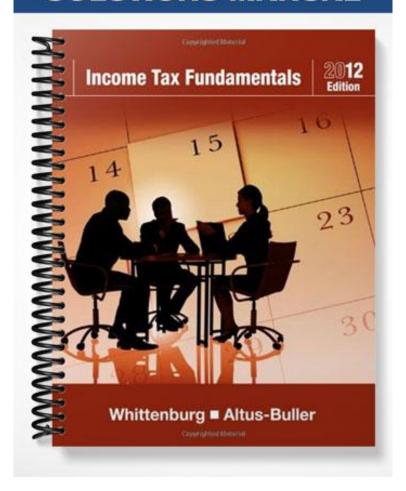
SOLUTIONS MANUAL



CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 - Multiple Choice Questions

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

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)
 - Excluded (LO 2.1)

 - į. 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 noncash 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
- 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. $\$13,333 = (\$200,000/(\$18,000 \times 15 \text{ years})) \times \$18,000.$ (LO 2.5)
- 14. \$5,833 = \$7,000 \$1,167 (exclusion). The \$1,167 exclusion is calculated as $(\$28,000/(\$1,400 \times 12 \text{ months}))$ x 10 years)) x \$7,000. (LO 2.5)

3) 260

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

		<u>Enter</u>
í	and	under

55 and under	360
56–60	310
61–65	260
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 1		Interest and Ordinary Dividends		OMB No. 1545-0074			
	Department of the Treasury Internal Revenue Service (99) ► Attach to Form 1040A or 1040. ► See instructions on back.				Attachment Sequence No. 08		
Name(s) shown on re		Sally Heck	Your	social securi	ty numb	oer	
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** **Dime Box Bank*		Amo			
(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)		Uine Box Bank First National Bank	1	7	<i>250</i>		
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	2 3	Add the amounts on line 1	3	2,0	000	+	
form.	4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a	4	2,0	000		
Part II	Note. 5	If line 4 is over \$1,500, you must complete Part III.		Amo	ount		
Ordinary Dividends (See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)	•	General Motors IBM Gene Corporation Wilson Corporation	5	2,1 3,2			
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	6	6,9	950		
Doub III	You m	If line 6 is over \$1,500, you must complete Part III. The complete this part if you (a) had over \$1,500 of taxable interest or ordinary divident account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign			Yes	No	
Part III Foreign Accounts and Trusts (See instructions on back.)	7a	At any time during 2011, did you have a financial interest in or signature authority of account, such as a bank account, securities account, or brokerage account locate country? See instructions If "Yes," are you required to file Form TD F 90-22.1 to report that financial interest or authority? See Form TD F 90-22.1 and its instructions for filing requirements and exceptions are requirements If you are required to file Form TD F 90-22.1, enter the name of the foreign cour	over a ed in r sign ceptio	financial a foreign ature ns to		X	
		financial account is located					

28.

1.	Enter the total amount of social security income	1.	\$6,000
2.	Enter one-half of line 1	2.	3,000
3.	Enter the total of taxable income items on Form 1040 except social security income	3.	18,000
4.	Enter the amount of tax exempt interest income	4.	30,000
5.	Add lines 2, 3, and 4	5.	51,000
6.	Enter all adjustments for AGI except for student loan interest, the domestic production activities deduction and the tuition and fees deduction	6.	-0-
7.	Subtract line 6 from line 5. If zero or less, stop here, none of the social security benefits are taxable	7.	51,000
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.	25,000
9.	Subtract line 8 from line 7. If zero or less, enter -O-	9.	26,000
Not	e: If line 9 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 10.		
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.	9,000
11.	Subtract line 10 from line 9. If zero or less, enter -0-	11.	17,000
12.	Enter the smaller of line 9 or line 10	12.	9,000
13.	Enter one-half of line 12	13.	4,500
14.	Enter the smaller of line 2 or line 13	14.	3,000
15.	Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15.	14,450
16.	Add lines 14 and 15	16.	17,450
17.	Multiply line 1 by 85% (.85)	17.	5,100
18.	Taxable benefits. Enter the smaller of line 16 or line 17	18.	\$5,100

- 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		rtment of the Treasury—Int			2011	IRS I Isa	Only—[not v	vrite or staple in this	s snace
Your first name and init		or marvidual me	Last name	X Hotain (55)			, Oy		OMB No. 1545-007	
									social security nun	
Ken			Hair	u					5 57 9 9	
If a joint return, spouse	's first n	ame and initial	Last name						e's social security n	
Bev			Hair					46	5 74 3 3	21
	_	reet). If you have a P.O. box	k, see instruction	ons.		Ap	t. no.		ake sure the SSN(s)	
3567 River S								— a	and on line 6c are co	orrect.
		d ZIP code. If you have a forei	gn address, also	complete spaces belo	w (see instructions).				idential Election Can	
Springfield, processing the second se	MU	63126		Foreign province/co		Fauring 444	al as da	jointly, w	ere if you, or your spouse ant \$3 to go to this fund.	Checking
Foreign country name				Foreign province/co	unty	Foreign pos	tai code	a box be refund.	low will not change your	,
Filin a	1 [Single			4 □ He:	ad of boundhold	(with a		You V	
Filing	_	Single	ly (even if o	only one had inco					g person). (See inst but not your depe	
status Check only	3	Married filing separa				er this child's na			but not your depe	muent,
one box.	·	full name here.	itory. Enter of	Sodde & Golf abov					dent child (see ins	tructions)
Exemptions	6a	Yourself. If s	omeone ca	an claim you a				<u> </u>	Boxes	
		—	c 6a.					}	checked on 6a and 6b	2
	b							<u> </u>	No. of children on 6c who:	
	С	Dependents:		(2) Dependent's se	ocial (3) Depe		if child		lived with	
If more than six				security number		nip to you chil	17 qualify d tax cred	it (see	you	
dependents, see		(1) First name La	ast name				instruction	ns)	 did not live with you due to 	
instructions.							井		divorce or	
							+		separation (see instructions)	
							+		Dependents	
							一一		on 6c not entered above	
							Ī			
									Add numbers on lines	
	d	Total number of e	xemptions	claimed.					above ►	2
Income	_			=				_		
Attack	_7_	Wages, salaries, t	ips, etc. A	ttach Form(s) V	V-2.			7	<i>52,525</i>	_
Attach Form(s) W-2	8a	Taxable interest.	Attach Sch	hadula B if rad	uired			8a	577	
here. Also	b	Tax-exempt inter		<u>'</u>		1,000	Т	- Oa	377	_
attach	9a	Ordinary dividend				7,000		9a	287	
Form(s) 1099-R if tax		Qualified dividend			9b	287	T			
was	10	Capital gain distri	butions (se	e instructions)				10		
withheld.	11a	IRA			11b Ta	xable amour	nt			
If you did not		distributions.	11a			e instruction		11b		
get a W-2, see instructions.	12a	Pensions and	4.0			xable amour		4.01		
		annuities.	12a		(Se	ee instruction	ıs).	12b		
Enclose, but do not attach, any	13	Unemployment co	omponeati	on and Alaska	Dormanant E	und dividend		13	1.825	
payment. Also, please use Form		Social security	лпрепзаш	UII allu Alaska		xable amour		13	1,020	-
1040-V.	ıta	benefits.	14a			e instruction		14b		
		Borrontor	- ι ιω		(00	oo modaddada		110		
	15	Add lines 7 through	gh 14b (far	right column).	This is your t	otal income	. ▶	15	55,214	
Adjusted			,							
gross	16	Educator expense			16 17					
income	17 18	IRA deduction (se Student loan interes								
	10	Student Idan intere	os u c uucii	ion (see msuuc	10115). 10					
	19	Tuition and fees.	Attach For	m 8917.	19					
	20	Add lines 16 throu				ents.	-	20		
			-	,	-					$\overline{}$
	21	Subtract line 20 fr					>	21	55,214 Form 1040A	

Comprehensive Problem 1, cont.

Form 1040A (2011)								Р	age 2
Tax, credits,	22	Enter the amount from line 21 (adjusted	d gross inco	ome).			22	55,214	
and	23a	Check (You were born before				oxes	\Box		,,,,,,	
payments		if: [Spouse was born before	e January	2, 1947, []	Blind Check	e d ► 23a				
payments	b	If you are married filing separat	ely and	your spous	se itemizes					
Standard		deductions, check here				▶ 23b				
Deduction I	24	Enter your standard deduction	ղ.					24	11,600	
People who	25	Subtract line 24 from line 22. If	line 24 i	s more tha	n line 22, ent	er -0		25	43,614	
check any box on line	26	Exemptions. Multiply \$3,700 b						26	7.400	
23a or 23b or	27	Subtract line 26 from line 25. If				er -0			7,700	
who can be claimed as a		This is your taxable income.					> :	27	36,214	
dependent, see	28	Tax, including any alternative n	ninimum	tax (see in	structions).			28	4.539	
instructions.	29	Credit for child and dependent							1,007	_
All others:		Form 2441.	04.0 024	001.000.71	29					
Single or Married filing	30	Credit for the elderly or the disa	abled At	ttach	20					
separately, \$5,800	00	Schedule R.	abica. 7 t	lluoii	30					
Married filing	31	Education credits from Form 88	363 line	23	31					
jointly or	32	Retirement savings contribution			31					
Qualifying widow(er),	32	Form 8880.	is credit	. Allacii	32					
\$11,600	33	Child tax credit (see instruction	· 0)		33					
Head of household,	34	Add lines 29 through 33. These		total aua			L	34		1
\$8,500	35	Subtract line 34 from line 28. If				O This		34		
	33		iiie 34 i	s more ma	n iine ∠o, ent	er -u Ims		0.5	1 520	
	-00	your total tax.	Fa	\\\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \				35	4,539	
	36	Federal income tax withheld fro	om Form	is vv-z and		E E 0 0				
		1099.			36	5,500				
If you have	37	2011 estimated tax payments a	and amo	unt applied						
a qualifying		from 2010 return.			37					
child, attach Schedule		Earned income credit (EIC).			38a					
EIC.	b	' '								
		election.	38b							
	39	Additional child tax credit. Atta			39					
	40	American opportunity credit fro					Ļ	4.4	5 500	1
	41	Add lines 36, 37, 38a, 39, and 4				nts.	<u> </u>	41	<i>5,500</i>	
Refund	42	If line 41 is more than line 35, s		line 35 fron	n line 41.			40	061	
	40-	This is the amount you overpai		If Farms 00	200 :#			42	961	
Direct deposit?	43a	Amount of line 42 you want refund	ea to yo	u. II Form 88	888 is attached	i, check here	P	43a	961	
See	b	Routing		c Type:	Checking	Savings				
instructions and fill in		number								
43b, 43c,	▶ d	Account number								
and 43d or Form 8888.	44	Amount of line 42 you want app	nlied to	vour						
	•	2012 estimated tax.	piiou to	you.	44					
A	45	Amount you owe. Subtract line	e 41 fror	n line 35. F	or details on	how to pay	_			
Amount		see instructions.				,		45		
you owe	46	Estimated tax penalty (see instr	ructions).	46					1
Third party	D	o you want to allow another person to dis			e IRS (see instru	ctions)? Te	s. Con	nplete t	he following.	No
		esignee's		Phone	`			ification		
designee		ime ►		no.		numbe		inoution	>	
Sign		nder penalties of perjury, I declare that I have end belief, they are true, correct, and accurately								
here	th	an the taxpayer) is based on all information of v	which the pr	reparer has any	knowledge.	erved during the	тах ува	i. Decia	ration of prepare	ei (Otilei
Joint return?	Y	our signature		Date	Your occupation			Daytim	e phone number	
See page 13.					Student					
Keep a copy	S	oouse's signature. If a joint return, both must si	ign.	Date	Spouse's occup	ation				
for your records.					Account	int				
Paid	Р	int/type preparer's name	Preparer's	signature		Date	Check	▶ □ ii	PTIN	
preparer								nployed	i	
	Fi	m's name ▶					Firm's	EIN►		
use only	Fi	m's address ►					Phone	no.		
									Form 1040A	(2011)

Comprehensive Problem 1, cont.

Qualified Dividends and Capital Gain Tax Worksheet - Line 28

Keep for Your Records



Before you begin: V 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	
3. Enter the amount from Form 1040A, line 10	1
5. Subtract line 4 from line 1. If zero or less, enter -0	j
6. Enter the smaller of:	
• The amount on line 1, or	
• \$34,500 if single or married filing separately, 6 6	
\$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.	
8. Subtract line 7 from line 6. This amount is taxed at 0%	
9. Enter the smaller of line 1 or line 4	
10. Enter the amount from line 8	
11. Subtract line 10 from line 9	
12. Multiply line 11 by 15% (.15)	
13. Use the Tax Table to figure the tax on the amount on line 5. Enter the tax here	4,539
14. Add lines 12 and 13	4,539
15. Use the Tax Table to figure the tax on the amount on line 1. Enter the tax here	4,584
16. Tax on all taxable income. Enter the smaller of line 14 or line 15 here and on Form 1040A,	4.530
line 28	4,539

Comprehensive Problem 2A

1040		ent of the Treasury—Internal R		201	1 ome	B No. 1545-0074	IRS Use Or	nly—Do	o not write or staple in this	space.
For the year Jan. 1-De		, or other tax year beginning		, 2011, endi	ng	, 20		See	e separate instruction	ons.
Your first name and	initial		Last name			·		Υοι	ır social security num	nber
Rau			Gomez					4	169 21 5523	
If a joint return, spou	use's first	name and initial	Last name					Spo	use's social security nu	ımber
Maria			Gomez					4	144 65 9912	
Home address (num	ber and s	street). If you have a P.O. b	oox, see instructions.				Apt. no.	•	Make sure the SSN(s)	above
1610 Quince 1									and on line 6c are co	
City, town or post office		nd ZIP code. If you have a for	reign address, also complete	spaces below (see	instructio	ns).		Pr	esidential Election Cam	npaign
Mc Allen, T	\mathcal{X}	78701							k here if you, or your spouse	
Foreign country nam	ne		Foreign p	rovince/county		Foreign p	oostal code		, want \$3 to go to this fund. below will not change your t	
								refund	d. You 🔀	Spouse
Filing Status	1	Single			4 🔲	Head of household	(with qualit	ying p	erson). (See instruction	ns.) If
i ming Otatas	2	Married filing jointly	(even if only one had i	ncome)	t	the qualifying person	on is a child	but n	ot your dependent, ent	ter this
Check only one	3	Married filing separa	ately. Enter spouse's S	SN above	ď	child's name here.				
box.		and full name here.			5 🔲 (Qualifying widow	(er) with de	epend	dent child	
Exemptions	6a	X Yourself. If some	eone can claim you as a	a dependent, do	not ch	eck box 6a .		. }	Boxes checked on 6a and 6b	2
	b	🐰 Spouse						<u>.</u> J	No. of children	
	С	Dependents:	(2) Depender		pendent's				on 6c who: • lived with you	
	(1) First	name Last name	e social security n	umber relation	ship to you	u (see instr		_	did not live with	
If more than four							<u></u>		you due to divorce or separation	
dependents, see]	_	(see instructions) Dependents on 6c	
instructions and								_	not entered above	
check here ▶									Add numbers on	
	d		nptions claimed				· · ·		lines above ►	۳
Income	7		etc. Attach Form(s) W					7	60,720	
	8a		ach Schedule B if requi	1				8a	5//	-
Attach Form(s)	b	•	. Do not include on line		8b					
W-2 here. Also	9a		Attach Schedule B if red	quired				9a		-
attach Forms	b	Qualified dividends			9b			10		
W-2G and 1099-R if tax	10 11	•	dits, or offsets of state				· ·	10 11		_
was withheld.	12	•	loss). Attach Schedule				· ·	12		
	13	,	Attach Schedule D if re					13		_
If you did not	14	,	s). Attach Form 4797.					14		
get a W-2,	15a	IRA distributions .	15a			le amount .	-	15b		$\overline{}$
see instructions.	16a	Pensions and annuities				le amount .	-	16b		$\overline{}$
	17		valties, partnerships, S				_	17		
Enclose, but do	18). Attach Schedule F .	•	,		-	18		
not attach, any payment. Also,	19		pensation				[19		
please use	20a	Social security benefits	s 20a	b	Taxabl	le amount .	[:	20b		
Form 1040-V.	21	Other income. List typ	pe and amount		,	Texas lottery	;	21	3,000	
	22	Combine the amounts in	n the far right column for	lines 7 through 21		your total incom	e ►	22	64,297	
Adjusted	23	Educator expenses		[23				,	
Adjusted Gross	24	Certain business expens	ses of reservists, performi	ng artists, and			1 1			
Income		fee-basis government of	fficials. Attach Form 2106	or 2106-EZ	24		-			
IIICOIII C	25	•	ınt deduction. Attach F	-	25		+			
	26	• .	tach Form 3903	F	26					
	27	·	employment tax. Attach S		27		+			
	28		SIMPLE, and qualified	olans	28		+			
	29		insurance deduction		29		+			
	30	Penalty on early without	drawal of savings pient's SSN ▶ <i>566</i> .	74 8765	30	1 000	+			
	31a	• • • • • • • • • • • • • • • • • • • •	· ——		31a	4,800	+			
	32 33		deduction	-	32		+			
	34		ch Form 8917		34		+			
	35		ctivities deduction. Attac	-	35		+			
	36	·	35		55		1	36	4,800	
	37	•	line 22. This is your ad		come			37	59.497	
For Disclosure, Pr	rivacv A		eduction Act Notice, s			ons. Cat	. No. 11320		Form 1040	(2011)

Comprehensive Problem 2A, cont.

Form 1040 (2011)			Page 2
	38	Amount from line 37 (adjusted gross income)	38	59,497
Tax and Credits	39a	Check { You were born before January 2, 1947, Blind. } Total boxes		
Credits		if: Spouse was born before January 2, 1947, ☐ Blind. Checked ▶ 39a		
Standard Deduction	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b		44 (00
for—	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	11,600
 People who check any 	41	Subtract line 40 from line 38	41	47,897
box on line 39a or 39b or	42 43	Exemptions. Multiply \$3,700 by the number on line 6d	42	7,400 40,497
who can be claimed as a	44	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 c 962 election	44	<u> </u>
dependent, see	45	Alternative minimum tax (see instructions). Attach Form 6251	45	0,221
instructions.	46	Add lines 44 and 45	46	5.221
All others:	47	Foreign tax credit. Attach Form 1116 if required 47		7
Single or Married filing	48	Credit for child and dependent care expenses. Attach Form 2441		
separately, \$5,800	49	Education credits from Form 8863, line 23		
Married filing jointly or	50	Retirement savings contributions credit. Attach Form 8880 50		
Qualifying widow(er),	51	Child tax credit (see instructions)		
\$11,600	52	Residential energy credits. Attach Form 5695		
Head of household,	53 54	Other credits from Form: a 3800 b 8801 c 53 Add lines 47 through 53. These are your total credits	54	
\$8,500	55	Add lines 47 through 53. These are your total credits	55	5,221
Othor	56	Self-employment tax. Attach Schedule SE	56	0,221
Other	57	Unreported social security and Medicare tax from Form: a 4137 b 8919	57	
Taxes	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		
If you have a	63	2011 estimated tax payments and amount applied from 2010 return 63		
qualifying	64a b	Earned income credit (EIC)		
child, attach Schedule EIC.	65	Additional child tax credit. Attach Form 8812 65		
Constant Lien	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		
	69	Excess social security and tier 1 RRTA tax withheld 69		
	70	Credit for federal tax on fuels. Attach Form 4136		
	71	Credits from Form: a 2439 b 8839 c 8801 d 8885 71		2 (24
Daferral	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
5	74a ▶ b	Amount of line 73 you want refunded to you. If Form 8888 is attached, check here . ▶ ☐ Routing number	74a	4,399
Direct deposit? See	► d	Account number Savings		
instructions.	75	Amount of line 73 you want applied to your 2012 estimated tax ▶ 75		
Amount	76	Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions	76	
You Owe	77	Estimated tax penalty (see instructions)		
Third Party	Do	you want to allow another person to discuss this return with the IRS (see instructions)?	. Compl	lete below. No
Designee	De	signee's Phone Personal identifie	cation	
		ne ▶ no. ▶ number (PIN)		
Sign		der penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the yare true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer.		
Here	Yo	ur signature Date Your occupation		e phone number
Joint return? See instructions.		Oil worker		
Keep a copy for	Sp	ouse's signature. If a joint return, both must sign. Date Spouse's occupation	Identity	Protection PIN (see inst.)
your records.	7	City employee		\top \top \top \top
Paid	Pri	nt/Type preparer's name Preparer's signature Date	Check	☐ if PTIN
Preparer			self-em	
Use Only	Fire	m's name ► Firm's EIN ►		
	Fire	m's address ▶ Phone no.		
				Form 1040 (2011)

Comprehensive Problem 2B

1040		ent of the Treasury—Internal Ro			2011	ОМВ	No. 1545-007	'4 IRS Use	Only—Do	o not write or staple in this	s space.
For the year Jan. 1-Dec		I, or other tax year beginning			, 2011, endin	1	, 20			e separate instructi	
Your first name and i	nitial	, , ,	Last name)		<u> </u>	<u> </u>		_	ur social security nur	
Carl				Conch					1 8	835 21 5423	3
If a joint return, spou	se's first	name and initial	Last name)						ouse's social security n	
Mary Home address (numb	per and s	street). If you have a P.O. b	ox. see instr	Daval Tuctions.				Apt. no.		633 65 7912	\ ab =
1234 Mallo	_	, ,	,					64		Make sure the SSN(s and on line 6c are co	
City, town or post office	e, state, a	nd ZIP code. If you have a for	eign address,	, also complete space	es below (see in	struction	s).		Pr	residential Election Car	npaign
Key West,	-,	33040				7				k here if you, or your spouse	
Foreign country name		00010		Foreign province	ce/county		Foreig	n postal coc		y, want \$3 to go to this fund.	
									refun	below will not change your d. You	
F::: 0: .	1	Single		4	4	Пн	ead of househo	old (with au	alifying r	person). (See instruction	
Filing Status		Married filing jointly Married filing jointly	(even if on	ly one had incon						not your dependent, en	
Check only one	3	Married filing separa					hild's name her			, , , , .	
box.	-	and full name here.			5	□ Q	ualifying wide	ow(er) with	depend	dent child	
Exemptions	6a	X Yourself. If some	one can cla	aim you as a dep	endent, do	not che	eck box 6a .		. 1	Boxes checked	2
Exemptions	b	🎉 Spouse		. ((.)					.]	on 6a and 6b No. of children	
	С	Dependents:		(2) Dependent's	(3) Dep	endent's		ild under age		on 6c who:	
	(1) First	•		social security number	relationsh	ip to you		or child tax cre nstructions)	ull	lived with youdid not live with	
										you due to divorce or separation	
If more than four										(see instructions)	
dependents, see instructions and										Dependents on 6c not entered above	
check here ▶□	d	Total number of exem	ptions clai	med					_	Add numbers on lines above ▶	2
Incomo	7	Wages, salaries, tips,	etc. Attach	n Form(s) W-2					7	67,925	
Income	8a	Taxable interest. Atta		. ,					8a	28.3	
	b	Tax-exempt interest.		•	8	Bb					
Attach Form(s)	9a	Ordinary dividends. A							9a	125	
W-2 here. Also attach Forms	b	Qualified dividends		•	1	b d	(2			
W-2G and	10	Taxable refunds, cred	its, or offse	ets of state and le	ocal income	taxes			10		
1099-R if tax	11	Alimony received .							11		
was withheld.	12	Business income or (le	oss). Attacl	h Schedule C or	C-EZ				12		
	13	Capital gain or (loss).	Attach Sch	nedule D if require	ed. If not red	uired, o	check here	▶ □	13		
If you did not	14	Other gains or (losses		•		·			14		
get a W-2, see instructions.	15a	IRA distributions .	15a		b	Taxable	amount .		15b		
see instructions.	16a	Pensions and annuities	16a		b	Taxable	amount .		16b		
	17	Rental real estate, roy	alties, part	nerships, S corp	orations, tru	sts, etc	. Attach Sch	edule E	17		
Enclose, but do	18	Farm income or (loss)							18		
not attach, any payment. Also,	19	Unemployment comp	ensation						19	2,600	
please use	20a	Social security benefits	20a		b	Taxable	amount .		20b	,	
Form 1040-V.	21	Other income. List typ	e and amo	ount		7	rize		21	1,000	
	22	Combine the amounts in	the far righ	t column for lines	7 through 21.	This is y	our total inco	me 🕨	22	71,933	
A al!	23	Educator expenses			2	23				,	
Adjusted	24	Certain business expens	es of reserv	ists, performing art	tists, and						
Gross		fee-basis government of	icials. Attac	h Form 2106 or 210	06-EZ	24					
Income	25	Health savings accoun	nt deductio	on. Attach Form 8	8889 . 2	25					
	26	Moving expenses. Att	ach Form 3	3903	2	26					
	27	Deductible part of self-e	mployment	tax. Attach Sched	ule SE .	27					
	28	Self-employed SEP, S	IMPLE, an	d qualified plans	s <u> 1</u>	28					
	29	Self-employed health	insurance	deduction .	2	29					
	30	Penalty on early without	rawal of sa	avings	;	30					
	31a	Alimony paid b Recip				1a					
	32	IRA deduction			;	32					
	33	Student loan interest	deduction		;	33					
	34	Tuition and fees. Attac	ch Form 89	917	;	34					
	35	Domestic production ac	tivities ded	uction. Attach For	m 8903	35					
	36	Add lines 23 through 3							36		<u> </u>
	37	Subtract line 36 from						. ▶	37	71,933	
For Disclosure, Pri	ivacy A	ct, and Paperwork Re	duction A	ct Notice, see s	eparate ins	ruction	ns. C	at. No. 113	20B	Form 1040	(2011)

Comprehensive Problem 2B, cont.

Form 1040 (2011)			Page 2
	38	Amount from line 37 (adjusted gross income)	38	71,933
Tax and	39a	Check You were born before January 2, 1947, Blind. Total boxes		77,700
Credits		if: Spouse was born before January 2, 1947, ☐ Blind. checked ▶ 39a		
Standard	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b		
Deduction for—	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	11,600
People who	41	Subtract line 40 from line 38	41	60,333
check any box on line	42	Exemptions. Multiply \$3,700 by the number on line 6d	42	7,400
39a or 39b or who can be	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0	43	52,933
claimed as a dependent,	44	Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 c 962 election	44	7,089
see instructions.	45	Alternative minimum tax (see instructions). Attach Form 6251	45	7 400
All others:	46	Add lines 44 and 45	46	7,089
Single or	47	Foreign tax credit. Attach Form 1116 if required	4	
Married filing separately,	48	Credit for child and dependent care expenses. Attach Form 2441 5 dependent care expenses. Attach Form 2441	-	
\$5,800	49	Education credits from Form 8863, line 23	-	
Married filing jointly or	50 51		-	
Qualifying widow(er),	52	Child tax credit (see instructions)	-	
\$11,600 Head of	53	Other credits from Form: a 3800 b 8801 c 53	-	
household,	54	Add lines 47 through 53. These are your total credits	54	
\$8,500	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	7,089
Other	56	Self-employment tax. Attach Schedule SE	56	,,,
	57	Unreported social security and Medicare tax from Form: a 4137 b 8919	57	
Taxes	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	-	
If you have a	63	2011 estimated tax payments and amount applied from 2010 return 63	-	
qualifying	64a	Earned income credit (EIC)	-	
child, attach	p p	Nontaxable combat pay election 64b 64b 65m 9840		
Schedule EIC.	65 66	Additional child tax credit. Attach Form 8812	-	
	67	First-time homebuyer credit from Form 5405, line 10 67	-	
	68	Amount paid with request for extension to file 68	1	
	69	Excess social security and tier 1 RRTA tax withheld 69	1	
	70	Credit for federal tax on fuels. Attach Form 4136		
	71	Credits from Form: a ☐ 2439 b ☐ 8839 c ☐ 8801 d ☐ 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 \rightarrow	74a	2,637
Direct deposit?	▶ b	Routing number		
See instructions.	► d	Account number		
Amount	75 76	Amount of line 73 you want applied to your 2012 estimated tax ▶ 75 Amount you owe. Subtract line 72 from line 61. For details on how to pay, see instructions ▶	-	
You Owe	76 77		76	
		Estimated tax penalty (see instructions)	e Com	plete below. No
Third Party		, , , , ,		piete below.
Designee		signee's Phone Personal identi ne ▶ no. ▶ number (PIN)	lication	•
Sign	Unc	der penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to		
Here	-	y are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which prep		
Joint return? See		ur signature Date Your occupation	Daytir	me phone number
instructions. Keep a copy for	L	ractory worker	4	
your records.	Spo	Duse's signature. If a joint return, both must sign. Date Spouse's occupation Homemaker	Identi	ity Protection PIN (see inst.)
	Drin	nt/Type preparer's name Preparer's signature Date	+	PTIN
Paid	FIII	Piepaiei s signature Date	Check self-e	k if FIIN
Preparer	Ei,	n'e name.	1 3611-6	проуби
Use Only		n's name ► Firm's EIN ► n's address ► Phone no.		
	- (111	i notie tio.		Form 1040 (2011)

Key Number Tax Return Summary

Chapter 2

Comprehensive Problem 1

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

Comprehensive Problem 2A

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

Comprehensive Problem 2B

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