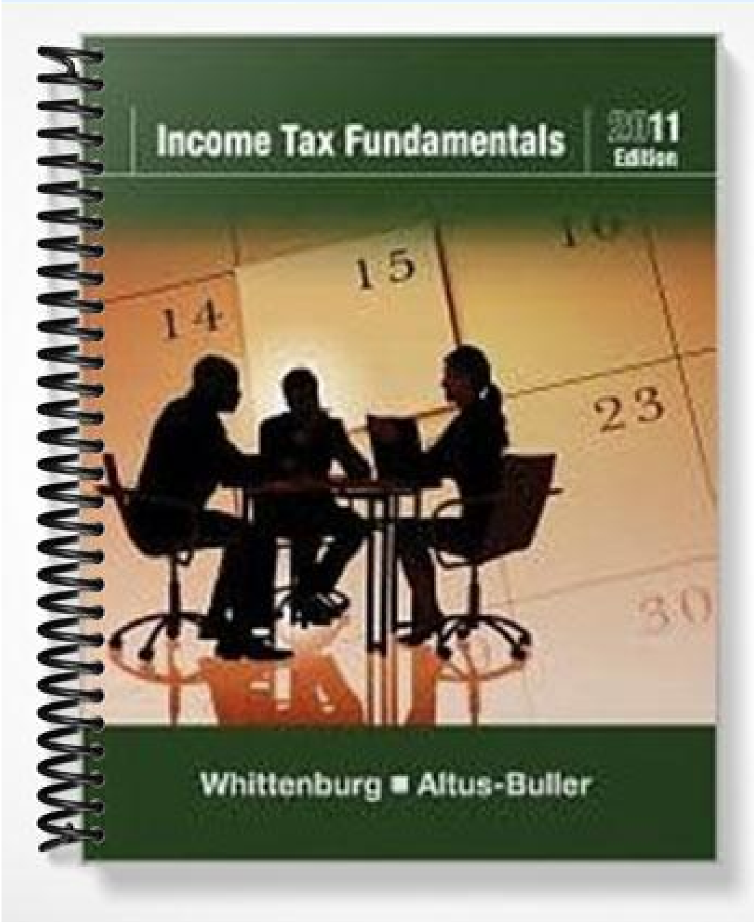
SOLUTIONS MANUAL



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2010** (99) IRS Use Only—Do not write or staple in this space.

Label

(See instructions on page 14.) **Use the IRS label.** Otherwise, please print or type.

LABEL HERE

For the year Jan. 1–Dec. 31, 2010, or other tax year beginning , 2010, ending , 20 — OMB No. 1545-0074

Your first name and initial: Ivan I.	Last name: Incisor	**Your social security number**: 477 34 4321
If a joint return, spouse's first name and initial: Irene I.	Last name: Incisor	**Spouse's social security number**: 637 34 4927
Home address (number and street). If you have a P.O. box, see page 14.: 468 Mule Deer Lane	Apt. no.	▲ 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, see page 14.: Spokane, WA 99206		Checking a box below will not change your tax or refund.

Presidential Election Campaign ▶ Check here if you, or your spouse if filing jointly, want $3 to go to this fund (see page 14) ▶ ☒ **You** ☒ **Spouse**

Filing Status

Check only one box.

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. ▶
4 ☐ Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child (see page 16)

Exemptions

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a . . . . .
b ☒ **Spouse** . . . .

Boxes checked on 6a and 6b: 2

c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if qualifying child for child tax credit (see page 17)
Ira	Incisor	690 99 9999	Child	☒
				☐
				☐
				☐

If more than four dependents, see page 17 and check here ▶ ☐

No. of children on 6c who:
- lived with you: 1
- did not live with you due to divorce or separation (see page 18):

Dependents on 6c not entered above:

d Total number of exemptions claimed . . . . Add numbers on lines above ▶ 3

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see page 22.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V**.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	65,000
8a	**Taxable** interest. Attach Schedule B if required	8a	1,030
b	**Tax-exempt** interest. **Do not** include on line 8a — 8b: 650		
9a	Ordinary dividends. Attach Schedule B if required	9a	1,465
b	Qualified dividends (see page 22) — 9b: 1,320		
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	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 ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions — 15a — **b** Taxable amount (see page 24)	15b	
16a	Pensions and annuities — 16a — **b** Taxable amount (see page 25)	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 (see page 27)	19	3,750
20a	Social security benefits — 20a — **b** Taxable amount (see page 27)	20b	
21	Other income. List type and amount (see page 29) Gambling winnings	21	6,000
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	77,245

Adjusted Gross Income

23	RESERVED (see page 29)	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	One-half of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction (see page 30)	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ▶ 667 34 9224	31a	13,000
32	IRA deduction (see page 31)	32	
33	Student loan interest deduction (see page 34)	33	
34	RESERVED (see page 35)	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 31a and 32 through 35	36	13,000
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶	37	64,245

Form 1040 (2010) Ivan and Irene Incisor 477 34 4321 Page **2**

Tax and Credits

38	Amount from line 37 (adjusted gross income)			38	64,245
39a	Check if: ☐ **You** were born before January 2, 1946, ☐ Blind. ☐ **Spouse** was born before January 2, 1946, ☐ Blind. **Total boxes checked** ▶ **39a**				
b	If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here ▶ **39b** ☐				
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see page 35)			40	11,400
41	Subtract line 40 from line 38			41	52,845
42	**Exemptions.** Multiply $3,650 by the number on line 6d			42	10,950
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	41,895
44	**Tax** (see page 37). Check if any tax is from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972			44	5,249
45	**Alternative minimum tax** (see page 40). Attach Form 6251			45	
46	Add lines 44 and 45 ▶			46	5,249
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 page 42)	51			
52	Residential energy credits. Attach Form 5695	52			
53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	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	5,249

Other Taxes

56	Self-employment tax. Attach Schedule SE			56	
57	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919			57	
58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			58	
59	**a** ☐ Form(s) W-2, box 9 **b** ☐ Schedule H **c** ☐ Form 5405, line 16			59	
60	Add lines 55 through 59. This is your **total tax** ▶			60	5,249

Payments

If you have a qualifying child, attach Schedule EIC.

61	Federal income tax withheld from Forms W-2 and 1099	61	6,000		
62	2010 estimated tax payments and amount applied from 2009 return	62			
63	Making work pay credit. Attach Schedule M	63	800		
64a	**Earned income credit (EIC)**	64a			
b	Nontaxable combat pay election 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 (see page 72)	68			
69	Excess social security and tier 1 RRTA tax withheld (see page 72)	69			
70	Credit for federal tax on fuels. Attach Form 4136	70			
71	Credits from Form: **a** ☐ 2439 **b** ☐ 8839 **c** ☐ 8801 **d** ☐ 8885	71			
72	Add lines 61, 62, 63, 64a, and 65 through 71. These are your **total payments** ▶			72	6,800

Refund

Direct deposit? See page 73 and fill in 74b, 74c, and 74d, or Form 8888.

73	If line 72 is more than line 60, subtract line 60 from line 72. This is the amount you **overpaid**			73	1,551
74a	Amount of line 73 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			74a	1,551
▶ b	Routing number ▶ **c** Type: ☐ Checking ☐ Savings				
▶ d	Account number				
75	Amount of line 73 you want **applied to your 2011 estimated tax** ▶	75			

Amount You Owe

76	**Amount you owe.** Subtract line 72 from line 60. For details on how to pay, see page 74 ▶			76	
77	Estimated tax penalty (see page 74)	77			

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 75)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Joint return? See page 15. Keep a copy for your records.

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.

Your signature	Date	Your occupation	Daytime phone number
		Dentist	
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	
		Homemaker	

Paid 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.	

SCHEDULE B
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Interest and Ordinary Dividends

► Attach to Form 1040A or 1040. ► See instructions on back.

OMB No. 1545-0074
2010
Attachment Sequence No. 08

Name(s) shown on return: Ivan and Irene Incisor
Your social security number: 477 34 4321

Part I Interest

(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.

			Amount
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 ►		
	Pacific Northwest Bank	1	380
	Big Electric Company		650
2	Add the amounts on line 1	2	1,030
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ►	4	1,030

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

Part II 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.

			Amount
5	List name of payer ►		
	Big Bank	5	850
	Big Gas Company		470
	Mango Mutual Fund		145
6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ►	6	1,465

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.

		Yes	No
7a	At any time during 2010, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1		X
b	If "Yes," enter the name of the foreign country ►		
8	During 2010, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back		X

Qualified Dividends and Capital Gain Tax Worksheet—Line 44

Keep for Your Records

Before you begin:

√ See the instructions for line 44 on page 35 to see if you can use this worksheet to figure your tax.

√ If you do not have to file Schedule D and you received capital gain distributions, be sure you checked the box on line 13 of Form 1040.

1. Enter the amount from Form 1040, line 43. However, if you are filing Form 2555 or 2555-EZ (relating to foreign earned income), enter the amount from line 3 of the worksheet on page 36		**1.** 41,895	
2. Enter the amount from Form 1040, line 9b*	**2.** 1,320		
3. Are you filing Schedule D?* ☐ **Yes.** Enter the **smaller** of line 15 or 16 of Schedule D. If either line 15 or line 16 is a loss, enter -0- ☒ **No.** Enter the amount from Form 1040, line 13	**3.** 0		
4. Add lines 2 and 3	**4.** 1,320		
5. If filing Form 4952 (used to figure investment interest expense deduction), enter any amount from line 4g of that form. Otherwise, enter -0-	**5.** 0		
6. Subtract line 5 from line 4. If zero or less, enter -0-		**6.** 1,320	
7. Subtract line 6 from line 1. If zero or less, enter -0-		**7.** 40,575	
8. Enter: $34,000 if single or married filing separately, $68,000 if married filing jointly or qualifying widow(er), $45,550 if head of household.		**8.** 68,000	
9. Enter the smaller of line 1 or line 8		**9.** 41,895	
10. Enter the smaller of line 7 or line 9		**10.** 40,575	
11. Subtract line 10 from line 9. This amount is taxed at 0%		**11.** 1,320	
12. Enter the smaller of line 1 or line 6		**12.** 1,320	
13. Enter the amount from line 11		**13.** 1,320	
14. Subtract line 13 from line 12		**14.** 0	
15. Multiply line 14 by 15% (.15)			**15.** 0
16. Figure the tax on the amount on line 7. If the amount on line 7 is less than $100,000, use the Tax Table to figure this tax. If the amount on line 7 is $100,000 or more, use the Tax Computation Worksheet			**16.** 5,249
17. Add lines 15 and 16			**17.** 5,249
18. Figure the tax on the amount on line 1. If the amount on line 1 is less than $100,000, use the Tax Table to figure this tax. If the amount on line 1 is $100,000 or more, use the Tax Computation Worksheet			**18.** 5,444
19. **Tax on all taxable income.** Enter the **smaller** of line 17 or line 18. Also include this amount on Form 1040, line 44. If you are filing Form 2555 or 2555-EZ, do not enter this amount on Form 1040, line 44. Instead, enter it on line 4 of the worksheet on page 36			**19.** 5,249

**If you are filing Form 2555 or 2555-EZ, see the footnote in the worksheet on page 36 before completing this line.*

SCHEDULE M
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Making Work Pay Credit

▶ Attach to Form 1040A or 1040. ▶ See separate instructions.

OMB No. 1545-0074
2010
Attachment Sequence No. 166

Name(s) shown on return: Ivan and Irene Incisor

Your social security number: 477 34 4321

CAUTION: *To take the making work pay credit, you must include your social security number (if filing a joint return, the number of either you or your spouse) on your tax return. A social security number does not include an identification number issued by the IRS. Only the Social Security Administration issues social security numbers.*

CAUTION: *You cannot take the making work pay credit if you can be claimed as someone else's dependent or if you are a nonresident alien.*

Important: Check the "**No**" box on line 1a and see the instructions if:
- **(a)** You have a net loss from a business,
- **(b)** You received a taxable scholarship or fellowship grant not reported on a Form W-2,
- **(c)** Your wages include pay for work performed while an inmate in a penal institution,
- **(d)** You received a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan, or
- **(e)** You are filing Form 2555 or 2555-EZ.

1a Do you (and your spouse if filing jointly) have 2010 wages of more than $6,451 ($12,903 if married filing jointly)?
☒ **Yes.** Skip lines 1a through 3. Enter $400 ($800 if married filing jointly) on line 4 and go to line 5.
☐ **No.** Enter your earned income (see instructions) **1a**

b Nontaxable combat pay included on line 1a (see instructions) **1b**

2 Multiply line 1a by 6.2% (.062) **2**

3 Enter $400 ($800 if married filing jointly) **3**

4 Enter the **smaller** of line 2 or line 3 (unless you checked "Yes" on line 1a) **4** 800

5 Enter the amount from Form 1040, line 38*, or Form 1040A, line 22 . . **5** 64,245

6 Enter $75,000 ($150,000 if married filing jointly) **6** 150,000

7 Is the amount on line 5 more than the amount on line 6?
☒ **No.** Skip line 8. Enter the amount from line 4 on line 9 below.
☐ **Yes.** Subtract line 6 from line 5 . . . . **7**

8 Multiply line 7 by 2% (.02) **8**

9 Subtract line 8 from line 4. If zero or less, enter -0- **9** 800

10 Did you (or your spouse, if filing jointly) receive an economic recovery payment in **2010**? You may have received this payment in 2010 if you did not receive an economic recovery payment in 2009 but you received social security benefits, supplemental security income, railroad retirement benefits, or veterans disability compensation or pension benefits in November 2008, December 2008, or January 2009 (see instructions).
☒ **No.** Enter -0- on line 10 and go to line 11.
☐ **Yes.** Enter the total of the payments you (and your spouse, if filing jointly) received in **2010**. Do not enter more than $250 ($500 if married filing jointly) . . **10** 0

11 **Making work pay credit.** Subtract line 10 from line 9. If zero or less, enter -0-. Enter the result here and on Form 1040, line 63; or Form 1040A, line 40 . . . . **11** 800

*If you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico, see instructions.