are not deductible even when paid on behalf of a dependent.

2. (LO 1) Inclusions in gross income include items b., c., f., g., h., and i. Item e. is a nontaxable return of capital. Items b. and g. are taxable payments for services rendered. Items a. and d. have no tax consequences. Item j. may have gift tax consequences to the grandmother, but it is nontaxable to the taxpayer.

3. (LO 1) Exclusions include parts b., d. (presuming no interest is charged), e., and f.

4. (LO 1, 8, 9) The sale of the stock investment will result in a capital loss. The capital loss will offset any capital gain, and any excess (up to $3,000) can be applied against ordinary income to arrive at AGI. The contribution to the traditional IRA is a deduction for AGI. Thus, both the capital loss and the IRA contribution reduce AGI. By reducing AGI, the Polks will increase their allowable medical and casualty deductions. [The medical deduction is the excess over 10% (7.5% if age 65 or over) of AGI, whereas the casualty loss is the excess over 10% of AGI.]

5. (LO 2)
   a. If the taxpayer is 65 or over, an additional standard deduction is available. This might favor the standard deduction choice.
   b. If the taxpayer is blind, an additional standard deduction is available. This might favor the standard deduction choice.
   c. If the taxpayer is still making house payments, the interest expense deduction on the home mortgage and real property taxes may make itemizing more attractive.
   d. Because the amount of the standard deduction varies depending on filing status, this factor is highly relevant to the taxpayer’s decision.
   e. If married persons file separate returns, the returns must be consistent. Thus, if one spouse itemizes, the other spouse also must itemize.
   f. Because a large casualty loss seems probable, this increases the advantage to be gained by itemizing.
   g. Personal and dependency exemptions have no effect on whether a taxpayer itemizes or chooses the standard deduction option.

6. (LO 2, 3, 5)
   a. The filing requirements for persons being claimed as dependents by others are more complex than those applicable to regular taxpayers. The requirements depend on whether the dependent has only earned income, only unearned income, or both earned and unearned income and on the amount of gross income.
   b. Dependents are not allowed to claim a personal exemption.
   c. In 2016, the basic standard deduction is the greater of $1,050 or earned income plus $350. The total basic standard deduction allowed, however, cannot exceed $6,300 (the 2016 standard deduction for single taxpayers).
   d. The 2016 additional standard deduction of $1,550 is allowed in full since he is 78 (age 65 or over).
7. (LO 4) The son is not a qualifying child due to the age requirement. He probably is not a qualifying relative because of the gross income test. The cousin apparently meets all of the requirements of the qualifying relative category.

8. (LO 4)  
   a. Heather is a qualifying child to all three parties.
   
   b. As the parent, the mother takes precedence. If the mother waives the dependency exemption, the exemption goes to whoever has the higher AGI between the grandmother and the uncle.

9. (LO 4) An ex-spouse can qualify as a dependent under the member-of-the-household rule for the qualifying relative category except in the year of the divorce. This explains Camden’s actions with reference to Lily for years 2015 and 2016.

10. (LO 4) Under a multiple support agreement, Isabella, Emma, or Jacob can claim either (or both) of their parents as dependents. Jacob is suggesting that his sisters share the exemptions via a multiple support agreement.

11. (LO 4) Lisa will prevail because custody (not support) controls in a divorce setting.

12. (LO 4) If certain conditions are satisfied and the children merely filed for a refund, Peter would be able to claim them as dependents.

13. (LO 4) Mario should encourage his parents and two aunts to make the move to Mexico. To be claimed as a dependent, the individual must be a U.S. citizen, a U.S. resident, or a resident of Canada or Mexico for some part of the calendar year in which the taxpayer’s year begins.

14. (LO 4, 5)  
   a. If the taxpayer meets the support test, he can claim head-of-household filing status as long as at least one of his parents is his dependent. This seems unlikely, however, because their purchase of an automobile is part of their support. Thus, at a minimum, the taxpayer must have contributed more than $62,000 toward total support.
   
   b. Is the stay in the nursing home temporary or permanent? If the father can be expected to return to the taxpayer’s home, she qualifies for head-of-household filing status. If the stay is permanent, then she would need to pay more than one-half of the nursing home costs.
   
   c. Head-of-household filing status is available because the son is a dependent under the qualifying child category.
   
   d. Head-of-household filing status is not available. Due to the age test, the son is not a qualifying child. (It is assumed that the son is not disabled or a full-time student.) Due to the gross income test, the son does not satisfy the requirements of a qualifying relative.
   
   e. Normally, a married taxpayer cannot use head-of-household filing status. However, if the taxpayer qualifies as an abandoned spouse, this filing status is appropriate.
   
   f. Head-of-household filing status is not available. The daughter is not a member of the taxpayer’s household.
   
   g. Head-of-household status is not available because the friend, although a dependent, does not meet the relationship test.
15. (LO 5) The major advantage is that abandoned spouses are treated as not being married. As single persons, they qualify for head-of-household status. This status is more favorable than that applicable to married persons filing separately—higher standard deduction and less progressive tax rates.

16. (LO 6)  
   a. The Tax Table method is structured on a taxable income range (e.g., $30,000 to $30,050). Using the Tax Table method, the tax is determined on the midpoint (e.g., $30,025) of the range. Thus, if the taxable income is more or less than this amount, the tax will differ.
   
   b. The Tax Table must be used except in certain limited situations (e.g., taxable income of $100,000 or more).

17. (LO 7)  
   a. The kiddie tax does not apply to earned income.
   
   b. The kiddie tax does not apply unless unearned income exceeds $2,100 (in 2016).
   
   c. The kiddie tax does not apply. The age coverage is under 19 or a full-time student under age 24.
   
   d. The kiddie tax does not apply if the child is married and files a joint return.
   
   e. If the parental election is made, the child need not file a return.
   
   f. For married parents filing separate returns, the parent with the greater taxable income is the applicable parent.

18. (LO 8) Gain on the sale of the stock is a short-term capital gain and is taxed at ordinary income rates. The gain on the sale of the land and houseboat should be combined. As long-term capital gain, the total is subject to tax at preferential rates—20%, 15%, or 0%. The loss is personal and, therefore, nondeductible.

19. (LO 4, 5, 9)  
   a. If the parties live in Indiana, Marcie can use head-of-household filing status. Her household includes a related dependent, Audrey. The joint return test does not disqualify Audrey because the purpose of the filing is to recover amounts withheld. Due to the age test, Jamie does not meet the definition of a qualifying child. Furthermore, he does not satisfy the requirement of a qualifying relative in view of the gross income test.
   
   b. If the parties live in California, Jamie’s earnings become $2,400 (50% × $4,800). Since this is less than the exemption amount of $4,000, Jamie passes the gross income test and can be claimed by Marcie as a dependent. Although Audrey now has gross income of $2,400, this does not disqualify her from her status as a dependent. Like part a. above, Marcie can use head-of-household filing status.

COMPUTATIONAL EXERCISES

20. (LO 2) Sam’s $2,100 is unearned income. Thus, he is allowed the minimum standard deduction of $1,050. Abby’s $2,100 is earned income, so she is allowed a $2,450 [$2,100 (earned income for the year) + $350] standard deduction.

21. (LO 2)  
   a. $1,750. When filing her own tax return, Margie is limited to the greater of $1,050 or $1,750 (the sum of the earned income for the year plus $350).
b. $15,100. A taxpayer who is age 65 or over or blind in 2016 qualifies for an additional standard deduction of $1,250 or $1,550, depending on filing status. Ruby and Woody’s standard deduction is $12,600 (married filing jointly) plus the additional $1,250 for Ruby being age 65 or older and another $1,250 for Woody’s being age 65 or older.

c. $2,600. When filing her own tax return, Shonda is limited to the greater of $1,050 or $850 (the sum of the $500 of earned income for the year plus $350). This limitation applies only to the “basic” standard deduction. A dependent who is 65 or older or blind is also allowed the additional standard deduction amount on his or her own return. Therefore, Shonda’s standard deduction is $2,600 ($1,050 + $1,550).

d. $0. Frazier is ineligible to use the standard deduction and therefore must itemize because he is married filing a separate return when his spouse itemizes deductions.

22. (LO 4) Several provisions of the tax law are intended to increase the tax liability of more affluent taxpayers who might otherwise enjoy some benefit from having some of their taxable income subject to the lower income tax brackets (e.g., 10%, 15%, 25%). One such provision phases out personal and dependency exemptions. The exemption phaseout occurs as AGI exceeds specified threshold amounts (indexed annually for inflation). The phaseout begins when AGI exceeds the following amounts:
### Filing Status 2016 Amount
- Married, filing jointly  $311,300
- Head of household  $285,350
- Single  $259,400
- Married, filing separately  $155,650

Exemptions (both personal and dependency) are phased out by 2% for each $2,500 (or fraction thereof) by which the taxpayer’s AGI exceeds the threshold amounts. For a married taxpayer filing separately, the phaseout is 2% for each $1,250 (or fraction thereof). The allowable exemption amount can be determined using the following steps:

1. \( \text{AGI} - \text{threshold amount} = \text{excess amount} \)
2. \( \frac{\text{excess amount}}{2,500} = \text{reduction factor} \) [rounded up to the next whole number (e.g., 18.1 = 19)] \( \times 2 = \text{phaseout percentage} \)
3. \( \text{Phaseout percentage} \times \text{exemption amount} = \text{phaseout amount} \)
4. \( \text{Exemption amount} - \text{phaseout amount} = \text{allowable exemption deduction} \)

Dominique and Felix can deduct the following:

1. \( $314,050 (\text{AGI}) - $311,300 (\text{threshold amount}) = $2,750 (\text{excess amount}) \)
2. \( \frac{$2,750}{2,500} = 1.1 \text{ reduction factor} \) [rounded up to the next whole number (e.g., 1.1 = 2)]; \( 2 \times 2 = 4 \text{ phaseout percentage} \)
3. \( 4\% \times $12,150 = $486 \text{ phaseout amount} \)
4. \( $12,150 - $486 = $11,664 \text{ allowable exemption deduction} \)

### (LO 5, 9)

a. If either spouse itemizes deductions from AGI, the other spouse also must itemize. Consequently, Paul’s suggestion is not proper.

b. Presuming they file separately and itemize, their total deduction is $8,600 ($8,200 + $400). If they claim the standard deduction, $12,600 ($6,300 + $6,300) is allowed. The same result takes place on a joint return. For tax purposes, therefore, the standard deduction is the better choice.

### (LO 6)

The basic tax rate structure is progressive, with current rates ranging from 10% to 39.6%. As 2016 Tax Tables have not yet been released, the solution is determined using the 2016 Tax Rate Schedules (Appendix A). Several terms are used to describe tax rates. The rates in the Tax Rate Schedules are often referred to as statutory (or nominal) rates. The marginal rate is the highest rate applied in the tax computation for a particular taxpayer. The average rate is equal to the tax liability divided by taxable income.

a. **Chandler:** Using the rates for a single taxpayer, her tax liability is $19,077\(^1\). Her marginal rate is 28%. Her average rate is 20.5% ($19,077/$93,000).

b. **Lazar:** Using the rates for filing as a head of household, his tax liability is $8,298\(^2\). His marginal rate is 25%. His average rate is 14.8% ($8,298/$56,000).

\(^1\)\$93,000 - $91,150 = $1,850.
\[1,850 \times 28\% = $518.\]
\[$518 + 18,558.75 = $19,076.75, \text{ rounded to } $19,077.\]

\(^2\)\$56,000 - $50,400 = $5,600.
\[5,600 \times 25\% = $1,400.\]
\[1,400 + 6,897.50 = $8,297.50, \text{ rounded to } $8,298.\]
25. (LO 7) In 2016, net unearned income of a dependent child is computed as follows:

Unearned income
Less: $1,050
Less: The greater of
- $1,050 of the standard deduction or
- the amount of allowable itemized deductions directly connected with the production of the unearned income
Equals: Net unearned income

If net unearned income is zero (or negative), the child’s tax is computed without using the parents’ rate. If the amount of net unearned income (regardless of source) is positive, the net unearned income is taxed at the parents’ rate. The child’s remaining taxable income (known as nonparental source income) is taxed at the child’s rate.

a. Simon’s net unearned income is $2,700, computed as follows:

Unearned income: $4,800 ($800 + $4,000)
Less: $1,050
Less: $1,050 of the standard deduction
Equals: $2,700

b. The allocable parental tax is $675, computed as follows:

Parent’s taxable income: $80,200
Plus Simon’s net unearned income: $2,700
Revised taxable income: $82,900
Tax on revised parental income: $12,268\(^1\)
Less tax on the parental income: $11,593\(^2\)
Allocable parental tax: $675

c. Simon’s taxable income:

Adjusted gross income: $4,800
Less: Standard deduction: $1,050 (limited)
Less: Personal exemption: $0 (none allowed)
Equals: Taxable income: $3,750
Less: Net unearned income: $2,700
Nonparental source income: $1,050

Tax on $1,050 is $105 ($1,050 \times 10\%). Simon’s total tax is $780 ($675 + $105).

Tax Computations:
\(^1\)$82,900 − $75,300 = $7,600.
$7,600 \times 25\% = $1,900.
$1,900 + $10,367.50 = $12,267.50, rounded to $12,268.

\(^2\)$80,200 − $75,300 = $4,900.
$4,900 \times 25\% = $1,225.
$1,225 + $10,367.50 = $11,592.50, rounded to $11,593.

26. (LO 8) The concept of realized gain or loss is expressed as follows: Amount realized from the sale − Adjusted basis of the property = Realized gain or loss. The amount realized is the selling price of the property less any costs of disposition (e.g., brokerage commissions) incurred by the seller. All
realized gains are recognized (taxable) unless some specific part of the tax law provides otherwise. Generally, losses realized from the disposition of personal use property (property neither held for investment nor used in a trade or business) are not recognized.

The sale of the scooter results in a realized loss of $150 ($700 − $550). The painting results in a realized gain of $300 ($1,200 − $900). However, Rebecca only recognizes the gain on the painting (the scooter is a personal use asset, and the related loss is not allowed).

27. (LO 8) Individual taxpayers combine capital gains and losses in a specific netting process. To arrive at a net capital gain, capital losses must be taken into account. The capital losses are aggregated by holding period (short-term and long-term) and applied against the gains in that category. If excess losses result, they are then shifted to the category carrying the highest tax rate. A net capital gain will occur if the net long-term capital gain (NLTCG) exceeds the net short-term capital loss (NSTCL).

For individual taxpayers, net capital loss can be used to offset ordinary income of up to $3,000 ($1,500 for married persons filing separate returns). If a taxpayer has both short- and long-term capital losses, the short-term category is used first to arrive at the $3,000. Any remaining net capital loss is carried over indefinitely until exhausted. When carried over, the excess capital loss retains its classification as short- or long-term.

Tamara has a net long-term capital gain of $1,000 ($2,000 + $500 − $1,500) and a short-term capital loss of $4,100. When netted, the result is an overall net short-term capital loss of $3,100. As a result, Tamara is allowed a $3,000 deduction in the current year and has a $100 short-term capital loss carryover to the following year.

PROBLEMS

28. (LO 1)

a. AGI 
   Less: Itemized deductions 
   Personal and dependency exemptions (6 × $4,050) 
   Taxable income 

b. AGI 
   Less: Standard deduction (head of household) 
   Personal and dependency exemptions (4 × $4,050) 
   Taxable income 

c. AGI 
   Less: Standard deduction (surviving spouse) 
   Personal and dependency exemptions (3 × $4,050) 
   Taxable income 

d. AGI 
   Less: Itemized deductions 
   Personal and dependency exemptions (4 × $4,050) 
   Taxable income 

e. AGI 
   Less: Itemized deductions 
   Personal and dependency exemptions (2 × $4,050) 
   Taxable income
29. (LO 1, 8)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Salary</td>
<td>$85,000</td>
</tr>
<tr>
<td>Interest on bonds</td>
<td>1,100</td>
</tr>
<tr>
<td>Alimony received</td>
<td>6,000</td>
</tr>
<tr>
<td>Capital gain</td>
<td>2,000</td>
</tr>
<tr>
<td>IRA contribution</td>
<td>(5,500)</td>
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<tr>
<td>AGI</td>
<td>$88,600</td>
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<tr>
<td>Standard deduction</td>
<td>(6,300)</td>
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<tr>
<td>Personal and dependency exemptions</td>
<td>(4,050)</td>
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<tr>
<td>Taxable income</td>
<td>$78,250</td>
</tr>
</tbody>
</table>

The alimony payments and bond interest are taxable. The gift is a nontaxable exclusion. The $2,000 of the capital gain is taxable. Net gambling losses are not deductible. Cousins do not meet the relationship test (and as they live in Canada, cannot meet the member-of-the-household test).

30. (LO 1)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Salary</td>
<td>$80,000</td>
</tr>
<tr>
<td>Interest on CD</td>
<td>2,000</td>
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<tr>
<td>Dividend</td>
<td>2,200</td>
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<tr>
<td>AGI</td>
<td>$84,200</td>
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<tr>
<td>Itemized deductions</td>
<td>(9,700)</td>
</tr>
<tr>
<td>Personal and dependency exemptions</td>
<td>(16,200)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$58,300</td>
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</tbody>
</table>

The interest ($3,000) on the bonds is not taxable. Excluded from gross income are the life insurance proceeds ($200,000) and the inheritance ($100,000). The loan repayment ($5,000) is a nontaxable return of capital. Aiden chose to itemize his deductions from AGI ($9,700) because it provided a greater deduction than did head of household (as an abandoned spouse; $9,300).

31. (LO 2)

a. $6,300. Although $6,100 (earned income) + $350 = $6,450, the amount allowed cannot exceed the standard deduction available in 2016 for single taxpayers.

b. $5,050. $4,700 (earned income) + $350.

c. $1,150. The greater of $1,050 or $1,150 [$800 (earned income) + $350].

d. $1,050. The greater of $1,050 or $850 [$500 (earned income) + $350].

e. $5,100. $3,200 (earned income) + $350 + $1,550 (additional standard deduction).

32. (LO 4)

a. QC. Cannot be QR due to the gross income test.

b. B.

c. QR. An uncle cannot be a QC.

d. B.

e. N. Cannot be a QC due to the abode test. Cannot be a QR due to the gross income test.

f. N.

g. QR.

h. B.
i. QR. A qualifying child cannot be older than the taxpayer.

j. QC. Cannot be a QR due to the gross income test.

33. (LO 3, 4)
   a. Four. Two personal and two dependency exemptions. Elton is a qualifying child, so his gross income does not matter. Trista is not a qualifying child—although a full-time student, she is not under age 24. However, Trista falls within the qualifying relative category. She passes the gross income test because the tuition portion of a scholarship is nontaxable.

   b. Two. One personal and one dependency exemption. Clint cannot qualify as a member of Audry’s household in the year of the divorce. Olive meets the relationship test.

   c. Three. One personal and two dependency exemptions. Because Andy is a qualified child, he is not subject to the gross income test. Paige meets the gross income requirements of a qualifying relative.

   d. Two. One personal and one dependency exemption. As a qualifying child, Andy is still immune from the gross income test. In a community property situation, however, Paige is treated as having $4,100 in gross income. Thus, she does not meet the gross income test and cannot be a qualifying relative.

34. (LO 3, 4)
   a. Three. The parents qualify as dependents under the Mexico/Canada exception.

   b. Two. Pablo’s father does not qualify because he is a citizen and resident of Panama; as a resident of the United States, Pablo’s mother does qualify.

   c. Three. The parents qualify because they are U.S. citizens.

35. (LO 3, 4)
   a. Four. The niece is in the qualifying child category. The cousin and son are not, due to the relationship and age tests. They both fall within the qualifying relative category.

   b. Three. Both persons fall within the qualifying relative category. The stepmother meets the relationship test, and the family friend’s son is a member of the taxpayer’s household.

   c. One. Helena is not a qualifying child under the exception to the citizenship or residency test. Raul is not her adoptive father.

   d. Four. Two fall within the qualifying relative category, and it is assumed that each meets the gross income test. The mother- and brother-in-law satisfy the relationship test. Although the ex-husband is a member of the household, he can qualify except in the year of the divorce. The brother-in-law’s age and non-student status have no bearing on the dependency issue.

36. (LO 4)
   a. Jenny is a qualifying child as to all three parties. Therefore, the father, uncle, and grandmother are eligible to claim her as a dependent.

   b. In this tiebreaker situation, the father (as parent) takes precedence. If the father forgoes the exemption, the uncle is next in order of precedence, due to a higher AGI.
37. (LO 3, 4)
Exemption amount \(5 \times 4,050\) $20,250
Step 1:  
AGI $333,400
Phaseout threshold (311,300)
Excess amount $22,100
Step 2: $22,100 \div 2,500 = 8.84 \text{ (rounded up to 9);}  
9 \times 2 = 18\% \text{ (phaseout percentage)}
Step 3: \text{Less: } 20,250 \times 18\% \quad (3,645)
Step 4: Deduction for personal and dependency exemptions $16,605

38. (LO 4, 9)
a. Son, niece, and brother. The cousin and the family friend do not meet the relationship test.
b. No. The eligible parties can rotate the exemptions as they choose.
c. If the eligible person who is awarded the exemption also pays the medical expenses, that person can claim them.

39. (LO 5)
a. Winston qualifies for head-of-household filing status as long as one parent is his dependent.
b. Winston must use single filing status. Except in the case of parents, head-of-household status requires that the dependent be a member of the taxpayer’s household.
c. The dependent must meet the relationship test. Therefore, Winston must use single filing status.
d. Winston can qualify for head of household if the mother-in-law is his dependent. He does not meet the requirements of a surviving spouse because a mother-in-law is not a child.
e. Because Winston is still married, he cannot use head-of-household filing status. (He does not satisfy the requirements of an abandoned spouse—a mother-in-law is not a child). Consequently, Winston must use married filing separately filing status.

40. (LO 4, 5)
a. For 2014, Chloe should file a joint return. Because she is the executor of Christopher’s estate, she can consent on his behalf to file jointly. Being under 19 years of age, her son is a qualifying child. Thus, she can claim three exemptions—one personal and one dependency.
b. For 2015, Chloe must file as single. She is not a surviving spouse because she cannot claim Dylan as a dependent. Dylan is not a qualifying child (due to the age test) and is not a qualifying relative (due to the gross income test).
c. For 2016, Chloe is a surviving spouse. She can claim Dylan as a dependent. Dylan is a qualifying child—although not under age 19, he is a full-time student. As a qualifying child, he is not subject to the gross income test.

41. (LO 3, 4, 5)
a. For 2015, Jerold can file a joint return. As executor of Nadia’s estate, he can issue a consent on her behalf. For 2016, Jerold can qualify as a surviving spouse. Travis is a qualifying child due to his student status, and Macy is a qualifying relative—her gross income of $3,500 (50\% \times 7,000) meets the gross income test. Thus, Jerold has three exemptions—one personal and two dependency.
b. The answer as to filing status does not change: joint return for 2015 and surviving spouse for 2016. Kansas is a common law state, so all of the $7,000 Macy earns is assigned to her. Travis is a qualifying child. Macy will not be a dependent under the qualifying relative category because of the gross income test. Thus, Jerold will have two exemptions.

42. (LO 4, 9)
a. Regardless of where the parties reside, the damage of the joint return needs to be undone. The joint return test applies to both the qualifying child and qualifying relative categories of dependency exemptions. The situation can be rectified by filing separate returns on or before April 17, 2017. In Louisiana, one-half of the daughter’s income, or $5,500 (50% × $11,000), is assigned to John. Being a qualifying child, the daughter can be claimed as a dependent. John, however, is subject to the gross income test contained in the qualifying relative category. Because $5,500 exceeds $4,050, John cannot be claimed as a dependent.

b. As noted in part a., the joint return problem needs to be resolved. In New Jersey, John earns none of the daughter’s income. Consequently, John now meets the gross income test of a qualifying relative. The daughter also can be claimed as a dependent because no gross income test is applicable to the qualifying child category.

43. (LO 1, 2, 3, 4, 5, 6)

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<td>Short-term capital loss</td>
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<tr>
<td>Cash prize</td>
<td>4,000</td>
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<tr>
<td>AGI</td>
<td>$82,000</td>
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<tr>
<td>Less: Personal and dependency exemptions (7 × $4,050)</td>
<td>(28,350)</td>
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<tr>
<td>Standard deduction</td>
<td>(12,600)</td>
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<td>Taxable income</td>
<td>$41,050</td>
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</tbody>
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Tax on $41,050 using surviving spouse rate schedule:

$$1,855.00 + 15\%(41,050 - 18,550) = 5,230.00.$$  

The father does not fail the gross income test because tax-exempt income is not counted.

44. (LO 1, 2, 3, 4, 5, 6, 8)

<table>
<thead>
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</tr>
<tr>
<td>Contribution to traditional IRA</td>
<td>(5,000)</td>
</tr>
<tr>
<td>AGI</td>
<td>$90,000</td>
</tr>
<tr>
<td>Less: Personal and dependency exemptions (4 × $4,050)</td>
<td>(16,200)</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>(9,300)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$64,500</td>
</tr>
</tbody>
</table>

Tax on $64,500 using head-of-household rate schedule:

$$6,897.50 + 25\%(64,500 - 50,400) = 10,422.50.$$  

Although Rosalyn does not meet the relationship test, she is a member of Morgan’s household. Jerold and Flo meet the relationship test. Although Jerold is not a U.S. citizen or a resident, he is a resident of Canada.
45. (LO 5)
   a. Patricia is not required to file. Her gross income is less than $10,350, and her net earnings from self-employment are less than $400.
   b. Mike need not file because his gross income of $10,800 is less than the $11,900 filing requirement.
   c. Ronald is required to file. His gross income of $6,500 is greater than his $6,300 standard deduction.
   d. Sam and Lana must file because their gross income of $24,250 is more than the $23,200 filing requirement.
   e. Quinn must file a return. He has unearned income of more than $1,050 and no additional standard deductions.

Taxpayers in parts b. and c. should file, even if a return is not required, to obtain a refund if any income tax was withheld.

46. (LO 5, 6, 9)
If Roy and Brandi do not marry, their tax status is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Roy</th>
<th>Brandi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income and AGI</td>
<td>$9,000</td>
<td>$61,000</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>(6,300)</td>
<td>(6,300)</td>
</tr>
<tr>
<td>Personal exemption</td>
<td>(4,050)</td>
<td>(4,050)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$-0-</td>
<td>$50,650</td>
</tr>
</tbody>
</table>

Tax on $50,650 under single rates is $5,183.75 + 25%($50,650 − $37,650) = $8,433.75. Thus, $0 (Roy) + $8,433.75 (Brandi) = $8,433.75 total tax for not being married.

If Roy and Brandi do marry:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income ($9,000 + $61,000)</td>
<td>$70,000</td>
</tr>
<tr>
<td>Standard deduction</td>
<td>(12,600)</td>
</tr>
<tr>
<td>Personal exemptions ($4,050 × 2)</td>
<td>(8,100)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$49,300</td>
</tr>
</tbody>
</table>

Tax on $49,300 under married filing jointly is $1,855.00 + 15%($49,300 − $18,550) = $6,467.50.

By getting married and filing a joint return, $1,966 ($8,434 − $6,468) is saved.

47. (LO 1, 3, 6, 7)
   a. Wages            $4,000
   Money market interest 1,800
   Bond interest (City of Boston bond interest is tax-exempt.) 0
   Gross income         $5,800
   Less: Standard deduction* (4,350)
   Personal exemption** (-0-)
   Taxable income        $1,450
b. Net Unearned Income Calculation:
   Money market account interest $1,800
   City of Boston bond interest –0–
   Total unearned income $1,800
   Minus: $1,050 + $1,050 standard deduction (2,100)
   Net unearned income (income taxed at parents’ rate) $ –0–

Income taxed at Taylor’s rate $1,450

Total tax ($1,450 × 10%)*** $ 145

*A dependent’s standard deduction is limited to the greater of $1,050 or the sum of his or her earned income plus $350.

**A dependent may not claim a personal exemption on his or her return.

***Because Taylor’s unearned income is not more than $2,100, her tax is determined without using her parents’ rate. Thus, Taylor’s 2016 tax liability is $145 ($1,450 taxable income × 10%).

48. (LO 1, 3, 6, 7)
   Unearned income $4,100
   Minus: $1,050 base amount + $1,050 standard deduction (2,100)
   Unearned income taxed at parents’ rate $2,000

Paige’s parents are in the 25% bracket, so her unearned income would generate $500 of tax (25% × $2,000). Computation of Paige’s taxable income and tax:

   Earned income $3,900
   Interest income 4,100
   Gross income $8,000
   Less: Personal exemption (–0–)
   Less: Standard deduction [greater of $1,050 or $3,900 (earned income) + $350] (4,250)
   Taxable income $3,750
   Less: Unearned income taxed at parents’ rate (2,000)
   Income taxed at Paige’s rate $1,750
   Paige’s tax rate × 10%
   Tax at Paige’s rate $ 175

Paige’s total tax: $500 (unearned income taxed at parents’ rate) + $175 (taxed at Paige’s rate) = $675.

49. (LO 1, 3, 6, 7)
   a. Earned income $3,000
      Interest income 5,000
      Gross income and AGI $8,000
      Less: Standard deduction [greater of $1,050 or $3,000 (earned income) + $350] (3,350)
      Taxable income $4,650

   b. Taxed at parents’ rate:
      Unearned income $5,000
      Less: $1,050 + $1,050 (2,100)
      Net unearned income (taxed at parents’ rate) $2,900

      Taxed at Terri’s rate:
      Taxable income $4,650
      Less: Amount taxed at parents’ rate (2,900)
      Taxed at Terri’s rate $1,750
50. (LO 6, 8)
a. Inez has the following results:
   - LTCG (land) $3,000
   - STCG (ADM stock) 4,000
   - LTCG (boat and trailer) 1,000
   - Loss on camper (nondeductible) –0–
   Thus, she has a net LTCG of $4,000 and a net STCG of $4,000. Her tax is \( \$2,000 \) \( \left( \frac{4,000 \times 15\%}{1} \right) + \left( \frac{4,000 \times 35\%}{1} \right) \).
b. \( \$600 \) \( \left( \frac{4,000 \times 0\%}{1} \right) + \left( \frac{4,000 \times 15\%}{1} \right) \).

51. (LO 6, 8)
a. Chester has a collectible gain of $6,000, a LTCG of $2,000, and a STCL of $4,000. Offsetting the STCL against the collectible gain leaves $2,000 collectible gain and $2,000 LTCG. The tax liability is \( \$860 \) \( \left( \frac{2,000 \times 28\%}{1} \right) + \left( \frac{2,000 \times 15\%}{1} \right) \).
b. \( \$300 \) \( \left( \frac{2,000 \times 15\%}{1} \right) + \left( \frac{2,000 \times 0\%}{1} \right) \).

52. (LO 9)
a. By concentrating the payment of three years of charitable contributions (2015, 2016, and 2017) into one year, the Bateses will be able to itemize their deductions from AGI in 2016. Otherwise, their itemized deductions (normally $10,000) are of no benefit because they do not exceed the standard deduction ($12,600 for 2015 and 2016; likely higher in 2017, although not yet determined).

b. Presuming that the $10,000 of normal itemized deductions already includes one year of church pledge payments, the additional payment of $8,000 ($4,000 for 2015 and $4,000 for 2017) yields itemized deductions of $18,000 ($10,000 + $8,000) for 2016. This exceeds the standard deduction by $5,400 ($18,000 \(-\) $12,600) that the Bateses would have claimed. Therefore, the tax savings they earn by concentrating the charitable contributions becomes $1,350 (25\% \times \$5,400). The same tax the Bateses would have paid will result for 2015 and 2017 because they claimed the standard deduction for each of those years.

c. Hoffman, Maloney, Raabe, & Young, CPAs
   5191 Natorp Boulevard
   Mason, OH 45040

November 22, 2016

Mr. and Mrs. Tom Bates
8212 Bridle Court
Reston, VA 20194

Dear Mr. and Mrs. Bates:

In response to your inquiry regarding the Federal income tax consequences of consolidating your charitable contributions for 2015, 2016, and 2017 into a single year (2016), here is a brief summary of the outcomes:

- Because individual taxpayers are presumed to be on the cash basis, all cash expenditures during a year will be evaluated in determining deductibility. In this case, combining the three $4,000 contributions into a single year makes sense from an income tax perspective.
By combining all three payments in 2016, you will be able to itemize your deductions in that year while using the standard deduction amount in 2015 and 2017.

This $8,000 of additional contributions in 2016 (the $4,000 payments for 2015 and 2017) means that you will have total itemized deductions of $18,000 (which exceeds the 2016 married filing jointly standard deduction amount by $5,400).

By consolidating these contributions in 2016, your tax savings will be $1,350 (the $5,400 of total itemized deductions in excess of the standard deduction times your marginal tax rate of 25%).

If I can be of further assistance to you in this matter, please do not hesitate to contact me.

Sincerely,

Heywood R. Floyd
Partner

CUMULATIVE PROBLEMS

53. Salaries ($60,000 + $41,000) $101,000
   Interest income (Note 1) —
      Ford Motor Company bonds $1,100
      Ally Bank CD 400 1,500
   Child support (Note 2) — 0—
   Gift from parents (Note 3) — 0—
   Injury settlement (Note 4) — 0—
   Lottery winnings (Note 5) 600
   Federal income tax refund (Note 6) — 0—
   IRA contribution (Note 7) (5,000)
   Adjusted gross income (AGI) $ 98,100
   Itemized deductions from AGI (Note 8)
      Medical [$7,200 – (10% x $98,100)] $ – 0—
      Taxes ($3,600 + $4,200) 7,800
      Interest on home mortgage 6,000
      Charitable contributions 3,600
      Life insurance premiums, traffic fines, political contributions, funeral expenses (Note 9) — 0— (17,400)
   Personal and dependency exemptions (5 x $4,000) (Note 10) (20,000)
   Taxable income $ 60,700
   Tax from 2015 Tax Table $ 8,186
   Less: Withholdings ($5,200 + $3,100) (8,300)
   Net tax payable (or refund due) ($ 114)

See the tax return solution beginning on p. 3-23 of this Solutions Manual.

Notes

(1) Interest on state and local bonds is an exclusion from gross income. See Exhibit 3.1 in the text.

(2) Child support is an exclusion from gross income, but alimony is not. The $7,200 that John Allen paid is clearly child support because any alimony obligation terminated when Wanda remarried. See Exhibits 3.1 and 3.2 in the text.
(3) Gifts are exclusions from gross income. Exhibit 3.1 in the text.

(4) Damages for a physical personal injury are exclusions from gross income (Exhibit 3.1) unless they are punitive in nature (Exhibit 3.2). There is no reason to assume that any of the $90,000 settlement is punitive because the matter was never litigated in a court.

(5) Lottery winnings are included in gross income (Exhibit 3.2). If the taxpayer has substantiation, losses can be claimed to the extent of gains.

(6) A Federal income tax refund is a return of a nondeductible expenditure and, therefore, is nontaxable.

(7) A contribution to a traditional IRA is a deduction for AGI.

(8) Because their itemized deductions clearly exceed $12,600, the standard deduction is not an advisable option.

(9) Life insurance premiums, traffic fines, political contributions, and funeral costs are not deductible.

(10) Wanda may claim the children as dependents because she has custody and did not issue a Form 8332 waiver in favor of John Allen (the father). Because Penny is a qualifying child, she is not subject to the gross income limitation. (In terms of age, Penny falls under the student exception.) Wayne is a qualifying relative, and his early death does not matter. As long as he satisfied the tests at the time of death, he can be claimed as a dependent. The facts do not indicate whether Kyle is a student, but this status is not necessary because he has met the age test (i.e., under 19) for a qualifying child.

54. Part 1—Tax Computation

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$80,000</td>
</tr>
<tr>
<td>Interest income</td>
<td></td>
</tr>
<tr>
<td>Omni Bank</td>
<td>$ 300</td>
</tr>
<tr>
<td>Boone State Bank</td>
<td>1,100</td>
</tr>
<tr>
<td>City of Springfield bonds (Note 1)</td>
<td></td>
</tr>
<tr>
<td>Inheritance (Note 2)</td>
<td>(0)</td>
</tr>
<tr>
<td>Life insurance proceeds (Note 3)</td>
<td>(0)</td>
</tr>
<tr>
<td>Sale of lot held as an investment (Note 4)</td>
<td>3,000</td>
</tr>
<tr>
<td>Estate sale (Note 5)</td>
<td>(0)</td>
</tr>
<tr>
<td>Federal income tax refund (Note 6)</td>
<td>(0)</td>
</tr>
<tr>
<td>Adjusted gross income (AGI)</td>
<td>$78,400</td>
</tr>
<tr>
<td>Itemized deductions from AGI—</td>
<td></td>
</tr>
<tr>
<td>Medical [$11,500 − (10% × $78,400)]</td>
<td>$3,660</td>
</tr>
<tr>
<td>Taxes—</td>
<td></td>
</tr>
<tr>
<td>State income tax</td>
<td>$3,200</td>
</tr>
<tr>
<td>Property tax</td>
<td>4,500</td>
</tr>
<tr>
<td>Interest on home mortgage</td>
<td>4,600</td>
</tr>
<tr>
<td>Charitable contributions (Note 7)</td>
<td>4,800</td>
</tr>
<tr>
<td>Personal and dependency exemptions (4 × $4,000) (Note 8)</td>
<td>(16,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>$41,640</td>
</tr>
<tr>
<td>Tax from 2015 Tax Table (Note 9)</td>
<td>$5,321</td>
</tr>
<tr>
<td>Less: Withholdings</td>
<td>(5,500)</td>
</tr>
<tr>
<td>Net tax payable (or refund due)</td>
<td>($ 179)</td>
</tr>
</tbody>
</table>

See the tax return solution beginning on p. 3-26 of this Solutions Manual.
Notes

(1) Interest on state and local bonds is excluded from gross income. See Exhibit 3.1 in the text.

(2) Inheritances are excluded from gross income. See Exhibit 3.1 in the text.

(3) Life insurance proceeds are nontaxable. See Exhibit 3.1 in the text.

(4) Logan has a realized long-term capital loss of $5,000 [$80,000 (selling price) − $85,000 (cost basis)] from the sale of the lot. Absent any offsetting capital gains, however, he can deduct only $3,000 against ordinary income. The $2,000 unabsorbed capital loss can be carried over to 2016.

(5) The basis of the property inherited is its fair market value on the date of the decedent’s death. The basis of any other property that was sold is its cost (see Chapter 13 in the text). Consequently, the estate sale most likely resulted in a realized loss. Because the loss is personal, it cannot be recognized. Thus, the estate sale results in no income tax consequences.

(6) A Federal income tax refund is a return of a nondeductible expenditure and, therefore, is nontaxable.

(7) Charitable contributions are deductible in the year paid ($2,400 + $2,400 = $4,800). Therefore, the year for which they were pledged does not matter.

(8) Helen and Mia meet the qualifying relative tests. Asher is a qualifying child (under age 24 and a full-time student), so he is not subject to the gross income test.

(9) Logan is a surviving spouse for filing purposes.

Part 2—Follow-Up Advice

Hoffman, Maloney, Raabe, & Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

February 28, 2016

Logan B. Taylor
4680 Dogwood Lane
Springfield, MO 65801

Dear Mr. Taylor:

In response to your inquiry regarding the Federal income tax situation for 2016, the news is not good. The following developments will cause an increase in your taxes:

- The applicable filing status moves from surviving spouse to single. The result is a shift from the lowest to the highest progressive tax rates.
- The capital loss deduction is $2,000, or $1,000 less than last year.
- For various reasons, your children and mother no longer qualify as dependents. The loss of three dependency exemptions causes a $12,150 ($4,050 × 3) reduction in deductions.
- Because of less medical expense and no interest and charitable deductions, your itemized deductions decrease by $13,060 (from $20,760 to $7,700).
Based on last year’s data, an estimate of your Federal income tax liability for 2016 is $12,684* (or $7,363 more than the $5,321 for 2015).

If I can be of further assistance to you in this matter, please do not hesitate to contact me.

Sincerely,

Charles Spain
Partner

* $81,400 (AGI without $3,000 capital loss deduction − $2,000 (capital loss carryover) = $79,400 (AGI) − $7,700 (itemized deductions; greater than the $6,300 standard deduction) − $4,050 (personal exemption) = $67,650 (taxable income). Tax is $12,683.75 [$5,183.75 + 25%($67,650 − $37,650)] under the 2016 Tax Rate Schedules for single taxpayers.

RESEARCH PROBLEMS

1. a. The Bakers are limited to two dependency exemptions: Florence and Darin. With regard to Janet’s parents, the following table summarizes the components involved.

<table>
<thead>
<tr>
<th>Support Provided</th>
<th>Calvin</th>
<th>Florence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds spent on clothing, transportation, and recreation (1/2 of $8,000)</td>
<td>$4,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Fair rental value of lodging (1/7 × $14,000)</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Share of food (1/7 × $10,500)</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Dental bills</td>
<td>—</td>
<td>1,000</td>
</tr>
<tr>
<td>Life insurance premium</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Parents’ total support</td>
<td>$7,500</td>
<td>$8,500</td>
</tr>
</tbody>
</table>

Of Calvin’s total support of $7,500, the Bakers provide only $3,500 ($2,000 + $1,500), which is not more than 50%. Life insurance premiums are not considered to be an item of support. In Florence’s case, however, the Bakers furnish $4,500 ($2,000 + $1,500 + $1,000), which is more than $4,250 (50% of $8,500).

As a qualifying child (under age 19), Darin’s income is immaterial (as long as he is not self-supporting). Because he satisfies the age requirement, his student status does not matter.

Andrea is not a qualifying child as she meets neither the age nor student test. She is not a qualifying relative because the support test is not met. The facts do not state what other types of support (e.g., clothing, recreation, medical) the Bakers pay for, but it would have to be significant for the total (including room and board) to exceed $21,000.

Morgan could be a qualifying child except that she appears to be self-supporting. Furthermore, she cannot be a qualifying relative due to the support test. As was the case for Andrea, however, the facts do not reflect what other types of support (besides room and board) her parents might provide. It is unlikely that the total would exceed the $20,000 Morgan furnishes herself.
b. A dependency exemption for Calvin could have been salvaged if Janet had not paid the life insurance premium. Instead, she should have applied the funds on Calvin’s behalf toward a support item (e.g., help pay for the vacation). Thus, Calvin could pay the premium from his own funds without jeopardizing the support percentage.

In the case of Andrea, her parents would have had a better chance of meeting the support test if the cost of the car had not been so high. In this regard, could leasing, rather than purchasing, the Camaro have accomplished this result? Perhaps the Bakers could have contributed whatever portion of the cost is needed to satisfy the more-than-50% requirement for the dependency exemption.

2. CLIENT LETTER

Hoffman, Maloney, Raabe, & Young, CPAs
5191 Natorp Boulevard
Mason, OH 45040

March 6, 2017

Mr. Brett Ouray
16 Lahinch
Chicago, IL 60608

Dear Brett:

This letter is in response to your inquiry about which filing status is most appropriate for you in the current tax year.

Generally, married taxpayers who do not file a joint return must file as married filing separately. However, there exists a special classification called abandoned spouse that allows a married person to be treated as being single. Single persons can qualify for head-of-household filing status.

To be considered an abandoned spouse (in other words, to be considered not married for tax purposes), you must satisfy all of the following requirements:

1. You maintain a household that for more than half the year is the principal living place of a child whom you claim as a dependent.
2. You furnish more than half the cost of maintaining the home.
3. Your spouse was not a member of the household for the last six months of the year.

While in your situation the first two requirements are satisfied, the third requirement is likely not satisfied. Both the IRS and the courts have concluded that taxpayers must live in separate residences to be considered living apart. Despite the fact that you and your wife are estranged, because you live in the same house, you will not be considered unmarried for tax purposes. As such, given that you are not yet divorced, the appropriate filing status in the current year would be married filing jointly. If you and your wife are sufficiently estranged that it would not be possible to file jointly, the appropriate filing status would then be married filing separately.

If I can be of further assistance to you in this matter, please feel free to contact me.

Sincerely,

Janice Dodd, CPA
NOTE TO INSTRUCTOR

IRC § 7703(b) addresses married taxpayers who live apart and specifies the requirements listed above. Although § 7703(b) does not provide much detail about what being a member of a household involves, Reg. § 1.7703–1(b)(5) clarifies that an individual’s spouse is not a member of the household during a taxable year if such household does not constitute such spouse’s place of abode at any time during the year. The facts in the problem closely mirror the facts in Keith Chiosie v. Commissioner, T.C.Memo. 2000–117. The opinion in this case confirms that not to be considered members of the same household, taxpayers must live apart. The opinion provides a helpful discussion of how courts have interpreted the “living apart” requirement and references other cases that also specify that there must be geographic distance between the taxpayers to satisfy the third requirement.

Research Problems 3 to 7

The Internet Activity research problems require that students utilize online resources to research and answer the questions. As a result, solutions may vary among students and courses. You should determine the skill and experience levels of the students before assigning these problems, coaching where necessary. Encourage students to explore all parts of the Web in this research process, including tax research databases, as well as the websites of the IRS, newspapers, magazines, businesses, tax professionals, other government agencies, and political outlets. Students should also work with resources such as blogs, Twitter feeds, and other interest-oriented technologies to research their answers.
CHECK FIGURES

20. Sam has $2,100 *unearned* income.
21.a. $1,750.
21.b. $15,100.
21.c. $2,600.
21.d. $0.
22. $11,664.
23.a. Both spouses must itemize.
23.b. Claim standard deduction.
24.a. $19,077; 28%; 20.5%.
24.b. $8,298; 25%; 14.8%.
25. $2,700; $675; $780.
26. $150; loss; $300; gain; painting.
27. Short-term capital loss; $3,100.
28.a. $25,700.
28.b. $54,500.
28.c. $50,250.
28.d. $32,300.
28.e. $46,000.
29. $78,250.
30. $58,300.
31.a. $6,300.
31.b. $5,050.
31.c. $1,150.
31.d. $1,050.
31.e. $5,100.
32.a. QC.
32.b. B.
32.c. QR.
32.d. B.
32.e. N.
32.f. N.
32.g. QR.
32.h. B.
32.i. QR.
32.j. QC.
33.a. Four.
33.b. Two.
33.c. Three.
33.d. Two.
34.a. Three.
34.b. Two.
34.c. Three.
35.a. Four.
35.b. Three.
35.c. One.
35.d. Four.
36.a. All three are eligible.
37. $16,605.
38.a. Son, niece, and brother.
39.a. Head of household.
39.e. Married filing separately.
40.a. 2014 married filing jointly.
40.b. 2015 single.
40.c. 2016 surviving spouse.
41.a. 2015 filing jointly; 2016 surviving spouse.
41.b. 2015 filing jointly; 2016 surviving spouse.
43. $5,230.
44. $10,422.50.
45.a. Patricia is not required to file.
45.b. Mike is not required to file.
45.c. Ronald is required to file.
45.d. Sam and Lana are required to file.
45.e. Quinn is required to file.
46. Joint return saves $1,966.
47.a. $1,450.
47.b. $145.
48. Taxable income $3,750; tax $675.
49.a. $4,650.
49.b. $1,750.
50.a. $2,000.
50.b. $600.
51.a. $860.
51.b. $300.
52.b. Saves $1,350.
53. Refund due $114.
54. Part 1—refund due $179.
54. Part 2—income tax increases by $7,363.
SOLUTIONS TO ETHICS & EQUITY FEATURES

Discovering Lost Dependency Exemptions (p. 3-15). By completing multiple support agreements, Jesse’s children can file amended returns to claim him as a dependent. The dependency exemption can be rotated among the children and do not need to be claimed by the same child. The year of Jesse’s death (i.e., 2016) can be included because a dependent need not be alive for the whole year. However, the usual three-year statute of limitations will preclude any claims for the earlier years of the six-year period.

Whose Qualifying Child Is He? (p. 3-18). Until recently, the procedure suggested by the Rands would have worked. However, Congress changed the Internal Revenue Code to prohibit this [§ 152(c)(4)(C)]. Under current law, another eligible taxpayer may claim a person as a qualified child only if the person has an adjusted gross income (AGI) higher than the highest AGI of any of his or her parents. This new provision eliminates Belinda because her AGI ($15,000) is not higher than her parent’s AGI ($400,000). Therefore, regardless of the Rands’ willingness to waive claiming him, Henry remains their qualifying child.

Abandoned Spouse? (p. 3-21). A married individual is not treated as unmarried under the abandoned spouse rules if the individual’s spouse occupies the same residence, even if they maintain separate bedrooms and bathrooms {see, for example, Lyddan v. U.S. [51 AFTR 2d 83–808 (D.Ct., CT, 1982), aff’d 52 AFTR 2d 83–6254 (CA-2, 1983)]}. The same is true if one spouse moves into the basement while the other spouse and children reside in the upper levels (see Elsawah, T.C. Summary Opinion 2004–33).

According to Lyddan, there is a need for a “bright line” test that does not depend on a factual inquiry into the intimate living details of an estranged couple. Further, according to Dawkins (T.C.Memo. 1991–225), Congress did not intend spouses living under the same roof to be treated as living “separated and apart.”

So the question in this case is whether the detached garage would be considered “under the same roof” or “occupying the same residence.” In the Second Circuit decision in Lyddan, the Court wrote: “We think the phrase requires a geographical separation and means living in separate residences.” If so, then it is highly likely that Bob and Carol are “occupying the same residence.” As such, they would be considered “married” and Carol would not qualify for head-of-household status.

SOLUTIONS TO ROGER CPA REVIEW QUESTIONS

Detailed answer feedback for Roger CPA Review questions is available on the instructor companion site (www.cengage.com/login).

1. b
2. d
3. c
4. c
5. b
### 2017 Comprehensive Volume/Solutions Manual

#### Filing Status
- Single
- Married filing jointly (even if only one had income)
- Married filing separately. Enter spouse's SSN above and full name here.

#### Exemptions
- You, yourself. If someone can claim you as a dependent, do not check box 6a.  
- Spouse.

#### Income
- Wages, salaries, tips, etc. Attach Form(s) W-2.
- Taxable interest. Attach Schedule B if required.
- Tax-exempt interest. Do not include on line 6a.
- Ordinary dividends. Attach Schedule B if required.
- Qualified dividends.
- Taxable refunds, credits, or offsets of state and local income taxes.
- Alimony received.
- Business income or (loss). Attach Schedule O or O-EZ.
- Capital gain (loss). Attach Schedule D if required. If not required, check here.
- IRA distributions.
- Pensions and annuities.
- Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E.
- Farm income or (loss). Attach Schedule F.
- Unemployment compensation.
- Social security benefits.
- Other income. List type and amount.

#### Adjusted Gross Income
- Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ.
- Health savings account deduction. Attach Form 8889.
- Moving expenses. Attach Form 3903.
- Deductible part of self-employment tax. Attach Schedule SE.
- Self-employed SEP, SIMPLE, and qualified plans.
- Self-employed health insurance deduction.
- Penalty on early withdrawal of savings.
- Alimony paid.  
- IRA deduction.
- Student loan interest deduction.
- Tuition and fees. Attach Form 8863.
- Domestic production activities deduction. Attach Form 8903.
- Add lines 23 through 35.  
- Subtract line 36 from line 22. This is your adjusted gross income.
### Computing the Tax

**Form 1040 (2015)**

**Page 2**

#### Tax and Credits

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>Amount from line 37 (adjusted gross income)</td>
<td>98,100</td>
<td>123-45-6786</td>
</tr>
<tr>
<td>39a</td>
<td>Check [ ] You were born before January 2, 1951. [ ] Blind.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>39b</td>
<td>If your spouse itemizes on a separate return or you were a dual-status alien, check here [ ]</td>
<td>39b</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Itemized deductions (from Schedule A) or your standard deduction</td>
<td>17,400</td>
<td>(see left margin)</td>
</tr>
<tr>
<td>41</td>
<td>Subtract line 40 from line 38</td>
<td>80,700</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Exemptions. If line 38 is $154,950 or less, multiply $4,000 by the number on line 6d. Otherwise, see instructions</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-</td>
<td>60,700</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Tax (see instructions). Check if any from: □ Form(s) 8814 □ Form 4972 □</td>
<td>8,186</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>Alternative minimum tax (see instructions). Attach Form 6251</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Excess advance premium tax credit repayment. Attach Form 8862</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Add lines 44, 45, and 46</td>
<td>8,186</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Foreign tax credit. Attach Form 1116 if required</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Credit for child and dependent care expenses. Attach Form 2441</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Education credits from Form 8863, line 19</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Retirement savings contributions credit. Attach Form 8880</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Child tax credit. Attach Schedule 8812, if required</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Residential energy credits. Attach Form 5605</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Other credits from Form: □ 8810 □ 8831 □</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Add lines 48 through 54. These are your total credits</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-</td>
<td>8,186</td>
<td></td>
</tr>
</tbody>
</table>

#### Other Taxes

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>57</td>
<td>Self-employment tax. Attach Schedule SE</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>Unreported social security and Medicare tax from Form: □ 4137 □ 8919</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5328 if required</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>60a</td>
<td>Household employment taxes from Schedule H</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>60b</td>
<td>First-time homebuyer credit repayment. Attach Form 5405 if required</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>Health care: individual responsibility (see instructions) Full-year coverage</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>Taxes from: □ Form 8959 □ Form 8860 □</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>Add lines 57 through 62. This is your total tax</td>
<td>8,186</td>
<td></td>
</tr>
</tbody>
</table>

#### Payments

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>64</td>
<td>Federal income tax withheld from Forms W-2 and 1099</td>
<td>8,300</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>2015 estimated tax payments and amount applied from 2014 return</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>66a</td>
<td>Earned income credit (EIC)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>66b</td>
<td>Nonrefundable combat pay election</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>67</td>
<td>Additional child tax credit. Attach Schedule 8812</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>68</td>
<td>American opportunity credit from Form 8803, line 8</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>69</td>
<td>Net premium tax credit. Attach Form 8862</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>Amount paid with request for extension to file</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>71</td>
<td>Excess social security and tier I RTA tax withheld</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>72</td>
<td>Credit for federal tax on fuels. Attach Form 4136</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>Credits from Form: □ 2439 □ Reserved □ 8885 □</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>74</td>
<td>Add lines 64, 65, 66a, 67 through 73. These are your total payments</td>
<td>8,300</td>
<td></td>
</tr>
</tbody>
</table>

#### Refund

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>75</td>
<td>If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>76a</td>
<td>Amount of line 75 you want refunded to you. If Form 8888 is attached, check here</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td>77</td>
<td>Amount of line 75 you want applied to your 2016 estimated tax</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

#### Amount You Owe

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>78</td>
<td>Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

#### Third Party Designee

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>Estimated tax penalty (see instructions)</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

#### Sign Here

If you are paying the tax yourself, sign here.

**Spouse's signature. If a joint return, both must sign.**

Date

Spouse's occupation (e.g., FTLE)

If the IRS sent you and Identity Protection PIN, enter it here (see instructions)

**PTIN**

**Your signature**

Date

**CONVENTION MANAGER**

Phone number

**No**

**Yes. Complete below Personal Identification number (PIN)**

<table>
<thead>
<tr>
<th>Date</th>
</tr>
</thead>
</table>

#### Paid Preparer Use Only

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>80</td>
<td>Print Type preparer's name</td>
<td></td>
<td></td>
</tr>
<tr>
<td>81</td>
<td>Preparer's signature</td>
<td></td>
<td></td>
</tr>
<tr>
<td>82</td>
<td>Date</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Paid Preparer Use Only

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>83</td>
<td>Firms name</td>
<td></td>
<td></td>
</tr>
<tr>
<td>84</td>
<td>Firms EIN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>85</td>
<td>Firms address</td>
<td></td>
<td></td>
</tr>
<tr>
<td>86</td>
<td>Phone number</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Comprehensive Volume/Solutions Manual

3-26

#### SCHEDULE A (Form 1040)

**Comprehensive Volume** / Solutions Manual

**Information about Schedule A and its separate instructions is at [www.irs.gov/schedules](http://www.irs.gov/schedules).**

**Attach to Form 1040.**

**2015**

**Attachment Sequence No.** 07

**Name(s) shown on Form 1040** LANCE H. DEAN

**Your social security number** 123-45-6786

#### Medical and Dental Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and dental expenses (see instructions)</td>
<td>7,200</td>
</tr>
<tr>
<td>Enter amount from Form 1040, line 38</td>
<td>98,100</td>
</tr>
<tr>
<td>Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead</td>
<td>9,810</td>
</tr>
<tr>
<td>Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-</td>
<td>4</td>
</tr>
</tbody>
</table>

#### Taxes You Paid

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and local (check only one box):</td>
<td></td>
</tr>
<tr>
<td>□ Income taxes, or</td>
<td></td>
</tr>
<tr>
<td>□ General sales taxes</td>
<td>4,200</td>
</tr>
<tr>
<td>Real estate taxes (see instructions)</td>
<td>3,600</td>
</tr>
<tr>
<td>Personal property taxes</td>
<td>7</td>
</tr>
<tr>
<td>Other taxes. List type and amount</td>
<td>8</td>
</tr>
<tr>
<td>Add lines 5 through 8</td>
<td>7,800</td>
</tr>
</tbody>
</table>

#### Interest You Paid

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home mortgage interest and points reported by you on Form 1098</td>
<td>6,000</td>
</tr>
<tr>
<td>Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address</td>
<td></td>
</tr>
<tr>
<td>Points not reported to you on Form 1098. See instructions for special rules</td>
<td>12</td>
</tr>
<tr>
<td>Mortgage insurance premiums (see instructions)</td>
<td>0</td>
</tr>
<tr>
<td>Investment interest. Attach Form 4952 if required. (See instructions.)</td>
<td>14</td>
</tr>
<tr>
<td>Add lines 10 through 14</td>
<td>6,000</td>
</tr>
</tbody>
</table>

#### Gifts to Charity

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gifts by cash or check. If you made any gift of $250 or more, see instructions</td>
<td>3,600</td>
</tr>
<tr>
<td>Other than by cash or check. If any gift of $250 or more, see instructions. You must attach Form 8283 if over $500</td>
<td>17</td>
</tr>
<tr>
<td>Carryover from prior year</td>
<td>0</td>
</tr>
<tr>
<td>Add lines 16 through 18</td>
<td>3,600</td>
</tr>
</tbody>
</table>

#### Casualty and Theft Losses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casualty or theft loss(es). Attach Form 4684. (See instructions.)</td>
<td>20</td>
</tr>
<tr>
<td>Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.)</td>
<td></td>
</tr>
<tr>
<td>Tax preparation fees</td>
<td>22</td>
</tr>
<tr>
<td>Other expenses—investment, safe deposit box, etc. List type and amount</td>
<td>23</td>
</tr>
<tr>
<td>Add lines 21 through 23</td>
<td>0</td>
</tr>
<tr>
<td>Enter amount from Form 1040, line 38</td>
<td>98,100</td>
</tr>
<tr>
<td>Multiply line 25 by 2% (.02)</td>
<td>1,962</td>
</tr>
<tr>
<td>Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-</td>
<td>27</td>
</tr>
</tbody>
</table>

#### Other Miscellaneous Deductions

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other—from list in instructions. List type and amount</td>
<td>28</td>
</tr>
</tbody>
</table>

#### Total Itemized Deductions

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Itemized Deductions</td>
<td>17,400</td>
</tr>
</tbody>
</table>

**For Paperwork Reduction Act Notice, see Form 1040 instructions.**

**Schedule A (Form 1040) 2015**
**Form 1040**

**Department of the Treasury—Internal Revenue Service**

**U.S. Individual Income Tax Return**

**2015**

OMB No. 1545-0074

IRAS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2015, or other tax year beginning 

2015, ending __________

See separate instructions.

**Your first name and initial**
LOGAN

**Last name**
B

**Social security number**

123-45-6787

**Spouse’s social security number**

**Home address (number and street). If you have a P.O. box, see instructions.**

4680 DOGWOOD LANE

**City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).**

SPRINGFIELD
NO
65801

**Foreign country name**

**Foreign province/state/county**

**Foreign postal code**

**Filing Status**

1 Single

2 Married filing jointly (even if only one had income)

3 Married filing separately. Enter spouse’s SSN above and full name here.

**Check only one box.**

4 Head of household (with qualifying person). (See instr.) If the qualifying person is a child but not your dependent, enter this child’s name here.

5 Qualifying widow(er) with dependent child

**Exemptions**

6a If someone can claim you as a dependent, do not check box 6a .

6b Spouse:

(1) First name
HELEN

(2) Last name
TAYLOR

(3) Dependent’s social security number 123-45-6780 Parent

(4) Qualifying person’s relationship to you

(5) Qualifying for child tax credit (see instructions)

**If more than four dependents, see instructions and check here**

**Total number of exemptions claimed**

**Income**

7 Wages, salaries, tips, etc. Attach Form(s) W-2...

8a Taxable interest. Attach Schedule B if required

8b Tax-exempt interest. Do not include on line 8a

9a Ordinary dividends. Attach Schedule B if required

9b Qualified dividends

10 Taxable refunds, credits, or offsets of state and local income taxes

11 Alimony received

12 Business income or (loss). Attach Schedule C or C-EZ

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here

14 Other gains or (losses). Attach Form 4797

15a IRA distributions

15b Taxable amount

16a Pensions and annuities

16b Taxable amount

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E

18 Farm income or (loss). Attach Schedule F

19 Unemployment compensation

20a Social security benefits

20b Taxable amount

21 Other income. List type and amount

22 Combine the amounts in the far right column for lines 7 through 21. This is your total income

23 Adjusted gross income

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2110 or 2106-EZ...

25 Health savings account deduction. Attach Form 8889

26 Moving expenses. Attach Form 3903

27 Deductible part of self-employment tax. Attach Schedule SE

28 Self-employed SEP, SIMPLE, and qualified plans

29 Self-employed health insurance deduction

30 Penalty on early withdrawal of savings

31a Alimony paid

31b Recipient’s SSN

32 IRA deduction

33 Student loan interest deduction

34 Tuition fees. Attach Form 8917

35 Domestic production activities deduction. Attach Form 8903

36 Add lines 23 through 35

37 Subtract line 36 from line 22. This is your adjusted gross income

**KIA**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.
54. continued

Form 1040 (2015)  LOGAN  B TAYLOR  123-45-6787  Page 2

Tax and Credits

I. Standard Deduction for—
   • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
   • All others:
     Single or Married filing separately: $6,000
     Married filing jointly or Qualifying widow(er): $12,600
     Head of household: $9,250

II. Itemized deductions (from Schedule A) or your standard deduction (see left margin)

   40 Subtotal line 40 from line 38
   41 Exemptions. If line 38 is $154,950 or less, multiply $4,000 by the number on line 6d. Otherwise, see instructions
   42 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
   43 Tax (see instructions). Check if you have any: a Form(s) 8814 b Form 4972 c
   44 Alternative minimum tax (see instructions). Attach Form 6251
   45 Excess advance premium tax credit repayment. Attach Form 8962
   46 Add lines 44, 45, and 46
   47 Foreign tax credit. Attach Form 1116 if required
   48 Credit for child and dependent care expenses. Attach Form 2441
   49 Education credits from Form 8863, line 19
   50 Retirement savings contributions credit. Attach Form 8880
   51 Child tax credit. Attach Schedule 8812, if required
   52 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5323 if required
   53 Residential energy credits. Attach Form 8862
   54 Other credits from Form: a  b  c
   55 Add lines 48 through 54. These are your total credits
   56 Subtotal line 55 from line 47. If line 55 is more than line 47, enter -0-
   57 Self-employment tax. Attach Schedule SE
   58 Unreported social security and Medicare tax from Form: a  b 9919
   59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5323 if required
   60a Household employment taxes from Schedule H
   60b First-time homebuyer credit repayment. Attach Form 5405 if required
   61 Health care: individual responsibility (see instructions) Full-year coverage
   62 Taxes from: a Form 8959 b Form 8960 c Instructions; enter code(s)
   63 Add lines 57 through 62. This is your total tax

I. Payments

64 Federal income tax withheld from Forms W-2 and 1099
65 2015 estimated tax payments and amount applied from 2014 return
66a Earned income credit (EIC)
66b Nonrefundable combat pay election
67 Additional child tax credit. Attach Schedule 8812
68 American opportunity credit from Form 8863, line 8
69 Net premium tax credit. Attach Form 8962
70 Amount paid with request for extension to file
71 Excess social security and tier 1 RRTA tax withheld
72 Credit for federal tax on fuels. Attach Form 4136
73 Credits from Form: a  b 2439 c Reserved d 8885 d
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments

Refund

75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid
76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here
76b Routing number
77 Account number
77 Amount of line 75 you want applied to your 2016 estimated tax

Amount You Owe

78 Subtract line 74 from line 63. For details on how to pay, see instructions
79 Estimated tax penalty (see instructions)

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)?

Yes. Complete below
Personal identification number (PIN)

Sign Here

You must sign on your return. If you have more than one spouse, sign only one copy of your return. Each spouse must sign his or her return separately. If you are married, you may sign the joint return together. If you are married filing separately, you must sign on your respective returns.

Joint return? See instructions. Keep a copy for your records.

Spouse’s signature. If a joint return, both must sign.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Preparer Use Only

Print Type preparer’s name
Preparer’s signature
Date
Check if self-employed
PTIN

Firm’s name
Firm’s EIN
Firm’s address
Phone no.
54. continued

<table>
<thead>
<tr>
<th>SCHEDULE A (Form 1040)</th>
<th>Itemized Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medical and Dental Expenses</strong></td>
<td><strong>Itemized Deductions</strong></td>
</tr>
<tr>
<td>Caution. Do not include expenses reimbursed or paid by others.</td>
<td></td>
</tr>
<tr>
<td>1 Medical and dental expenses (see instructions)</td>
<td>11,500</td>
</tr>
<tr>
<td>2 Enter amount from Form 1040, line 38 . . . .</td>
<td>78,400</td>
</tr>
<tr>
<td>3 Multiply line 2 by 10% (.10). If either you or your spouse was born before January 2, 1951, multiply line 2 by 75% (.75) instead</td>
<td>58,800</td>
</tr>
<tr>
<td>4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-</td>
<td>3,660</td>
</tr>
<tr>
<td><strong>Taxes You Paid</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>5 State and local (check only one box):</td>
<td>7,700</td>
</tr>
<tr>
<td>a. Income taxes, or</td>
<td>3,200</td>
</tr>
<tr>
<td>b. General sales taxes</td>
<td>4,500</td>
</tr>
<tr>
<td>6 Real estate taxes (see instructions)</td>
<td>0</td>
</tr>
<tr>
<td>7 Personal property taxes</td>
<td>8</td>
</tr>
<tr>
<td>8 Other taxes. List type and amount</td>
<td>4,600</td>
</tr>
<tr>
<td>9 Add lines 5 through 8</td>
<td>15</td>
</tr>
<tr>
<td><strong>Interest You Paid</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>10 Home mortgage interest and points reported to you on Form 1098</td>
<td>4,600</td>
</tr>
<tr>
<td>11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address</td>
<td>0</td>
</tr>
<tr>
<td><strong>Gifts to Charity</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>12 Points not reported to you on Form 1098. See instructions for special rules</td>
<td>0</td>
</tr>
<tr>
<td>13 Mortgage insurance premiums (see instructions)</td>
<td>0</td>
</tr>
<tr>
<td>14 Investment interest. Attach Form 4952 if required. (See instructions.)</td>
<td>0</td>
</tr>
<tr>
<td>15 Add lines 10 through 14</td>
<td>4,600</td>
</tr>
<tr>
<td><strong>Casualty and Theft Losses</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>16 Gifts by cash or check. If you made any gift of $250 or more, see instructions</td>
<td>4,800</td>
</tr>
<tr>
<td>17 Other than by cash or check. If any gift of $250 or more, see instructions. You must attach Form 8283 if over $500</td>
<td>0</td>
</tr>
<tr>
<td>18 Carryover from prior year</td>
<td>0</td>
</tr>
<tr>
<td>19 Add lines 16 through 18</td>
<td>4,800</td>
</tr>
<tr>
<td><strong>Job Expenses and Certain Miscellaneous Deductions</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)</td>
<td>0</td>
</tr>
<tr>
<td>21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.)</td>
<td>0</td>
</tr>
<tr>
<td>22 Tax preparation fees</td>
<td>0</td>
</tr>
<tr>
<td>23 Other expenses—investment, safe deposit box, etc. List type and amount</td>
<td>0</td>
</tr>
<tr>
<td>24 Add lines 21 through 23</td>
<td>0</td>
</tr>
<tr>
<td>25 Enter amount from Form 1040, line 38</td>
<td>78,400</td>
</tr>
<tr>
<td>26 Multiply line 25 by 2% (.02)</td>
<td>1,568</td>
</tr>
<tr>
<td>27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-</td>
<td>0</td>
</tr>
<tr>
<td><strong>Other Miscellaneous Deductions</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>28 Other—from list in instructions. List type and amount</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Itemized Deductions</strong></td>
<td><strong>Total Itemized Deductions</strong></td>
</tr>
<tr>
<td>29 If Form 1040, line 38, over $154,950?</td>
<td>20,760</td>
</tr>
<tr>
<td>30 If you elect to itemize deductions even though they are less than your standard deduction, check here</td>
<td>0</td>
</tr>
</tbody>
</table>
### Part I  Short-Term Capital Gains and Losses—Assets Held One Year or Less

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

<table>
<thead>
<tr>
<th></th>
<th>(d) Proceeds (sales price)</th>
<th>(e) Cost (or other basis)</th>
<th>(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)</th>
<th>(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b</td>
<td>0</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>1b</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box A checked</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box B checked</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box C checked</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

4. Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824

5. Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1

6. Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions.

7. Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the next page.

### Part II  Long-Term Capital Gains and Losses—Assets Held More Than One Year

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

<table>
<thead>
<tr>
<th></th>
<th>(d) Proceeds (sales price)</th>
<th>(e) Cost (or other basis)</th>
<th>(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)</th>
<th>(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8a</td>
<td>Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8b</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box D checked</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box E checked</td>
<td>80,000</td>
<td>65,000</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Totals for all transactions reported on Form(s) 8949 with Box F checked</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Capital gain distributions. See the instructions</td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on page 2</td>
<td></td>
<td></td>
<td>-5,000</td>
</tr>
</tbody>
</table>
54. continued

<table>
<thead>
<tr>
<th>Part III Summary</th>
</tr>
</thead>
</table>
| **16** Combine lines 7 and 15 and enter the result.  
  • If line 16 is a **gain**, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.  
  • If line 16 is a **loss**, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.  
  • If line 16 is **zero**, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22. |
| **17** Are lines 15 and 16 both gains?  
  - **Yes.** Go to line 18.  
  - **No.** Skip lines 18 through 21, and go to line 22. |
| **18** Enter the amount, if any, from line 7 of the **26% Rate Gain Worksheet** in the instructions. |
| **19** Enter the amount, if any, from line 18 of the **Unrecaptured Section 1250 Gain Worksheet** in the instructions. |
| **20** Are lines 18 and 19 both zero or blank?  
  - **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). **Do not** complete lines 21 and 22 below.  
  - **No.** Complete the **Schedule D Tax Worksheet** in the instructions. **Do not** complete lines 21 and 22 below. |
| **21** If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the **smaller** of:  
  • The loss on line 16 or  
  • ($3,000), or if married filing separately, ($1,500)  
  **Note.** When figuring which amount is smaller, treat both amounts as positive numbers. |
| **22** Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?  
  - **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).  
  - **No.** Complete the rest of Form 1040 and Form 1040NR. |
### Part II: Long-Term

Transactions involving capital assets you held more than 1 year are long term. For short-term transactions, see page 1.

**Note.** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule B, line 6a; you aren’t required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- [ ] (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
- [x] (E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS
- [ ] (F) Long-term transactions not reported to you on Form 1099-B

<table>
<thead>
<tr>
<th></th>
<th>Description of property (Example: 100 sh. XYZ Co.)</th>
<th>Date acquired (Mo., day, yr.)</th>
<th>Date sold or disposed of (Mo., day, yr.)</th>
<th>Proceeds (sales price) (see instructions)</th>
<th>Cost or other basis (see the Note below and see Column (e) in the separate instructions)</th>
<th>Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.</th>
<th>Gain or (loss), amount from column (f) and combine the result with column (g)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LOT IN ST. LOUIS</td>
<td>05/02/10</td>
<td>01/05/15</td>
<td>80,000</td>
<td>85,000</td>
<td>0</td>
<td>-5,000</td>
</tr>
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</tbody>
</table>

**2 Totals.** Add the amounts in columns (d), (e), (f), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 6a (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked).

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80,000</td>
<td>85,000</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>-5,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note.** If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (d) the basis as reported to the IRS, and enter an adjustment in column (f) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.
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