

CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 - Multiple Choice Questions

1. C (LO 2.1)
2. C (LO 2.1)
3. B (LO 2.1)
4. A (LO 2.1)
5. D (LO 2.1)
6. E (LO 2.4)
7. D $(\$75,000/(\$10,000 \times 20) \times \$4,000 = \$1,500)$. (LO 2.5)
8. C (LO 2.6)
9. B (LO 2.7)
10. C (LO 2.7, 2.9, 2.10, 2.11)
11. A (LO 2.14)
12. E (LO 2.14)

Group 2 - Problems

1.
 - a. Excluded (LO 2.1)
 - b. Included (LO 2.1)
 - c. Included (LO 2.1)
 - d. Included (LO 2.1)
 - e. Excluded (LO 2.1)
 - f. Included (LO 2.1)
 - g. Included (LO 2.1)
 - h. Excluded (LO 2.1)
 - i. Excluded (LO 2.1)
 - j. Excluded (LO 2.1)
 - k. Included (LO 2.1)
2. The non-cash payment of \$8,000 for services performed is includable income to John. The tax law states that gross income is “all income from whatever source derived.” There is no exception in the law for non-cash items received in exchange for services. (LO 2.1)
3.
 - a. **\$300.** Gross income includes “all income from whatever source derived.” The value of the hair styling is income to him for the performance of services. There is no gross income exception in the tax law for “barter” income.
 - b. **\$300.** Gross income includes “all income from whatever source derived.” The value of the tax return is income to her for the performance of services. There is no gross income exception in the tax law for “barter” income. (LO 2.1)
4. Illegal income is still taxable since there is no exception excluding it in the tax code. When there is not an explicit exception, gross income is “all income from whatever source derived.” (LO 2.1)
5. Qualified dividends are taxed at either 0% or 15%. The 0% rate applies for taxpayers in the ordinary income tax brackets of 10% and 15%. The 15% rate applies for taxpayers in the ordinary income tax brackets of 25% and above. (LO 2.2)
6. If no election is made, the interest is not included in income until the EE bond is converted to cash by the taxpayer. If the taxpayer makes an election, however, the income which increases the redemption value but is not paid in cash on the EE bond each year is included in the taxpayer's gross income. (LO 2.2)
7. See Schedule B on page 40. (LO 2.2)

8. a. (1) **\$500.**
 (2) **\$500.**
 b. (1) **\$0.**
 (2) **\$400,000.** (LO 2.3)
9. Arlen may deduct the alimony of \$2,000 per month on his tax return. He cannot deduct the child support. Jane must report the alimony as income on her tax return. The child support is not taxable income to her. (LO 2.3)
10. No gain is taxable to Cindy on the transfer of the house since it is part of a property settlement related to a divorce. Allen has a basis of \$100,000 in the house for calculating tax on any future sale of the house. (LO 2.3)
11. a. **\$50,000.**
 b. Nothing is taxable since this is an employee achievement award of \$400 or less.
 c. **\$1,000,000.**
 d. **\$50,000.** (LO 2.4)
12. a. **\$4,000.**
 b. **\$14,500.**
 c. **\$3,500.** (LO 2.4, 2.8)
13. **\$13,333** = (\$200,000/(\$18,000 x 15 years)) x \$18,000. (LO 2.5)
14. **\$5,833** = \$7,000 – \$1,167 (exclusion). The \$1,167 exclusion is calculated as (\$28,000/(\$1,400 x 12 months x 10 years)) x \$7,000. (LO 2.5)

15. SIMPLIFIED METHOD WORKSHEET

- 1) Enter total amount received this year. 1) \$16,000
 2) Enter cost in the plan at the annuity starting date. 2) \$40,000
 3) Age at annuity starting date
- | | | |
|--------------|-----|---------------|
| <i>Enter</i> | | |
| 55 and under | 360 | |
| 56–60 | 310 | |
| 61–65 | 260 | 3) <u>260</u> |
| 66–70 | 210 | |
| 71 and older | 160 | |
- 4) Divide line 2 by line 3. 4) \$ 154
 5) Multiply line 4 by the number of monthly payments this year. If the annuity starting date was before 1987, also enter this amount on line 8; and skip lines 6 and 7. Otherwise go to line 6. 5) \$ 1,232
 6) Enter the amount, if any, recovered tax-free in prior years 6) \$ 0
 7) Subtract line 6 from line 2. 7) \$ 40,000
 8) Enter the smaller of line 5 or 7. 8) \$ 1,232
 9) Taxable amount this year: Subtract line 8 from line 1. Do not enter less than zero. 9) \$ 14,768
 (LO 2.5)

16. **\$56,000** = \$100,000 – 30,000 – 14,000. Since the policy was transferred for valuable consideration, the proceeds are taxable to the extent that they exceed the sum of the cash value at the time of transfer plus the premiums paid. (LO 2.6)

17. **\$1,200.** A beneficiary, who is a surviving spouse and whose spouse died after October 22, 1986, must include the entire amount of interest received with respect to the policy proceeds in gross income; the \$5,000 principal amount may be excluded from gross income. (LO 2.6)
18. David has received an accelerated death benefit or viatical settlement which is excluded from taxable income. (LO 2.6)
19. None of the payment is taxable. Life insurance proceeds are generally considered to be tax-free and specifically excluded from taxable income. (LO 2.6)
20. **\$7,500.** Inheritances are excluded from taxable income; however, subsequent earnings on inherited property must be included in income. (LO 2.7)
21. \$10,000 is taxable. This gift is clearly bonus income in a business setting so does not qualify for tax-free gift treatment, even if Gwen's client calls the payment a gift. (LO 2.7)
22. None of the gift is taxable. Gifts are excluded from the taxable income of the person receiving the gift. (LO 2.7)
23. \$10,000 is not taxable, since scholarships for tuition are specifically excluded from taxable income. \$10,000 is taxable since there is no exclusion for payments made for room and board. (LO 2.8)
24. None of the cost of the insurance or amounts paid by the insurance company for surgery or treatment are taxable to Skyler. These amounts are specifically excluded from taxable income under the tax law. (LO 2.9)
25. **\$0.** Taxpayers may exclude the total amount received for payment or reimbursement of medical expenses. Premiums for health insurance paid by the taxpayer's employer are also excluded from the taxpayer's gross income. In addition, the \$1,500 (\$3,500 – 2,000) not paid by the insurance company is deductible as an itemized deduction on Ellen's return, subject to the medical expense deduction limitations. (LO 2.9)
26.
 - a. No. The meals are furnished by the employer on the business premises of the employer during working hours because the employer limits the employee to short meal periods.
 - b. No. The meals are furnished by the employer on the business premises of the employer during working hours because the taxpayer must be available for emergency calls. (LO 2.10)
27. **8.33%** = $6\% / (100\% - 28\%)$. (LO 2.11)
28. She will likely invest in the tax-free bond. At the 35% tax bracket, the equivalent rate of the tax-free bond is 7.69%, or 5% divided by $(1 - .35)$, which is higher than the 7% rate of return of the corporate bond. (LO 2.11)
29. **\$3,250.** Unemployment benefits received are included in gross income. (LO 2.12)
30. **\$1,750** = \$750 + 1,000. The value of the airline tickets is excluded from gross income under the no-additional-cost services rule for employees and their families. The \$30 of personal typing is excluded under the de minimis fringe benefits rule. The \$750 worth of employee discount coupons for hotel rooms is included in gross income since the hotel division is a different line of business than that in which Linda is employed. The \$1,000 tuition payment must be included in gross income since Richard is working on a graduate degree. (LO 2.13)
31. Yes. Tom will be better off reducing his taxable income by \$5,000 by using the medical flexible spending account. Since his income will be \$5,000 less, he will pay less tax than he would otherwise. (LO 2.13)
32. As calculated on the worksheet on page 41. (LO 2.14)

Problem 7

SCHEDULE B
(Form 1040A or 1040)

Interest and Ordinary Dividends

OMB No. 1545-0074

2011

Attachment Sequence No. **08**

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040A or 1040.

▶ See instructions on back.

Name(s) shown on return

Charles and Sally Heck

Your social security number

Part I
Interest

1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▶

Dime Box Bank
First National Bank

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

2 Add the amounts on line 1
3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶

Note. If line 4 is over \$1,500, you must complete Part III.

Part II

5 List name of payer ▶

General Motors
IBM
Gene Corporation
Wilson Corporation

Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶

Note. If line 6 is over \$1,500, you must complete Part III.

Part III
Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

7a At any time during 2011, did you have a financial interest in or signature authority over a financial account, such as a bank account, securities account, or brokerage account located in a foreign country? See instructions

If "Yes," are you required to file Form TD F 90-22.1 to report that financial interest or signature authority? See Form TD F 90-22.1 and its instructions for filing requirements and exceptions to those requirements

b If you are required to file Form TD F 90-22.1, enter the name of the foreign country where the financial account is located ▶

Amount	
	1,250
	750
1	
2	2,000
3	
4	2,000
Amount	
	850
	2,100
	3,250
	750
5	
6	6,950

Yes	No
	X

28.

1. Enter the total amount of social security income	1. <u>\$6,000</u>
2. Enter one-half of line 1	2. <u>3,000</u>
3. Enter the total of taxable income items on Form 1040 except social security income	3. <u>18,000</u>
4. Enter the amount of tax exempt interest income	4. <u>30,000</u>
5. Add lines 2, 3, and 4	5. <u>51,000</u>
6. Enter all adjustments for AGI except for student loan interest, the domestic production activities deduction and the tuition and fees deduction	6. <u>-0-</u>
7. Subtract line 6 from line 5. If zero or less, stop here, none of the social security benefits are taxable	7. <u>51,000</u>
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and living with spouse at any time during the year)	8. <u>25,000</u>
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. <u>26,000</u>
Note: <i>If line 9 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 10.</i>	
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and living with spouse at any time during the year)	10. <u>9,000</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. <u>17,000</u>
12. Enter the smaller of line 9 or line 10	12. <u>9,000</u>
13. Enter one-half of line 12	13. <u>4,500</u>
14. Enter the smaller of line 2 or line 13	14. <u>3,000</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. <u>14,450</u>
16. Add lines 14 and 15	16. <u>17,450</u>
17. Multiply line 1 by 85% (.85)	17. <u>5,100</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. <u>\$5,100</u>

33. a. **Yes.** Tax-free municipal bond income is added to AGI in the formula to determine the amount of taxable Social Security.
b. **Zero.** The taxpayer's income is below the threshold amount used in the formula to determine whether Social Security is taxable.
c. **85 %.** High-income taxpayers must include 85% of Social Security receipts in taxable income. (LO 2.14)
34. The blank Alimony Recapture Worksheet is not reprinted here. The purpose of this problem is to familiarize the student with the Internet sites.
35. See the answer to Problem 7.

Group 3 - Writing Assignment

Research Solution:

Whittenburg and Altus-Buller, CPAs
San Diego, CA
August 3, 20xx

Ms. Vanessa Lazo
1550 Mesa Rosa Drive
San Diego, CA

Dear Professor Lazo,

Thanks for requesting my advice concerning the tax treatment of your free trip to Costa Rica. I have researched your question and am sorry to say that the free tour is taxable.

The fair market value of the tour must be reported on Form 1040, line 21, Other Income. In addition, any expenses that you incurred during the trip cannot be deducted.

My conclusion is based upon the facts that you have provided me. I'm sorry that the news was not more favorable. If you have any questions or would like further explanation, please don't hesitate to call.

Sincerely,
Tracie L. Nobles
for Whittenburg and Altus-Buller, CPAs

Group 4 - Comprehensive Problems

1. See pages 43 through 45.
2A. See pages 46 through 47.
2B. See pages 48 through 49.

Group 5 - Cumulative Software Problem


The solution to the Cumulative Software Problem is posted on the Internet site for the text at <http://www.cengagebrain.com>.

Comprehensive Problem 1

Form 1040A		Department of the Treasury—Internal Revenue Service		U.S. Individual Income Tax Return (99)		2011		IRS Use Only—Do not write or staple in this space.	
Your first name and initial <i>Ken</i>			Last name <i>Hair</i>			OMB No. 1545-0074			
If a joint return, spouse's first name and initial <i>Bev</i>			Last name <i>Hair</i>			Your social security number <i>4 6 5 5 7 9 9 3 4</i>			
Home address (number and street). If you have a P.O. box, see instructions. <i>3567 River Street</i>			Apt. no.			Spouse's social security number <i>4 6 5 7 4 3 3 2 1</i>			
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>Springfield, MO 63126</i>			Foreign province/county			Foreign postal code			▲ Make sure the SSN(s) above and on line 6c are correct.
Foreign country name			Foreign province/county			Foreign postal code			Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse
Filing status Check only one box.	1 <input type="checkbox"/> Single	2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income)	3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶	4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions). If the qualifying person is a child but not your dependent, enter this child's name here. ▶	5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see instructions)				
Exemptions	6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a.	b <input checked="" type="checkbox"/> Spouse	c Dependents:	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)	Boxes checked on 6a and 6b	No. of children on 6c who:	2
If more than six dependents, see instructions.	(1) First name	Last name					• lived with you		
							• did not live with you due to divorce or separation (see instructions)		
							Dependents on 6c not entered above		
							Add numbers on lines above ▶		2
	d Total number of exemptions claimed.								
Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2.								7 <i>52,525</i>
Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.	8a Taxable interest. Attach Schedule B if required.								8a <i>577</i>
	b Tax-exempt interest. Do not include on line 8a.	8b <i>1,000</i>							
	9a Ordinary dividends. Attach Schedule B if required.								9a <i>287</i>
	b Qualified dividends (see instructions).	9b <i>287</i>							
	10 Capital gain distributions (see instructions).								10
	11a IRA distributions.	11a							11b Taxable amount (see instructions). 11b
	12a Pensions and annuities.	12a							12b Taxable amount (see instructions). 12b
	13 Unemployment compensation and Alaska Permanent Fund dividends.								13 <i>1,825</i>
	14a Social security benefits.	14a							14b Taxable amount (see instructions). 14b
	15 Add lines 7 through 14b (far right column). This is your total income. ▶								15 <i>55,214</i>
Adjusted gross income	16 Educator expenses (see instructions).								16
	17 IRA deduction (see instructions).								17
	18 Student loan interest deduction (see instructions).								18
	19 Tuition and fees. Attach Form 8917.								19
	20 Add lines 16 through 19. These are your total adjustments.								20
	21 Subtract line 20 from line 15. This is your adjusted gross income. ▶								21 <i>55,214</i>

Comprehensive Problem 1, cont.

Qualified Dividends and Capital Gain Tax Worksheet – Line 28

Keep for Your Records 

Before you begin: ✓ Be sure you do not have to file Form 1040 (see the Instructions for Form 1040A, line 10).	
1. Enter the amount from Form 1040A, line 27	1. <u>36,214</u>
2. Enter the amount from Form 1040A, line 9b	2. <u>287</u>
3. Enter the amount from Form 1040A, line 10	3. <u> </u>
4. Add lines 2 and 3	4. <u>287</u>
5. Subtract line 4 from line 1. If zero or less, enter -0-	5. <u>35,927</u>
6. Enter the smaller of:	6. <u>36,214</u>
• The amount on line 1, or	}
• \$34,500 if single or married filing separately,	
\$69,000 if married filing jointly or qualifying widow(er), or	
\$46,250 if head of household.	
7. Enter the smaller of line 5 or line 6.	7. <u>35,927</u>
8. Subtract line 7 from line 6. This amount is taxed at 0%	8. <u>287</u>
9. Enter the smaller of line 1 or line 4.	9. <u>287</u>
10. Enter the amount from line 8.	10. <u>287</u>
11. Subtract line 10 from line 9.	11. <u>0</u>
12. Multiply line 11 by 15% (.15)	12. <u>0</u>
13. Use the Tax Table to figure the tax on the amount on line 5. Enter the tax here	13. <u>4,539</u>
14. Add lines 12 and 13	14. <u>4,539</u>
15. Use the Tax Table to figure the tax on the amount on line 1. Enter the tax here	15. <u>4,584</u>
16. Tax on all taxable income. Enter the smaller of line 14 or line 15 here and on Form 1040A, line 28	16. <u>4,539</u>

Comprehensive Problem 2A

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2011	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																																																																																										
For the year Jan. 1–Dec. 31, 2011, or other tax year beginning _____, 2011, ending _____, 20																																																																																															
Your first name and initial <i>Ray</i>		Last name <i>Gomez</i>		See separate instructions. Your social security number <i>469 21 5523</i>																																																																																											
If a joint return, spouse's first name and initial <i>Maria</i>		Last name <i>Gomez</i>		Spouse's social security number <i>444 65 9912</i>																																																																																											
Home address (number and street). If you have a P.O. box, see instructions. <i>1610 Quince Avenue</i>				Apt. no.																																																																																											
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>McAllen, TX 78701</i>				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse																																																																																											
Foreign country name		Foreign province/county		Foreign postal code																																																																																											
Filing Status																																																																																															
1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child																																																																																															
Check only one box.																																																																																															
Exemptions																																																																																															
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input checked="" type="checkbox"/> Spouse																																																																																															
<table border="1" style="width:100%; border-collapse: collapse; font-size: 8pt;"> <tr> <th colspan="2" style="text-align: left;">(1) Dependents:</th> <th style="text-align: center;">(2) Dependent's social security number</th> <th style="text-align: center;">(3) Dependent's relationship to you</th> <th style="text-align: center;">(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> <tr> <td style="width: 25%;">First name</td> <td style="width: 25%;">Last name</td> <td style="width: 25%;"></td> <td style="width: 25%;"></td> <td style="width: 25%;"></td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> </table>						(1) Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)	First name	Last name								<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>																																																																	
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If more than four dependents, see instructions and check here <input type="checkbox"/>																																																																																															
Boxes checked on 6a and 6b: 2 No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above 2																																																																																															
Income																																																																																															
<table border="1" style="width:100%; border-collapse: collapse; font-size: 10pt;"> <tr> <td style="width: 5%;">7</td> <td style="width: 65%;">Wages, salaries, tips, etc. Attach Form(s) W-2</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">7</td> <td style="width: 10%; text-align: right;"><i>60,720</i></td> </tr> <tr> <td>8a</td> <td>Taxable interest. Attach Schedule B if required</td> <td></td> <td>8a</td> <td style="text-align: right;"><i>577</i></td> </tr> <tr> <td>b</td> <td>Tax-exempt interest. Do not include on line 8a</td> <td style="text-align: center;">8b</td> <td></td> <td></td> </tr> <tr> <td>9a</td> <td>Ordinary dividends. Attach Schedule B if required</td> <td></td> <td>9a</td> <td></td> </tr> <tr> <td>b</td> <td>Qualified dividends</td> <td style="text-align: center;">9b</td> <td></td> <td></td> </tr> <tr> <td>10</td> <td>Taxable refunds, credits, or offsets of state and local income taxes</td> <td></td> <td>10</td> <td></td> </tr> <tr> <td>11</td> <td>Alimony received</td> <td></td> <td>11</td> <td></td> </tr> <tr> <td>12</td> <td>Business income or (loss). Attach Schedule C or C-EZ</td> <td></td> <td>12</td> <td></td> </tr> <tr> <td>13</td> <td>Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/></td> <td></td> <td>13</td> <td></td> </tr> <tr> <td>14</td> <td>Other gains or (losses). Attach Form 4797</td> <td></td> <td>14</td> <td></td> </tr> <tr> <td>15a</td> <td>IRA distributions</td> <td style="text-align: center;">15a</td> <td>b Taxable amount</td> <td>15b</td> </tr> <tr> <td>16a</td> <td>Pensions and annuities</td> <td style="text-align: center;">16a</td> <td>b Taxable amount</td> <td>16b</td> </tr> <tr> <td>17</td> <td>Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E</td> <td></td> <td>17</td> <td></td> </tr> <tr> <td>18</td> <td>Farm income or (loss). Attach Schedule F</td> <td></td> <td>18</td> <td></td> </tr> <tr> <td>19</td> <td>Unemployment compensation</td> <td></td> <td>19</td> <td></td> </tr> <tr> <td>20a</td> <td>Social security benefits</td> <td style="text-align: center;">20a</td> <td>b Taxable amount</td> <td>20b</td> </tr> <tr> <td>21</td> <td>Other income. List type and amount <i>Texas lottery</i></td> <td></td> <td>21</td> <td style="text-align: right;"><i>3,000</i></td> </tr> <tr> <td>22</td> <td>Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶</td> <td></td> <td>22</td> <td style="text-align: right;"><i>64,297</i></td> </tr> </table>						7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	<i>60,720</i>	8a	Taxable interest. Attach Schedule B if required		8a	<i>577</i>	b	Tax-exempt interest. Do not include on line 8a	8b			9a	Ordinary dividends. Attach Schedule B if required		9a		b	Qualified dividends	9b			10	Taxable refunds, credits, or offsets of state and local income taxes		10		11	Alimony received		11		12	Business income or (loss). Attach Schedule C or C-EZ		12		13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		13		14	Other gains or (losses). Attach Form 4797		14		15a	IRA distributions	15a	b Taxable amount	15b	16a	Pensions and annuities	16a	b Taxable amount	16b	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17		18	Farm income or (loss). Attach Schedule F		18		19	Unemployment compensation		19		20a	Social security benefits	20a	b Taxable amount	20b	21	Other income. List type and amount <i>Texas lottery</i>		21	<i>3,000</i>	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶		22	<i>64,297</i>
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Comprehensive Problem 2A, cont.

Form 1040 (2011)		Page 2	
Tax and Credits	38 Amount from line 37 (adjusted gross income)	38	59,497
	39a Check <input type="checkbox"/> You were born before January 2, 1947, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1947, <input type="checkbox"/> Blind. Total boxes checked <input checked="" type="checkbox"/> 39a		
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b		
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, \$5,800 Married filing jointly or Qualifying widow(er), \$11,600 Head of household, \$8,500	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	11,600
	41 Subtract line 40 from line 38	41	47,897
	42 Exemptions. Multiply \$3,700 by the number on line 6d.	42	7,400
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	40,497
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> 962 election	44	5,221
	45 Alternative minimum tax (see instructions). Attach Form 6251	45	
	46 Add lines 44 and 45	46	5,221
	47 Foreign tax credit. Attach Form 1116 if required	47	
	48 Credit for child and dependent care expenses. Attach Form 2441	48	
	49 Education credits from Form 8863, line 23	49	
50 Retirement savings contributions credit. Attach Form 8880	50		
51 Child tax credit (see instructions)	51		
52 Residential energy credits. Attach Form 5695	52		
53 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53		
54 Add lines 47 through 53. These are your total credits	54		
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	5,221	
Other Taxes	56 Self-employment tax. Attach Schedule SE	56	
	57 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	57	
	58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	
	59a Household employment taxes from Schedule H	59a	
	b First-time homebuyer credit repayment. Attach Form 5405 if required	59b	
	60 Other taxes. Enter code(s) from instructions	60	
	61 Add lines 55 through 60. This is your total tax	61	5,221
Payments	62 Federal income tax withheld from Forms W-2 and 1099	62	9,620
	63 2011 estimated tax payments and amount applied from 2010 return	63	
If you have a qualifying child, attach Schedule EIC.	64a Earned income credit (EIC)	64a	
	b Nontaxable combat pay election 64b	64b	
	65 Additional child tax credit. Attach Form 8812	65	
	66 American opportunity credit from Form 8863, line 14	66	
	67 First-time homebuyer credit from Form 5405, line 10	67	
	68 Amount paid with request for extension to file	68	
	69 Excess social security and tier 1 RRTA tax withheld	69	
	70 Credit for federal tax on fuels. Attach Form 4136	70	
	71 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	71	
	72 Add lines 62, 63, 64a, and 65 through 71. These are your total payments	72	9,620
Refund	73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73	4,399
	74a Amount of line 73 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	74a	4,399
Direct deposit? See instructions.	b Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d Account number <input type="text"/>		
	75 Amount of line 73 you want applied to your 2012 estimated tax	75	
Amount You Owe	76 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions	76	
	77 Estimated tax penalty (see instructions)	77	
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No		
	Designee's name <input type="text"/>	Phone no. <input type="text"/>	Personal identification number (PIN) <input type="text"/>
Sign Here	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.		
Joint return? See instructions. Keep a copy for your records.	Your signature <input type="text"/>	Date <input type="text"/>	Your occupation <i>Oil worker</i>
	Spouse's signature. If a joint return, both must sign. <input type="text"/>	Date <input type="text"/>	Spouse's occupation <i>City employee</i>
Paid Preparer Use Only	Print/Type preparer's name <input type="text"/>	Preparer's signature <input type="text"/>	Date <input type="text"/>
	Firm's name <input type="text"/>	Firm's EIN <input type="text"/>	Check <input type="checkbox"/> if self-employed
	Firm's address <input type="text"/>	Phone no. <input type="text"/>	PTIN <input type="text"/>

Comprehensive Problem 2B

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2011	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2011, or other tax year beginning _____, 2011, ending _____, 20					
Your first name and initial <i>Carl</i>		Last name <i>Conch</i>		See separate instructions. Your social security number <i>835 21 5423</i>	
If a joint return, spouse's first name and initial <i>Mary</i>		Last name <i>Dural</i>		Spouse's social security number <i>633 65 7912</i>	
Home address (number and street). If you have a P.O. box, see instructions. <i>1234 Malbory Square</i>				Apt. no. <i>64</i>	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>Key West, FL 33040</i>				Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse	
Foreign country name		Foreign province/county		Foreign postal code	
Filing Status	1 <input type="checkbox"/> Single		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶		
Check only one box.	2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income)		5 <input type="checkbox"/> Qualifying widow(er) with dependent child		
3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶					
Exemptions	6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a		Boxes checked on 6a and 6b 2		
	b <input checked="" type="checkbox"/> Spouse		No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above		
	c Dependents:		Add numbers on lines above ▶ 2		
	(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)
If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>					<input type="checkbox"/>
					<input type="checkbox"/>
					<input type="checkbox"/>
					<input type="checkbox"/>
	d Total number of exemptions claimed				
Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2		7		<i>67,925</i>
	8a Taxable interest. Attach Schedule B if required		8a		<i>283</i>
	b Tax-exempt interest. Do not include on line 8a		8b		
	9a Ordinary dividends. Attach Schedule B if required		9a		<i>125</i>
	b Qualified dividends		9b		<i>0</i>
	10 Taxable refunds, credits, or offsets of state and local income taxes		10		
	11 Alimony received		11		
	12 Business income or (loss). Attach Schedule C or C-EZ		12		
	13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>		13		
	14 Other gains or (losses). Attach Form 4797		14		
	15a IRA distributions	15a	b Taxable amount	15b	
	16a Pensions and annuities	16a	b Taxable amount	16b	
	17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17		
	18 Farm income or (loss). Attach Schedule F		18		
	19 Unemployment compensation		19		<i>2,600</i>
	20a Social security benefits	20a	b Taxable amount	20b	
	21 Other income. List type and amount <i>Prize</i>		21		<i>1,000</i>
	22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶		22		<i>71,933</i>
Adjusted Gross Income	23 Educator expenses		23		
	24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ		24		
	25 Health savings account deduction. Attach Form 8889		25		
	26 Moving expenses. Attach Form 3903		26		
	27 Deductible part of self-employment tax. Attach Schedule SE		27		
	28 Self-employed SEP, SIMPLE, and qualified plans		28		
	29 Self-employed health insurance deduction		29		
	30 Penalty on early withdrawal of savings		30		
	31a Alimony paid b Recipient's SSN ▶	31a			
	32 IRA deduction		32		
	33 Student loan interest deduction		33		
	34 Tuition and fees. Attach Form 8917		34		
	35 Domestic production activities deduction. Attach Form 8903		35		
	36 Add lines 23 through 35		36		
	37 Subtract line 36 from line 22. This is your adjusted gross income ▶		37		<i>71,933</i>

Comprehensive Problem 2B, cont.

Form 1040 (2011)		Page 2
Tax and Credits	38 Amount from line 37 (adjusted gross income)	38 71,933
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, \$5,800 Married filing jointly or Qualifying widow(er), \$11,600 Head of household, \$8,500	39a Check <input type="checkbox"/> You were born before January 2, 1947, <input type="checkbox"/> Blind. } Total boxes checked ▶ 39a <input type="checkbox"/>	
	if: <input type="checkbox"/> Spouse was born before January 2, 1947, <input type="checkbox"/> Blind. }	
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>	
	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40 11,600
	41 Subtract line 40 from line 38	41 60,333
	42 Exemptions. Multiply \$3,700 by the number on line 6d.	42 7,400
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43 52,933
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> 962 election	44 7,089
	45 Alternative minimum tax (see instructions). Attach Form 6251	45
	46 Add lines 44 and 45	46 7,089
47 Foreign tax credit. Attach Form 1116 if required	47	
48 Credit for child and dependent care expenses. Attach Form 2441	48	
49 Education credits from Form 8863, line 23	49	
50 Retirement savings contributions credit. Attach Form 8880	50	
51 Child tax credit (see instructions)	51	
52 Residential energy credits. Attach Form 5695	52	
53 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53	
54 Add lines 47 through 53. These are your total credits	54	
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55 7,089	
Other Taxes	56 Self-employment tax. Attach Schedule SE	56
	57 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	57
	58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58
	59a Household employment taxes from Schedule H	59a
	b First-time homebuyer credit repayment. Attach Form 5405 if required	59b
	60 Other taxes. Enter code(s) from instructions	60
	61 Add lines 55 through 60. This is your total tax	61 7,089
Payments	62 Federal income tax withheld from Forms W-2 and 1099	62 9,726
	63 2011 estimated tax payments and amount applied from 2010 return	63
If you have a qualifying child, attach Schedule EIC.	64a Earned income credit (EIC)	64a
	b Nontaxable combat pay election 64b	64b
	65 Additional child tax credit. Attach Form 8812	65
	66 American opportunity credit from Form 8863, line 14	66
	67 First-time homebuyer credit from Form 5405, line 10	67
	68 Amount paid with request for extension to file	68
	69 Excess social security and tier 1 RRTA tax withheld	69
	70 Credit for federal tax on fuels. Attach Form 4136	70
	71 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	71
	72 Add lines 62, 63, 64a, and 65 through 71. These are your total payments	72 9,726
Refund	73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid	73 2,637
	74a Amount of line 73 you want refunded to you. If Form 8888 is attached, check here ▶ <input type="checkbox"/>	74a 2,637
Direct deposit? See instructions.	b Routing number	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
	d Account number	
	75 Amount of line 73 you want applied to your 2012 estimated tax ▶ 75	
Amount You Owe	76 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions ▶ 76	
	77 Estimated tax penalty (see instructions)	77
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No	
	Designee's name ▶	Phone no. ▶
	Personal identification number (PIN) ▶	
Sign Here	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.	
Joint return? See instructions. Keep a copy for your records.	Your signature	Date
	Spouse's signature. If a joint return, both must sign.	Date
	Your occupation <i>Factory worker</i>	Daytime phone number
	Spouse's occupation <i>Homemaker</i>	Identity Protection PIN (see inst.)
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature
	Firm's name ▶	Firm's EIN ▶
	Firm's address ▶	Phone no.
	Check <input type="checkbox"/> if self-employed	PTIN

Key Number Tax Return Summary**Chapter 2****Comprehensive Problem 1**

Adjusted Gross Income (Line 21)	<u>55,214</u>
Taxable Income (Line 27)	<u>36,214</u>
Tax Liability (Line 35)	<u>4,539</u>
Tax Overpaid (Line 42)	<u>961</u>

Comprehensive Problem 2A

Adjusted Gross Income (Line 37)	<u>59,497</u>
Taxable Income (Line 43)	<u>40,497</u>
Tax Liability (Line 61)	<u>5,221</u>
Tax Overpaid (Line 73)	<u>4,399</u>

Comprehensive Problem 2B

Adjusted Gross Income (Line 37)	<u>71,933</u>
Taxable Income (Line 43)	<u>52,933</u>
Tax Liability (Line 61)	<u>7,089</u>
Tax Overpaid (Line 73)	<u>2,637</u>