

CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 – Multiple Choice Questions

- | | | |
|-----------------------------------|---|-----------------|
| 1. C (LO 2.1) | 10. E (LO 2.4) | 18. C (LO 2.8) |
| 2. C (LO 2.1) | 11. D (LO 2.4) | 19. A (LO 2.9) |
| 3. A (LO 2.1) | 12. B $\$97,500/260 = \$375 \times 4 =$ | 20. E (LO 2.10) |
| 4. D (LO 2.1) | $\$1,500$ (LO 2.5) | 21. D (LO 2.11) |
| 5. B (LO 2.1) | 13. D (LO 2.5) | 22. E (LO 2.12) |
| 6. C $\$500 \times 20\%$ (LO 2.2) | 14. C (LO 2.6) | 23. D (LO 2.13) |
| 7. A (LO 2.2) | 15. A (LO 2.6) | 24. E (LO 2.13) |
| 8. C $\$120 \times 12$ (LO 2.3) | 16. C (LO 2.7) | 25. A (LO 2.14) |
| 9. D (LO 2.3) | 17. D (LO 2.7, 2.8, 2.9, 2.10) | 26. E (LO 2.14) |

Group 2 – Problems

- | | | |
|-------------------------|----------------------|----------------------|
| 1. a. Excluded (LO 2.1) | e. Excluded (LO 2.1) | i. Excluded (LO 2.1) |
| b. Included (LO 2.1) | f. Included (LO 2.1) | j. Excluded (LO 2.1) |
| c. Included (LO 2.1) | g. Included (LO 2.1) | k. Included (LO 2.1) |
| d. Included (LO 2.1) | h. Excluded (LO 2.1) | |
2. The non-cash payment of \$6,000 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 Larry 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 Sheila 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%, 15%, or 20%. 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% through 35%. The 20% rate applies for taxpayers in the 39.6% bracket. A 3.8% Medicare tax on net investment income will be added to the rates for certain high-income taxpayers. (LO 2.2)
6. If no election is made, the interest is not included in income until the I 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 I 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) **\$450.** b. (1) **\$0.**
 (2) **\$450.** (2) **\$425,000.** (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 \$90,000 in the house for calculating tax on any future sale of the house. (LO 2.3)
11. a. **\$6,400.**
 b. **\$260.** A non-qualified plan award may only be excluded up to \$400; thus, \$260 is taxable.
 c. **\$1,000,000.**
 d. **\$30,000.** (LO 2.4)
12. a. **\$4,000.**
 b. **\$14,500.**
 c. **\$0.** (LO 2.4, 2.8)

13. SIMPLIFIED METHOD WORKSHEET

- | | |
|---|--------------------|
| 1) Enter total amount received this year. | 1) <u>\$ 7,000</u> |
| 2) Enter cost in the plan at the annuity starting date. | 2) <u>\$48,300</u> |
| 3) Age at annuity starting date | |
| <u>Enter</u> | |
| 55 and under | 360 |
| 56–60 | 310 |
| 61–65 | 260 |
| 66–70 | 210 |
| 71 and older | 160 |
| 4) Divide line 2 by line 3. | 3) <u>210</u> |
| 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. | 4) <u>\$ 230</u> |
| 6) Enter the amount, if any, recovered tax free in prior years | 5) <u>\$ 1,610</u> |
| 7) Subtract line 6 from line 2. | 6) <u>\$ 0</u> |
| 8) Enter the smaller of line 5 or 7. | 7) <u>\$48,300</u> |
| 9) Taxable amount this year: Subtract line 8 from line 1. Do not enter less than zero. | 8) <u>\$ 1,610</u> |
| (LO 2.5) | 9) <u>\$ 5,390</u> |
14. **\$61,000** = \$100,000 – \$27,000 – \$12,000. 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)
15. **\$500.** A beneficiary, who is a surviving spouse, must include the entire amount of interest received with respect to the policy proceeds in gross income. The \$9,000 principal amount may be excluded from gross income. (LO 2.6)
16. David has received an accelerated death benefit or viatical settlement which is excluded from taxable income. (LO 2.6)
17. 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)

18. **\$5,600.** Inheritances are excluded from taxable income; however, subsequent earnings on inherited property must be included in income. (LO 2.7)
19. \$10,000 is taxable. This gift is clearly bonus income in a business setting so it does not qualify for tax-free gift treatment, even if Gwen's client calls the payment a gift. (LO 2.7)
20. None of the gift is taxable. Gifts are excluded from the taxable income of the person receiving the gift. (LO 2.7)
21. \$12,000 is taxable since there is no exclusion for payments made for room and board. \$8,000 is not taxable, since scholarships for tuition are specifically excluded from taxable income. (LO 2.8)
22. 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)
23. **\$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)
24.
 - 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.
 - c. Yes. The meals are not furnished for the convenience of the employer. (LO 2.10)
25. **6.00%** = $4.5\% \div (100\% - 25\%)$. (LO 2.11)
26. The tax-exempt municipal bond has the same 5% before and after-tax rate of return. The corporate bond has an after-tax return of 4.55% ($7\% \times (1 - 35\%)$). Karen should invest in the tax-exempt bond due to the higher after-tax rate of return. (LO 2.11)
27. **\$3,250.** Unemployment benefits received are included in gross income. (LO 2.12)
28. **\$4,850** = \$850 + \$4,000. 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 \$850 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 \$4,000 tuition payment must be included in gross income since Richard is working on a graduate degree and not providing teaching or research activities. (LO 2.13)
29. Yes. Tom will be better off reducing his taxable income by \$2,600 by using the health care flexible spending account. Since his income will be \$2,600 less, he will pay less tax than he would otherwise. (LO 2.13)
30. As calculated on the worksheet on Page 41. (LO 2.14)
31.
 - 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)

Group 2: Problem 7

SCHEDULE B (Form 1040A or 1040)		Interest and Ordinary Dividends		OMB No. 1545-0074 <div style="font-size: 24pt; font-weight: bold;">2017</div> Attachment Sequence No. 08	
Department of the Treasury Internal Revenue Service (99)		► Attach to Form 1040A or 1040. ► Go to www.irs.gov/ScheduleB for instructions and the latest information.			
Name(s) shown on return Charles and Sally Heck		Your social security number			
Part I Interest <small>(See instructions and the instructions for Form 1040A, or Form 1040, line 8a.)</small> 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.		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 the instructions and list this interest first. Also, show that buyer's social security number and address ► Porcine Bank River Bank <small>[note: municipal tax-exempt interest is reported directly on the Form 1040 or 1040-A]</small>	Amount 1,245 650		
		2 Add the amounts on line 1	2 1,895		
		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 1,895		
Note: If line 4 is over \$1,500, you must complete Part III.		Amount			
Part II Ordinary Dividends <small>(See instructions and the instructions for Form 1040A, or Form 1040, line 9a.)</small> 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.		5 List name of payer ► Altus, Inc. Buller Corporation Gene Corporation Devona Corporation	2,000 350 3,100 850		
		6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ►	6 6,300		
Note: If line 6 is over \$1,500, you must complete Part III.					
Part III Foreign Accounts and Trusts <small>(See instructions.)</small>		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 2017, 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				<input type="checkbox"/>	<input checked="" type="checkbox"/>
If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements				<input type="checkbox"/>	<input type="checkbox"/>
b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ►				<input type="checkbox"/>	<input type="checkbox"/>
8 During 2017, 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				<input type="checkbox"/>	<input checked="" type="checkbox"/>

Group 2: Problem 30

1. Enter the total amount of social security income	1. \$7,400
2. Enter one-half of line 1	2. 3,700
3. Enter the total of taxable income items on Form 1040 except social security income	3. 14,500
4. Enter the amount of tax exempt interest income	4. 30,000
5. Add lines 2, 3, and 4	5. 48,200
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. 48,200
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 -0-	9. 23,200
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. 9,000
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. 14,200
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. 3,700
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. 12,070
16. Add lines 14 and 15	16. 15,770
17. Multiply line 1 by 85% (.85)	17. 6,290
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. \$6,290

32. Worksheet 1. **Recapture of Alimony**Keep for Your Records **Note.** Do not enter less than -0- on any line.

1. Alimony paid in 2nd year	1.	<u>\$60,000</u>
2. Alimony paid in 3rd year	2.	<u>\$10,000</u>
3. Floor	3.	<u>\$15,000</u>
4. Add lines 2 and 3	4.	<u>\$25,000</u>
5. Subtract line 4 from line 1. If zero or less, enter -0-	5.	<u>\$35,000</u>
6. Alimony paid in 1st year	6.	<u>\$60,000</u>
7. Adjusted alimony paid in 2nd year (line 1 minus line 5)	7.	<u>\$25,000</u>
8. Alimony paid in 3rd year	8.	<u>\$10,000</u>
9. Add lines 7 and 8	9.	<u>\$35,000</u>
10. Divide line 9 by 2	10.	<u>\$17,500</u>
11. Floor	11.	<u>\$15,000</u>
12. Add lines 10 and 11	12.	<u>\$32,500</u>
13. Subtract line 12 from line 6	13.	<u>\$27,500</u>
14. Recaptured alimony. Add lines 5 and 13	*14.	<u>\$62,500</u>

* If you deducted alimony paid, report this amount as income on Form 1040, line 11.
If you reported alimony received, deduct this amount on Form 1040, line 31a.

33. See the answer to Problem 7.

Group 3 – Writing Assignment**Research Solution:**

Whittenburg and Gill, CPAs
San Diego, CA
August 3, 20xx

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

Dear Professor Lazo,

Thank you 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 do not hesitate to call.

Sincerely,
Trevor Malcolm
for Whittenburg and Gill, 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 website for the textbook at www.cengage.com/login.

Comprehensive Problem 1

Form 1040A		Department of the Treasury—Internal Revenue Service		U.S. Individual Income Tax Return (99)		2017		IRS Use Only—Do not write or staple in this space.																																											
Your first name and initial Ken				Last name Hair				OMB No. 1545-0074																																											
If a joint return, spouse's first name and initial Bev				Last name Hair				Your social security number 4 6 5 5 7 9 9 3 4																																											
Home address (number and street). If you have a P.O. box, see instructions. 3567 River Street				Apt. no.				Spouse's social security number 4 6 5 7 4 3 3 2 1																																											
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Springfield, M O 63126				Foreign country name				Foreign province/state/county																																											
Foreign postal code				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) (see instructions)																																																	
Exemptions If more than six dependents, see instructions.		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: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table>								(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)					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>							
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Boxes checked on 6a and 6b 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		d Total number of exemptions claimed.		2																																													
Income Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld. If you did not get a W-2, see instructions.		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>7 Wages, salaries, tips, etc. Attach Form(s) W-2.</td> <td>7</td> <td>53,120</td> </tr> <tr> <td>8a Taxable interest. Attach Schedule B if required.</td> <td>8a</td> <td>645</td> </tr> <tr> <td>b Tax-exempt interest. Do not include on line 8a.</td> <td>8b</td> <td>1,000</td> </tr> <tr> <td>9a Ordinary dividends. Attach Schedule B if required.</td> <td>9a</td> <td>302</td> </tr> <tr> <td>b Qualified dividends (see instructions).</td> <td>9b</td> <td>302</td> </tr> <tr> <td>10 Capital gain distributions (see instructions).</td> <td>10</td> <td></td> </tr> <tr> <td>11a IRA distributions.</td> <td>11a</td> <td></td> </tr> <tr> <td>11b Taxable amount (see instructions).</td> <td>11b</td> <td></td> </tr> <tr> <td>12a Pensions and annuities.</td> <td>12a</td> <td></td> </tr> <tr> <td>12b Taxable amount (see instructions).</td> <td>12b</td> <td></td> </tr> <tr> <td>13 Unemployment compensation and Alaska Permanent Fund dividends.</td> <td>13</td> <td>1,825</td> </tr> <tr> <td>14a Social security benefits.</td> <td>14a</td> <td></td> </tr> <tr> <td>14b Taxable amount (see instructions).</td> <td>14b</td> <td></td> </tr> <tr> <td>15 Add lines 7 through 14b (far right column). This is your total income.</td> <td>15</td> <td>55,892</td> </tr> </table>								7 Wages, salaries, tips, etc. Attach Form(s) W-2.	7	53,120	8a Taxable interest. Attach Schedule B if required.	8a	645	b Tax-exempt interest. Do not include on line 8a.	8b	1,000	9a Ordinary dividends. Attach Schedule B if required.	9a	302	b Qualified dividends (see instructions).	9b	302	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	1,825	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	55,892
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Comprehensive Problem 1, cont.

Form 1040A (2017)		Page	<big>2</big>
Tax, credits, and payments	Enter the amount from line 21 (adjusted gross income).	22 55,892	
Standard Deduction for— • People who check any box on line 23a or 23b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,350 Married filing jointly or Qualifying widow(er), \$12,700 Head of household, \$9,350	Check if:	<input type="checkbox"/> You were born before January 2, 1953, <input type="checkbox"/> Blind <input type="checkbox"/> Spouse was born before January 2, 1953, <input type="checkbox"/> Blind	Total boxes checked ▶ 23a <input style="width: 40px;" type="text"/>
	If you are married filing separately and your spouse itemizes deductions, check here	▶ 23b <input type="checkbox"/>	
	Enter your standard deduction.	24	12,700
	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	43,192
	Exemptions. Multiply \$4,050 by the number on line 6d.	26	8,100
	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your taxable income.	27	35,092
	Tax, including any alternative minimum tax (see instructions).	28	4,284
	Excess advance premium tax credit repayment. Attach Form 8962.	29	
	Add lines 28 and 29.	30	4,284
	Credit for child and dependent care expenses. Attach Form 2441.	31	
Credit for the elderly or the disabled. Attach Schedule R.	32		
Education credits from Form 8863, line 19.	33		
Retirement savings contributions credit. Attach Form 8880.	34		
Child tax credit. Attach Schedule 8812, if required.	35		
Add lines 31 through 35. These are your total credits.	36		
Subtract line 36 from line 30. If line 36 is more than line 30, enter -0-.	37	4,284	
Health care: individual responsibility (see instructions). Full-year coverage	38		
Add line 37 and line 38. This is your total tax.	39	4,284	
Federal income tax withheld from Forms W-2 and 1099.	40	5,005	
2017 estimated tax payments and amount applied from 2016 return.	41		
Earned income credit (EIC).	42a		
Nontaxable combat pay election.	42b		
Additional child tax credit. Attach Schedule 8812.	43		
American opportunity credit from Form 8863, line 8.	44		
Net premium tax credit. Attach Form 8962.	45		
Add lines 40, 41, 42a, 43, 44, and 45. These are your total payments.	46	5,005	
Refund	If line 46 is more than line 39, subtract line 39 from line 46. This is the amount you overpaid.	47	721
Direct deposit? See instructions and fill in 48b, 48c, and 48d or Form 8888.	Amount of line 47 you want refunded to you. If Form 8888 is attached, check here ▶	48a	721
	Routing number		
	Type: Checking Savings		
	Account number		
	Amount of line 47 you want applied to your 2018 estimated tax.	49	
Amount you owe	Amount you owe. Subtract line 46 from line 39. For details on how to pay, see instructions.	50	
Estimated tax penalty (see instructions).	51		
Third party designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? Yes Complete the following 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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.		
Joint return? See instructions. Keep a copy for your records.	Your signature	Date	Your occupation Student Daytime phone number
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation Accountant If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Paid preparer use only	Print/Type preparer's name Preparer's signature Date Check self-employed PTIN		
	Firm's name ▶ Firm's address ▶		
	Firm's EIN ▶ Phone no.		

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>35,092</u>	
2. Enter the amount from Form 1040A, line 9b	2.	<u>302</u>	
3. Enter the amount from Form 1040A, line 10	3.	<u>0</u>	
4. Add lines 2 and 3	4.	<u>302</u>	
5. Subtract line 4 from line 1. If zero or less, enter -0-	5.	<u>34,790</u>	
6. Enter the smaller of:			
• The amount on line 1, or	}		
• \$37,950 if single or married filing separately,			
\$75,900 if married filing jointly or qualifying widow(er), or			
\$50,800 if head of household.		<u>35,092</u>	
7. Enter the smaller of line 5 or line 6	7.	<u>34,790</u>	
8. Subtract line 7 from line 6. This amount is taxed at 0%	8.	<u>302</u>	
9. Enter the smaller of line 1 or line 4	9.	<u>302</u>	
10. Enter the amount from line 8	10.	<u>302</u>	
11. Subtract line 10 from line 9	11.	<u>0</u>	
12. Multiply line 11 by 15% (0.15)	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>4,284</u>	
14. Add lines 12 and 13	14.	<u>4,284</u>	
15. Use the Tax Table to figure the tax on the amount on line 1. Enter the tax here	15.	<u>4,329</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>4,284</u>	

* Note: This worksheet does not apply for high-income taxpayers under the ACA or ATRA provisions (See LO 1.9).

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

Comprehensive Problem 2A, cont.

Form 1040 (2017)		Page 2
38 Amount from line 37 (adjusted gross income)		38 61,553
Tax and Credits	39a Check <input type="checkbox"/> You were born before January 2, 1953, <input type="checkbox"/> Blind. } Total boxes checked ▶ 39a <input type="checkbox"/>	
	if: <input type="checkbox"/> Spouse was born before January 2, 1953, <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"/>		
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,350 Married filing jointly or Qualifying widow(er), \$12,700 Head of household, \$9,350	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40 12,700
	41 Subtract line 40 from line 38	41 48,853
	42 Exemptions. If line 38 is \$156,900 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42 8,100
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43 40,753
	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"/>	44 5,184
	45 Alternative minimum tax (see instructions). Attach Form 6251	45
	46 Excess advance premium tax credit repayment. Attach Form 8962	46
	47 Add lines 44, 45, and 46	47 5,184
	48 Foreign tax credit. Attach Form 1116 if required	48
	49 Credit for child and dependent care expenses. Attach Form 2441	49
50 Education credits from Form 8863, line 19	50	
51 Retirement savings contributions credit. Attach Form 8880	51	
52 Child tax credit. Attach Schedule 8812, if required	52	
53 Residential energy credit. Attach Form 5695	53	
54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
55 Add lines 48 through 54. These are your total credits	55	
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56 5,184	
Other Taxes	57 Self-employment tax. Attach Schedule SE	57
	58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58
	59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59
	60a Household employment taxes from Schedule H	60a
	b First-time homebuyer credit repayment. Attach Form 5405 if required	60b
	61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61
62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
63 Add lines 56 through 62. This is your total tax	63 5,184	
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64 9,050
	65 2017 estimated tax payments and amount applied from 2016 return	65
	66a Earned income credit (EIC)	66a
	b Nontaxable combat pay election 66b	66b
	67 Additional child tax credit. Attach Schedule 8812	67
	68 American opportunity credit from Form 8863, line 8	68
	69 Net premium tax credit. Attach Form 8962	69
	70 Amount paid with request for extension to file	70
	71 Excess social security and tier 1 RRTA tax withheld	71
	72 Credit for federal tax on fuels. Attach Form 4136	72
73 Credits from Form: a <input type="checkbox"/> 2439 b <input checked="" type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74 9,050	
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75 3,866
	76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a 3,866
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"/>	77 Amount of line 75 you want applied to your 2018 estimated tax ▶ 77	
	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶ 78	
Amount You Owe	79 Estimated tax penalty (see instructions)	79
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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
	Your signature ▶ Date ▶ Your occupation Salesperson ▶ Daytime phone number ▶	
Joint return? See instructions. Keep a copy for your records. Spouse's signature. If a joint return, both must sign.	Date ▶ Spouse's occupation Clerk ▶	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
	Print/Type preparer's name ▶ Preparer's signature ▶ Date ▶	Check <input type="checkbox"/> if self-employed PTIN <input type="text"/>
Paid Preparer Use Only	Firm's name ▶	Firm's EIN ▶
	Firm's address ▶	Phone no. ▶

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

Comprehensive Problem 2B, cont.

Form 1040 (2017)		Page 2
38 Amount from line 37 (adjusted gross income)		38 71,753
Tax and Credits	39a Check <input type="checkbox"/> You were born before January 2, 1953, <input type="checkbox"/> Blind. Total boxes <input type="checkbox"/> if: <input type="checkbox"/> Spouse was born before January 2, 1953, <input type="checkbox"/> Blind. checked ▶ 39a <input type="checkbox"/>	
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>	
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,350 Married filing jointly or Qualifying widow(er), \$12,700 Head of household, \$9,350	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40 12,700
	41 Subtract line 40 from line 38	41 59,053
	42 Exemptions. If line 38 is \$156,900 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42 8,100
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43 50,953
	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"/>	44 6,714
	45 Alternative minimum tax (see instructions). Attach Form 6251	45
	46 Excess advance premium tax credit repayment. Attach Form 8962	46
	47 Add lines 44, 45, and 46	47 6,714
	48 Foreign tax credit. Attach Form 1116 if required	48
	49 Credit for child and dependent care expenses. Attach Form 2441	49
50 Education credits from Form 8863, line 19	50	
51 Retirement savings contributions credit. Attach Form 8880	51	
52 Child tax credit. Attach Schedule 8812, if required	52	
53 Residential energy credit. Attach Form 5695	53	
54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54	
55 Add lines 48 through 54. These are your total credits	55	
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56 6,714	
Other Taxes	57 Self-employment tax. Attach Schedule SE	57
	58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58
	59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59
	60a Household employment taxes from Schedule H	60a
	b First-time homebuyer credit repayment. Attach Form 5405 if required	60b
	61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61
62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62	
63 Add lines 56 through 62. This is your total tax	63 6,714	
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64 7,864
	65 2017 estimated tax payments and amount applied from 2016 return	65
	66a Earned income credit (EIC)	66a
	b Nontaxable combat pay election 66b	66b
	67 Additional child tax credit. Attach Schedule 8812	67
	68 American opportunity credit from Form 8863, line 8	68
	69 Net premium tax credit. Attach Form 8962	69
	70 Amount paid with request for extension to file	70
	71 Excess social security and tier 1 RRTA tax withheld	71
	72 Credit for federal tax on fuels. Attach Form 4136	72
73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73	
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74 7,864	
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75 1,150
	76a Amount of line 75 you want refunded to you . If Form 8888 is attached, check here ▶ <input type="checkbox"/>	76a 1,150
Direct deposit? See instructions.	b Routing number ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d Account number	
77 Amount of line 75 you want applied to your 2018 estimated tax ▶	77	
Amount You Owe	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78
79 Estimated tax penalty (see instructions)	79	
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 accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
	Your signature	Date
Joint return? See instructions. Keep a copy for your records.	Your occupation Pie Maker	
	Daytime phone number	
	Spouse's signature. If a joint return, both must sign.	Date
	Spouse's occupation Homemaker	
	If the IRS sent you an Identity Protection PIN, enter it here (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>55,892</u>
Taxable Income (Line 27)	<u>35,092</u>
Total Tax (Line 39)	<u>4,284</u>
Amount Overpaid (Line 47)	<u>721</u>

Comprehensive Problem 2A

Adjusted Gross Income (Line 37)	<u>61,553</u>
Taxable Income (Line 43)	<u>40,753</u>
Total Tax (Line 63)	<u>5,184</u>
Amount Overpaid (Line 75)	<u>3,866</u>

Comprehensive Problem 2B

Adjusted Gross Income (Line 37)	<u>71,753</u>
Taxable Income (Line 43)	<u>50,953</u>
Total Tax (Line 63)	<u>6,714</u>
Amount Overpaid (Line 75)	<u>1,150</u>