**South-Western Federal Taxation 2017 Comprehensive 40th Edition Hoffman Solutions Manual** Full Download:



# Working With The Tax Law

### **Comprehensive Volume**



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# The Big Picture (slide 1 of 2)

- Fred and Megan Samuels review their financial and tax situation with their son, Sam, and daughter-in-law, Dana, who live with them
  - Fred and Megan are in the 28% tax bracket in 2016
  - Both Sam and Dana are age 21
- Sam, a student at a nearby university, owns some publicly traded stock that he inherited
  - A current sale would result in approximately \$8,000 of gross income
    - (\$19,000 amount realized \$11,000 adjusted basis)

# The Big Picture (slide 2 of 2)

- Fred and Megan provide about 55% of Sam and Dana's support
  - Although neither is now employed, Sam has earned
     \$960 and Dana has earned
     \$900
- The problem:
  - Should the stock be sold?
  - Would the sale prohibit Fred and Megan from claiming Sam and Dana as dependents?
  - Would the stock sale in 2016 result in a tax liability for Sam and Dana?
- Read the chapter and formulate your responses

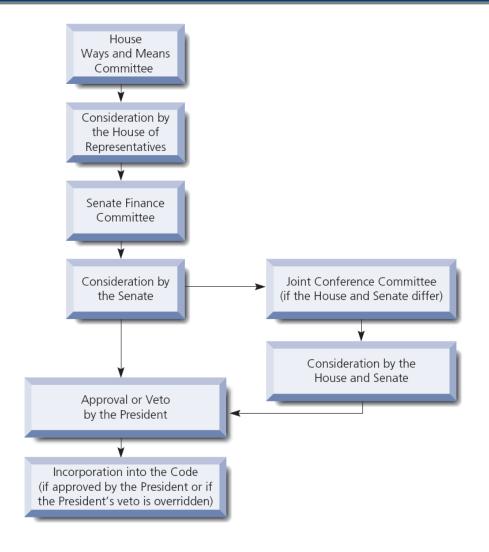
### Statutory Sources of Tax Law (slide 1 of 2)

- Internal Revenue Code
  - Codification of the Federal tax law provisions in a logical sequence
  - Have had three codes:
    - 1939, 1954, 1986

### Statutory Sources of Tax Law (slide 2 of 2)

- Example of Code Citation: § 2(a)(1)(A)
  - § = Abbreviation for "Section"
  - -2 = section number
  - -(a) = subsection
  - -(1) = paragraph designation
  - (A) = subparagraph designation

## **Legislative Process For Tax Bills**



#### Exhibit 2.1

### Administrative Sources of Tax Law (slide 1 of 2)

- Treasury Department Regulations
- Revenue Rulings
- Revenue Procedures
- Various other administrative pronouncements

### Administrative Sources of Tax Law

(slide 2 of 2)

Source	Location	Authority
Regulations	Federal Register	Force and effect of law.
Temporary Regulations	Federal Register Internal Revenue Bulletin Cumulative Bulletin	May be cited as a precedent.
Proposed Regulations	Federal Register Internal Revenue Bulletin Cumulative Bulletin	Preview of final Regulations.
Revenue Rulings Revenue Procedures Treasury Decisions Actions on Decisions	Internal Revenue Bulletin Cumulative Bulletin	Do not have the force and effect of law.
General Counsel Memoranda Technical Advice Memoranda	Tax Analysts' <i>Tax Notes;</i> Thomson Reuters <i>Checkpoint*</i> ; Commerce Clearing House <i>IntelliConnect</i>	May not be cited as a precedent.
Letter Rulings	Thomson Reuters and Commerce Clearing House tax services	Applicable only to taxpayer addressed. No precedential force.

\* Thomson Reuters Checkpoint includes a wide variety of tax resources. The most significant are materials produced by the Research Institute of America (RIA), including the Federal Tax Coordinator 2d.

### Regulations (slide 1 of 4)

- Issued by U.S. Treasury Department
- Provide general interpretations and guidance in applying the Code

### Regulations (slide 2 of 4)

- Issued as:
  - Proposed: preview of final regulations
    - Do not have force and effect of law
  - Temporary: issued when guidance needed quickly
    - Same authoritative value as final regulations
  - Final:
    - Force and effect of law

### Regulations (slide 3 of 4)

- Example of Regulation citation:
  - Reg. § 1.2
    - Refers to Regulations under Code § 2
    - Subparts may be added for further identification
    - The numbering patterns of these subparts often have no correlation with the Code subsections

### Regulations (slide 4 of 4)

- Example of Proposed Regulation citation: Prop. Reg. § 1.2
- Example of Temporary Regulation citation: Temp. Reg. § 1.6081–8T

## Revenue Rulings (slide 1 of 2)

- Officially issued by National Office of IRS
  - Provide specific interpretations and guidance in applying the Code
  - Less legal force than Regulations
  - Issued in IRB and accumulated in the Cumulative Bulletins

### Revenue Rulings (slide 2 of 2)

- Example of Revenue Ruling citation
  - Rev.Rul. 2015–9, 2015–21 I.R.B. 972
    - Explanation: Revenue Ruling Number 9, appearing on page 972 of the 21<sup>st</sup> weekly issue of the Internal Revenue Bulletin for 2015

### Revenue Procedures (slide 1 of 2)

- Concerned with the internal management practices and procedures of the IRS
  - Issued similar to Revenue Rulings
  - Issued in IRB and accumulated in the Cumulative Bulletins

### Revenue Procedures (slide 2 of 2)

- Example of Revenue Procedure citation
  - Rev. Proc. 92-29, 1992-1 CB 748
    - 29th Rev. Procedure in 1992 found in volume 1 of Cumulative Bulletin on page 748

## Letter Rulings (slide 1 of 2)

- Provide guidance to taxpayer on how a transaction will be taxed before proceeding with it
  - Issued for a fee upon a taxpayer's request
  - Describe how the IRS will treat a proposed transaction
- Apply only to the taxpayer who asks for and obtains the ruling
  - Post-1984 letter rulings may be substantial authority for purposes of the accuracy-related penalty
- Limited to restricted, preannounced areas of taxation

## Letter Rulings (slide 2 of 2)

- Example of Letter Ruling citation
  - Ltr.Rul. 201503010
    - 10<sup>th</sup> ruling issued in the 3<sup>rd</sup> week of 2015

### Other Administrative Pronouncements (slide 1 of 4)

- Treasury Decisions issued by Treasury Dept. to:
  - Promulgate new or amend existing Regulations
  - Announce position of the Government on selected court decisions
  - Published in the Internal Revenue Bulletin
    - Then transferred to the Cumulative Bulletin

### Other Administrative Pronouncements (slide 2 of 4)

- Determination Letters
  - Issued by Area Director at taxpayer's request
  - Usually involve completed transactions
  - Not published
    - Made known only to party making the request

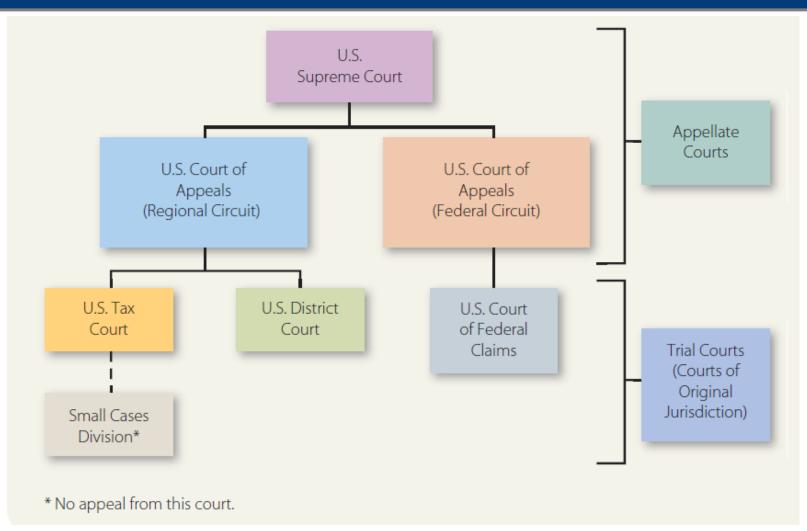
### Other Administrative Pronouncements (slide 3 of 4)

- The IRS also publishes other administrative communications such as
  - Announcements
  - Notices
  - IRs (News Releases)
  - Internal Legal Memoranda (ILMs)
  - Chief Counsel Notices (CC)
  - Prohibited Transaction Exemptions

#### Other Administrative Pronouncements (slide 4 of 4)

- A variety of internal memoranda that constitute the working law of the IRS also are released but not officially published, such as
  - General Counsel Memoranda (GCMs)
  - Technical Advice Memoranda (TAMs)
  - Internal Legal Memoranda (ILMs)
  - Field Service Advice Memoranda (FSAs)
- The IRS indicates that they may not be cited as precedents by taxpayers
  - However, these working documents do explain the IRS's position on various issues

## **Federal Judicial System**



#### Exhibit 2.4

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### Judicial Sources (slide 1 of 2)

- There are four courts of original jurisdiction (trial courts)
  - U.S. Tax Court: Regular
  - U.S. Tax Court: Small Cases Division
  - Federal District Court
  - U.S. Court of Federal Claims

### Judicial Sources (slide 2 of 2)



#### Concept Summary 2.1

#### Federal Judicial System: Trial Courts

Issue	U.S. Tax Court	U.S. District Court	U.S. Court of Federal Claims
Number of judges per court	19*	Varies	16
Payment of deficiency before trial	No	Yes	Yes
Jury trial available	No	Yes	No
Types of disputes	Tax cases only	Most criminal and civil issues	Claims against the United States
Jurisdiction	Nationwide	Location of taxpayer	Nationwide
IRS acquiescence policy	Yes	Yes	Yes
Appeal route	U.S. Court of Appeals	U.S. Court of Appeals	U.S. Court of Appeals for the Federa Circuit

\*Currently, there are also 4 special trial judges and 13 senior judges.

### **Appeals Process**

- Appeals from District Court or Tax Court go to the U.S. Court of Appeals for circuit where taxpayer resides
- Appeals from Court of Federal Claims is to Court of Appeals for the Federal Circuit
- Appeal to the Supreme Court is by Writ of Certiorari
  - Only granted for those cases it desires to hear

## **Courts' Weights As Precedents**

- From high to low
  - Supreme Court
  - Circuit Court of Appeals
  - Tax Court (Regular), U.S. Court of Federal Claims, & U.S. District Courts
- Decisions of the Small Cases Division of the Tax Court have no precedential value and cannot be appealed

### Tax Court (slide 1 of 3)

- Issues two types of decisions: Regular and Memorandum
  - Regular decisions involve novel issues not previously resolved by the court
- Regular decisions are published by the U.S. government, for example

Temporary Citation	<i>MoneyGram International, Inc. and Subsidiaries</i> , 144 T.C. , No. 1 (2015). <i>Explanation:</i> Page number left blank because not yet known.
Permanent Citation	<i>MoneyGram International, Inc. and Subsidiaries</i> , 144 T.C. 1 (2015). <i>Explanation:</i> Page number now available.

### Tax Court (slide 2 of 3)

- Tax Court Memorandum decisions
  - Memorandum decisions deal with situations necessitating only the application of already established principles of law
  - Memorandum decisions were not published by the U.S. Government until recently

### Tax Court (slide 3 of 3)

- Memorandum decisions were and continue to be – published by several tax services
  - Consider, for example, three different ways that Nick
     R. Hughes can be cited:
    - *Nick R. Hughes*, T.C.Memo. 2009–94
      - The 94th Memorandum decision issued by the Tax Court in 2009
    - *Nick R. Hughes*, 97 TCM 1488
      - Page 1488 of Vol. 97 of the CCH Tax Court Memorandum Decisions
    - Nick R. Hughes, 2009 RIA T.C.Memo. ¶2009,094
      - Paragraph 2009,094 of the RIA T.C. Memorandum Decisions

### **Examples Of District Court Decision Citations**

- *Turner v. U.S.*, 2004–1 USTC ¶60,478
   (D.Ct. Tex., 2004) (CCH citation)
- *Turner v. U.S.*, 93 AFTR 2d 2004–686
   (D.Ct. Tex., 2004) (RIA citation)
- *Turner v. U.S.*, 306 F.Supp.2d 668 (D.Ct. Tex., 2004)(West citation)

## **Supreme Court Decisions**

- Examples of citations
  - U.S. v. The Donruss Co., (USSC, 1969)
    - 69-1 USTC ¶9167 (CCH citation)
    - 23 AFTR2d 69-418 (RIA citation)
    - 89 S. CT 501 (West citation)
    - 393 U.S. 297 (U.S. Government citation)
    - 21 L.Ed.2d 495 (Lawyer's Co-operative Publishing Co. citation)

### **Tax Treaties**

- The U.S. signs tax treaties with foreign countries to:
  - Avoid double taxation
  - Render mutual assistance in tax enforcement
- Neither a tax law nor a tax treaty takes general precedence
  - When there is a direct conflict, the most recent item will take precedence
  - A taxpayer must disclose on the tax return any position where a treaty overrides a tax law
    - There is a \$1,000 penalty per failure to disclose for individuals (\$10,000 for corporations)

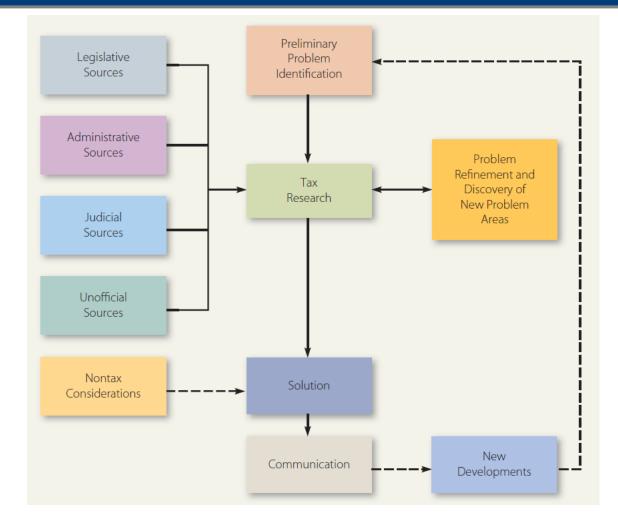
### Tax Research Tools (slide 1 of 2)

- A crucial part of the research process is the ability to locate appropriate sources of the tax law
  - Both electronic and paper-based research tools are available to aid in this search
- Unless the problem is simple (e.g., the Code Section is known, and there is a Regulation on point), the research process should begin with a tax service

### Tax Research Tools (slide 2 of 2)

- A partial list of the available commercial tax services includes:
  - Standard Federal Tax Reporter, CCH
  - CCH IntelliConnect, CCH Internet service
  - United States Tax Reporter, RIA
  - RIA Checkpoint, RIA
  - ATX/Kleinrock Tax Expert, CCH/Wolters Kluwer
  - Tax Management Portfolios, BNA
  - Mertens Law of Federal Income Taxation, Thomson Reuters
  - Westlaw services (including access to Tax Management Portfolios)
  - TaxCenter, LexisNexis
  - Federal Research Library, Tax Analysts

### **Tax Research Process**



#### **EXHIBIT 2.8**

## **Tax Research**

- Tax research is the method by which an interested party determines the best solution to a tax situation
- Tax research involves:
  - Identifying and refining the problem
  - Locating the appropriate tax law sources
  - Assessing the validity of the tax law sources
  - Arriving at the solution or at alternative solutions with due consideration given to nontax factors

## Assessing The Validity Of Tax Law Sources (slide 1 of 4)

- Regulations
  - IRS agents must give the Code and the Regulations equal weight when dealing with taxpayers and their representatives
  - Proposed Regulations are not binding on IRS or taxpayer
  - Burden of proof is on taxpayer to show Regulation incorrect
  - If the taxpayer loses the challenge, a 20% negligence penalty may be imposed

## Assessing The Validity Of Tax Law Sources (slide 2 of 4)

- Final Regulations tend to be of three types
  - Procedural: housekeeping-type instructions
  - Interpretive: rephrase what is in Committee Reports and the Code
    - Hard to get overturned
  - Legislative: allow the Treasury Department to determine the details of law
    - Congress has delegated its legislative powers and these cannot generally be overturned

## Assessing The Validity Of Tax Law Sources (slide 3 of 4)

- Revenue Rulings
  - Carry less weight than Regulations
  - Not substantial authority in court disputes

## Assessing The Validity Of Tax Law Sources (slide 4 of 4)

- Judicial sources
  - Consider the level of the court and the legal residence of the taxpayer
  - Tax Court Regular decisions carry more weight than Memo decisions
    - Tax Court does not consider Memo decisions to be binding precedents
    - Tax Court reviewed decisions carry even more weight
  - Circuit Court decisions where certiorari has been requested and denied by the U.S. Supreme Court carry more weight than a Circuit Court decision that was not appealed
  - Consider whether the decision has been overturned on appeal

## Tax Law Sources (slide 1 of 2)

- Primary sources of tax law include:
  - The Constitution
  - Legislative history materials
  - Statutes
  - Treaties
  - Treasury Regulations
  - IRS pronouncements
  - Judicial decisions
- In general, the IRS considers only primary sources to constitute substantial authority

## Tax Law Sources (slide 2 of 2)

- Secondary Sources include:
  - Legal periodicals
  - Treatises
  - Legal opinions
  - General Counsel Memoranda
  - Written determinations
- In general, secondary sources are not authority

# **Tax Planning**

- Consider social, economic, and business goals as well as tax motives
- Tax avoidance is the legal minimization of tax liabilities and one goal of tax planning
- Tax evasion is the illegal minimization of tax liabilities
  - Suggests the use of subterfuge and fraud as a means to tax minimization
  - Can lead to fines and jail

# Taxation on the CPA Examination

- Taxation is included in the 3-hour Regulation section and covers:
  - Federal tax process, procedures, accounting, and planning
  - Federal taxation of property transactions
  - Federal taxation individuals
  - Federal taxation entities
- Knowledge is tested using both multiple-choice questions and case studies called simulations

If you have any comments or suggestions concerning this PowerPoint Presentation for South-Western Federal Taxation, please contact:

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- 1. For "qualifying widow(er)" filing status, which of the following requirements must be met?
  - I. The surviving spouse does not remarry before the end of the current year
  - II. The surviving spouse was eligible to file a joint tax return in the year of the spouse's death
  - III. The surviving spouse maintains the cost of the principal residence for six months.
  - a) I, II, and III
  - b) I and II, but not III
  - c) I and III, but not II
  - d) I only
- a) Incorrect. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. Maintaining the cost of the taxpayer's principal residence for six months is not sufficient.
- b) Correct! A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. Maintaining the cost of the taxpayer's principal residence for six months is not sufficient.
- c) Incorrect. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. Maintaining the cost of the taxpayer's principal residence for six months is not sufficient.
- d) Incorrect. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. Maintaining the cost of the taxpayer's principal residence for six months is not sufficient.
- 2. Which of the below prevents a married couple from filing a joint tax return?

- I. The spouses have different accounting methods
- II. The spouses have different tax years, provided that both spouses are alive at the end of the year
- III. One spouse was a nonresident alien for three months during the year and no proper election was made
- a) I and II only
- b) II and III only
- c) I and III only
- d) II only
- a) Incorrect. A married couple may file a return as married filing jointly only if they use the same accounting period, although they may use different accounting methods. While a couple generally cannot file a joint return if either is a nonresident alien at any time during the tax year, if a nonresident alien is married to a U.S. citizen or resident alien at the end of the year, the spouses may file jointly.
- b) Incorrect. A married couple may file a return as married filing jointly only if they use the same accounting period, although they may use different accounting methods. While a couple generally cannot file a joint return if either is a nonresident alien at any time during the tax year, if a nonresident alien is married to a U.S. citizen or resident alien at the end of the year, the spouses may file jointly.
- c) Incorrect. A married couple may file a return as married filing jointly only if they use the same accounting period, although they may use different accounting methods. While a couple generally cannot file a joint return if either is a nonresident alien at any time during the tax year, if a nonresident alien is married to a U.S. citizen or resident alien at the end of the year, the spouses may file jointly.
- d) **Correct!** A married couple may file a return as married filing jointly only if they use the same accounting period, although they may use different accounting methods. While a couple generally cannot file a joint return if either is a nonresident alien at any time during the tax year, if a nonresident alien is married to a U.S. citizen or resident alien at the end of the year, the spouses may file jointly.
- 3. Parker and his wife Marie would have been filing a joint tax return for 2014, how- ever Marie died in October 2014. Parker has not remarried and continues to maintain a home for himself and his two children during 2014, 2015, 2016, and 2017. Parker's filing statuses for 2014, 2015, 2016, and 2017 are as follows:

2014	2015	2016	2017
a. Qualifying widower	Married filing joint return	Qualifying widower	Head of household
b. Married filing joint return	Married filing joint return	Head of household	Qualifying widower
c. Married filing joint return	Qualifying widower	Qualifying widower	Head of household
d. Qualifying widower	Qualifying widower	Head of household	Qualifying widower

- a) Incorrect. A couple may file a joint return if they are married as of the end of the tax year or, when one spouse has died during the tax year, if they were married as of the date of death. As a result, Parker would qualify to file a joint return for 2014. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. As a result, Parker will file as a qualifying widower for 2015 and 2016. In 2017, Parker may no longer file as a qualified widower but may file as a head of household, which is an unmarried taxpayer that maintains a home that is the principal residence of a qualifying relative, such as a child.
- b) Incorrect. A couple may file a joint return if they are married as of the end of the tax year or, when one spouse has died during the tax year, if they were married as of the date of death. As a result, Parker would qualify to file a joint return for 2014. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. As a result, Parker will file as a qualifying widower for 2015 and 2016. In 2017, Parker may no longer file as a qualified widower but may file as a head of household, which is an unmarried taxpayer that maintains a home that is the principal residence of a qualifying relative, such as a child.
- c) **Correct!** A couple may file a joint return if they are married as of the end of the tax year or, when one spouse has died during the tax year, if they were married as of the date of death As a result, Parker would qualify to file a joint return for 2014. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. As a result, Parker will file as a qualifying widower for 2015 and 2016. In 2017, Parker may no

longer file as a qualified widower but may file as a head of household, which is an unmarried taxpayer that maintains a home that is the principal residence of a qualifying relative, such as a child.

- d) Incorrect. A couple may file a joint return if they are married as of the end of the tax year or, when one spouse has died during the tax year, if they were married as of the date of death. As a result, Parker would qualify to file a joint return for 2014. A taxpayer may file a tax return as a qualifying widow or widower for 2 tax years after the year in which a spouse dies provided the couple qualified to file a joint return for the year of death; that the taxpayer provided over 50% of the cost of maintaining the principal residence of a dependent child or stepchild; and that the taxpayer has not remarried as of the end of the current year. As a result, Parker will file as a qualifying widower for 2015 and 2016. In 2017, Parker may no longer file as a qualified widower but may file as a head of household, which is an unmarried taxpayer that maintains a home that is the principal residence of a qualifying relative, such as a child.
- 4. Which of the following items are included in determining the total support of a dependent?
  - I. Medical expenditures paid on behalf of the dependent
  - II. Life insurance premiums paid on behalf of the dependent
  - III. Fair rental value of dependent's lodging
  - a) All of the above
  - b) I and II only
  - c) I and III only
  - d) I only
  - a) Incorrect. To determine if a taxpayer provided over 50% of a qualifying relative's support, or if more than 50% of the support of a qualifying child was provided by that child, Payments for food, lodging, clothing, education, medical and dental care, recreation, transportation, and other necessities are included. Income, social security, and Medicare taxes paid from the individual's own income; life insurance premiums; and funeral expenses are not included.
  - b) Incorrect. To determine if a taxpayer provided over 50% of a qualifying relative's support, or if more than 50% of the support of a qualifying child was provided by that child, Payments for food, lodging, clothing, education, medical and dental care, recreation, transportation, and other necessities are included. Income, social security, and Medicare taxes paid from the individual's own income; life insurance premiums; and funeral expenses are not included.
  - c) **Correct!** To determine if a taxpayer provided over 50% of a qualifying relative's support, or if more than 50% of the support of a qualifying child was provided by that child, Payments for food, lodging, clothing, education, medical and dental care, recreation, transportation, and other necessities are included. Income, social security, and Medicare taxes paid from the individual's own income; life insurance premiums; and funeral expenses are not included.
  - d) Incorrect. To determine if a taxpayer provided over 50% of a qualifying relative's support, or if more than 50% of the support of a qualifying child was provided by that child, Payments for food, lodging, clothing, education, medical and dental care, recreation, transportation, and other necessities are included. Income, social security, and Medicare taxes paid from

the individual's own income; life insurance premiums; and funeral expenses are not included.

- 5. Kyle and Elena Smith contributed to the support of their two children, Alexandra and Matthew, and Elena's divorced father, Nick. For 2016, Alexandra, a 22-year-old full-time college student, earned \$1,700 from a part-time job. Matthew, a 27-year-old full-time graduate student, earned \$23,000 from his job as a teaching assistant. Nick received \$12,000 in capital gains income and \$7,000 in nontaxable Social Security benefits. Alexandra, Matthew, and Nick are U.S. citizens and were over one-half supported by Kyle and Elena. How many exemptions can Kyle and Elena claim on their 2016 joint income tax return?
  - a) 2
  - b) 3
  - c) 4
  - d) 5
  - a) Incorrect. Kyle and Elena will be able to claim 3 exemptions, including 2 for themselves, on their joint return. Alexandra is a qualifying child since she is a student under the age of 24, resulting in the third exemption. Matthew, being older than 24, is not a qualifying child. Since Nick has gross income, which includes the \$12,000 in capital gains but excludes the nontaxable social security benefits, in excess of the exemption amount, Nick is not a qualifying relative and does not provide an additional exemption.
  - b) Correct! Kyle and Elena will be able to claim 3 exemptions, including 2 for themselves, on their joint return. Alexandra is a qualifying child since she is a student under the age of 24, resulting in the third exemption. Matthew, being older than 24, is not a qualifying child. Since Nick has gross income, which includes the \$12,000 in capital gains but excludes the nontaxable social security benefits, in excess of the exemption amount, Nick is not a qualifying relative and does not provide an additional exemption.
  - c) Incorrect. Kyle and Elena will be able to claim 3 exemptions, including 2 for themselves, on their joint return. Alexandra is a qualifying child since she is a student under the age of 24, resulting in the third exemption. Matthew, being older than 24, is not a qualifying child. Since Nick has gross income, which includes the \$12,000 in capital gains but excludes the nontaxable social security benefits, in excess of the exemption amount, Nick is not a qualifying relative and does not provide an additional exemption.
  - d) Incorrect. Kyle and Elena will be able to claim 3 exemptions, including 2 for themselves, on their joint return. Alexandra is a qualifying child since she is a student under the age of 24, resulting in the third exemption. Matthew, being older than 24, is not a qualifying child. Since Nick has gross income, which includes the \$12,000 in capital gains but excludes the nontaxable social security benefits, in excess of the exemption amount, Nick is not a qualifying relative and does not provide an additional exemption.

#### APPENDIX E

#### PRACTICE SET ASSIGNMENTS—COMPREHENSIVE TAX RETURN PROBLEMS

#### SOLUTIONS TO PROBLEM MATERIALS

#### **PROBLEM 1 SOLUTIONS**

- 1. David is self-employed and reports his business income on Schedule C. Both his consulting fees of \$92,800 and his expense reimbursements of \$20,420 should be included on line 1. The travel expenses are deducted on line 24a (airfare \$8,200 + lodging \$5,200 + transportation \$920) and \$3,050 of meals are deducted online 24b [meals \$6,100 disallowed portion (50% × \$6,100)].
- 2. Given that David is a cash-basis taxpayer, the \$4,400 payment received from Sesa Mining in 2015 is also included on Schedule C. This brings the total on line 1 to \$117,620 (\$92,800 + \$4,400 + \$20,420). The \$5,100 received from Echo will be taxable in 2016. The Cormorant Mining transaction results in neither income (no payment is received) nor a bad debt deduction (no basis exists in the receivable). If H&R Block software is used to complete the tax return, it automatically enters an X on line 32a of Schedule C even though there is no loss reported this year. This can be overriden in the software if desired.
- The \$9,000 contribution to the H.R.10 Keogh retirement plan and the \$3,800 of premiums on health insurance are not reported on Schedule C but are listed on Form 1040, page 1, lines 28 and 29, respectively. The remaining expenses are deducted on Schedule C as follows:

Line 8—Advertising		\$2,400
Line 18—Office supplies		1,200
Line 22—Supplies		3,200
Line 23—State occupation license		300
Line 27a (and also listed separately on page 2, Part V)		
Business phone and Internet service	\$860	
Subscriptions to trade journals	240	
Membership dues to trade associations	180	1,280

4. The home office deduction is computed on Form 8829 (Expenses for Business Use of Your Home). For depreciation purposes, the basis of the residence is the lesser of \$450,000 (fair market value) or David's inherited basis of \$360,000 under § 1014. The land is not depreciable. Consequently, this amount is entered on line 38 of Form 8829 and multiplied by the business percentage of 20% (line 7) to yield \$72,000 (line 39). Referring to Exhibit 8.8 (MACRS Straight-Line Depreciation for Real Property Assuming Mid-Month Convention), the applicable percentage for 39-year nonresidential real property for the recovery period of 2–39 years is 2.564. Thus, the depreciation for 2015 is \$1,846 (\$72,000 × 2.564%) and is entered on lines 41 and 29. Other data in completing Form 8829 are summarized below.

Indirect expenses [reported in column (b)]	
Line 10—Deductible mortgage interest	\$ 4,400
Line 11—Real estate taxes	3,100
Line 17—Insurance	2,300
Line 19—Repairs and maintenance	2,900
Line 20—Utilities	4,800
Total indirect expenses	\$17,500
	<u>× 20%</u>
Business portion	<u>\$ 3,500</u> *

\*Form 8829 does the calculation for the business portion in two steps. First, it applies 20% to the total of interest (\$4,400) and taxes (\$3,100) [20% × \$7,500] to yield \$1,500 (line 13). Second, the 20% is applied to the total of insurance (\$2,300), indirect repairs and maintenance (\$2,900), and utilities (\$4,800) [20% × \$10,000] to yield \$2,000 (line 23). Thus, the total business portion of the indirect expense is \$3,500 (\$1,500 + \$2,000).

The indirect expenses of 3,500 are added to the direct expense of 1,200 for painting the office and the depreciation of 1,846 for a total of 6,546 (line 35), which is also reported on line 30 of Schedule C.

The special purpose file cabinet is expensed by the use of Form 4562 (Depreciation and Amortization). Use Part I of this form, and when the \$4,800 listed on line 12 is combined with the depreciation on the Infiniti SUV (see below), the total is transferred to Schedule C.

5. Depreciation on the Infiniti under the MACRS method is computed as follows:

Cost	\$41,000
Second year percentage for five-year property (Exhibit 8.3)	32%
	\$13,120
× Business use	90%
	<u>\$11,808</u>

However, as the second year recovery limitation (for a vehicle placed in service in 2014) is \$5,100, the depreciation claimed cannot exceed \$4,590 ( $$5,100 \times 90\%$ ). This depreciation, determined by using Part V of Form 4562, is then added to the depreciation on the file cabinet (see item 4), and the total of \$9,390 (\$4,800 + \$4,590) is entered on line 13 of Schedule C.

The actual cost method of calculating the deduction for vehicle expense provides David with a superior result than would the automatic mileage method. Therefore, he elected this method last year when he acquired the SUV, and he will continue to use this method as long as he uses the Infiniti in his business. Under the actual cost method, \$5,390 (\$4,950 + \$440) is deducted as car and truck expenses on line 9 of Schedule C. The \$4,950 is the sum of expenses related to the 90% business use of the vehicle—gasoline (\$3,300), auto insurance (\$1,600), repairs (\$240), auto club dues (\$180), oil and lubrication (\$120), and license and registration (\$60). The \$440 is all of the toll and parking charges paid by David in the conduct of his business. Note that traffic fines for moving violations are not deductible.

6. As an employee, Sheri will report her expenses using Form 2106 (Employee Business Expenses). Her allowable expenses are as follows:

Computer $[$1,200 \times 80\% \text{ (business use)}]$	\$	960
Subscriptions and dues		180
Continuing education course		120
Occupational license fee		80
•	\$1	.340

The \$1,340 is entered on line 4 and summed on line 10 of Form 2106 and entered on line 21 of Schedule A (Form 1040). The § 179 expense of the business portion of the laptop is computed on Part I of Form 4562.

Sheri uses the Suburban to commute to her work, so she is not permitted to deduct any costs related to the use of the Suburban or for the parking at her work site. No deduction is allowed for the LSAT preparation sessions under § 222 (i.e., tuition and related expenses) because the pursuit of a law degree would qualify Sheri for a new trade or business. The \$5,000 contribution to a traditional IRA is deducted on line 32 on page 1 of Form 1040.

Sheri will not receive any tax benefit from her job-related expenses since they do not exceed the 2%-of-AGI floor [1,340 - 2,104 ( $2\% \times 105,175$ )]. See lines 26 and 27 of Schedule A.

7. Transactions relating to the rental house are reported on Schedule E (Supplemental Income and Loss). Rents received of \$28,600 are reported on line 3. Although this represents 13 months of rent, the prepaid rent for January 2016 is taxed to the Johnsons in the year received (i.e., 2015). The operating expenses in connection with the property are reported as follows:

Line 7—Yard maintenance	\$1,200
Line 9—Insurance	3,100
Line 14—Repairs	800
Line 16—Property taxes	2,400

Property taxes do not include the \$2,400 special street paving assessment, which should be added to the basis of the land.

The line 18 depreciation of \$18,205\* is computed as follows (use Part III of Form 4562):

Realty—	
Basis: \$220,000 (cost) + \$80,000 (renovation)	\$300,000
Applicable percentage for recovery period of 2-18 years (see	
Exhibit 8.8 in the text for 27.5-year residential real property)	<u>× 3.636%</u>
Depreciation allowed for 2015	<u>\$ 10,908</u>
Personalty—	
Basis: cost (purchase price)	\$ 38,000
Applicable percentage for recovery year 3 as to five-year property	
(see Exhibit 8.3 in the text)	<u>× 19.2%</u>
Depreciation allowed for 2015	<u>\$ 7,296</u>

According to Exhibit 8.1 in the text, rental appliances, furniture, carpets, etc., are five-year cost recovery MACRS personalty.

\*While the depreciation sums to \$18,204, *H&R Block* tax return software rounds this number to \$18,205.

The result reached in Schedule E is summarized below. Line 3—Income Line 20—Total Expenses Lines 21 and 26—Profit

The \$2,895 profit is transferred to line 17 of page 1 of Form 1040.

8. Although determining the year in which a corporate stock becomes *entirely* worthless is often problematical, the Johnsons are justified in picking 2015 for the write-off given the fact that the corporation is currently in bankruptcy. The basis of the stock is its value when David received it as payment for services provided, \$3,900—the amount David billed for his services. (*Note:* It is assumed that David recognized the \$3,900 in 2014.) Worthless securities are deemed sold on the last day of the taxpayer's tax year. Therefore, the worthless Cormorant stock results in a long-term capital loss of \$3,900 in Part II of Schedule D.

\$28,600

(25,705)

2,895

9. Under § 1015, the basis for gain of property acquired by gift is the donor's basis plus an appropriate portion of any gift tax paid on the transfer. Since no gift tax was incurred (probably due to the application of the unified transfer tax credit), the Johnsons have an income tax basis in the Teton tract of \$50,000 (i.e., the father's basis). Thus, the disposition of the property results in a realized gain of \$750,000 [\$800,000 (value received) – \$50,000 (basis of property transferred)]. Because the like-kind exchange rules of § 1031 apply, only \$8,000 cash boot is recognized.

To report the transaction, complete Parts I and III of Form 8824 (Like-Kind Exchanges). The recognized gain of \$8,000 on line 22 is then entered on line 11 of Schedule D.

- 10. David's basis in the antique gun collection is \$22,000 based on § 1014 (i.e., fair market value on date of his father's death). The sale of the collection for \$29,000 yields a capital gain of \$7,000 (\$29,000 \$22,000). Because the property is a collectible, the gain requires special tax treatment. The maximum tax rate that can be applied cannot exceed 28% and net short-term capital losses are first applied against collectible gains. The computation of the tax liability can become complex and is facilitated by the use of a *28% Rate Gain Worksheet* provided by the IRS. The result of this worksheet is entered on line 18 of page 2 of Schedule D.
- 11. Sheri's use of the installment method to report the gain on the Converse County land sale is assumed since the facts do not indicate that she elected out of installment sale treatment under § 453(d). So, her gross profit percentage of 33 1/3% (\$25,000/\$75,000) means that one-third of every dollar received is taxable gain and two-thirds is a tax-free recovery of basis. Since Sheri owned the land for more than one year and she held the land for investment purposes, the gain is a long-term capital gain. Of the \$10,800 Sheri receives in 2015, \$4,800 is interest, \$2,000 is long-term capital gain (\$6,000 × 33 1/3%), and \$4,000 is nontaxable.

The interest of \$4,800 is listed in Part 1 of Schedule B. Report the 2015 gain from this past transaction on Form 6252 (Installment Sale Income). Because this is not the year of sale, complete only lines 1 through 4 and Part II (lines 19 through 26). Part I is only filled in during the year the sale occurs. The profit of \$2,000 (line 26) is transferred to Schedule D (Part II, line 11).

12. The \$4,000 short-term capital loss carried over from 2014 is entered on line 6 of Schedule D. This loss offsets some of the collectible gain when the *28% Rate Gain Worksheet* (see item 10 above) is completed. The net result of this worksheet is \$3,000 [\$7,000 (collectible gain) – \$4,000 (net short-term capital loss)] and is carried to line 18 of Schedule D.

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13. Although Vivian lived for only a few days in 2015, she qualifies as a dependent. As such, her medical expenses can be claimed by the Johnsons. Since the Johnsons are cash-basis taxpayers, the year in which the expenses were incurred is irrelevant—the year they are paid controls. Along with the medical expenses of \$7,300 (\$4,200 + \$3,100), the Johnsons can also claim the \$600 church pledge that they paid. (A church pledge is not a binding debt, so the Johnsons will not be treated as satisfying the obligation of another person. Instead, it is treated as a qualifying charitable contribution.) The burial expenses of \$4,400 are not deductible for income tax purposes.

By virtue of § 101(a)(1), the proceeds of life insurance are excluded from income. Thus, the \$20,000 Sheri receives is not reported anywhere on the tax return.

14. The \$1,900 interest on the City of Cheyenne bonds is nontaxable but is reported on line 8b (page 1 of Form 1040). The \$1,100 interest on the CD and the \$400 interest on the money market account are separately listed in Part I of Schedule B.

The garage sale resulted in a realized loss of 850 [950 - 1,800], which is not recognized because it is a personal loss.

The \$700 qualified dividends are reported in Part II of Schedule B, then entered on line 9b (page 1) of Form 1040. The applicable tax rate is determined by completing the *Schedule D Tax Worksheet*.

The \$420 jury duty fee is income (line 21, page 1 of Form 1040) but none of the expenses relating to the jury duty [\$30 (parking), \$45 (meals), and use of automobile] are deductible—covered in Chapter 3 of the text.

15. The \$3,520 of mortgage interest reported on line 10 of Schedule A is the \$4,400 reduced by the \$880 claimed as part of the home office deduction (see item 4).

Charitable contributions of \$3,800 are reported on line 16 of Schedule A, the total of \$3,200 of the Johnsons' contributions plus the \$600 the Johnsons paid on Vivian's pledge.

The \$2,480 of ad valorem taxes reported on line 6 of Schedule is the \$3,100 reduced by the \$620 claimed as part of the home office deduction (see item 4).

Medical expenses of \$12,197 are reported on line 1 of Schedule A, reflecting the Johnsons' expenses of \$4,800, Vivian's medical expenses of \$7,300 (see item 12), and medical mileage of \$97 (420 miles  $\times$  23 cents).

Since Wyoming does not have a state income tax, the Johnsons will deduct their sales tax on Schedule A. Since the Johnsons do not keep track of their sales taxes, their deduction will be determined based on their 107,075 of adjusted AGI (AGI 105,175 + 1,900 City of Cheyenne interest income) and their five exemptions. Their deductible sales tax is 2,541 (state tax of 753 + 10 cal tax of 188 + 1,600 for the sales tax on the camper).

16. Besides two personal exemptions, the Johnsons can claim dependency exemptions for Vivian, Kirby, and Toby. Both Kirby and Toby meet the qualifying child definition, while Vivian is a qualifying relative. Meredith, however, meets neither classification. She is not a qualifying child due to the age test (i.e., not under 19, disabled, or a student), and she is not a qualifying relative due to the gross income test (i.e., income in excess of \$3,500).

17. A brief summary of the Johnsons' tax return for 2015 appears below.

Gross income:	
Salary	\$38,000
Schedule B	7,000
Schedule C	70,544
Schedule D	9,100
Schedule E	2,895
Miscellaneous (jury pay)	420
Deductions for AGI:	
Deductible self-employment tax	(4,984)
H.R. 10 and IRA	(14,000)
Health insurance premiums	(3,800)
AGI	\$105,175
Itemized deductions (deductions from AGI)	(14,020)
Personal and dependency exemptions	(20,000)
Taxable income	<u>\$ 71,155</u>

Computation of tax liability through use of the *Schedule D Tax Worksheet* yields a liability of \$8,734. To this is added the self-employment tax of \$9,967 (see Schedule SE) for a total amount due of \$18,701. As the Johnsons had paid in \$21,250 (\$150 overpayment for 2014 + \$5,100 Sheri's withholdings + \$16,000 quarterly estimated tax payments), the overpayment of \$2,549 (\$21,250 - \$18,701) is applied towards their 2016 tax liability.

1040		nent of the Treasury—Internal F		(99) Return 20	15	MB No. 1545-I	0074 IRS U	se Only—D	o not write	or staple in t	his space
	ec. 31, 201	5, or other tax year beginning			2015, ending	, 1040	20			structions.	
Your first name and	d initial		Last name							urity numb	er
David		R	Johnson					1	11-11	-1112	
If a joint return, spo	ouse's first		Last name							I security n	umber
Sheri		N	Johnson					12	23-45	-6785	
Home address (nur 641 Cody		street). If you have a P.O. b	oox, see instructior	IS.			Apt. no.			the SSN(s) e 6c are co	
City, town or post of	office, state	e, and ZIP code. If you have	e a foreign address	s, also complete space	s below (see ii	nstructions).				lection Car	
Casper			WY 826	09						or your spous o to this fund	
Foreign country nar	me		Foreign pr	ovince/state/county		Foreign p	ostal code		ow will not	t change your	
Filing Status	1 [ 2 X	Single	even if only one	had income)	⁺ └── qualify		old (with qu n is a child				
Check only one	3	Married filing separa	-			s name nei	С.				
box.	3	and full name here.	ery. Enter spou								
		►			5 Quali	fying widow	v(er) with d	ependen	t child		
Exemptions	6a	X Yourself. If some	one can claim	ou as a dependent	. do not che	eck box 6a			Boxes c		2
_xomptiono					,			}	on 6a ar No. of (	children	
	b						4) X if child ur		on 6c v	vho:	2
	C (1) First r	Dependents: name Last name		(2) Dependent's social security number	(3) Deper relationship	idents 1	qualifying for child (see instruct	tax credit		with you ot live with	
	Kirb		n	123-45-6788	Daughte	er	Loce manuch		you due	to divorce	
If more than four	Toby	-	n	123-45-6789	-				or separ (see ins	tructions)	
dependents, see	Vivi			123-45-6786						ents on 6c	1
instructions and check here ►			tions alsimod						Add nur	red above	5
	d 7	Total number of exemp							lines ab		
Income	'	Wages, salaries, tips, o	elc. Allach For	n(s) vv-2					7		,000
	8a	Taxable interest. Attac	h Schedule B if	required					8a	6	,300
Attack Correcto	b	Tax-exempt interest.	<b>)o not</b> include o	on line 8a		81	<b>o</b>	1,900			
Attach Form(s) W-2 here. Also	9a	Ordinary dividends. Att	ach Schedule E	B if required					9a		700
attach Forms	b	Qualified dividends .				9ł	<b>o</b>	700			
W-2G and	10	Taxable refunds, credi	ts, or offsets of	state and local inco	me taxes .				10		0
1099-R if tax	11	Alimony received							11		
was withheld.	12	Business income or (Ic	oss). Attach Sch	edule C or C-EZ .				· · · <u>· ·</u>	12		,544
	13	Capital gain or (loss).	Attach Schedule D if r	equired. If not required, c	heck here			►∟	13	9	,100
If you did not	14	Other gains or (losses)	). Attach Form 4	797					14		
get a W-2, see instructions.	15a	IRA distributions		<b>15a</b>		<b>b</b> Taxab	ole amount		15b		0
see manualions.	16a	Pensions and annuitie	S	<b>16a</b>		<b>b</b> Taxab	ole amount		16b		0
	17	Rental real estate, roy		• • •					17	2	,895
	18	Farm income or (loss).	Attach Schedu	le F					18		0
	19	Unemployment compe	1	1	1				19		
	20a	Social security benefits	s 20a				nt		20b		100
	21	Other income. List type			JURY PA				21		420
	22	Combine the amounts	in the far right o	column for lines 7 th	rough 21. Tl	his is your	total incon	ne 🕨	22	127	,959
Adjusted	23					23	3	0			
Gross	24	Certain business expe			,			0			
Income		fee-basis government						0			
	25	Health savings accourt						0			
	26	Moving expenses. Atta						4,984			
	27	Deductible part of self-						9,000			
	28	Self-employed SEP, S						3,800			
	29	Self-employed health i						3,000			
	30	Penalty on early withd	-					0			
	31a	Alimony paid <b>b</b> Reci	•					5 000			
	32	IRA deduction						5,000			
	33	Student loan interest d	eduction								
	34	Tuition and fees. Attac						0			
	35	Domestic production a								~~	704
	36	Add lines 23 through 3							36		,784 ,175
	37	Subtract line 36 from li	,					🖻	37		, 1 / J

## 2017 Comprehensive Volume/Solutions Manual

Form 1040 (2015)	Da	avid R J	ohnson				1	11-11-	1112	Page <b>2</b>	
Tax and	38	Amount from line 37 (ad	ljusted gross income)	)					38	105 <b>,</b> 175	
Tax and	39a	Check Vou were	born before January	2, 1951,	Blind.	] Tota	al boxes				
Credits		if: Spouse \	vas born before Janu	ary 2, 1951,	Blind.	∫ che	cked 🕨 3	9a 📋			
Standard	b	If your spouse itemizes	on a separate return	or you were a	dual-status	alien, c	check here 🕨	39b			
Deduction for—	40	Itemized deductions (f	rom Schedule A) or y	our standard	deduction	(see let	ft margin)		40	14,020	
People who	41	Subtract line 40 from line 3	3						41	91,155	
check any box on line	42	Exemptions. If line 38 is \$7	54,950 or less, multiply	\$4,000 by the nu	umber on line	6d. Othe	rwise, see instruc	tions .	42	20,000 71,155	
39a or 39b or	43	Taxable income. Subtract	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-								
who can be claimed as a	44	Tax (see instructions). Check if	any from: a Form(s)	8814 b F	orm 4972 c				44	8,734	
dependent, see	45	Alternative minimum tax	see instructions). Attach	Form 6251				►	45	0	
instructions.	46	Excess advance premit	ım tax credit repayme	ent. Attach Foi	rm 8962 .				46		
All others:	47	Add lines 44, 45, and 4	6			· · · <u>·</u>	<u></u>		47	8,734	
Single or Married filing	48	Foreign tax credit. Attac	h Form 1116 if requir	red		4	8	0			
separately, \$6,300	49	Credit for child and dep	endent care expenses	s. Attach Forn	n 2441	. 4	9				
Married filing	50	Education credits from	Form 8863, line 19			. 5	0				
jointly or Qualifying	51	Retirement savings con	tributions credit. Attac	ch Form 8880		. 5	1	0			
widow(er),	52	Child tax credit. Attach	Schedule 8812, if req	uired		. 5	2				
\$12,600 Head of	53	Residential energy cred					3				
household,	54	Other credits from Form: a	3800 <b>b</b> 8801	c		5	4	0			
\$9,250	55	Add lines 48 through 54	. These are your tota	I credits					55	0	
	56	Subtract line 55 from lin	e 47. If line 55 is mor	re than line 47	, enter -0-			🕨	56	8,734	
Other	57	Self-employment tax. A	ttach Schedule SE						57	9,967	
	58	Unreported social secu					8919		58	0	
Taxes	59	Additional tax on IRAs,					9 if required		59	0	
	60 a	Household employment		•			•		60a	0	
	b								60b	0	
	61	Health care: individual r				37	7		61	0	
	62	Taxes from: a Form	8959 b Form 8960		ions: enter coo	de(s)	-	ĺ	62	0	
	63	Add lines 56 through 62	. This is your total ta	<b>x</b>					63	18,701	
Boymonto	64	Federal income tax with	•					5,100			
Payments	65	2015 estimated tax pay	ments and amount ap	oplied from 20	14 return		65 l	6,150			
If you have a	66a	Earned income credit	(EIC)			(	66a				
qualifying	b	Nontaxable combat pay		66b							
child, attach	67	Additional child tax cred		812		(	67				
Schedule EIC.	68	American opportunity c	redit from Form 8863,	, line 8		(	68				
	69	Net premium tax credit.	Attach Form 8962 .			🤇	69				
	70	Amount paid with reque	st for extension to file	ə		🔤	70				
	71	Excess social security a	and tier 1 RRTA tax w	vithheld		1	71	0			
	72	Credit for federal tax on	fuels. Attach Form 4	136		7	72				
	73	Credits from Form:									
		a 2439 b Rese				_	73	0			
	74	Add lines 64, 65, 66a, a	nd 67 through 73. Th	ese are your <b>t</b>	otal payme	nts .		🕨	74	21,250	
Refund	75	If line 74 is more than li	ne 63, subtract line 6	3 from line 74	. This is the	amoun	t you <b>overpaid</b>	·	75	2,549	
Direct deposit?	76a	Amount of line 75 you v	•						76a	0	
See	► b	Routing number XXXX		► c Ty	/pe: Ch	ecking	Saving:	5			
instructions.	► d	Account number XXXX									
	77	Amount of line 75 you v					•	2,549			
Amount	78	Amount you owe. Subt				<i>,</i> ,		· · ►	78		
You Owe	79	Estimated tax penalty (source and to allow another period					<b>79</b>	-			
Third Party	Desig			Phone		nstruct	/	Complete onal identifi		/ <u>X</u> No	
Designee	name	•	I have even in ad this return	no. ►	a aabadulaa ana	atotomor	numb	per (PIN)		▶	
Sign	they ar	e true, correct, and complete. De	claration of preparer (other th	han taxpayer) is ba	ased on all inform	nation of	which preparer has	any knowled	ge.	pumbor	
Here Joint return? See	TOULS	ignature		Date	Your occupat		neer		•	<b>number</b> 55 <b>-</b> 0010	
instructions.	Spous	e's signature. If a joint return	both must sign	Date	Spouse's occ		11001			u an Identity Protection	
Keep a copy for your records.					Paraleg			PIN, ent here (se	er it		
Paid	Print/T	ype preparer's name	Preparer's signature			Da	ate	Check	if	PTIN	
Preparer								self-em	ployed		
Use Only	Firm's						Firm's EIN ►				
	Firm's	address <b>&gt;</b>					Phone no.				

KIA www.irs.gov/form1040

Form 1040 (2015)

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SCHEDULE A (Form 1040)		Itemized Deductions			0	MB No. 1545-0074
ronn 1040)		Information about Schedule A and its separate instructions is at	www.irs	s.gov/schedulea.		2015
epartment of the Treasunternal Revenue Service		Attach to Form 1040.		-	Se	achment quence No. 07
lame(s) shown on Fo David	orm 10	40 R Johnson				al security numbe
<b>Nedical</b>		Caution. Do not include expenses reimbursed or paid by others.				
ind Dental	1	Medical and dental expenses (see instructions)	1	12,197		
Expenses	2	Enter amount from Form 1040, line 38 $2 \mid 105, 175$				
	3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead	3	10,518		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	1,67
axes You	5	State and local (check only one box):				
Paid		a. Income taxes, or	5	2,541		
		b. 🖾 General sales taxes 👌	5			
	6	Real estate taxes (see instructions)	6	2,480		
	7	Personal property taxes	7	0		
	8	Other taxes. List type and amount				
			8	0		
	9	Add lines 5 through 8			9	5,02
nterest		Home mortgage interest and points reported to you on Form 1098	10	3,520		
You Paid	11	Home mortgage interest not reported to you on Form 1098. If paid				
		to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address				
lote.						
our mortgage						
nterest eduction may			11	0		
e limited (see	12	Points not reported to you on Form 1098. See instructions for	12	0		
nstructions).	13	special rules	13	0		
		Investment interest. Attach Form 4952 if required. (See instructions.)	14			
		Add lines 10 through 14			15	3,520
Gifts to		Gifts by cash or check. If you made any gift of \$250 or more,				
Charity		see instructions	16	3,800		
f you made a	17	Other than by cash or check. If any gift of \$250 or more, see	17	0		
lift and got a	40	instructions. You <b>must</b> attach Form 8283 if over \$500	18	0		
enefit for it, ee instructions.		Carryover from prior year			19	3,800
Casualty and	13				19	
Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)			20	C
Job Expenses	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required.				
and Certain		(See instructions.) ► Form 2106				
Miscellaneous	i			1 240		
Deductions			21	1,340		
		Tax preparation fees	22			
	23	Other expenses—investment, safe deposit box, etc. List type and amount ►				
			23	0		
	24	Add lines 21 through 23	24	1,340		
	25	Add lines 21 through 23				
	26	Multiply line 25 by 2% (.02)	26	2,104		
		Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-			27	(
Other Alexallanaaua					1	
Aiscellaneous Deductions	i				28	(
otal	29	Is Form 1040, line 38, over \$154,950?				
temized		X No. Your deduction is not limited. Add the amounts in the far right colum	n T	1	20	14,020
Deductions		for lines 4 through 28. Also, enter this amount on Form 1040, line 40.		} · · · · · · · ⊨	29	14,020
	20	└── Worksheet in the instructions to figure the amount to enter.		1		
		If you elect to itemize deductions even though they are less than your standa deduction, check here				

SCHEDULE E		Interest and Ordinary Dividends	ļ	OMB No. 154	45-0074	
(Form 1040A or	1040)	► Attach to Form 1040A or 1040.		201	15	
Department of the Trea		Information about Sabadula D and its instructions is a unusule source badulat.		Attachment		
Internal Revenue Servi Name(s) shown on		/)	Yours	Sequence No social security number		
David		R Johnson		-11-1112		
Part I	1	List name of payer. If any interest is from a seller-financed mortgage and the		Amou	nt	
Interest		buyer used the property as a personal residence, see instructions and list this interest first. Also, show that buyer's social security number and address				
interest		City of Cheyenne			0	
		Wells Fargo Bank		1,	100	
	£	Bank of America			400	
(See instructions Schedule B. and		Local Rancher		4,	800	
instructions for						
Form 1040A, or			1			
Form 1040, line 8a.)						
into ou.)						
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	•		2	6	300	
payer and enter		Add the amounts on line 1	2	•,	500	
the total interest shown on that	3	Excludable interest on series EE and I U.S. savings bonds issued after 1989.	3			
form.		Attach Form 8815				
	4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a	4	6,	300	
	Not	e: If line 4 is over \$1,500, you must complete Part III.		Amou		
Part II	5	List name of payer ►		741104		
i uitii	•	Meadowlark Corp.			700	
Ordinary						
Dividends						
Binacinac						
(See instructions						
for Schedule B, a instructions for	na the					
Form 1040A, or						
Form 1040,						
line 9a.)			5			
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	6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form				
on that form.	-	1040, line 9a	6		700	
		If line 6 is over \$1,500, you must complete Part III.				
		ust complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b)			Yes	No
Part III		n account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreig At any time during 2015, did you have a financial interest in or signature authority over a fir				
	7 a	account (such as a bank account, securities account, or brokerage account) located in a for	reign			Х
Foreign		country? See instructions		· · · · · · · ·		21
Accounts		Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form				
and Trusts	Ŀ	and its instructions for filing requirements and exceptions to those requirements				
(See	b	If you are required to file FinCEN Form 114, enter the name of the foreign country where th financial account is located	e			
instructions.)	8	During 2015 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.	· · · · ·			Х
KIA For Pa	perwo	rk Reduction Act Notice, see your tax return instructions.	chedule	B (Form 1040A o	or 1040)	2015

	HEDULE C rm 1040)					From Business		OMB No. 1545-0074
(FO	1111 1040)			•	•	prietorship)		2015
	tment of the Treasury al Revenue Service (99)					arate instructions is at www.irs.go artnerships generally must file Form 10		Attachment Sequence No. 09
Name	e of proprietor							y number (SSN)
	David	R Joł	nnso	n				-11-1112
A				g product or service (see	instruc	ctions)	B Enter code fr	541990
	- · · ·			ning companies			D Employer ID	number (EIN), (see instr.)
CI	Business name. If no	separate bus	mess	lame, leave blank.			D Employer ib	
	Business address (inc City, town or post offic	e, state, and	ZIP co					
	Accounting method:	(1) 🛛 Ca		(2) Accrual (3)		er (specify) ▶		
						015? If "No," see instructions for limi		
	•			•				
	• • • •				,	s) 1099? (see instructions)		
1		l you file requ	lired F	orms 1099?				Yes No
	rt I Income	las Casinstr		a far line 1 and aback the		this is seen a second to see an		
1						this income was reported to you on	▶ 1	117,620
2								117,620
3								
4	•	· ,					· · ·   _ +	117,620
5	•					refund (see instructions)		11/1020
6 7		•		•				117,620
						home <b>only</b> on line 30.		
8	Advertising		8	2,400	18	Office expense (see instructions)	18	1,200
9	Car and truck expen			,	19	Pension and profit-sharing plans	19	
Ū	instructions)		9	5,390	20	Rent or lease (see instructions):		
10	Commissions and fe	es	10		20 a	Vehicles, machinery, and equipme	nt 20a	0
11	Contract labor (see	instructions)	11		b		206	
12	Depletion	,	12		21	Repairs and maintenance	24	
13	Depreciation and se	ction 179			22	Supplies (not included in Part III)		3,200
	expense deduction (				23	Taxes and licenses		300
	included in Part III) ( instructions)	•	13	9,390	24	Travel, meals, and entertainment:		
14	Employee benefit pr				а	Travel	24a	14,320
14	(other than on line 1		14		b			0.050
15	Insurance (other tha	in health) .	15			entertainment (see instructions)		3,050
16	Interest:				25	Utilities	25	
а	Mortgage (paid to ba	anks, etc.)	16a		26	Wages (less employment credits)	26	1 000
b	Other		16b		27a	Other expenses (from line 48)		1,280
17	Legal and profession	nal services	17		b	Reserved for future use		40 500
28	Total expenses bef	ore expenses	s for bu	usiness use of home. Ad	d lines	8 through 27a		40,530
29		,					29	77,090
30	•	,		•	xpense	s elsewhere. Attach Form 8829		
	unless using the sin	•	`	e instructions). ne total square footage o	of (a) v	our home:		
	•					. Use the Simplified	_	
						line 30	30	6,546
31	Net profit or (loss).	Subtract line	e 30 fro	om line 29.				
	• • •				R, line	13) and on Schedule SE, line 2.	ו ו ו	
	-					, enter on Form 1041, line 3.	} 31	70,544
	• If a loss, you mus	•				-	l	
32	•			•		s activity (see instructions).		
	•					Form 1040NR, line 13) and a 31 instructions). Estates and	32a	All investment is at risk
	trusts, enter on For	•		a the box of fille 1, see		or manucional. Estates and	32b	Some investment is no at risk.
				h <b>Form 6198.</b> Your loss	may be	e limited.	J	
KIA	For Paperwork	Reduction A	Act No	tice, see the separate i	nstruc	tions.	Schedu	le C (Form 1040) 2015

### E-12

Scheo	lule C (Form 1040) 2015	David	R Johnson	111	-11-1112	Page <b>2</b>
Pa	rt III Cost of Goods	Sold (see instru	ictions)			
33	Method(s) used to value closing inventory:	a 🗌 Cost	<b>b</b> Lower of cost or ma	ırket c 🗌 Ot	her (attach explana	tion)
34		letermining quantitie	es, costs, or valuations between opening		· ·	, 
	If "Yes," attach explanation	1			Yes	No
35	Inventory at beginning of ye	ear. If different from	n last year's closing inventory, attach exp	lanation	5	
36	Purchases less cost of iten	ns withdrawn for pe	rsonal use		6	
37	Cost of labor. Do not includ	de any amounts paid	d to yourself		7	
38	Materials and supplies				В	
39	Other costs				9	
40	Add lines 35 through 39 .				0	0
41	Inventory at end of year .				1	
42			e 40. Enter the result here and on line 4			0
Pa			Complete this part <b>only</b> if you are 1 4562 for this business. See the			
	file Form 4562.		14302 101 tills busilless. See the			ou musi
43	When did you place your v	ehicle in service for	business purposes? (month, day, year)	▶		
44	Of the total number of mile	s you drove your ve	ehicle during 2015, enter the number of r	niles you used your vehic	le for:	
а	Business	b Comm	nuting (see instructions)	<b>c</b> Other		
45	Was your vehicle available	for personal use du	uring off-duty hours?		Yes	No
46	Do you (or your spouse) ha	ave another vehicle	available for personal use?		Yes	No
47a	Do you have evidence to s	upport your deduction	on?		Yes	No
1100000010010010010			isiness expenses not included or			No
	Telephone/Intern	let				860
	Trade Journals					240
	Professional Due	s				180
48	Total other expenses. En	ter here and on line	27a		1	,280
KIA					Schedule C (For	

	IEDULE D	Capital Ga	ains and Lo	sses		$\vdash$	OMB No. 1545-0074
•	rm 1040)		rm 1040 or Form 10	040NR.	aov/schedulea	,	2015
Interna	al Revenue Service (99)	<ul> <li>Use Form 8949 to list your tr</li> </ul>	•		d 10.		Attachment Sequence No. 12
	e <b>(s) shown on return</b> vid R	Johnson			You		i <b>al security number</b> 1−11−1112
Pa	rt I Short-Terr	n Capital Gains and Losses—Ass	ets Held One Y	ear or Less			
	instructions for how below.	v to figure the amounts to enter on the	(d)	(e)	(g) Adjustments		(h) Gain or (loss) Subtract column (e)
This		r to complete if you round off cents to	Proceeds (sales price)	Cost (or other basis)	to gain or loss fro Form(s) 8949, Pa line 2, column (g	rt I,	from column (d) and combine the result with column (g)
1a	1099-B for which b which you have no However, if you ch	-term transactions reported on Form basis was reported to the IRS and for badjustments (see instructions). hoose to report all these transactions ave this line blank and go to line 1b	0	0			0
1b		actions reported on Form(s) 8949 with	0	0		0	0
2		actions reported on Form(s) 8949 with	0	0		0	0
3		actions reported on Form(s) 8949 with	0	0		0	0
4 5	Short-term gain from	n Form 6252 and short-term gain or (loss) fro in or (loss) from partnerships, S corpora	ations, estates, an	d trusts from		4 5	0
6	Short-term capital	loss carryover. Enter the amount, if an heet in the instructions.				6	( -4,000)
7	Net short-term ca	apital gain or (loss). Combine lines 1a	through 6 in colu	mn (h). If you have	e any	7	-4,000
Pa		gains or losses, go to Part II below. Oth n Capital Gains and Losses—Ass			je	/	4,000
See	instructions for how	v to figure the amounts to enter on the			(g)		(h) Gain or (loss)
This	s below. form may be easie le dollars.	r to complete if you round off cents to	(d) Proceeds (sales price)	<b>(e)</b> Cost (or other basis)	Adjustments to gain or loss fro Form(s) 8949, Pai line 2, column (g	t II,	Subtract column (e) from column (d) and combine the result with column (g)
	Totals for all long- 1099-B for which b which you have no However, if you ch	term transactions reported on Form asis was reported to the IRS and for o adjustments (see instructions). noose to report all these transactions ave this line blank and go to line 8b	0	0			0
8b		actions reported on Form(s) 8949 with	0	0		0	0
9	Totals for all trans	actions reported on Form(s) 8949 with	0	0		0	0
10		actions reported on Form(s) 8949 with	29,000	25,900		0	3,100
11	Gain from Form 4 from Forms 4684,	797, Part I; long-term gain from Forms 2 6781, and 8824		nd long-term gain		11	10,000
12	Net long-term gain	n or (loss) from partnerships, S corporat	tions, estates, and	trusts from Scheo	dule(s) K-1	12	
13	Capital gain distrik	outions. See the instructions			[	13	0
14		loss carryover. Enter the amount, if any heet in the instructions		our Capital Loss		14	( <sup>0</sup> )
15	Net long-term ca	<b>pital gain or (loss).</b> Combine lines 8a	through 14 in colu	mn (h). Then go to	o Part III on	15	13,100
KIA		Reduction Act Notice, see your tax return					le D (Form 1040) 2015

Sche	dule D (Form 1040) 2015 David R Johnson	111-11-1112	Page <b>2</b>
Pa	rt III Summary		
16	Combine lines 7 and 15 and enter the result	. 16	9,100
	• If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line		
	14. Then go to line 17 below.		
	• If line 16 is a <b>loss</b> , skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.		
	<ul> <li>If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul>		
17	Are lines 15 and 16 both gains?		
	Yes. Go to line 18.		
	No. Skip lines 18 through 21, and go to line 22.		
18	Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions	▶ 18	3,000
19	Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> in the instructions	▶ 19	0
20	Are lines 18 and 19 both zero or blank?		
	Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Do not complete lines 21 and 22 below.		
	X No. Complete the Schedule D Tax Worksheet in the instructions. Do not complete lines 21 and 22 below.		
21	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the <b>smaller</b> of:		
	<ul> <li>The loss on line 16 or</li> <li>(\$3,000), or if married filing separately, (\$1,500)</li> </ul>	. 21 (	)
	Note. When figuring which amount is smaller, treat both amounts as positive numbers.		
22	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?		
	Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).	r	
	No. Complete the rest of Form 1040 and Form 1040NR.		
KIA		Schedule D (Form	1040) 2015

Form 8949 (2015)			Attachment Sequence No. 12A P	9age <b>2</b>				
Name(s) shown on return	shown on return. Name and SSN or taxpayer identification no. not required if shown on Page 1 Social security number or taxpayer identification number							
David	R	Johnson	111-11-1112					

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

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

**Note.** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

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

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

[X] (F) Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property	<b>(b)</b> Date acquired	(c) Date sold or	(d) Proceeds	(e) Cost or other basis See the <b>Note</b> below	Adjustment, if If you enter an a enter a co See the sepa	(h) Gain or (loss). Subtract column (e) from column (d) and	
(Example: 100 sh. XYZ Co.)	(Mo., day, yr.)	disposed of (Mo., day, yr.)	(sales price) (see instructions)	and see Column (e) in the separate instructions	(f) Code(s) from instructions	(g) Amount of adjustment	combine the result with column (g)
Cormorant Stock	03/07/14	WORTHLESS	WORTHLESS	3,900		0	-3,900
Antique Gun Collection	inherit	07/10/15	29,000	22,000	С	0	7,000
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
2 Totals. Add the amounts in columns (d), negative amounts). Enter each total here Schedule D, line 8b (if Box D above is c above is checked), or line 10 (if Box F a	e and include on you checked), <b>line 9</b> (if <b>E</b>	ır	29,000	25,900		0	3,100

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

KIA

Form 8949 (2015)

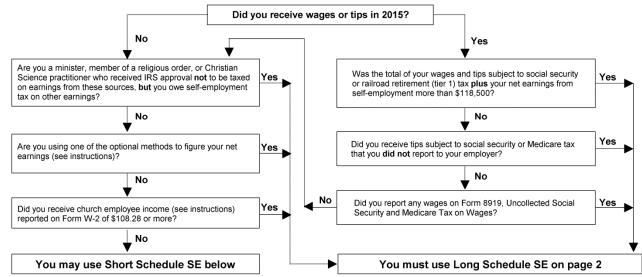
SCH	IEDULE E				ç	Տարո	lemer	ntal In	con	ne a	nd		\$			L	OMB	lo. 154	5-0074
(Fo	rm 1040) (	(From	n re	ental r				tnerships,						, REM	llCs, e	tc.)	2	∩ <b>1</b>	5
Depar	tment of the Treasury	•				-	-	orm 1040, 10	-										J
Intern	al Revenue Service (99)	► Inf	nfor	rmatic	n about	t Sched	ule E and	its separa	te inst	ructior	ıs is	at www	.irs.g	ov/scl				nce No.	13
	e <b>(s) shown on return</b> David F	R Jo	ohi	nsor	n												ocial see		
Pa						tal Rea	al Estate	and Ro	valtie	S Note	a Ify	vou are in	ho hus	inces (	of rentir				
	Schedule C or	r C-EZ	Z (se	ee instr	uctions). I	if you are	an individua	al, report farm	rental	income c	or los	s from Fo	rm 483	5 on pa	age 2, I	ine 40.		icity, ut	
Α	Did you make any pa	ayme	ents	ts in 2	015 tha	at would	I require	you to file	Form	(s) 109	99?	(see ins	tructi	ons)			Yes	Х	No
BI	f "Yes," did you or w	will yo	ou f	file al	i require	ed Form	ns 1099?										Yes		No
1a	Physical address of e	each p	pro	operty	(street, e	city, stat	e, ZIP cod	de)											
Α	4620 Cottonwo	ood 1	Ln	n Ca	sper	WY 82	609												
в																			
С														_					
1b	Type of Property (from list below)							property liste	ed			Fair Re Day			Pers Use	onal		Q.	IV
Α	1							rental and JV box only	. if		<u>م</u>				036	0			
B	±							e as a qual			в			_					
c			j	joint v	enture. \$	See instr	ructions.												
Тур	e of Property:									I				I					
1 Sir	ngle Family Residence	е		3	Vacatior	n/Short-T	Term Rent	al	5 La	nd		7 Se	lf-Rer	ntal					
2 Mu	Ilti-Family Residence			4	Comme	rcial			6 R	oyalties		8 O	ther (o	describ	be)				
Inco	ome:						Pro	perties:				A	_		В			С	
3	Rents received .								3		2	8,600							
_4	Royalties received				•••				4			0	_			0	_		0
-	enses:											0							
5	Advertising								5			0							
6	Auto and travel (se				,				6			1,200							
7	Cleaning and main								7			1,200							
8	Commissions								8			3,100							
9	Insurance								9			0	_						
10	Legal and other pr								10			0							
11	Management fees								11 12			0	_						
12 13	Mortgage interest   Other interest	•				•	,	•	13			0	-						
14	Repairs								14			800	-						
15	Supplies								15			0							
16	Taxes								16			2,400	-						
17	Utilities								17			0							
18	Depreciation expen								18		1	8,205							
19	Other (list) ►								19			0							
20	Total expenses. Ad	dd lin	nes	s 5 thr	ough 1	9			20		2.	5,705				0			0
21	Subtract line 20 fro a (loss), see instructi								21			2,895				0			0
22	Deductible rental r on <b>Form 8582</b> (se						ion, if any		22	(		0	) (			)	(		)
23a									L			23	a		28,6	500 <b>´</b>			
	Total of all amount	-	-													0			
	Total of all amount		•					•								0			
	Total of all amount		•				• •					23	d		18,2				
е	Total of all amount	ts rep	port	rted o	n line 2	0 for all	propertie	es				23	e		25,	705			
24	Income. Add posit	tive a	amo	ounts	shown	on line	21. <b>Do r</b>	10t include	e any	losses						24		2	,895
25	Losses. Add royal	lty los	sse	es fro	m line 2	21 and r	rental rea	al estate lo	sses	from lir	ne 2	2. Enter	total	losses	here.	25	(		0)
26	<b>Total rental real e</b> If Parts II, III, IV, ar 17, or Form 1040N	nd lin	ne 4	40 on	page 2	2 do not	t apply to	you, also	enter	this ar	mou	nt on Fo	orm 1	040,				0	0.05
KIA	For Paperw		Red	ductio	n Act N	otice c	ee the ear	narate inct	ructio	ne						26			,895
	rorraperw		eu	auouu	II ACL N	- u.c., 3t	uic 3ch	Julate IIISt							- 30	meau	ne E (F(	////////	040) 2015

SCHEDULE SE (Form 1040) Department of the Treasury Internal Revenue Service (99	► Information about Schedule SE and its separate in ► Attach to Form 1040 or	structions is at www.irs.gov/schedul	OMB No. 1545-0074 <b>2015</b> Attachment Sequence No. 17
Name of person with self-er	nployment income (as shown on Form 1040 or Form 1040NR)	Social security number of person	
David R	Johnson	with <b>self-employment</b> income	111-11-1112

Before you begin: To determine if you must file Schedule SE, see the instructions.

### May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart only if you must file Schedule SE. If unsure, see Who Must File Schedule SE in the instructions.



Sec	tion A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.			
1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A.	1a		0
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z	1b	(	<sup>0</sup> )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2		70,544
3	Combine lines 1a, 1b, and 2	3		70,544
4	Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; <b>do not</b> file this schedule unless you have an amount on line 1b	4		65 <b>,</b> 147
	<b>Note.</b> If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.			
5	Self-employment tax. If the amount on line 4 is:			
	• \$118,500 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55.			
	• More than \$118,500, multiply line 4 by 2.9% (.029). Then, add \$14,694 to the result. Enter the total here and on <b>Form 1040, line 57,</b> or <b>Form 1040NR, line 55.</b>	5		9,967
6	Deduction for one-half of self-employment tax.Multiply line 5 by 50% (.50). Enter the result here and on Form1040, line 27, or Form 1040NR, line 276			
KIA	For Paperwork Reduction Act Notice, see your tax return instructions.	Sch	nedule SE (F	orm 1040) 2015

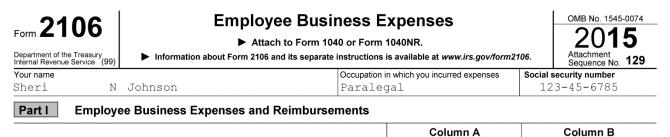
	0050	Installment Sale Income		OMB No. 1	545-0228
Form	6252	► Attach to your tax return.		20	15
Depart	ment of the Treasury	Use a separate form for each sale or other disposition of property on the installment m	ethod.	Attachmer	
	Revenue Service	Information about Form 6252 and its instructions is at www.irs.gov/form6252.	Idoutifi	Sequence	No. 79
Name	(s) shown on return David	R Johnson		/ing numbe 1-11-1	
1	Description of	property > Converse County Grazing Land			
2a	•		/02/14		
3		erty sold to a related party (see instructions) after May 14, 1980? If "No," skip line 4		Yes	XNo
4		erty you sold to a related party a marketable security? If "Yes," complete Part III. If "No,			
		III for the year of sale and the 2 years after the year of sale		Yes	No
Pa	rt I Gross	Profit and Contract Price. Complete this part for the year of sale only.			
5	Selling price in	ncluding mortgages and other debts. Do not include interest whether stated or unstated	d <u>5</u>		
6		bbts, and other liabilities the buyer assumed or took the			
-					
7	Subtract line 6	3 from line 5			
8 9		allowed or allowable			
10	•	s. Subtract line 9 from line 8			
11		and other expenses of sale			
12		ure from Form 4797, Part III (see instructions)			
13	Add lines 10, <sup>2</sup>	11, and 12	. 13		0
14		3 from line 5. If zero or less, do not complete the rest of this form (see instructions) .	. 14		0
15		described on line 1 above was your main home, enter the amount of your excluded	15		0
40		uctions). Otherwise, enter -0-	·		0
16 17		Subtract line 15 from line 14	·		
18		e. Add line 7 and line 17			
		nent Sale Income. Complete this part for the year of sale and any year you red		avment	or have
1 ui		debts you must treat as a payment on installment obligations.		aymente	n nave
19		ercentage (expressed as a decimal amount). Divide line 16 by line 18. For years after			
		e, see instructions		0.	3333
20	If this is the ye	ar of sale, enter the amount from line 17. Otherwise, enter -0-			0
21	Payments rece	eived during year (see instructions). Do not include interest, whether stated or unstated			5,000
22	Add lines 20 a	nd 21	. 22	6	5,000
23		eived in prior years (see instructions). Do not include			
			24	2	2,000
24 25		ale income. Multiply line 22 by line 19	·	2	0
25 26	•	of line 24 that is ordinary income under the recapture rules (see instructions)			2,000
26 Par		5 from line 24. Enter here and on Schedule D or Form 4797 (see instructions)			
		d Party Installment Sale Income. Do not complete if you received the final pa	yment tr	is tax ye	al
27	Name, addres	s, and taxpayer identifying number of related party			
28	Did the related	d party resell or dispose of the property ("second disposition") during this tax year?		Yes	No
29		uestion 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Ch	eck the box		
а	The secor	nd disposition was more than 2 years after the first disposition (other than dispositions	of		
		e securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)			
b		lisposition was a sale or exchange of stock to the issuing corporation.			
c		nd disposition was an involuntary conversion and the threat of conversion occurred after	er the first	dispositio	on.
d		nd disposition occurred after the death of the original seller or buyer. established to the satisfaction of the IRS that tax avoidance was not a principal purpose	for oithe	r of the	
е		ns. If this box is checked, attach an explanation (see instructions).			
30		f property sold by related party (see instructions)	. 30		
31		price from line 18 for year of first sale	. 31		
32		Iler of line 30 or line 31			
33		s received by the end of your 2015 tax year (see instructions)			
34		3 from line 32. If zero or less, enter -0-			
35		4 by the gross profit percentage on line 19 for year of first sale			
36 37	•	of line 35 that is ordinary income under the recapture rules (see instructions)	. 36		
37 KIA		66 from line 35. Enter here and on Schedule D or Form 4797 (see instructions)	. 37	Form 61	2 <b>52</b> (2015)
	i or Fapelw	Tork Reduction Act Notice, see page 4.			UL (2013)

	DEDD Dessive Activity Loss Limitations			OMB No. 1545-1008
Form	8582 Passive Activity Loss Limitations ► See separate instructions.			2045
	Attach to Form 1040 or Form 1041.			2013
	I Revenue Service (99) Information about Form 8582 and its instructions is available at www.irs.	gov/form85	582.	Attachment Seguence No. 88
	(s) shown on return			number
Dav			1-1	1-1112
Par	rt I 2015 Passive Activity Loss Caution: Complete Worksheets 1, 2 and 3 before completing Part I.			
Rent	tal Real Estate Activities With Active Participation (For the definition of active participation	on, see		
Spec	cial Allowance for Rental Real Estate Activities in the instructions.)			
1a	Activities with net income (enter the amount from Worksheet 1,	895		
		,095		
b	Activities with net loss (enter the amount from Worksheet 1, column (b))	0)		
c	(b))			
Ũ	column (c))	0)		
d	Combine lines 1a, 1b, and 1c		1d	2,895
	mercial Revitalization Deductions From Rental Real Estate Activities			
2a	Commercial revitalization deductions from Worksheet 2, column (a)	)		
b	Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)			
с	Add lines 2a and 2b		2c	( 0)
-	Other Passive Activities			· /
	Activities with net income (enter the amount from Worksheet 3,			
ou	column (a))	0		
b	Activities with net loss (enter the amount from Worksheet 3, column			
	(b))	0)		
С	Prior years unallowed losses (enter the amount from Worksheet 3,	0		
				0
	Combine lines 3a, 3b, and 3c		3d	0
4	Combine lines 1d, 2c, and 3d. If this line is zero or more, stop here and include this form v your return; all losses are allowed, including any prior year unallowed losses entered on li			
	2b, or 3c. Report the losses on the forms and schedules normally used		4	2,895
	If line 4 is a loss and: • Line 1d is a loss, go to Part II.			
	<ul> <li>Line 2c is a loss (and line 1d is zero or more), skip Part II and</li> </ul>	l go to Part	Ш.	
	<ul> <li>Line 3d is a loss (and lines 1d and 2c are zero or more), skip</li> </ul>	Parts II an	d III	and go to line 15.
	ti <b>on:</b> If your filing status is married filing separately and you lived with your spouse at any ti II or Part III. Instead, go to line 15.	me during	the y	ear, <b>do not</b> complete
	rt II Special Allowance for Rental Real Estate Activities With Active Particip	ation		
	<b>Note:</b> Enter all numbers in Part II as positive amounts. See instructions for an exam			
5	Enter the smaller of the loss on line 1d or the loss on line 4		5	
6	Enter \$150,000. If married filing separately, see instructions			
7	Enter modified adjusted gross income, but not less than zero (see instructions) 7			
	Note: If line 7 is greater than or equal to line 6, skip lines 8 and 9,			
0	enter -0- on line 10. Otherwise, go to line 8. Subtract line 7 from line 6			
	Multiply line 8 by 50% (.5). Do not enter more than \$25,000. If married filing separately, see instru	ctions	9	
10	Enter the <b>smaller</b> of line 5 or line 9		10	
	If line 2c is a loss, go to Part III. Otherwise, go to line 15.			
Par		tal Real E	sta	te Activities
	Note: Enter all numbers in Part III as positive amounts. See the example for Part II i			
11	Enter \$25,000 reduced by the amount, if any, on line 10. If married filing separately, see in	nstructions	11	
12	Enter the loss from line 4		12	
13	Reduce line 12 by the amount on line 10		13	
14 Dout	Enter the <b>smallest</b> of line 2c (treated as a positive amount), line 11, or line 13		14	
Par		1	4-	
	Add the income, if any, on lines 1a and 3a and enter the total	F	15	
16	Total losses allowed from all passive activities for 2015. Add lines 10, 14, and 15. See instructions to find out how to report the losses on your tax return		16	
KIA	For Paperwork Reduction Act Notice, see instructions.		10	Form <b>8582</b> (2015)

Caution: The worksheets must be					your record	ds.			
Vorksheet 1—For Form 8582, Lir	nes 1a, 1b, and 1	<b>c</b> (See i	nstructior	ıs.)					
	Currer	nt year		Pric	or years		Overall	gain or loss	
Name of activity	(a) Net income (line 1a)		(b) Net loss (line 1b)		(c) Unallowed loss (line 1c)		d) Gain	(e) Loss	
4620 Cottonwood Ln C	2,895		0		0		2,895	(	
otal. Enter on Form 8582, lines 1a, 1b, nd 1c	2,895		0		0				
Vorksheet 2—For Form 8582, Lir	nes 2a and 2b (S	ee instru	uctions.)						
Name of activity	(a) Curren deductions (		unallo		rior year ductions (lin	e 2b)	(c)	Overall Loss	
otal. Enter on Form 8582, lines 2a					0				
nd 2b ► Norksheet 3—For Form 8582, Lii	nes 3a, 3b, and 3	0 <b>3c (See</b> i	instructior	າຣ.)	0				
		nt year			or years		Overall	gain or loss	
Name of activity	(a) Net income (line 3a)		et loss e 3b)		nallowed (line 3c)	(	d) Gain	(e) Loss	
Total. Enter on Form 8582, lines 3a, 3b, and 3c									
Vorksheet 4—Use this workshee	t if an amount is	s shown	on Form	ı 8582,	line 10 or	<b>14</b> (S	ee instruct	ions.)	
Name of activity	Form or schedu and line numbe to be reported o (see instruction	er on	(a) Loss		(b) Ratio		(c) Special allowance	(d) Subtract column (c) from column (a)	
otal	lowed Losses (		uctions)		1.00				
Name of activity	Form or sche and line nun to be reporte (see instructi	edule 1ber d on		a) Loss		(b) Rat	io	(c) Unallowed loss	
ōtal						1.00			

0004	Like-Kind Exchanges		OMB No. 1545-1190	
m OOZ4 (and section 1043 conflict-of-interest sales) ► Attach to your tax return.			2015	
Iternal Revenue Service	Information about Form 8824 and its separate instructions is at www.irs.gov/form8824.	Ident	Sequence No. 109	
David	R Johnson		-11-1112	
Part I Infor	mation on the Like-Kind Exchange			
	operty described on line 1 or line 2 is real or personal property located outside the Unit like-kind property given up: hty Land	ed State	s, indicate the country	
	like-kind property received: nie City Lots			
3 Date like-kind	property given up was originally acquired (month, day, year)	3	03/10/97	
4 Date you actu	ally transferred your property to other party (month, day, year)	4	03/04/15	
	property you received was identified by written notice to another party (month, e instructions for 45-day written identification requirement	. 5	03/04/15	
6 Date you actua	ally received the like-kind property from other party (month, day, year). See instructions	6	03/04/15	
<b>Note:</b> Do not file property becam	igh an intermediary)? See instructions. If "Yes," complete Part II. If "No," go to Part III . e this form if a related party sold property into the exchange, directly or indirectly (such as through e your replacement property; and none of the exceptions in line 11 applies to the exchange. Inste le property as if the exchange had been a sale. If one of the exceptions on line 11 applies to the e	n an interi ad, repor	mediary); that t the	
	ted Party Exchange Information			
8 Name of related p	party Relationship to you	Related party's identifying number		
Address (no., stre	eet, and apt., room, or suite no., city or town, state, and ZIP code)			
the exchange) (or an interme	x year (and before the date that is 2 years after the last transfer of property that was par , did the related party sell or dispose of any part of the like-kind property received from diary) in the exchange?	you 	. Yes No	
If both lines 9 the year of the	, did you sell or dispose of any part of the like-kind property you received? and 10 are "No" and this is the year of the exchange, go to Part III. If both lines 9 and 1 e exchange, stop here. If either line 9 or line 10 is "Yes," complete Part III and report on or (loss) from line 24 <b>unless</b> one of the exceptions on line 11 applies.			
1 If one of the ex	cceptions below applies to the disposition, check the applicable box:			
a 🗌 The disp				
b 🗌 The disp	osition was after the death of either of the related parties.			
		exchange	Э.	
	osition was after the death of either of the related parties.			

Nameds blown on bar relam. During and a setting number if shown on page 1.       Your scale section of the shown of number if shown on page 1.         Part IIII       Realized Gain or (Loss), Recognized Gain, and Basis of Like-Kind Property Received         Caution: If you bandlend and nee encored if where the day properties or 60 sets or other (not like-kind properties).       Note: Complete lines 12 functional 1-4 only if you gave up property that was not like-kind. Otherwise, go to line 15.         12       Fair market value (FMV) of other property given up	Form	8824 (2015)		Page <b>2</b>			
Part III         Realized Gain or (Loss), Racognized Gain, and Basis of Like-Kind Property Received           Call for, If part brocking and ready of games han one out part of the kind properties of b) cash or other (not the kind) property.         Note: Complete lines 12 for uncells of games han one out part of the kind property and the kind) for port of the kind property.           Note: Complete lines 12 for uncells of the property given up         12         13           Adjusted basis of other property given up         13         14         0           Caution: If the property given up was used by as home, see Property used as home in the instructions.         14         0           Caution: If the property given up was used by as home, see Property used as home in the instructions.         15         8, 0,000           FMV of like-kind property you received         17         800,000         17         800,000           Adjusted basis of like-kind property ou received         19         750,000         19         750,000           Realized gin or (loss). Subtract line 18 form line 17         19         750,000         16         780,000           Realized gin or (loss). Subtract line 18 form line 17         19         750,000         21         0           Adjusted basis of like-kind property ou gave up, net amounts paid to other party, plus any waschinge expenses not used on line 15 (see instructions).         12         6,000           Realize				•			
Caution: If you transferred and received (a) more than one group of tike-kind property, ase Reporting of multi-asset exchanges in the instructions.       Note: Complete lines 12 through 14 only if you gave up property that was not like-kind Cherwise, go to line 15.         13       Adjusted basis of other property given up.       12         14       Cain or (loss) in the same manera is if the exchange had been a sale.       14         15       Cast market value (FMV) of other property given up.       15         16       Fair market value (FMV) of other property given up.       14         17       Cast monitor in the instructions.       16         18       Adjusted basis of other property received, plus net liabilities assumed by other party.       16         19       Cast monitor in the instructions.       16       792,000         19       Recluced (Qui not below zero) by any exchange expenses you incurred (see instructions).       17       80,000         10       Add lines 15 and 15       17       80,000       17       800,000         19       Realized gain or (loss). Subtract line 18 from line 17       19       762,000         10       Ordinary income under recepture rules. Enter here and on Form 477, line 16 (see instructions).       20       8,000         20       Subtract line 21 form line 21 form line 21 and 12.       23       5,0000         21							
see Reporting of multi-asset exchanges in the instructions.       Note: Complete lines 12 for using 14 only 19 you gave up property that was not like-kind. Otherwise, go to line 15.         12 Fair market value (FMV) of other property given up       12         33 Adjuated basis of other property given up       12         13 Adjuated basis of other property given up       12         14 Caution: If the property given up was used proviously or partly as a home, see Property used as home in the instructions.       14         15 Cash recoded. FMV of other property received, plus net liabilities assumed by other party, reduced (but not below zero) by any exchange expenses you incurred (see instructions).       15       6,000         16 FMV of like-ind property you received.       16       792,000       17       800,000         17 Add lines 15 and 16       17       800,000       19       750,000       19       750,000         20 Enert he smaller of line 15 or line 19, but not less than zero.       20       6,000       21       0         23 Subtact line 21 form line 20. If zero or less, enter -0 If more than zero, enter here and on Stehdub D or Form 4797, lines 16 (see instructions)       23       8,000         24 Deferred gain or (loss). Subtract line 15 form line 19. If a related party exchange, see instructions       24       742,000         23 Basis of like-kind property received. Subtract line 15 form les und lines 3 and 23       25       0,000	Га			property			
12       Fair market value (FMV) of other property given up       12         13       Adjusted basis of other property given up       13         14       Caution: If the smoot given up was used that been a sale       14         15       Caution: If the smoot given up was used proviously or particly as a home, see Property used as home in the institutions.       15         15       Cash received, FMV of other property received, plus net liabilities assumed by other party, reduced (but not below zero) by any exchange expenses you incurred (see instructions).       15       8,000         16       FMV of like-india property our received.       16       792,000         17       Add lines 15 and 16       17       800,000         18       Adjusted basis of like-kind property vourceived agin or (loss). Subtract line 15 form line 17       19       756,000         20       Breatized gain or (loss). Subtract line 16 form line 17       20       8,000         21       Ordinary income under recepture rules. Enter here and on Form 4797, line 16 (see instructions)       23       8,000         22       Breatis of Like-kind property received. Subtract line 15 form line 19. If a related party exchange, see instructions)       24       742,000         23       Breater dia agin or (loss). Subtract line 15 form line 19. If a related party exchange. see instructions)       24       742,000         23 <t< th=""><th></th><th>see Reporting of multi-asset exchanges in the instructions.</th><th>,,</th><th></th></t<>		see Reporting of multi-asset exchanges in the instructions.	,,				
13       Adjusted basis of other property given up.       13         14       Gain or (loss) in the same manner as if the exchange had been a sale       14         0       Caution: if the property given up. Subtract line 13 from line 12. Report the instructions in the instructions instructions in the instructions in			, go to line	15.			
14       Gain or (toss) recognized on other property given up. Subtract line 13 from line 12. Report the gain or (toss) in the same manner as if the exchange had been a sale.       14       0         Caution: if the property given up was used previously or partly as a home, see Property used as home, in the instructions.       15       8,000         15       Cash received, FMV of other property received, plus net liabilities assumed by other party, reduced (but not below zero) by any exchange expenses you incured (see instructions).       16       792,000         16       Adjusted basis of like-kind property you received       17       800,000         17       Add lines 15 and 16       17       800,000         18       Relized gain or (toss). Subtract line 16 from line 17       19       750,000         20       Enter the smaller of line 15 or line 19, but not less than zero       20       8,000         21       O       20       8,000       21       0         23       Subtract line 21 from line 20 from or 1ess, enter -0. from char zero, enter here and on Schedule D or Form 4797, unless the installment method applies (see instructions)       21       0         24       F42,000       Subtract line 15 from line 13 from line 13 method applies (see instructions)       22       8,000         25       Dso/non       Deforral of Gain From Section 1043 Conflict-of-Interest Sales       Note: This part is to be used only by offi							
gain or (loss) in the same manner as if the exchange had been a sele       14       0         Caution: If the property low nu was used previously or partly as a home, see Property used as home in the instructions.       15       6, 000         Cast incerview, FMV of other property received, plus net liabilities assumed by other party, reduced (but not below zero) by any exchange expenses you incurred (see instructions).       16       792, 000         16       FMV of like-kind property you received, plus net liabilities assumed by other party, plus any exchange expenses not used on line 15 de les instructions).       18       50, 000         17       800, 000       19       Realized gain or (loss). Subtract line 18 from line 17       20       4,000         20       Enter the smaller of line 15 or line 19, but tot less than zero       20       4,000         21       0       0       3,000       21       0         22       Balzod gain or (loss). Subtract line 13 from line 10. If a related party exchange, see instructions)       21       0         23       Babz or like-kind property received. Subtract line 15 from the sum of lines 18 and 23       25       50,000         24       Batz or like-kind property received. Subtract line 21 from line 10. If a related party exchange, see instructions)       24       742,000         23       Baconica gain or (loss). Subtract line 23 from line 19. If a related party exchange exchange exchange exchange exchan							
home in the instructions.       15       63. focueved. FMV of other property received, plus net liabilities assumed by other party.       15       8.,000         16       FMV of like-kind property you received.       16       792,000         17       Add lines t5 and 16       17       800,000         18       Adjusted basis of like-kind property you gave up, net amounts paid to other party, plus any exchange expenses not used on line 15 (see instructions).       18       50,000         19       Realized gain or (loss). Subtrat line 16 from line 17       20       8,000         20       Enter the smaller of line 15 or line 19, but to tiess than zero.       20       8,000         21       0.001       0.002       23       8,000         22       8,000       24       0.2         23       Subtract line 21 from line 20. If zero or less, enter -0. If more than zero, enter here and on Schedule or form 4797, unless the installment method applies (see instructions)       21       0.002         23       Befored gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions       24       742,000         25       50,000       Sol,000       25       50,000       25       50,000         24       Deforral of Gain From Soction 1043 Conflict-of-Interest Sales       25       50,000       26       742,000	14		14	0			
reduced (but not below zero) by any exchange expenses you incurred (see instructions)       15       F, 0.00         16       FMV of like-kind property you received       16       792, 0.00         17       Add lines 15 and 16       17       800, 0.00         18       Add lines 16 and 16       17       800, 0.00         19       Realized gain or (loss). Subtract line 16 from line 17       20       19       750, 0.00         20       Enter the smaller of line 15 or line 19, but not less than zero       20       8, 0.00         21       Ordinary income under recapture rules. Enter here and on Form 4797, line 16 (see instructions)       21       0         22       Berot the dain of (loss). Subtract line 23 from line 19. If a related pative exchange, see instructions       22       8, 0.00         23       Deferred of ain of (loss). Subtract line 23 from line 19. If a related pative exchange, see instructions       24       742, 0.00         24       Deferred of Gain From Section 1043 Conflict-of-Interest Sales       Note: This part is to be used only by officers or employees of the executive branch of the Federal Government or judicial officers or the sole of the sole part by comply with the conflict-of-Interest requirements. This part can be used only if the cost of the replacement property is more than the basis of the fideral Government (including certain spouses, minor or dependent children, and trustees as described in soction 16/43 for repopriting norarcosognities esclin 1043 or poperty to t							
16       FMV of like-kind property you received       16       7.92,000         17       Add lines 15 and 16       17       800,000         18       Adjustes 15 and 16       17       800,000         19       Realized gain or (loss). Subtract line 18 form line 17       19       750,000         20       Enter the smaller of line 15 or line 19, but not less than zero       20       8,000         21       Ordinary income under recapture rules. Enter here and on Form 4797, line 18 (see instructions)       21       0         22       Subtract line 21 form loss, enter-0 If more than zero, enter here and on Schedule D or Form 4797, unes the installment method applies (see instructions)       22       8,000         23       Recognized gain. Add lines 21 and 22.       23       8,000       24       96400         24       Deferred gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions       24       742,000         23       Basis of like-kind property received. Subtract line 15 from the sum of lines 18 and 23       25       50,000         24       Deferred of Goverment (nocluding certain spouses, mirro-or dependent children, and trustees as described in section 1043 or the sale of property to comply with the conflict-of-Interest Sales       16         70       Deferred of Goverment functionare recapture recifficate with your records.)       29	15		. 15				
11       Adjusted basis of like-kind property you gave up, net amounts paid to other party, plus any exchange expenses not used on line 15 (see instructions)       18       50,000         12       Realized gain or (loss). Subtract line 18 form line 17.       19       750,000         13       Adjusted basis of like-kind property was subtract line 20. If zero or less, enter -0.       10       0         14       0       0       0       10       0         14       0       0       0       18       50,000         15       0       0       0       18       50,000         16       0       0       0       0       0         17       0       0       0       0       0         18       50,000       0       0       0       0         19       750,000       20       8,000       21       0         20       Subtract line 21 form ine 19. If a related party exchange, see instructions       22       8,000         21       0       0       0       0       0       0       24       742,000         23       Be,000       0       0       0       0       0       0       0       0       0       0       0	16		. 16				
exchange expenses not used on line 15 (see instructions)       18       50,000         19       Realized gain or (loss). Subtract line 18 from line 17       19       750,000         20       Enter the smaller of line 15 or line 19, but not less than zero       20       8,000         21       Ordinary income under recapture rules. Enter here and on Form 4797, line 16 (see instructions)       21       0         23       Subtract line 21 from line 20. If zero or less, enter -0-1 ff more than zero, enter here and on Schedule D or Form 4797, unless the installment method applies (see instructions)       22       8,000         23       Recognized gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions       24       742,000         24       Deferred gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions       24       742,000         25       50,000       19       742,000       24       742,000         26       Basis of like-kind property received. Subtract line 15 from the sum of lines 18 and 23       25       50,000         Part IV       Deferreal of Gain From Section 1043 Conflict-of-Interest Sales       Note: This part is to bue sed only by officers or employees of the executive branch of the Federal Government or judicial officers of the Federal Government (including certain spouses, minor or dependent children, and trustees as described in section 1043) or repopring nonrecognition of gain velowing devendent chil	17	Add lines 15 and 16	17	800,000			
Bealized gain or (loss). Subtract line 18 from line 17       19       750,000         20       Enter the smaller of line 15 or line 19, but not less than zero       20       8,000         21       Ordinary income under recapture rules. Enter here and on Form 4797, line 16 (see instructions)       21       0         22       Subtract line 21 from line 20. If zero or less, enter -0. If more than zero, enter here and on Schedule D or Form 4797, unless the installment method applies (see instructions)       22       8,000         23       Recognized gain. Add lines 21 and 22       23       8,000         24       Deferred gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions       24       742,000         24       Basis of like-kind property received. Subtract line 15 from the sum of lines 18 and 23       25       50,000         Part IV       Deferral of Gain From Section 1043 Conflict-of-Interest Sales       The ordeparadent children, and fustess a described in section 1043 or repaide of property is more than the basis of the defearal Government (including certain spouses, mitor or dependent children, and fustess as described in section 1043 or repaide of property is more than the basis of the defearal Government (including certain spouses, mitor or dependent children, and fustess as described in section 1043 or repaide of property is more than the basis of the devised property.         26       Enter the number from the upper right comer of your certificate of divestiture. (Do not attach a copy of your certificate. Keep the certificate w	18	Adjusted basis of like-kind property you gave up, net amounts paid to other party, plus any		50.000			
Preduce gain of (0.03), 0.004 at the 0 line 19, but not less than zero       20       8,000         21       Ordinary income under recapture rules. Enter here and on Form 4797, line 16 (see instructions)       21       0         22       Subtract line 21 from line 20. If zero or less, enter -0. If more than zero, enter here and on Schedule D or Form 4797, unless the installment method applies (see instructions)       22       8,000         23       Recognized gain. Add lines 21 and 22       23       8,000         24       Deferred gain or (loss). Subtract line 23 from line 19. If a related party exchange, see instructions)       24       742,000         24       Deferred of Gain From Section 1043 Conflict-0-Interest Sales       742,000       25       50,000         Note: This part is to be used only by officers or employees of the executive branch of the Federal Government or judicial officers of the Federal Government (including certain spouses, minor or dependent children, and fustees as described in section 1043) for reporting nonrecognition of gain under section 1043 on the sale of property to comply with the conflict-0-interest requirements. This part can be used only if the cost of the replacement property is more than the basis of the divested property.							
20       Ender the sinal root of the PS, but not less than 2ero.       21       22       8, 000       22       8, 000       23       8, 000       23       8, 000       23       8, 000       23       8, 000       23       8, 000       23       8, 000       24       Deferred gain or (loss). Subtract line 21 from line 19. If a related party exchange, see instructions       24       742, 000       25       50, 000       24       Deferred Gain From Section 1043 Conflict-of-Interest Sales       25       50, 000       25       50, 000       24       Deferred of Gain From Section 1043 Conflict-of-Interest Sales       0 <td< td=""><td></td><td><b>-</b></td><td></td><td></td></td<>		<b>-</b>					
21       Ordinary income under recapture rules. Enter here and on Form 4797, line 16 (see instructions)       -1         22       Subtract line 21 from line 30. (fizer or less, enter -0.) from ethan zero, enter here and on Schedule D or Form 4797, unless the installment method applies (see instructions)       23       8,000         23       Recognized gain. Add lines 21 and 22       8,000       23       8,000         24       T42,000       23       8,000         25       Sobiated gain or (loss). Subtract line 13 from line 19. If a related party exchange, see instructions)       24       742,000         25       50,000       24       742,000       25       50,000         Part IV       Deferral of Gain From Section 1043 Conflict-of-Interest Sales       24       742,000       25       50,000         Note: This part is to be used only by officers or employees of the executive branch of the Federal Government (including certain spouses, minor or dependent children, and trustees as described in section 1043) for reporting nonrecognition of gain under section 1043 on the sale of property to comply with the conflict-of-interest frequirements. This part is to be used only if the cost of the replacement property is more than the basis of the divested property.			• •	•			
Schedule D or Form 4797, unless the installment method applies (see instructions)       22       8,000         23       Recognized gain. Add lines 21 and 22       3       8,000         24       Deferred gain or (loss). Subtract line 19. If a related party exchange, see instructions.       24       742,000         25       Basis of like-kind property received. Subtract line 15 from the sum of lines 18 and 23       25       50,000         Part IV       Deferrel of Gain From Section 1043 Conflict-of-Interest Sales       Note: This part is to be used only by officers or employees of the executive branch of the Federal Government or judicial officers of the Federal Government (including certain spouses, minor or dependent children, and trustees as described in section 1043) for reporting nonrecognition of gain under section 1043 on the sale of property to comply with the conflict-of-interest requirements. This part can be used only if the cost of the replacement property is more than the basis of the divested property.         Enter the number from the upper right corner of your certificate of divestiture. (Do not attach a copy of your certificate. Keep the certificate with your records.)       29         27       Description of replacement property			21				
23       Recognized gain. Add lines 21 and 22       23       8,000         24       Deferred gain or (loss). Subtract line 25 from line 19. If a related party exchange, see instructions       24       742,000         24       Deferral of Gain From Section 1043 Conflict-of-Interest Sales       25       50,000         Part IV Deferral of Gain From Section 1043 Conflict-of-Interest Sales         Note: This part is to be used only by officers or employees of the executive branch of the Federal Government or judicial officers of the Federal Government (including certain spouses, minor or dependent children, and trustees as described in section 1043) for reporting nonrecognition of gain under section 1043 on the sale of property to comply with the conflict-of-interest requirements. This part can be used only if the cost of the replacement property is more than the basis of the dested property.         26         Conflict-of-interest requirements. This part can be used only if the cost of the replacement property is more than the basis of the divested property.         26         27         29         28         29         29         30         30       Sales price of divested property uses old (month, day, year)         32       0         31							



Other Than Meals

#### Step 1 Enter Your Expenses

Ste	p 1 Enter Your Expenses		Other Than Meals and Entertainment	Meals and Entertainment		
1	Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1	0			
2	Parking fees, tolls, and transportation, including train, bus, etc., that <b>did not</b> involve overnight travel or commuting to and from work	2	0			
3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment	3				
4	Business expenses not included on lines 1 through 3. <b>Do not</b> include meals and entertainment	4	1,340			
5 6	Meals and entertainment expenses (see instructions)	5				
Ŭ	result. In Column B, enter the amount from line 5	6	1,340			

Note. If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

#### Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7	Enter reimbursements received from your employer that were <b>not</b>			
	reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see			
	instructions)	7	0	

#### Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

with disabilities: See the instructions for special rules on where to enter t For Paperwork Reduction Act Notice, see your tax return instructions.			10	1,340 Form <b>2106</b> (2015)
Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), I	ine 7)	. (Armed Forces		
8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For	9	1,340		0
is greater than line 6 in Column A, report the excess as income on	8	1,340		0
	Note. If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return. In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.) Add the amounts on line 9 of both columns and enter the total here. Also Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), I	is greater than line 6 in Column A, report the excess as income on       8         Form 1040, line 7 (or on Form 1040NR, line 8)       8         Note. If both columns of line 8 are zero, you cannot deduct       9         In Column A, enter the amount from line 8. In Column B, multiply line       9         Add the amounts on line 9 of both columns and enter the total here. Also, ent       9	is greater than line 6 in Column A, report the excess as income on       8       1,340         Form 1040, line 7 (or on Form 1040NR, line 8)       1,340         Note. If both columns of line 8 are zero, you cannot deduct       8       1,340         In Column A, enter the amount from line 8. In Column B, multiply line       8       1,340         In Column A, enter the amount from line 8. In Column B, multiply line       9       1,340         Add the amounts on business by 80% (.80) instead of 50%. For       9       1,340         Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on       Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 7). (Armed Forces	is greater than line 6 in Column A, report the excess as income on       8       1,340         Form 1040, line 7 (or on Form 1040NR, line 8)       1,340         Note. If both columns of line 8 are zero, you cannot deduct       1,340         employee business expenses. Stop here and attach Form 2106 to       1         your returm.       1         In Column A, enter the amount from line 8. In Column B, multiply line       1         8 by 50% (.50). (Employees subject to Department of Transportation       1         (DOT) hours of service limits: Multiply meal expenses incurred while       1,340         Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on       1,340

	8829 Expenses for E > File only with Schedule C					F	OMB No. 1545-0074
home you used for business during the year.							
	I Revenue Service (99)	nd its se	eparate instruction	ns is a	at www.irs.gov/form882	29.	Attachment Sequence No. 176
Name	(s) of proprietor(s)						social security number
_	David R Johnson						111-11-1112
Pa	rt I Part of Your Home Used for Business						
1	Area used regularly and exclusively for business, reg					1	600
•	inventory or product samples (see instructions)					2	3,000
2	Total area of home					2	20.00 %
3	Divide line 1 by line 2. Enter the result as a percenta					5	
	For daycare facilities not used exclusively for bus		-	othe	hr.		
4	Multiply days used for daycare during year by hours		•	5	8,760		
5 6	Total hours available for use during the year (365 days X 2- Divide line 4 by line 5. Enter the result as a decimal a			6	0,100		
7	Business percentage. For daycare facilities not used			-	ltinly line 6 by line 3		
'	(enter the result as a percentage). All others, enter the amount from I			,		7	20.00 %
Par							
8	Enter the amount from Schedule C, line 29, plus any gain of	derived f	rom the business u	se of	vour home.		
-	minus any loss from the trade or business not derived from					8	77 <b>,</b> 090
	See instructions for columns (a) and (b) before completing lines 9-21.		(a) Direct expens	es	(b) Indirect expenses		
9	Casualty losses (see instructions)	9					
10	Deductible mortgage interest (see instructions)				4,400		
11	Real estate taxes (see instructions)	44			3,100		
12	Add lines 9, 10, and 11			0	7,500		
13	Multiply line 12, column (b) by line 7	0.0000000000000000000000000000000000000		13	1,500		
14	Add line 12, column (a) and line 13					14	1,500
15	Subtract line 14 from line 8. If zero or less, enter -0-					15	75,590
16	Excess mortgage interest (see instructions)						
17	Insurance				2,300		
18	Rent		1,2	0.0	2,900		
19	Repairs and maintenance		1,2	00	4,800		
20	Utilities			0	4,000		
21	Other expenses (see instructions)		1,2	-	10,000		
22	Add lines 16 through 21	•		23	2,000		
23	Multiply line 22, column (b) by line 7			23	2,000		
24	Carryover of prior year operating expenses (see inst				ő	25	3,200
25 26	Add line 22, column (a), line 23, and line 24 Allowable operating expenses. Enter the <b>smaller</b> of					26	3,200
20 27	Limit on excess casualty losses and depreciation. Su					27	72,390
28	Excess casually losses (see instructions)			28	I · · · · · · · · · · · · · · · · · · ·		
29	Depreciation of your home from line 41 below			29	1,846		
30	Carryover of prior year excess casualty losses and d						
	instructions)			30	0		
31	Add lines 28 through 30					31	1,846
32	Allowable excess casualty losses and depreciation.					32	1,846
33	Add lines 14, 26, and 32					33	6,546
34	Casualty loss portion, if any, from lines 14 and 32. C			•	,	34	0
35	Allowable expenses for business use of your hor						
-	and on Schedule C, line 30. If your home was used f	or more	e than one busine	ess, s	see instructions	35	6,546
Par	-						400,000
36	Enter the <b>smaller</b> of your home's adjusted basis or it					36	,
37	Value of land included on line 36					37	40,000 360,000
38 39	Basis of building. Subtract line 37 from line 36 Business basis of building. Multiply line 38 by line 7					38 39	72,000
39 40	<b>o</b> , , , , , , , , , , , , , , , , , , ,					40	2.5640 %
40	Depreciation percentage (see instructions)					40	1,846
Par						71	-,0-0
			on tors antes 0			42	0
42 43	Operating expenses. Subtract line 26 from line 25. If Excess casualty losses and depreciation. Subtract line					42	0
KIA	For Paperwork Reduction Act Notice, see your tax r			o uid	1 2010, CHICI -0		Form <b>8829</b> (2015)

	Se	2015 tachment squence No. 179 gnumber 11-1112 500,000
Department of the Treasury Internal Revenue Service (99)       Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.         Name(s) shown on return David       Business or activity to which this form relates       Ide         David       R Johnson       SCH C 1       1         Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.       1         1       Maximum amount (see instructions)	Se entifyin 11- 1 2 3	g number 11-1112 500,000
Internal Revenue Service (99)       ► Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.         Name(s) shown on return       Business or activity to which this form relates       Ide         David       R Johnson       Business or activity to which this form relates       Ide         Part I       Election To Expense Certain Property Under Section 179       Ide         Note:       If you have any listed property, complete Part V before you complete Part I.       Image: Section 179         1       Maximum amount (see instructions)	Se entifyin 11- 1 2 3	g number 11-1112 500,000
David       R Johnson       SCH C 1       1         Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.       1         1       Maximum amount (see instructions)	11- 1 2 3	11-1112 500,000
Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.         1       Maximum amount (see instructions)         2       Total cost of section 179 property placed in service (see instructions)         3       Threshold cost of section 179 property before reduction in limitation (see instructions)         4       Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-         5       Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing	1 2 3	500,000
Note: If you have any listed property, complete Part V before you complete Part I.         1       Maximum amount (see instructions)         2       Total cost of section 179 property placed in service (see instructions)         3       Threshold cost of section 179 property before reduction in limitation (see instructions)         4       Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-         5       Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing	23	
<ol> <li>Maximum amount (see instructions)</li> <li>Total cost of section 179 property placed in service (see instructions)</li> <li>Threshold cost of section 179 property before reduction in limitation (see instructions)</li> <li>Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-</li> <li>Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing</li> </ol>	23	
<ul> <li>2 Total cost of section 179 property placed in service (see instructions)</li> <li>3 Threshold cost of section 179 property before reduction in limitation (see instructions)</li> <li>4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-</li> <li>5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing</li> </ul>	23	
<ul> <li>3 Threshold cost of section 179 property before reduction in limitation (see instructions)</li> <li>4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-</li> <li>5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing</li> </ul>	3	2,000,000
<ul> <li>4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-</li> <li>5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing</li> </ul>		UUU.UUU
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing		2,000,000
		0
	_	500,000
6 (a) Description of property (b) Cost (business use only) (c) Elected cost	5	500,000
G(i) Soor (connect on propertyFile Cabinet4,8004,800	_	
<b>7</b> Listed property. Enter the amount from line 29		
	-	4 000
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	4,800
9 Tentative deduction. Enter the smaller of line 5 or line 8	9	4,800
10 Carryover of disallowed deduction from line 13 of your 2014 Form 4562	10	
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	500,000
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	4,800
13    Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12    13	0	
Note: Do not use Part II or Part III below for listed property. Instead, use Part V.		
Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)	(See	instructions.)
14 Special depreciation allowance for qualified property (other than listed property) placed in service		
during the tax year (see instructions)	14	0
15 Property subject to section 168(f)(1) election	15	
16 Other depreciation (including ACRS)	16	
Part III MACRS Depreciation (Do not include listed property.) (See instructions.)		
Section A		
17 MACRS deductions for assets placed in service in tax years beginning before 2015	17	
18 If you are electing to group any assets placed in service during the tax year into one or more general		
asset accounts, check here		
Section B—Assets Placed in Service During 2015 Tax Year Using the General Depreciation Sy	/sten	n
(b) Month and (c) Basis for depreciation (d) Recovery (a) Convention (f) Month and (b) viewsference ung (d) Recovery (a) Convention (f) Month and		
	(9) DC	preciation deduction
(a) Classification of property year placed in service only—see instructions) (b) Recovery period (c) Recov		preciation deduction
(a) Classification of property year placed in (busiless/investment use period (c) Convention (i) Method		preciation deduction
Image: Text and the property     Service     Outsitess investment dse     Period     (e) Convention     (f) Meniod       19a     3-year property		
19a     3-year property     year placed in service     (ousness/investment dse only—see instructions)     Period     (e) convention     (f) wentod		preciation deductio
Image: transmission of property     Image: transmission of property       19a     3-year property       b     5-year property       c     7-year property       d     10-year property		
Image: Text of property     Service     Constructions     Period     Constructions       Image: Text of property     Image: Text of property     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period       Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period     Image: Text of period		
Image: Text of property     Image: Text of property     Image: Text of property     Image: Text of property       19a     3-year property     0     7.00     HY     200DB       c     7-year property     0     7.00     HY     200DB       d     10-year property     0     0     10     10       f     20-year property     0     0     10     10		
Image: Text of property     Service     Cost of property       b     5-year property     0       c     7-year property     0       d     10-year property     0       f     20-year property     0       f     20-year property     0       g     25-year property     5/L		
19a     3-year property     only-see instructions)     reperiod     reperiod     reperiod       19a     3-year property     0     7.00     HY     200DB       c     7-year property     0     7.00     HY     200DB       d     10-year property     0     7.00     HY     200DB       f     20-year property     0     7.00     HY     200DB       g     25-year property     25 yrs.     S/L       h     Residential rental     27.5 yrs.     MM     S/L		
(a) classification of property     year property       19a     3-year property       b     5-year property       c     7-year property       d     10-year property       f     20-year property       g     25-year property       g     25-year property       h     Residential rental property       property     27.5 yrs.       MM     S/L		
Image: Text of property     Service     Conversion of property       19a     3-year property       b     5-year property       c     7-year property       d     10-year property       d     10-year property       f     20-year property       f     20-year property       f     20-year property       g     25-year property       h     Residential rental property       property     27.5 yrs.       i     Nonresidential real       39 yrs.     MM		
Image: Text of property     Year property       19a     3-year property       b     5-year property       c     7-year property       d     10-year property       d     10-year property       g     25-year property       g     25-year property       h     Residential rental property       property     27.5 yrs.       MM     S/L       i     Nonresidential real property       monoperty     39 yrs.       MM     S/L		0
(a) Classification of property       year property       (b) Service       (c) Convention       (c) Convention       (c) Vention         19a       3-year property       0       7.00       HY       200DB         c       7-year property       0       7.00       HY       200DB         d       10-year property       0       7.00       HY       200DB         d       10-year property       0       7.00       HY       200DB         f       20-year property       0       7.00       HY       200DB         f       20-year property       25 yrs.       S/L       S/L         h       Residential rental property       27.5 yrs.       MM       S/L         i       Nonresidential real property       39 yrs.       MM       S/L         Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S		0
Image: Text of property     Service     Outsitess investment dse     Period     Text of period       19a     3-year property     0     10-year property     0       c     7-year property     0     7.00     HY     200DB       d     10-year property     0     7.00     HY     200DB       d     10-year property     0     7.00     HY     200DB       f     20-year property     25 yrs.     S/L       h     Residential rental property     27.5 yrs.     MM     S/L       i     Nonresidential real property     39 yrs.     MM     S/L       Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S     S/L		0
(a) classification of property     year property       19a     3-year property       b     5-year property       c     7-year property       d     10-year property       e     15-year property       f     20-year property       g     25-year property       h     Residential rental property       property     25 yrs.       S/L       h     8/2       yroperty     27.5 yrs.       MM     S/L       i     Nonresidential real property       property     39 yrs.       MM     S/L       Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S       20a     Class life       b     12 yrs.		0
Image: Text of property     Service     Outsitess investment dse     Period     Text of period       19a     3-year property     0     10-year property     0       c     7-year property     0     7.00     HY     200DB       d     10-year property     0     7.00     HY     200DB       d     10-year property     0     7.00     HY     200DB       f     20-year property     25 yrs.     S/L       h     Residential rental property     27.5 yrs.     MM     S/L       i     Nonresidential real property     39 yrs.     MM     S/L       Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S     S/L		0
(a) classification of property     year property       19a     3-year property       b     5-year property       c     7-year property       d     10-year property       e     15-year property       f     20-year property       g     25-year property       h     Residential rental property       property     25 yrs.       S/L       h     8/2       yroperty     27.5 yrs.       MM     S/L       i     Nonresidential real property       property     39 yrs.       MM     S/L       Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S       20a     Class life       b     12 yrs.		0
Image: Text of property     Provide     Text of property       19a     3-year property     0     7.00       b     5-year property     0     7.00       c     7-year property     0     7.00       d     10-year property     0     7.00       e     15-year property     0     7.00       f     20-year property     0     10       g     25-year property     25 yrs.     S/L       h     Residential rental property     27.5 yrs.     MM       property     27.5 yrs.     MM     S/L       i     Nonresidential real property     39 yrs.     MM       Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S       20a     Class life     S/L       b     12 yrs.     S/L       c     40 yrs.     MM	Syste	0
Image: transmission of propertyyear propertyter solutionter solutionter solution19a3-year property07.00HY200DBc7-year property07.00HY200DBd10-year property07.00HY200DBd10-year property07.00HY200DBd10-year property07.00HY200DBd10-year property07.00HY200DBf20-year property25yrs.S/LhResidential rental property27.5 yrs.MMS/LiNonresidential real property39 yrs.MMS/LSection C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S20aClass life b12 yrs.S/Lb12-year d12 yrs.S/Lc40 yrs.MMS/LPart IVSummary (See instructions.)21Listed property. Enter amount from line 28		0
19a       3-year property       image: service		0
(a) Classification of property       (b) Service       (b) Service       (c) Service       (c) Service         19a       3-year property       0       7.00       HY       200DB         c       7-year property       0       7.00       HY       200DB         d       10-year property       0       7.00       HY       200DB         f       20-year property       25       yrs.       S/L         h       Residential rental property       27.5       yrs.       MM       S/L         i       Nonresidential real property       39       yrs.       MM       S/L         Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation S       20a       Class life       S/L         b       12-year       12       yrs.       S/L       S/L         b       12-year       40       yrs.       MM       S/L         Part IV       Summary (See instructions.)       21 <t< th=""><td>21</td><td>em 4,590</td></t<>	21	em 4,590
(a) Classification of property       year processification of property       (b) Service       year processification of property         19a       3-year property       0       7.00       HY       200DB         c       7-year property       0       7.00       HY       200DB         d       10-year property       0       7.00       HY       200DB         f       20-year property       25       yrs.       S/L         f       20-year property       25       yrs.       MM       S/L         g       25-year property       27.5       yrs.       MM       S/L         i       Nonresidential real property       27.5       yrs.       MM       S/L         property       0       12       yrs.       S/L       S/L         b       12-year       12       yrs.       S/L       Yrs.         b       12-year       40       yrs.       MM       S/L       Yrs.	21 22	0 ••••••••••••••••••••••••••••••••••••

# 2017 Comprehensive Volume/Solutions Manual

Form	4562 (2015)	David		R Jol	hnson						111	-11-	-1112			Page 2
Pa	rt V Listed Prop used for ent							les, ce	rtain airc	craft, o	certair	n com	puter	s, and	d pro	
	Note: For an 24b, columns											expen	se, co	mplet	e only	<b>/</b> 24a,
	Section A—Depr	reciation a	nd Other I	nforma	ation (C	aution	: See th	instru	ctions fo	r limits	s for pa	assen	ger au	tomot	iles.)	
24a	Do you have evidence	to support t	he business/	/investm	ient use	claimed	?XYes	s No	24b If	'Yes,"	is the e	videnc	e writte	en? 🛛	Yes	No
Ту	(a) pe of property (list Dat vehicles first)	(b) te placed in service	(c) Business/ investment us percentage				(e) sis for dep isiness/inv use on	(f) Recovery period		<b>(g)</b> Method/ Convention		(h) Depreciation deduction			(i) d section 9 cost	
25	Special depreciation the tax year and use		for qualifie				ed in se	ervice d				25		0		
26	Property used more						(					20				
I	nfiniti 02	/04/14	90 %	4	11,000	0	36,	900	5.00	) 20	ODB H	IΥ	4	,590		
			%													
			%													
27	Property used 50%	or less in a			s use:											
			%							S/I						
			%							S/I S/I						
28	Add amounts in colu	ımn (h) lin			Enter h	ere and	d on line	21 na	ae 1			28	4	,590		
29	Add amounts in colu										∟			29		0
								se of Ve							1	
Com	plete this section for vel	hicles used l								related	d persor	n. If vo	ivora u	ded ve	hicles	
	ur employees, first ansv															
					a)	1	b)		c)	-	d)		(e)		(f	
				Veh	icle 1	Veh	icle 2	Veh	cle 3	Vehi	icle 4	V	/ehicle 5		Vehi	cle 6
30	Total business/investm the year ( <b>do not</b> includ		•		,050											
31	Total commuting miles	driven durin	ng the year	1	,450											
32	Total other personal (n		ng) miles		0											
33	Total miles driven duri 30 through 32			14	,500		0		0		0			0		0
34	Was the vehicle availa during off-duty hours?	ble for perso	onal use	Yes X	No	Yes	No	Yes	No	Yes	No	Ye	s N	0	Yes	No
35	Was the vehicle used than 5% owner or related	primarily by	a more	Х												
36	Is another vehicle avai	•		Х												
			estions fo	r Fmol	overs V	Nho Pr	ı ovide V	/ehicles	for Use	by Th	heir Fr	nplov	ees			
	ver these questions t than 5% owners or	o determin	e if you me	et an e	xceptio									es wh	o are	not
37	Do you maintain a w your employees?	ritten polic	y statemen	•		•		se of ve	hicles, in	cludin	ig com	mutin	g, by	ľ	<b>í</b> es	No
38	Do you maintain a writ employees? See the ir		atement that	t prohibi	ts perso	nal use o	of vehicle									
39	Do you treat all use				•									. : 🗆		
40	Do you provide more use of the vehicles,	e than five	vehicles to	your e	mploye	es, obta						abou	t the			
41	Do you meet the rec Note: If your answer to	quirements	concerning	g qualifi	ied auto	omobile						ns) .				
Pa	rt VI Amortizatio			, .												
	(a) Description of cost		Date am	<b>b)</b> ortization gins		Amortiz	(c) able amo	unt	(c Code s		4	(e) Amortiza period			(f) ortizatio this yea	
42	Amortization of cost	s that begi			  5 tax v							percent	age			
		<b>3</b>						,								
43	Amortization of cost	s that bega	an before yo	our 201	5 tax ye	ear .							43			
44	Total. Add amounts	in column	(f). See the	e instru	ictions	for whe	re to re	oort					44			0
KIA														Form	4562	<b>2</b> (2015)

Form	4500		Deprecia	tion and Amo	rtization			MB No. 1545-0172
	4562		-	formation on Liste			1	2015
Depart	ment of the Treasury		• -	ttach to your tax retu				
Interna	al Revenue Service (99)	Information abou		d its separate instruc		0		equence No. 179
,	s) shown on return			usiness or activity to which thi	s form relates		-	ig number
Dav				'orm 2106	•		111-	11-1112
Pa				Under Section 17 nplete Part V befo		o Dort I		
1	Maximum amount (see		i property, cor	•			1	500,000
2	Total cost of section 1	,	ed in service (s					
3	Threshold cost of section							2,000,000
4	Reduction in limitation							0
5	Dollar limitation for tax	year. Subtract li	ine 4 from line	1. If zero or less, en	ter -0 If married	filing		
	separately, see instruc	tions					5	500,000
6	(a) Descript	ion of property		(b) Cost (business	s use only)	(c) Elected cost		
7	Listed property. Enter	the amount from	n line 29		7	96	-	
8	Total elected cost of se	ection 179 prope	erty. Add amou	nts in column (c), lin	es 6 and 7			960
9	Tentative deduction. E							960
10	Carryover of disallowe		•					
11	Business income limita			•	,	5 (see instructions)		500,000
12	Section 179 expense of	deduction. Add li	ines 9 and 10,	out do not enter mor	e than line 11			960
13	Carryover of disallowe					13	0	
	e: Do not use Part II or I		,	,				
Pa				er Depreciation			) (See	instructions.)
14	Special depreciation a						14	
45	during the tax year (se	,					14	
15 16	Property subject to see	()()						
	Other depreciation (inc rt III MACRS Depre			ed property.) (See			10	
ra				Section A	instructions.)			
47	MAODO de destisers (s				6 0045		17	
17	MACRS deductions fo					 		
18	If you are electing to g							
	asset accounts, check							
	asset accounts, check Section B—A	Section B—Assets Placed in Service During 2015 Tax Year Using the General Depreciation System						
	Section B—A	(b) Month and	(c) Basis for dep	reciation (d) Recover				
(a	,			reciation nent use (d) Recover				
(a 19a	Section B—A	(b) Month and year placed in	(c) Basis for dep (business/investr	reciation nent use (d) Recover				n preciation deduction
	Section B—A a) Classification of property 3-year property 5-year property	(b) Month and year placed in	(c) Basis for dep (business/investr	reciation nent use (d) Recover				
19a b c	Section B—A a) Classification of property 3-year property 5-year property 7-year property	(b) Month and year placed in	(c) Basis for dep (business/investr	reciation nent use (d) Recover				
19a b c d	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property	(b) Month and year placed in	(c) Basis for dep (business/investr	reciation nent use (d) Recover				
19a b c d e	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 15-year property	(b) Month and year placed in	(c) Basis for dep (business/investr	reciation nent use (d) Recover				
19a b c d e f	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 15-year property 20-year property	(b) Month and year placed in	(c) Basis for dep (business/investr	(d) Recover period	y (e) Convention	(f) Method		
19a b c d e f g	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 15-year property 20-year property 25-year property	(b) Month and year placed in	(c) Basis for dep (business/investr	(d) Recover period	y (e) Convention	S/L		
19a b c d e f g	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 15-year property 20-year property 25-year property Residential rental	(b) Month and year placed in	(c) Basis for dep (business/investr	(d) Recover period (d) Recover period 25 yrs 27.5 yr	y (e) Convention	S/L S/L		
19a b c d e f g h	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 20-year property 20-year property 25-year property Residential rental property	(b) Month and year placed in	(c) Basis for dep (business/investr	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr	y (e) Convention	S/L S/L S/L		
19a b c d e f g h	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 20-year property 20-year property 25-year property Residential rental property Nonresidential real	(b) Month and year placed in	(c) Basis for dep (business/investr	(d) Recover period (d) Recover period 25 yrs 27.5 yr	y (e) Convention	S/L S/L S/L S/L S/L		
19a b c d e f g h	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 20-year property 20-year property 25-year property Residential rental property Nonresidential real property	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 39 yrs	y (e) Convention	S/L S/L S/L S/L S/L S/L S/L	(g) De	preciation deduction
19a b c d e f f h	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 20-year property 20-year property 25-year property Residential rental property Nonresidential real property	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr	y (e) Convention	S/L S/L S/L S/L S/L S/L S/L	(g) De	preciation deduction
19a b c d e f g h i 20a	Section B—A a) Classification of property 3-year property 5-year property 10-year property 15-year property 20-year property 25-year property Residential rental property Nonresidential real property Section C—As Class life	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 39 yrs	y (e) Convention	S/L S/L S/L S/L S/L S/L S/L S/L	(g) De	preciation deduction
19a b c d e f g h i 20a b	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 20-year property 20-year property 25-year property Residential rental property Nonresidential real property Section C—As	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 39 yrs 2015 Tax Year Us	y (e) Convention (e) Convention (f)	S/L S/L S/L S/L S/L S/L S/L S/L S/L	(g) De	preciation deduction
19a b c d e f f g h i 20a b c	Section B—A a) Classification of property 3-year property 5-year property 10-year property 15-year property 20-year property 25-year property Residential rental property Nonresidential real property Section C—As Class life 12-year	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 39 yrs g 2015 Tax Year Us 12 yrs	y (e) Convention (e) Convention (f)	s/L S/L S/L S/L S/L S/L S/L S/L S/L S/L	(g) De	preciation deduction
19a b c d e f f g h i 20a b c	Section B—A a) Classification of property 3-year property 5-year property 10-year property 15-year property 20-year property 25-year property Residential rental property Nonresidential real property Section C—As Class life 12-year	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru-	(d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 39 yrs g 2015 Tax Year Us 12 yrs	y (e) Convention (e) Convention (c)	s/L S/L S/L S/L S/L S/L S/L S/L S/L S/L	(g) De	preciation deduction
19a b c d e f f g h i 20a b c r Par	Section B—A a) Classification of property 3-year property 5-year property 10-year property 10-year property 20-year property 25-year property Residential rental property Nonresidential real property Class life 12-year 40-year rt IV Summary (S Listed property. Enter Total. Add amounts fr	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru- see instru- s	reciation nent use ctions) (d) Recover period 25 yrs 27.5 yr 27.5 yr 27.5 yr 39 yrs g2015 Tax Year Us 12 yrs 40 yrs	y         (e) Convention           y         (f) Conven           <	s/L S/L S/L S/L S/L S/L S/L S/L S/L S/L S	(g) De	epreciation deduction
19a b c d e f f g h h i 20a b c <b>Par</b> 21	Section B—A a) Classification of property 3-year property 5-year property 10-year property 10-year property 20-year property 20-year property 25-year property Residential rental property Nonresidential real property Section C—As Class life 12-year 40-year t IV Summary (S	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru- see instru- s	reciation nent use ctions) (d) Recover period 25 yrs 27.5 yr 27.5 yr 27.5 yr 39 yrs g2015 Tax Year Us 12 yrs 40 yrs	y         (e) Convention           y         (f) Conven           <	s/L S/L S/L S/L S/L S/L S/L S/L S/L S/L S	(g) De	epreciation deduction
19a b c d e f f g h h 20a b c <b>Par</b> 21	Section B—A a) Classification of property 3-year property 5-year property 7-year property 10-year property 20-year property 20-year property 25-year property Residential rental property Nonresidential real property Section C—As Class life 12-year 40-year t IV Summary (S Listed property. Enter Total. Add amounts fm here and on the appro For assets shown abo	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru- see instru- s	d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 27.5 yr 39 yrs 270 yr 39 yrs 12 yrs 40 yrs 112 yrs 40 yrs 12 yrs 40 yrs	y (e) Convention (e) Convention (e) Convention (f)	s/L s/L s/L s/L s/L s/L s/L s/L s/L s/L	(g) De	epreciation deduction
19a b c d e f f g h h i i 20a b c <b>Par</b> 21 22	Section B—A a) Classification of property 3-year property 5-year property 10-year property 10-year property 20-year property 25-year property 25-year property Residential rental property Nonresidential real property Section C—As Class life 12-year 40-year t IV Summary (S Listed property. Enter Total. Add amounts fri here and on the appro	(b) Month and year placed in service	(c) Basis for dep (business/investr only—see instru- see instru- s	d) Recover period (d) Recover period 25 yrs 27.5 yr 27.5 yr 39 yrs 2705 Tax Year Us 12 yrs 40 yrs 40 yrs the current year, er	y (e) Convention (e) Convention (e) Convention (f)	s/L S/L S/L S/L S/L S/L S/L S/L S/L S/L S	(g) De	epreciation deduction

# 2017 Comprehensive Volume/Solutions Manual

Form	4562 (2015)	David		R Jol	hnson						111	-11-	-1112			Page 2
Pa	used fo	Property (Inc r entertainme	nt, recreati	on, or	amuse	ement.)							•		•	
		or any vehicle f umns (a) throug										expen	se, coi	mplet	e only	<b>y</b> 24a,
	Section A—	Depreciation a	nd Other I	nforma	ation (C	aution	: See th	ie instru	ctions fo	r limits	s for pa	assen	ger aut	tomot	iles.)	
24a	Do you have evid	lence to support t	he business/	investm	ient use	claimed	? X Yes	s 🗌 No	24b If	"Yes,"	is the e	videnc	e writte	n? X	Yes	No
Ту	(a) pe of property (list vehicles first)	<b>(b)</b> Date placed in service	(c) Business/ investment us percentage	e Cost d	(d) or other ba		(e) Basis for depreciation (business/investment use only)				(g) Method/ Convention		(h) Depreciation deduction		(i) Elected section 179 cost	
25	Special deprec		e for qualifie				ed in se	ervice d				25		0		
26	Property used i											20				
I	aptop	03/12/15	80 %		1,200	)		0	5.00	20	ODB H	Y		0		960
			%													
			%													
27	Property used :	50% or less in a		usines	s use:											
			%							S/I						
			%							S/I						
20	Add amounts ir	oolump (b) lin			Entorh			21 00	no 1	S/I		28		0		
28 29	Add amounts in	( ) /		0				<i>.</i>	0					29		960
								se of Ve						120	L	
Com	plete this section f	or vehicles used								related	d persor	ı Ifvo	u provid	ded ve	hicles	
	ur employees, first														110100	
					a)	1	b)		c)	-	d)		(e)		(1	f)
					icle 1		icle 2		icle 3		icle 4	V	/ehicle 5		Vehi	
30	Total business/in the year ( <b>do not</b>		•													
31	Total commuting	miles driven duri	ng the year													
32	Total other perso	,	ng) miles													
33		n during the year.			0		0		0		0			0		0
34	Was the vehicle during off-duty ho	available for persours?		Yes	No	Yes	No	Yes	No	Yes	No	Ye	s No	0	Yes	No
35	Was the vehicle than 5% owner o															
36	Is another vehicle	e available for per	rsonal use?													
	wer these questi e than 5% owner		e if you me	et an e	xceptio									es wh	o are	not
37	Do you maintai your employee		cy statemen	•		•		se of ve	hicles, ir	cludin	ig com	muting	g, by		/es	No
38	Do you maintain employees? See	a written policy st	atement that	prohibi	ts perso	nal use o	of vehicle									
39	Do you treat all				•											
40	Do you provide		vehicles to	your e	mploye	es, obta						abou	t the			
41	Do you meet th Note: If your ans	e requirements wer to 37, 38, 39										ns) .				
Pa	rt VI Åmorti		, ,	,		•										
	(a) Description		Date am	<b>b)</b> ortization gins		Amortiz	(c) able amo	unt	(c Code s			(e) mortiza period	or		(f) ortizatio this yea	
42	Amortization of	costs that begi	ns during y	our 201	l5 tax y	ear (se	e instru	ctions):	I			percenta	хус ,			
43	Amortization of	•											43			
44	Total. Add amo	ounts in column	(f). See the	e instru	ictions f	or whe	re to re	oort					44		4800	0
KIA														Form	4562	<b>2</b> (2015)

#### **PROBLEM 2 SOLUTIONS**

1. As noted in the problem, Carrie uses the hybrid method of accounting for her business as required by Reg § 1.446–1(c)(2)(i). On Schedule C, line F, the Other box should be checked and "hybrid method" should be entered on the line that follows. Carrie's major business activities (i.e., hair styling, rental of workstations, sales of beauty supplies and hairpieces) are reported on a single Schedule C. Gross income reported on line 1 (Part I) is:

Services income earned from her own stations	\$ 44,000
Rental of operating stations	68,000
Sale of beauty products and wigs (\$48,000 + \$69,000)	117,000
Total	<u>\$229,000</u>

2. Sales of beauty products and wigs have already been reported on line 1. In the Cost of Goods Sold section of Schedule C (Part III), indicate that lower of cost or market is being used (check box b on line 33). Enter beginning inventory of \$22,100 on line 35 (\$11,400 + \$10,700); purchases of \$56,600 on line 36 (\$26,100 + \$30,500); and final inventory of \$22,500 on line 41 (\$9,900 + \$12,600). The resulting cost of goods sold of \$56,200 [(\$22,100 + \$56,600) - \$22,500] is reported on line 42 (Part III) and line 4 (Part I). Gross profit (line 5) and gross income (line 7) are \$172,800 (\$229,000 - \$56,200).

Expenses related to the business are reported on Schedule C as follows:

\$15,100
7,500
5,700
8,100
4,400
14,600
2,415

- 3. The \$10,400 spent on new waiting room furnishings is fully deductible by making a § 179 election to expense, which is done by completing Part I of Form 4562 (Depreciation and Amortization).
- 4. Depreciation of the shop building is also reported on line 17, Part III of Form 4562. The depreciation of \$7,692 [\$300,000 × 2.564% (see Exhibit 8.8)] carries forward onto line 13 of Schedule C (see Example 30 in Chapter 8 of the text).

The repainting and repairs of 9,900 (8,000 + 1,900) are reported on line 21 Repairs and maintenance on Schedule C (see note 2 above).

Mortgage interest of \$10,400 is deducted on line 16a of Schedule C. It is assumed that the prepayment penalty of \$4,400 on the mortgage payoff is not for a specific service performed or cost incurred in connection with the mortgage. As such, the \$4,400 is deductible along with the regular interest paid of \$6,000.

5. The \$500 fine is not deductible, but the legal expenses incurred in contesting the penalty are. They are combined with the accounting fees and deducted on line 17 of Schedule C (see note 2). (See Chapter 6 of the text.)

#### 2017 Comprehensive Volume/Solutions Manual

- 6. Since the purpose of the Reading trip was to investigate the possible acquisition of the same type of business as Carrie's Coiffures, a deduction is available (see Chapter 6 of the text). These investigation expenses should be reported on Schedule C as follows:
  - Line 24a—\$360 of Travel includes \$140 (car rental) + \$220 (motel)
  - Line 24b—\$195 Deductible meals and entertainment is  $[50\% \times ($110 + $280)]$

Note that the meals and entertainment are subject to the 50% cutback adjustment (see Chapter 9 of the text). One final note—If H&R Block software is used to complete the tax return, it automatically enters an X on line 32a of Schedule C even though there is no loss reported this year. This can be overriden in the software if desired.

- 7. It is doubtful that Carrie loaned the \$7,000 to Joan Myers for purposes of making a profit, nor was it intended as a gift. Thus, the noncollectibility of the loan should be classified as a nonbusiness bad debt. Under § 166(d)(1)(B), nonbusiness bad debts are classified as short-term capital losses. If you are not using a tax program, enter the \$7,000 in parentheses in column (f) on line 1, Part I of Schedule D. If you are using *H&R Block* tax return software, the nonbusiness bad debt must be forced into the STCG section of Schedule D by leaving column (b) (Date acquired) blank. On Schedule D, Part I, line 1, enter the name of the debtor and "statement attached" in column (a). Then the attached statement should contain:
  - A description of the debt (the amount of the loan, the provision for interest, the date it became due, etc.);
  - The name of the debtor, listing any business or family relationship with the debtor;
  - A description of the efforts made to collect the debt; and
  - An explanation of why the debt is considered worthless (e.g., the borrower is in bankruptcy; legal action against the borrower would probably not result in payment, etc.)

No deduction is allowed for the unpaid interest as Carrie has a zero basis in the unrealized receivable.

- 8. The gifts to Carrie's customers and her stylist colleagues are considered business gifts. The deduction for these gifts is capped at \$25 per gift. However, incidental costs like gift wrapping and delivery charges are not subject to the \$25 cap. As such, Carrie may deduct \$525 for the customer gifts [35 customers × \$15 (\$12 wholesale cost + \$3 gift wrapping)] and \$270 for the gifts to the stylists [9 stylists × \$30 (\$25 limitation + \$5 shipping)]. Enter \$795 (\$525 + \$270) on line 27 of Schedule C and explain the entry on line 48 of page 2.
- 9. The additional \$340 state tax assessment resulting from the audit is added to state tax payments made in 2015 (see note 18 below) and claimed as an itemized deduction *from* AGI on Schedule A.
- 10. Under § 104(a)(2), the \$200,000 Carrie received for personal injury is excluded from her gross income. The direct payment of the medical expenses by the delivery company does not affect Carrie's tax situation as she was not involved in these transfers.
- 11. Under § 1014, Carrie's basis in the York County property is \$140,000—its value on the day her father died. Consequently, she has a realized gain of \$18,000 (\$158,000 proceeds \$140,000 basis). Because the condemnation qualifies as an involuntary conversion, Carrie can avoid recognizing any gain if she reinvests in like-kind property within a certain period of time (see Chapter 13 of the text). As she has chosen not to make use of § 1033, she recognizes the \$18,000 realized gain on the sale as a long-term capital gain per § 1223(9)(B) (property acquired from a decedent is deemed held for more than one year). Enter this sale on line 8, Part II of Schedule D.

- 12. Under § 101(a)(1), the proceeds of life insurance are excluded from gross income. However, the interest of \$1,500 is taxable. Report it on line 1, Part I of Schedule B.
- 13. The sale of Grosbeak stock results in a realized and recognized short-term capital loss of \$12,000 (\$28,000 selling price \$40,000 basis).

The results of Schedule D are summarized as follows:

STCL (bad debt), item 7	(\$ 7,000)
STCL (stock loss), item 13	(12,000)
LTCG (condemnation), item 11	18,000
Excess capital loss, lines 16 and 21, Part III of	
Schedule D and line 13, page 1 of Form 1040	<u>(\$ 1,000</u> )

- 14. The \$1,000 reimbursement of Carrie's insurance deductible is a nontaxable return of capital. The tax benefit rule does not apply to generate income since the \$1,000 was never deducted and, therefore, never generated a tax benefit.
- 15. The installation of the elevator is a deductible medical expense to the extent its cost exceeds the increase in the value of the residence. Thus, Carrie may deduct \$7,000 (\$12,000 cost \$5,000 increase in FMV of home) along with the \$300 increase in utility bills to run the elevator under § 213. The appraisal fee of \$400 is deductible under § 212 and will be subject to the 2%-of-AGI limitation. (See Chapter 10 of the text.)
- 16. No deduction is allowed for the contribution of services to a qualified charity. Thus, it does not matter what Carrie would charge for the time she spent. (See Chapter 10 of the text.)
- 17. The interest from the City of Lancaster bonds is nontaxable under § 103. However, the \$490 must be listed on line 8b, page 1 of Form 1040. The interest from the money market account (\$340) and the CD (\$900) is listed in Part I of Schedule B, and along with the interest from the insurance company of \$1,500 (see item 12), the \$2,740 total is carried over to line 8a, page 1 of Form 1040.

The qualified dividends require special treatment, and the result is determined by completing a special worksheet (see item below). The total amount of \$850 (\$470 + \$380), however, is entered on line 9b of page 1, Form 1040. The state income tax refund of \$205 is taxable under the tax benefit rule (i.e., state income taxes were deducted in 2014). It is shown as income on line 10, page 1 of Form 1040. A refund of Federal income taxes has no effect on Federal taxable income.

18. Carrie's contribution to a pension plan is a deduction for AGI and should be reported on line 28 of Form 1040. Medical insurance premiums of a self-employed taxpayer are deductions *for* AGI and the \$4,800 is claimed on line 29, page 1 of Form 1040.

The \$1,914 of deductible medical expenses is the excess of the \$8,700 (\$7,300 from item 15 + \$1,400 of dental bills) over \$6,786 ( $10\% \times $67,861$  AGI).

Deductible state and local income taxes of \$3,540 include the additional assessment of \$340 (see item 9) and the estimated tax payments for 2015 of \$3,200 [\$2,400 state + \$800 local (see item 19)]. *Note:* It does not matter what year was involved with respect to the assessment of state tax; the year of payment controls the timing of the deduction since Carrie is a cash-basis taxpayer. The deductible income taxes of \$3,540 are reported on line 5, and the deductible real estate taxes of \$3,800 are reported on line 6 of Schedule A.

#### 2017 Comprehensive Volume/Solutions Manual

Interest on home mortgage of \$3,200 is claimed on line 10 of Schedule A.

The professional expenses (dues of \$140 and journal subscriptions of \$180) are deducted on Schedule C since Carrie is self-employed (see note 2 above).

The appraisal fee of \$400 (see item 15) is reported on line 23 of Schedule A. However, no deduction will result because this expenditure does not exceed \$1,357 (2% of \$67,863 of AGI).

- 19. In determining taxable income, Carrie can claim a personal exemption for herself and a dependency exemption for her mother, for a total of \$8,000 ( $\$4,000 \times 2$ ).
- 20. A brief summary of Carrie's Federal income tax status for 2015 appears below.

Gross income:	
Schedule B	\$ 3,590
State income tax refund	205
Schedule C	85,938
Schedule D	(1,000)
Deductions for AGI:	
Deductible self-employment tax	(6,072)
§ 401(k) retirement plan contribution	(10,000)
Medical insurance premiums	(4,800)
AGI	\$67,861
Deductions from AGI	(12,454)
Personal and dependency exemptions	(8,000)
Taxable income	<u>\$47,407</u>

Carrie's income tax liability is \$6,329, calculated using the *Qualified Dividends and Capital Gain tax Worksheet – Line 44* since qualified dividends (\$850) are taxed at a preferential rate. Carrie's total tax liability is \$18,472, which is the sum of her \$6,329 income tax and her self-employment tax of \$12,143. Since she has prepaid \$20,800, Carrie is entitled to a refund of \$2,328.

1040		nent of the Treasury—Internal I Individual Inc		( <sup>99)</sup>	)15	MB No. 1545-00		e OnlyD	n not write	or staple in ti	his snace
For the year Jan. 1-De		5, or other tax year beginning			, 2015, ending	, 21				tructions.	nis space.
Your first name and	d initial		Last name					1		urity numb	er
Carrie		A	Morgan					11	11-11	-1112	
If a joint return, spo	use's first	t name and initial	Last name					Spouse	's social	security n	umber
426 Grous		street). If you have a P.O.	box, see instructio	ns.			pt. no.			the SSN(s) e 6c are cor	
		e, and ZIP code. If you have	e a foreign addres	s, also complete spa	ces below (see ii	nstructions)				ection Can	
Allentown			PA 181			lou douorioj.		Check he	re if you, c	or your spous	e if filing
Foreign country nar				rovince/state/county		Foreign pos	tal code	a box bel	ow will not	o to this fund. change your	
								or refund	<u> </u>	/ou S	Spouse
Filing Status	1	Single				of household					
9	2	Married filing jointly	even if only one	e had income)		ying person i s name here.		but not ye	our depe	snaent, er	iter this
Check only one	3	Married filing separa	tely. Enter spou	se's SSN above	►						
box.		and full name here.			5 Quali	fying widow(	er) with de	pendent	t child		
									Boxes c	hackad	
Exemptions	6a	Yourself. If some	eone can claim	you as a depende	nt, do not che	ck box 6a		· ·	on 6a an	d 6b	1
	b	Spouse						<u> </u>	No. of c on 6c w	children /ho:	
	C (1) First r	Dependents: name Last name		(2) Dependent's social security number	(3) Deper		X if child un alifying for child	tax credit	<ul> <li>lived v</li> </ul>	with you	
	Milc		า	123-45-678			(see instruction	ons)	you due	t live with to divorce	
If more than four		iiou iiorgai	-	1200 10 070	<u> </u>				or separ (see inst	ation tructions)	
dependents, see instructions and										ents on 6c	1
check here ►										red above	
	d	Total number of exem	otions claimed						lines abo	nbers on ove	2
Income	7	Wages, salaries, tips,	etc. Attach For	m(s) W-2					7		0
	8a	Taxable interest. Attac	ch Schedule B if	f required					8a	2	,740
Attach Correcta	b	Tax-exempt interest. I	Do not include o	on line 8a		8b		490			
Attach Form(s) W-2 here. Also		Ordinary dividends. At							9a		850
attach Forms	b	Qualified dividends .				<b>9b</b>		850			
W-2G and	10	Taxable refunds, cred							10		205
1099-R if tax was withheld.	11 12	Alimony received Business income or (le							11 12	85	,938
was withherd.	13	Capital gain or (loss).	,						13		,000
If you did not	14	Other gains or (losses							14		
get a W-2,	15a	IRA distributions	, 	15a		b Taxable	e amount		15b		0
see instructions.	16a	Pensions and annuitie	<b>s</b>	<b>16a</b>		<b>b</b> Taxable	e amount		16b		0
	17	Rental real estate, roy		F - 7 F	-, ,				17		
	18	Farm income or (loss)							18 19		0
	19 20a	Unemployment compe Social security benefit	1	1		able amount			20b		
	21	Other income. List typ							21		0
	22	Combine the amounts							22	88	,733
Adjusted	23										
Gross	24	Certain business expe	nses of reservis	sts, performing art	ists, and			0			
Income		fee-basis government						0			
	25	Health savings accour						0			
	26	Moving expenses. Atta						6,072			
	27 28	Deductible part of self Self-employed SEP, S					1	0,000			
	29	Self-employed health						4,800			
	30	Penalty on early withd						0			
	31a	Alimony paid b Rec	-								
	32	IRA deduction						0			
	33	Student loan interest of	leduction								
	34	Tuition and fees. Attac						0			
	35 36	Domestic production a Add lines 23 through 3						-	36	20	,872
	30	Subtract line 36 from I							30		,861
				ation Act Notice			-		·	4040	0.0045

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

### 2017 Comprehensive Volume/Solutions Manual

Form 1040 (2015)	С	arrie A Morgan 111-11-	-1112 Page 2
<b>T</b>	38	Amount from line 37 (adjusted gross income)	<b>38</b> 67,861
Tax and	39a	Check <b>You</b> were born before January 2, 1951. Blind, <b>Total boxes</b>	
Credits		if: Spouse was born before January 2, 1951, Blind. Checked ► 39a	
Standard	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here > 39b	
Deduction	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	<b>40</b> 12,454
<ul> <li>for—</li> <li>People who</li> </ul>	41	Subtract line 40 from line 38	<b>41</b> 55,407
check any	42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42 8,000
box on line 39a or 39b <b>or</b>	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	<b>43</b> 47,407
who can be claimed as a	44	Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 c	<b>44</b> 6,329
dependent,	45	Alternative minimum tax (see instructions). Attach Form 6251	<b>45</b> 0
see instructions.	46	Excess advance premium tax credit repayment. Attach Form 8962	46
All others:	47	Add lines 44, 45, and 46	<b>47</b> 6,329
Single or	48	Foreign tax credit. Attach Form 1116 if required	4/ .
Married filing separately,			
\$6,300	49		
Married filing jointly or	50		
Qualifying	51		
widow(er), \$12,600	52		
Head of	53		
household, \$9,250	54		<b>55</b> 0
	55 56	Add lines 48 through 54. These are your <b>total credits</b>	
Other	57	Self-employment tax. Attach Schedule SE	
Taxes	58	Unreported social security and Medicare tax from Form: a 4137 b 8919	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	
	60 a	Household employment taxes from Schedule H	<b>60a</b> 0
		First-time homebuyer credit repayment. Attach Form 5405 if required	60b 0
	61	Health care: individual responsibility (see instructions) Full-year coverage ⊥	<b>61</b> 0 <b>62</b> 0
	62	Taxes from: a Form 8959 b Form 8960 c Instructions; enter code(s)	<b>VL</b> <u> </u>
	63	Add lines 56 through 62. This is your total tax	<b>63</b> 18,472
Payments	64	Federal income tax withheld from Forms W-2 and 1099 64 0	
-	65	2015 estimated tax payments and amount applied from 2014 return 65 20,800	
If you have a	66a	Earned income credit (EIC)	
qualifying child, attach	b	Nontaxable combat pay election 66b	
Schedule EIC.	67	Additional child tax credit. Attach Schedule 8812	
	68	American opportunity credit from Form 8863, line 8	
	69	Net premium tax credit. Attach Form 8962	
	70	Amount paid with request for extension to file	
	71	Excess social security and tier 1 RRTA tax withheld	
	72	Credit for federal tax on fuels. Attach Form 4136	
	73	Credits from Form:	
		a 2439 b Reserved c 8885 d 73 0	
	74	Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74 20,800
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	<b>75</b> 2,328
Direct deposit?	76a	Amount of line 75 you want <b>refunded to you</b> . If Form 8888 is attached, check here	<b>76a</b> 2,328
See	► b	Routing number XXXXXXXX ► C Type: Checking Savings	
instructions.	► d	Account number	
	77	Amount of line 75 you want applied to your 2016 estimated tax  77 0	
Amount	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78
You Owe	79		<u>V</u>
Third Party	Do yo Desig	u want to allow another person to discuss this return with the IRS (see instructions)? Yes. Complete Phone Personal identifi	
Designee	namē	► no. ► number (PIN)	
Sign	Under they ar	penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowle e true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowled	edge and belief, lge.
Here Joint return? See	Your s	ignature Date Your occupation Daytim	e phone number
instructions.	Snow		12-555-0100
Keep a copy for	Spous	e's signature. If a joint return, both must sign. Date Spouse's occupation If the IR PIN, ent here (se	S sent you an Identity Protection
your records			
your records.	Print/T	voe preparer's name Preparer's signature Date	PTIN
Paid	Print/T		If PTIN
	Print/T	ype preparer's name Preparer's signature Date Check self-err	

KIA www.irs.gov/form1040

Form 1040 (2015)

	Itemized Deductions			(	DMB No. 1545-0074
		www.ir	s.gov/schedulea.		2015
ury 9 (99	Attach to Form 1040.		•	Se	tachment equence No. 07
orm 10	40 A Morgan				cial security number
	Caution. Do not include expenses reimbursed or paid by others.				
1	Medical and dental expenses (see instructions)	1	8,700		
2	Enter amount from Form 1040, line 38   2   67,861				
3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead	3	6,786		
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-			4	1,914
5	State and local (check only one box):				
	a. 🛛 Income taxes, or 🛛 🛛	5	3,540		
	<b>b.</b> General sales taxes				
6	Real estate taxes (see instructions)	6	3,800		
-		7	0		
0		8	0		
9	Add lines 5 through 8			9	7,340
10	X		3,200		
		11	0		
12		12	0		
13	•	13	0		
		14			
	• • • •			15	3,200
	see instructions	16			
17	instructions. You <b>must</b> attach Form 8283 if over \$500	17			
18	Carryover from prior year	18			
19	Add lines 16 through 18			19	
20	Casualty or theft loss(es). Attach Form 4684. (See instructions.) .			20	0
21	Unreimbursed employee expenses—job travel, union dues,				
	job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►				
			0		
		22			
23					
	OTHER	22	400		
24			400		
24	Add lines 21 through 23				
20 20	Enter amount from Form 1040, INC 38 [23] 377001	26	1,357		
				27	0
		••••		21	
20					0
20	la Form 1040, line 29, over \$454,0500			28	0
29	X No. Your deduction is not limited. Add the amounts in the far right colun	nn -	1 I		
	for lines 4 through 28. Also, enter this amount on Form 1040, line 40.		<b>}</b> • • • • • • • L	29	12,454
		-	J		
30		ard			
	(e)	Information about Schedule A and its separate instructions is at A Morgan         Caution. Do not include expenses reimbursed or paid by others.         Medical and dental expenses (see instructions)         2 Enter amount from Form 1040, line 38         Mutiply line 2 by 10% (10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (075) instead         4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0.         5 State and local (check only one box):         a. [X] Income taxes, or         b. [] General sales taxes ]         6 Real estate taxes (see instructions)         7 Personal property taxes         8 Other taxes. List type and amount ▶         9 Add lines 5 through 8         10 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶         12 Points not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions.)         13 Mortgage insurance premiums (see instructions)         14 Investment interest. Attach Form 4952 if required. (See instructions.)         15 Add lines 10 through 14         16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500         18 Carryover from prior year         19 Add lines 16 through 18         20 Casualty or thef	Information about Schedule A and its separate instructions is at www.inform 1040              Medical and dental expenses reimbursed or paid by others.                  Medical and dental expenses (see instructions)                1                  Enter amount from Form 1040, line 38               2             67, 861                 Multiply line 2 by 10% (10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (075) instead               3                 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0.               5                 S tate and local (check only one box):               6                 A do lines 5 through 8                 Mortgage interest and points reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address                  Mortgage insurance premiums (see instructions)                 Mortgage insurance premiums (see instructions)                 Mortgage insurance premiums (see instructions for special rules	<ul> <li>Information about Schedule A and its separate instructions is at www.irs.gov/schedules.             <ul></ul></li></ul>	Importation about Schedule A and its separate instructions is at www.irs.gov/schedules.         Importation about Schedule A and its separate instructions is at www.irs.gov/schedules.         Importation about Schedule A and its separate instructions is at www.irs.gov/schedules.         Importation about Schedule A and its separate instructions is at www.irs.gov/schedules.         Importation about Schedule A and its separate instructions is at www.irs.gov/schedules.         Importation about Schedule A and its separate instructions is at www.irs.gov/schedules.         Importation A and chall expenses (see instructions)       Importation about Schedule A and its separate instructions)         Importation A and chall expenses (see instructions)       Importation about Schedule A and its separate instructions)         Importation A and chall expenses (see instructions)       Importation A and chall expenses (see instructions)       Importation A and chall expenses (see instructions)         Importation A and the expense instructions is and show that person's name, identifying no., and address is instructions in the person from shom you buight the home, see instructions in the person instructions (see instructions)       Importations is instructions in the person instructions is instructions in the person instruction is instructions instructions.       Importation is instructions is instructions in the person instructions is instructions in the person instructions.       Importation is instructions is instructions in the person instructions is instructions.       Importation is instructions is instructions in the person instructins in the person instructions is instructions.

SCHEDULE E		Interest and Ordinary Dividends		OMB No. 15	45-0074	
	1040)	Attach to Form 1040A or 1040.		201	5	
Department of the Trea Internal Revenue Serv		Information about Schedule B and its instructions is a www.irs.gov/scheduleb.		Attachment Sequence No	<b>. 08</b>	
Name(s) shown on	return			social security num		
Carrie		A Morgan	1 1 1	L-11-1112 Amou	<b>n</b> t	
Part I Interest		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 and list this interest first. Also, show that buyer's social security number and address Falcon Life Insurance Allentown State Bank			500 340	
(See instructions Schedule B, and instructions for Form 1040A, or Form 1040, line 8a.)		Scranton First National Bank City of Lancaster Bonds	1		900	
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					740	
payer and enter the total interest shown on that	3	Add the amounts on line 1	2	۷,	740	
form.	4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a	4	2,	740	
		e: If line 4 is over \$1,500, you must complete Part III.		Amou	nt	
Part II	5	List name of payer ▶ General Electric			470	
Ordinary Dividends (See instructions for Schedule B, a instructions for	nd the	AT&T Common			380	
Form 1040A, or Form 1040, line 9a.)			5			
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 perimer.						
the ordinary dividends shown on that form.		Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a	6		850	
		If line 6 is over \$1,500, you must complete Part III. ust complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b	had c			
Part III Foreign		account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreig At any time during 2015, did you have a financial interest in or signature authority over a fir account (such as a bank account, securities account, or brokerage account) located in a fo	n trust. nancial		Yes	No X
Accounts and Trusts (See instructions.)	b 8	country? See instructions. 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 and its instructions for filing requirements and exceptions to those requirements. If you are required to file FinCEN Form 114, enter the name of the foreign country where th financial account is located During 2015, did you receive a distribution from, or were you the grantor of, or transferor to	 	· · · · · · · · · · · ·		
	-	foreign trust? If "Yes," you may have to file Form 3520. See instructions.				X
KIA For Pa	perwoi	rk Reduction Act Notice, see your tax return instructions.	chedule	e B (Form 1040A o	or 1040)	2015

	HEDULE C rm 1040)				From Business			OMB No. 15	45-0074
	► Info	rmation	•		prietorship) parate instructions is at www.irs.go	v/sche	dulec.	201	15
	tment of the Treasury al Revenue Service (99)				partnerships generally must file Form 10			Attachment Sequence No	. <b>09</b>
Nam	e of proprietor					Social		number (SSN) 11-1112	)
A	Carrie A I Principal business or profession	lorgan		inotru	ctions)	B Enter		n instructions	
~	Beauty Salon, Pers			= instru			▶ 8	12112	
С	Business name. If no separate					D Empl	oyer ID nu	mber (EIN), (see	e instr.)
	Carrie's Coiffures		100 -						
	Business address (including su City, town or post office, state, a	nd ZIP c	ode Allentown	PA :					
	Accounting method: (1)	Cash			her (specify) ▶Hybrid_Meth				
					015? If "No," see instructions for limit				No
			•		s) 1099? (see instructions)				XNo
									No
1	rt I Income								
1					f this income was reported to you on			229,	200
~							1 2	2231	
2 3							3	229,	000
4							4	56,2	200
5	•	,					5	172,	300
6	Other income, including feder	al and sta	ate gasoline or fuel tax cr	edit or	refund (see instructions)		6		
_7	Gross income. Add lines 5 a	nd 6			<u> </u>	. 🕨	7	172,	300
Pa	rt II Expenses. Enter e		s for business use c	of you	r home <b>only</b> on line 30.				
8	Advertising	. 8		18	Office expense (see instructions)		18		
9	Car and truck expenses (see	9	0	19	Pension and profit-sharing plans		19		
10	instructions)			20	Rent or lease (see instructions):		20-		0
11				a	· · · · · · · · · · · · · · · · · · ·		20a 20b		0
12	Contract labor (see instruction	•)			Other business property		2015	14,	600
13	Depreciation and section 179			21 22	Repairs and maintenance		22		700
	expense deduction (not			22	Taxes and licenses	Г	23		500
	included in Part III) (see instructions)	13	18,092	24	Travel, meals, and entertainment:				
14	Employee benefit programs			-		[	24a		360
14	(other than on line 19)				Deductible meals and				105
15	Insurance (other than health)	. 15	8,100	-	entertainment (see instructions)		24b	15,	195
16	Interest:	10	10,400	25	Utilities	· · ·	25 26	± J,	
a	Mortgage (paid to banks, etc.)	4.01	10,400	26	Wages (less employment credits)	•••		2	415
b 17			4,400	1	Other expenses (from line 48)		27a 27b	-1	
<u>17</u> 28	Legal and professional service				Reserved for future use     8 through 27a		28	86,	362
20 29	• •						29	85,	938
30	, , ,				es elsewhere. Attach Form 8829				
	unless using the simplified m	•	•						
	Simplified method filers on	-				_			
	and (b) the part of your home				line 30		30		0
31	Net profit or (loss). Subtract			iter on		· · ·			
51				R. line	• 13) and on Schedule SE, line 2.	ו ו			
					s, enter on Form 1041, line 3.	} [	31	85,	938
	• If a loss, you must go to lin				-	J			
32	If you have a loss, check the						320	All investme	ntie atriak
	<ul> <li>If you checked 32a, enter to on Schedule SE, line 2. (If your section of the sectio</li></ul>				e 31 instructions). Estates and	۶.	32a	1	
	trusts, enter on Form 1041, I	ne 3.			·		32b	Some invest at risk.	ment is not
	If you checked 32b, you m							0/5	40) 00 1-
KIA	For Paperwork Reduction	n Act No	nice, see the separate i	nstruc	tions.	S	chedule	C (Form 10	40) 2015

#### E-38

Sche	edule C (Form 1040) 2015 Carrie A M	organ 1	11-11-1112	Page <b>2</b>
Pa	art III Cost of Goods Sold (see instructions)			
33	Method(s) used to value closing inventory: <b>a</b> Cost <b>b</b>	X Lower of cost or market c	Other (attach exp	lanation)
34	Was there any change in determining quantities, costs, or va If "Yes," attach explanation		y?	X No
35	Inventory at beginning of year. If different from last year's clo	sing inventory, attach explanation	35	22,100
36	Purchases less cost of items withdrawn for personal use .		36	56,600
37	Cost of labor. Do not include any amounts paid to yourself		37	
38	Materials and supplies		38	
39	Other costs		39	
40	Add lines 35 through 39		40	78,700
41	Inventory at end of year		41	22,500
42	Cost of goods sold. Subtract line 41 from line 40. Enter the	requit here and on line 4	42	56,200
	art IV Information on Your Vehicle. Complete th	is part <b>only</b> if you are claiming car or t	truck expenses	on line 9
	and are not required to file Form 4562 for th file Form 4562.	is business. See the instructions for lin	ne 13 to find out	if you must
43	When did you place your vehicle in service for business purp	ooses? (month, day, year)▶		
44	Of the total number of miles you drove your vehicle during 2	015, enter the number of miles you used your v	ehicle for:	
а	a Business b Commuting (see instru	uctions) c Other		
45	Was your vehicle available for personal use during off-duty h	ours?	Yes	No
46	Do you (or your spouse) have another vehicle available for p	ersonal use?	· · · · Yes	No
47a	a Do you have evidence to support your deduction?		Yes	No
b				No
Pa	art V Other Expenses. List below business expe	enses not included on lines 8-26 or line	e 30.	
	Waiting Room Supplies			1,300
	Business Gifts			795
	Professional Dues			140
	Journal Subscriptions			180
48	Total other expenses. Enter here and on line 27a		48	2,415
KIA	A		Schedule C	(Form 1040) 2015

	IEDULE D rm 1040)	-	ins and Lo			┢		-0074
Depart	ment of the Treasury al Revenue Service (99)	<ul> <li>Attach to For</li> <li>Information about Schedule D and it</li> <li>Use Form 8949 to list your training</li> </ul>		tions is at www.irs			Attachment Sequence No.	<b>)</b> 12
Name	(s) shown on return	Morgan					ial security nu	
		n Capital Gains and Losses—Ass	ote Hold One V	aar or Loss		<u> </u>		
		v to figure the amounts to enter on the	ets neid Olle T		(g)		(h) Gain or	(loss)
lines	below.		(d) Proceeds	(e) Cost	Adjustmen to gain or loss	from	Subtract col from column	umn (e) (d) and
	form may be easie e dollars.	r to complete if you round off cents to	(sales price)	(or other basis)	Form(s) 8949, line 2, colum		combine the r column	
1a	1099-B for which b which you have no However, if you ch	-term transactions reported on Form basis was reported to the IRS and for o adjustments (see instructions). hoose to report all these transactions ave this line blank and go to line 1b	0	0				0
1b		actions reported on Form(s) 8949 with	28,000	40,000		0	-12	,000
2		actions reported on Form(s) 8949 with	0	0		0		0
3		actions reported on Form(s) 8949 with	0	7,000		0	-7	,000
	Chart tarm gain from	- Form 6252 and abort form gain or (loca) fro		21 and 8824		4		0
4 5	Net short-term gai	n Form 6252 and short-term gain or (loss) fro in or (loss) from partnerships, S corpora	tions, estates, an	d trusts from		5		
6	Short-term capital	loss carryover. Enter the amount, if any	y, from line 8 of yo	our Capital Loss		6	(	0)
-				· · · · · · · · · · · · ·			(	)
7		apital gain or (loss). Combine lines 1a gains or losses, go to Part II below. Othe				7	-19	,000
Par	t II Long-Tern	n Capital Gains and Losses—Ass	ets Held More 1	Fhan One Year				
	instructions for how below.	v to figure the amounts to enter on the	(d)	(e)	(g) Adjustmer	ts	(h) Gain or Subtract col	
This		r to complete if you round off cents to	Proceeds (sales price)	Cost (or other basis)	to gain or loss Form(s) 8949, line 2, colum	Part II,	from column combine the r column	(d) and result with
8a	1099-B for which b which you have no However, if you ch	term transactions reported on Form basis was reported to the IRS and for b adjustments (see instructions). hoose to report all these transactions ave this line blank and go to line 8b	0	0				0
8b		actions reported on Form(s) 8949 with	0	0		0		0
9		actions reported on Form(s) 8949 with	158,000	140,000		0	18	,000
10		actions reported on Form(s) 8949 with	0	0		0		0
11	Gain from Form 4 from Forms 4684,	797, Part I; long-term gain from Forms 2 6781, and 8824		• •	. ,	11		0
12	Net long-term gain	n or (loss) from partnerships, S corporat	ions, estates, and	trusts from Scheo	dule(s) K-1	12		
13	Capital gain distrik	outions. See the instructions				13		0
14		loss carryover. Enter the amount, if any heet in the instructions		our Capital Loss		14	(	0)
15		pital gain or (loss). Combine lines 8a t	-			15	18	,000
KIA		Reduction Act Notice, see your tax return	instructions.				lle D (Form 10	40) 2015

#### E-40

Sche	dule D (Form 1040) 2015 Carrie A Morgan	111-11-1112	Page <b>2</b>
Pa	rt III Summary		
16	Combine lines 7 and 15 and enter the result	. 16 -	-1,000
	• If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line		
	14. Then go to line 17 below.		
	<ul> <li>If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.</li> </ul>		
	<ul> <li>If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul>		
17	Are lines 15 and 16 both gains?		
	Yes. Go to line 18.		
	<b>No.</b> Skip lines 18 through 21, and go to line 22.		
18	Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions	▶ 18	
19	Enter the amount, if any, from line 18 of the Unrecaptured Section 1250 Gain Worksheet in the instructions	▶ 19	
20	Are lines 18 and 19 both zero or blank?		
	Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Do not complete lines 21 and 22 below.		
	<b>No.</b> Complete the <b>Schedule D Tax Worksheet</b> in the instructions. <b>Do not</b> complete lines 21 and 22 below.		
21	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the <b>smaller</b> of:		
	<ul> <li>The loss on line 16 or</li> <li>(\$3,000), or if married filing separately, (\$1,500)</li> </ul>	. 21 (	1,000)
	Note. When figuring which amount is smaller, treat both amounts as positive numbers.		
22	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?		
	X Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).	r	
	No. Complete the rest of Form 1040 and Form 1040NR.		
KIA		Schedule D (Form	1040) 2015

Schedule D (Form 1040) 2015





Department of the Treasury

Internal Revenue Service

▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.



Name(s) shown on return			Social security number or taxpayer identification
Carrie	А	Morgan	111-11-1112
Befere you check Boy		ar Chalaw, and whathar you manifuld any Farm(a) 10	00 P or substitute statement(s) from your brai

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Short-Term. Transactions involving capital assets you held 1 year or less are short-term. For long-term Part I transactions, see page 2.

Note. You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

X (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

(C) Short-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	ription of property Date acquired Date sold or Proceeds Cost or other basis.						( <b>h)</b> Gain or (loss). Subtract column (e)
		(100., 003, 51.)	(Mo., day, yr.)	(see instructions)	and see Column (e) in the separate instructions	(f) Code(s) from instructions	(g) Amount of adjustment	from column (d) and combine the result with column (g)
1000	Grosbeak Exploration	03/04/15	12/23/15	28,000	40,000		0	-12,000
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
								0
n S	otals. Add the amounts in colum egative amounts). Enter each tol ichedule D, line 1b (if Box A abo bove is checked), or line 3 (if Bo	al here and inclu ve is checked), I	de on your ine 2 (if Box B	28,000	40,000		0	-12,000

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

		-
Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on Page 1 Social security number	or taxpayer identification numb	er
Carrie A Morgan 111	-11-1112	

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

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

**Note.** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

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

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

(F) Long-term transactions not reported to you on Form 1099-B

1 (a) Description of property	<b>(b)</b> Date acquired	(c) Date sold or	Proceeds	Proceeds S	Proceeds See the	d or Proceeds See the Note below	If you enter an a enter a co	any, to gain or loss. amount in column (g), de in column (f). arate instructions.	(h) Gain or (loss). Subtract column (e) from column (d) and
(Example: 100 sh. XYZ Co.)	(Mo., day, yr.)	disposed of (Mo., day, yr.)	(sales price) (see instructions)	and see <i>Column (e)</i> in the separate instructions	(f) Code(s) from instructions	(g) Amount of adjustment	combine the result with column (g)		
York County Land	inherit	07/25/15	158,000	140,000		0	18,000		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
							0		
2 Totals. Add the amounts in columns (d), negative amounts). Enter each total here Schedule D, line 8b (if Box D above is c above is checked), or line 10 (if Box F a	e and include on you checked), line 9 (if E	ır	158,000	140,000		0	18,000		

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

KIA

Form 8949 (2015)





Information about Form 8949 and its separate instructions is at www.irs.gov/form8949
 File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

Department of the Treasury Internal Revenue Service Name(s) shown on return

Form 8949

Social security number or taxpayer identification number

Defensional Devis	1 D	Chalans, and whathan you maniful a any Farma(a) de	200 Romen whether a state month (a) from your broken. A substitute
Carrie	А	Morgan	111-11-1112
			· · · · · · · · · · · · · · · ·

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are short-term. For long-term transactions, see page 2.

**Note.** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

X (C) Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	<b>(b)</b> Date acquired (Mo., day, yr.)	(c) Date sold or disposed of	(d) Proceeds (sales price)	(e) Cost or other basis. See the <b>Note</b> below	If you enter a enter a	if any, to gain or loss. n amount in column (g), code in column (f). parate instructions.	(h) Gain or (loss). Subtract column (e)
		(Mo., day, yr.)	(see instructions)	and see <i>Column</i> (e) in the separate instructions	(f) Code(s) from instructions	(g) Amount of adjustment	from column (d) and combine the result with column (g)
Loan to friend		12/31/15	0	7,000		0	-7,000
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
2 Totals. Add the amounts in column negative amounts). Enter each tota Schedule D, line 1b (if Box A abov above is checked), or line 3 (if Box	al here and inclu ve is checked), I	de on your ine 2 (if Box B	0	7,000		0	-7,000

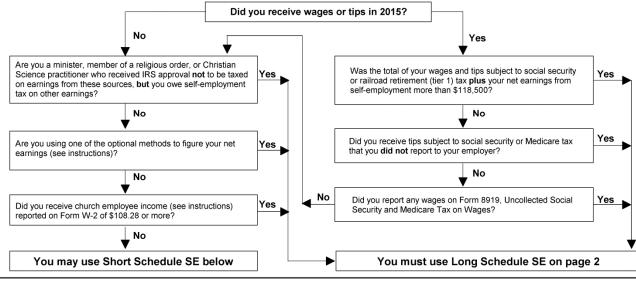
Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

SCHEDULE SE	OMB No. 1545-0074				
(Form 1040)	rm 1040) Self-Employment Tax ► Information about Schedule SE and its separate instructions is at www.irs.gov/schedulese.				
Department of the Treasury Internal Revenue Service (99	Department of the Treasury				
Name of person with self-e	mployment income (as shown on Form 1040 or Form 1040NR)	Social security number of person			
Carrie A Morgan with self-employment income			111-11-1112		

Before you begin: To determine if you must file Schedule SE, see the instructions.

### May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart only if you must file Schedule SE. If unsure, see Who Must File Schedule SE in the instructions.



Section A-Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

U U	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve	1b	( )
	Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Z $$ .		Ŭ Ŭ )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	2	85,938
3	Combine lines 1a, 1b, and 2.	3	85,938
4	Multiply line 3 by 92.35% (.9235). If less than \$400, you do not owe self-employment tax; <b>do not</b> file this schedule unless you have an amount on line 1b▶	4	79 <b>,</b> 364
	<b>Note.</b> If line 4 is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5	Self-employment tax. If the amount on line 4 is:		
	• \$118,500 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 57, or Form 1040NR, line 55.		
	• More than \$118,500, multiply line 4 by 2.9% (.029). Then, add \$14,694 to the result. Enter the total here and on <b>Form 1040, line 57,</b> or <b>Form 1040NR, line 55.</b>	5	12,143
6	Deduction for one-half of self-employment tax.		
	Multiply line 5 by 50% (.50). Enter the result here and on Form         6           1040, line 27, or Form 1040NR, line 27         6		
KIA	For Paperwork Reduction Act Notice, see your tax return instructions.	Sch	edule SE (Form 1040) 2015

			Depreciation	n and Amortia	zation		0	MB No. 1545-0172
Form <b>Z</b>	1562		(Including Inform				1	2015
				to your tax return.				2013
Internal Re	t of the Treasury evenue Service (99)	Information abou	It Form 4562 and its s	•	ns is at <i>www.irs.</i>	gov/form4562.	A' S	itachment equence No. 179
. ,	nown on return			or activity to which this for	m relates		-	ng number
Carri			SCH	-			111-	11-1112
Part			ain Property Und			D. ()		
			l property, complet	e Part V before	you complete	Part I.		500,000
	laximum amount (see	,						500,000
	otal cost of section 1			,			·	2,000,000
	hreshold cost of sect			```	,			2,000,000
	eduction in limitation			,			· 🔫	
	ollar limitation for tax							500,000
6	1 21	ion of property		(b) Cost (business use		(c) Elected cost		300,000
	urniture	ion of property		10,40		10,40		
				10,40		10,40	-	
	interal annual states. Eastern	4			7		0	
	isted property. Enter				[		~ 	10,400
	otal elected cost of s		•	( ).				
	entative deduction. E							10,400
	arryover of disallowe							F 0 0 0 0 0
	usiness income limit			•	,	(see instructions)		500,000
	ection 179 expense							10,400
	arryover of disallowe				►   13	3	0	
	Do not use Part II or							
Part I			ance and Other D	•			.) (See	instructions.)
	pecial depreciation a							0
	uring the tax year (se	,					. 14	0
	roperty subject to se						. 15	
100100000000000000000000000000000000000	ther depreciation (in						. 16	
Part I	II MACKS Depre	eciation (Do n	ot include listed pr		structions.)			
				ection A			47	7,692
	IACRS deductions fo	•	,	0 0			. 17	7,092
	you are electing to g							
a	sset accounts, check		n Service During 20				Sveto	~
	Section B-	(b) Month and	(c) Basis for depreciatio	n			Syster	
(a) C	lassification of property	year placed in service	(business/investment us only—see instructions)	e (a) Recovery	(e) Convention	(f) Method	<b>(g)</b> De	epreciation deductio
19a 🗧	3-year property	Service	only—see instructions)	,				
	5-year property							
	7-year property		0	7.00	HY	200DB		0
<b>d</b> 10	0-year property							
	5-year property							
	0-year property							
	5-year property			25 yrs.		S/L		
	esidential rental			27.5 yrs.	MM	S/L		
рі	roperty			27.5 yrs.	MM	S/L		
i N	onresidential real			39 yrs.	MM	S/L		
рі	roperty				MM	S/L		
	Section C—As	sets Placed in	Service During 201	5 Tax Year Using	the Alternativ	ve Depreciation	n Syste	em
20a C	lass life					S/L		
						S/L		
<b>b</b> 12	2-year			12 yrs.				
b 12 c 40	2-year 0-year			12 yrs. 40 yrs.	MM	S/L S/L		
<b>b</b> 12	2-year 0-year	See instructions	5.)		MM		-	
b 12 c 40 Part IV 21 Li	2-year 0-year V Summary (S isted property. Enter	amount from line	e 28	40 yrs.		S/L	21	0
b 12 c 40 Part IV 21 Li	2-year 0-year V Summary (S	amount from line	e 28	40 yrs.		S/L	21	
b 12 c 40 Part I 21 Li 22 To he	2-year 0-year <b>Summary</b> (S isted property. Enter otal. Add amounts fr ere and on the appro	amount from line om line 12, lines priate lines of yo	e 28	40 yrs. 19 and 20 in columnips and S corpora	mn (g), and line	S/L		0
b 12 c 40 Part I 21 Li 22 To he 23 Fo	2-year 0-year <b>Summary</b> (S isted property. Enter otal. Add amounts fr ere and on the appro or assets shown abo	amount from line om line 12, lines priate lines of yo ve and placed ir	e 28	40 yrs. 19 and 20 in colur ips and S corpora current year, enter	mn (g), and line tions—see inst	S/L 21. Enter ructions		
b 12 c 40 Part I 21 Li 22 To he 23 Fo	2-year 0-year <b>Summary</b> (S isted property. Enter otal. Add amounts fr ere and on the appro or assets shown abo ortion of the basis att	amount from line om line 12, lines priate lines of yo ve and placed ir ributable to sect	e 28	40 yrs. 19 and 20 in colur ips and S corpora current year, enter	mn (g), and line tions—see inst	S/L 21. Enter ructions	22	

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### **PROBLEM 3 SOLUTIONS**

Form	11	2	0	For calo		<b>Orporation</b> r tax year beginnin				ŀ	OMB №. 1545-0123
		of the T enue S	Treasury ervice			orm 1120 and its sepai			rm1120 .		
A C	heck i	f:			Name				B Emp	loyer ide	ntification number
		dated re Form 8		l l	Pet Kinadom. Ind					11-1	111111
		life con		TYPE	Number, street, and	room or suite no. If a P.	O. box, see instru	uctions.	C Date		
		eturn.		F	1010 Northwest City or town		State	ZIP code		11	1/2006
		al holdir Sch. Pł	H)		Dallas		TX	75225	D Total		see instructions)
			ce corp.		Foreign country nam	e Foreign provin	ce/state/county	Foreign postal co			. 1
			1s)					-	\$		13,802,727
4 S	1		attached X	E Check			return (3)	Name change (4)	<u> </u>	change	
									750,000	-	
	b c								, 1	1c	5,550,000
	2									2	2,300,000
	3		-							3	3,250,000
ne	4	Divi	dends (Schedu	le C, line 19)						4	43,750
ncome	5	Inter	rest							5	20,000
5	6									6	
	7		-							7	
	8	•	0			1120))				8	
	9 10					(attach Form 4797)				9 10	
	11									11	3,313,750
	12					n Form 1125-E)				12	525,000
ns.	13		•							13	725,000
ictio	14	Rep	airs and mainte	enance						14	140,000
ledı	15	Bad	debts							15	
5	16									16	109,000
Deductions (See instructions for limitations on deductions.)	17									17 18	238,000
tatic	18 19									10	38,000
<u>E</u>	20					n 1125-A or elsewhe				20	136,000
for	21						,	,		21	
ions	22	Adv	ertising							22	58,000
ucti	23	Pen	sion, profit-shai	ring, etc., pla	ns					23	
insti	24			-						24	60,000
ee.	25				•	orm 8903)				25 26	
s (5	26 27		,		,					20	2,236,000
tion	28				•	on and special dedu				28	1,077,750
luci	29a				-	· · · · · · · · · ·		1 1			
ĕ	b								30,625		
										29c	30,625
redits, s	30				,	see instructions)				30	1,047,125
Cred	31				,					31	356,023
able ymer	32				•	J, Part II, line 21) .				32	360,000
, Refundable Ci and Payment:	33 34		•	• •	,	Form 2220 is attach of lines 31 and 33, e				33 34	0
an	35					lines 31 and 33, ent				35	3,977
Tax,	36			0		2016 estimated tax		· · ·	efunded 🕨	36	3,977
		Unde	r penalties of perjury	, I declare that I h	have examined this retur	n, including accompanying ed on all information of whi	schedules and state		of my knowledge	and belief,	
Sig	n	anu c	ompiete. Deciaration	, or proparer (oth	or than taxpayer / is Dast			Miomougo.	May	the IRS o	liscuss this return with
Her		)					<b>\</b>		the p	reparer s	hown below (see
		Sign	ature of officer			Date	Title		instru	ictions)?	
D-:	-		Print/Type prepa	arer's name	Preparer's signate	ure		Date	Check	if	PTIN
Paie					SELF-PREPA	RED RETURN			self-emp	loyed	
Pre	-			<u>&gt;</u>					Firm's EIN	•	
Use	On	iy	Firm's address City	-			State	2	Phone no. ZIP code		
			1			-	State	-	1 0000		1100

For Paperwork Reduction Act Notice, see separate instructions.

Form **1120** (2015)

Sc	hedule C Dividende	s and Special Deductions (see instructions)	(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1		%-owned domestic corporations (other than			
2		e-owned domestic corporations (other than	43,750	70	30,625
-				80	0
3	Dividends on debt-financed	stock of domestic and foreign corporations		see instructions	0
4	Dividends on certain preferr	ed stock of less-than-20%-owned public utilities		42	0
5	Dividends on certain preferr	ed stock of 20%-or-more-owned public utilities		48	0
6	Dividends from less-than-20	%-owned foreign corporations and certain FSCs		70	0
7	Dividends from 20%-or-mor	e-owned foreign corporations and certain FSCs		80	0
8	Dividends from wholly owne	d foreign subsidiaries		100	0
9	Total. Add lines 1 through 8	See instructions for limitation			30,625
10		rporations received by a small business investment le Small Business Investment Act of 1958		100	0
11	Dividends from affiliated gro	up members		100	0
12	Dividends from certain FSC	s		100	0
13	Dividends from foreign corp	orations not included on lines 3, 6, 7, 8, 11, or 12....			
14	Income from controlled fore	gn corporations under subpart F (attach Form(s) 5471) .			
15	Foreign dividend gross-up				
16	IC-DISC and former DISC d	ividends not included on lines 1, 2, or 3			
17	Other dividends				
18	Deduction for dividends paid	d on certain preferred stock of public utilities			
19	Total dividends. Add lines	1 through 17. Enter here and on page 1, line 4 ►	43,750		
20	Total special deductions.	Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 2	9b		30.625

Form	1120 (2015) Pet Kingdom, Inc.		11-11111	11 р	Page 3
Sc	hedule J Tax Computation and Payment (see instructions)				
Part	t I–Tax Computation				
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))				
2	Income tax. Check if a qualified personal service corporation (see instructions)		2 3	56,023	
3	Alternative minimum tax (attach Form 4626)		3	00,020	
4	Add lines 2 and 3			56.023	
5a	Foreign tax credit (attach Form 1118)			00,020	
b	Credit from Form 8834 (see instructions)				
c	General business credit (attach Form 3800)5c				
d	Credit for prior year minimum tax (attach Form 8827)				
e	Bond credits from Form 8912				
6	Total credits. Add lines 5a through 5e		6	0	
7	Subtract line 6 from line 4			56,023	
8	Personal holding company tax (attach Schedule PH (Form 1120))		8		
9a	Recapture of investment credit (attach Form 4255)				
b	Recapture of low-income housing credit (attach Form 8611).				
c	Interest due under the look-back method—completed long-term contracts (attach				
•	Form 8697)				
d					
	8866)				
e	Alternative tax on qualifying shipping activities (attach Form 8902)				
f	Other (see instructions—attach statement)				
10	Total. Add lines 9a through 9f.		10	0	
11	Total tax.       Add lines 7, 8, and 10.       Enter here and on page 1, line 31.       Inter state			56,023	
	t II–Payments and Refundable Credits			,	
12	2014 overpayment credited to 2015		12		
13	2015 estimated tax payments			60,000	
14	2015 refund applied for on Form 4466		14 (		
15	Combine lines 12, 13, and 14.			60,000	<u>_</u>
16	Tax deposited with Form 7004.		16	00,000	
17	Withholding (see instructions).		17		
18	Total payments. Add lines 15, 16, and 17.         .			60,000	
19	Refundable credits from:			00,000	
a	Form 2439				
b	Form 4136				
c	Form 8827, line 8c				
d	Other (attach statement—see instructions)				
20	Total credits. Add lines 19a through 19d		20	0	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32.			60,000	
	hedule K Other Information (see instructions)			00,000	
1	Check accounting method: a Cash b X Accrual c Other (specify)			Yes	No
2	See the instructions and enter the:				140
a h	Duringer atticks N. Dateil Trade			-	
0				-	
с 3	Product or service Pet and Pet Supplies Store Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?				x
5					
	If "Yes," enter name and EIN of the parent corporation ►			-	
4	At the end of the tay year:			-	
	At the end of the tax year: Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exe	mot			
а	organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all cla	•	۵		
	corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).				X
h	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting				
U	classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Sci			X	
		icuuie (c) .		1100	

Form **1120** (2015)

Form	1120 (2015) Pet Kingdom, Inc.		11	-1111111	Р	age <b>4</b>
S	Chedule K Other Information <i>continued</i> (see instructions)				<b>X</b> • •	
5 a	At the end of the tax year, did the corporation: Own directly 20% or more, or own, directly or indirectly, 50% or more of the to foreign or domestic corporation not included on <b>Form 851,</b> Affiliations Schedu If "Yes," complete (i) through (iv) below.	ule? For rules of constructi		ons .	Yes	No X
	(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	Owned	ercentag I in Votii tock	
b	Own directly an interest of 20% or more, or own, directly or indirectly, an inter (including an entity treated as a partnership) or in the beneficial interest of a t If "Yes," complete (i) through (iv) below.					x
	(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) M Percentag Profit, Los		ed in
6	During this tax year, did the corporation pay dividends (other than stock dividencess of the corporation's current and accumulated earnings and profits? (S If "Yes," file <b>Form 5452</b> , Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on	ee sections 301 and 316.)				x
7	At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all c	otly, at least 25% of <b>(a)</b> the	total voting power of all			X
	For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned ► and (ii) Owner's country ► (c) The corporation may have to file Form 5472, Information Return of a 25% Corporation Engaged in a U.S. Trade or Business. Enter the number of Form	Foreign-Owned U.S. Cor	poration or a Foreign			
8 9	Check this box if the corporation issued publicly offered debt instruments with If checked, the corporation may have to file <b>Form 8281</b> , Information Return for Enter the amount of tax-exempt interest received or accrued during the tax yet	or Publicly Offered Origina	I Issue Discount Instrumen	ts.		
10 11	Enter the number of shareholders at the end of the tax year (if 100 or fewer) If the corporation has an NOL for the tax year and is electing to forego the ca If the corporation is filing a consolidated return, the statement required by Re-	rryback period, check here				
12	the election will not be valid. Enter the available NOL carryover from prior tax years (do not reduce it by an	y deduction on line 29a.)	▶ \$			
13	Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for tax year less than \$250,000?	or the tax year <b>and</b> its tota	l assets at the end of the			Х
	If "Yes," the corporation is not required to complete Schedules L, M-1, and M and the book value of property distributions (other than cash) made during the late according to the schedule LTD (form 4120). Upperture to the schedule schedu	e tax year. 🕨 💲				×
14	Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax If "Yes," complete and attach Schedule UTP. Did the corporation make any payments in 2015 that would require it to file For	Υ.	,		x	X
15a b 16	If "Yes," did or will the corporation file required Forms 1099? . During this tax year, did the corporation have an 80% or more change in own				X	
17	own stock?	ne corporation dispose of r	nore than 65% (by value)			X
18	of its assets in a taxable, non-taxable, or tax deferred transaction? Did the corporation receive assets in a section 351 transfer in which any of th market value of more than \$1 million?	e transferred assets had a	ı fair market basis or fair			X X
					1120	

	1120 (2015) Pet Kingdom, Inc.				111111 Page <b>5</b>
Sc	hedule L Balance Sheets per Books	Beginning	of tax year	End of ta	x year
	Assets	(a)	(b)	(c)	(d)
1	Cash		1,200,000		1,037,750
2a	Trade notes and accounts receivable	2,062,500		2,147,000	
b	Less allowance for bad debts	_(	2,062,500	( )	2,147,000
3	Inventories		2,750,000		3,030,000
4	U.S. government obligations			_	
5	Tax-exempt securities (see instructions)		375,000	-	375,000
6	Other current assets (attach statement)		400,000	-	403,977
7	Loans to shareholders		L	-	
8	Mortgage and real estate loans			-	
9	Other investments (attach statement)	5 455 000	1,125,000	E 455 000	1,125,000
10a	Buildings and other depreciable assets	5,455,000		5,455,000	1 = 10 000
b	Less accumulated depreciation	( 606,000)	4,849,000	( 712,000)	4,743,000
11a	Depletable assets		-	· · · · · · · · · · · · · · · · · · ·	
	Less accumulated depletion	(	0	()	0
12	Land (net of any amortization)		812,500		812,500
13a	Intangible assets (amortizable only)				0
b	Less accumulated amortization		0	()	0
14	Other assets (attach statement)		140,000	-	128,500
15	Total assets	•	13,714,000	-	13,802,727
40	Liabilities and Shareholders' Equity		2 284 000		1.075.000
16	Accounts payable		2,284,000	-	1,975,000
17 18	Mortgages, notes, bonds payable in less than 1 year.		175.000	-	155,000
19	Other current liabilities (attach statement)		175,000	-	155,000
20	Mortgages, notes, bonds payable in 1 year or more .		4,625,000	-	4,575,000
20	Other liabilities (attach statement).		4,023,000	-	4,575,000
22	Capital stock: <b>a</b> Preferred stock				
	<b>b</b> Common stock	2,500,000	2,500,000	2,500,000	2,500,000
23	Additional paid-in capital	2,000,000	2,000,000	2,000,000	2,000,000
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated		4,130,000		4,597,727
26	Adjustments to shareholders' equity (attach statement).			-	.,
27	Less cost of treasury stock		( )		( )
28	Total liabilities and shareholders' equity		13,714,000		13,802,727
Sc	hedule M-1 Reconciliation of Income (Los	ss) per Books Wi		turn	10,002,727
	Note: The corporation may be required				
1	Net income (loss) per books	7	. ,	h books this year not	
2	Federal income tax per books		included on this retu	,	
3	Excess of capital losses over capital gains		Tax-exempt interes	· ,	
4	Income subject to tax not recorded on books				
	this year (itemize):				0
		0 8	Deductions on this	return not charged	
5	Expenses recorded on books this year not			e this year (itemize):	
	deducted on this return (itemize):		a Depreciation	\$	
а	Depreciation		b Charitable contributions		
b	Charitable contributions \$				
с	Travel and entertainment \$				
					0
		0 9	Add lines 7 and 8 .		0
6	Add lines 1 through 5	0 10	Income (page 1, lin	e 28)—line 6 less line 9	0
Sc	hedule M-2 Analysis of Unappropriated R	etained Earning	s per Books (Line	25, Schedule L)	
1	Balance at beginning of year	4,130,000		Cash	250,000
2	Net income (loss) per books	717,727		Stock	,
3	Other increases (itemize):			Property	
			- (	,	
		0 7	Add lines 5 and 6		250,000
4	Add lines 1, 2, and 3	4,847,727		ear (line 4 less line 7)	4,597,727
		1,011,121		. /	Γorm <b>1120</b> (2015)

Form **1120** (2015)

(Rev. Deo Departmen	125-A Lember 2012) tof the Treasury lemue Service Information about Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B. Information about Form 1125-A and its instructions is at www.irs.gov/form	1125a	OMB No. 1545-2225
Name			Employer identification number
Pet Kin	gdom, Inc.		11-111111
1	Inventory at beginning of year	1	2,750,000
2	Purchases	2	2,580,000
3	Cost of labor	3	
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule).	5	
6	Total. Add lines 1 through 5	6	5,330,000
7	Inventory at end of year	7	3,030,000
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2		
	or the appropriate line of your tax return (see instructions)	8	2,300,000
9 a	Check all methods used for valuing closing inventory:         (i)       Cost         (ii)       X         Lower of cost or market         (iii)       Other (Specify method used and attach explanation.)		
b	Check if there was a writedown of subnormal goods		🕨 📘
c d e f	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form S If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO . If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instru- Was there any change in determining quantities, cost, or valuations between opening and closing inver "Yes," attach explanation .	9d lictions)	)? Yes X No

SCHEDULE G (Form 1120) (Rev. December 2011) Department of the Treasury Internal Revenue Service	Ir		Certain ration's ► Attach to F See instructio	Votin Form 1120.	g Sto		ng th	ie	OMB No.1545-0123
Name							Employe	er identificat	ion number (EIN)
Pet Kingdom, Inc.							11-111 <sup>-</sup>	1111	
Part I Certain Comple any enti owns, d	te colum ty treated irectly or	Owning the Corpo ns (i) through (v) be d as a partnership), indirectly, 50% or n vote (see instructior	low for any trust, or tax nore of the t	foreign o -exempt	r domes organiza	tic corp ation th	ooratioi at own	n, partnei s directly	rship (including 20% or more, or
(i) Name of Entit	у	(ii) Employer Identification Number (if any)	(iii) Type o	of Entity	(iv) Count	try of Orga	anization	(v) Percent	age Owned in Voting Stock
		uals and Estates O							
or more	, or owns	s, directly or indirect ck entitled to vote (s	ly, 50% or n	nore of th					
		ndividual or Estate		(ii) Ide	ntifying r (if any)		(iii) Cou Citizensh instruc	nip (see	(iv) Percentage Owned in Voting Stock
Janet Morton				123-4	5-6789	United	States	r	50.000%
Kim Wong				987-6	5-4321	United	States		50.000%
For Paperwork Reduct	ion Act No	otice,		•		•	5	Schedule G (	(Form 1120) (Rev. 12-2011

гог нарегwork Reduction Act Notice, see the Instructions for Form 1120. 1833

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	EDULE M-3		oss) Reconciliation		ons	OMB No. 1545-0	)123
Departr	m 1120) nent of the Treasury Revenue Service	Attach to Form 1120 or	tal Assets of \$10 Mi 1120-C. ►Information about instructions is available at www	Schedule M-3 (Form 11	20) and	201	5
		n parent, if consolidated return)			Employer ide	ntification number	
Pet k	Kingdom, Inc.					11-111111	
С	heck applicable bo		onsolidated return (2)	Consolidated return			
		(3) Mixed	1120/L/PC group (4)	Dormant subsidiarie	s schedule a	attached	
Pa	tl Financia	al Information and Net Inc	ome (Loss) Reconciliatio	n (see instructions)			
1a		ion file SEC Form 10-K for its ines 1b and 1c and complete I		•	•		
	X No. Go to	line 1b. See instructions if mu	Itiple non-tax-basis income sta	atements are prepared.			
b	Did the corporati	ion prepare a certified audited	non-tax-basis income statem	ent for that period?			
	Yes. Skip li	ine 1c and complete lines 2a t	hrough 11 with respect to that	income statement.			
	X No. Go to						
С		ion prepare a non-tax-basis in lete lines 2a through 11 with r					
		ines 2a through 3c and enter t			ecorde on lir	ne / n	
2a		•	inning 1/1/2015	<i>,</i> ,	2/31/2015		
b		tion's income statement been	J	•		_	
	<b>Yes.</b> (If "Ye	es," attach an explanation and	the amount of each item resta	ated.)			
	X No.						
С	Has the corporat	tion's income statement been	restated for any of the five inc	ome statement periods	immediately		
	preceding the pe						
		es," attach an explanation and	the amount of each item resta	ated.)			
_	X No.						
3a		poration's voting common stor	k publicly traded?				
	Yes.	II and the Price of a					
b		," go to line 4a. I of the corporation's primary l	IS publicly traded voting con	mon			
U.	•						
с		igit CUSIP number of the corp		ed voting			
	common stock .	• • • • • • • • • • • • • •					
4a	Worldwide conse	olidated net income (loss) fron	n income statement source ide	entified in Part I, line 1 .		<b>4a</b> 717	7,727
b		ing standard used for line 4a (					
Fa		2) IFRS 3) Statuto	· · · <b>_</b> · · ·	) [] Other (specify)		Ea I (	· · · ·
5a b		nonincludible foreign entities nincludible foreign entities (at				5a ( 5b	)
6a		nonincludible U.S. entities (at		. ,		6a (	)
b		nincludible U.S. entities (attac	,			6b	/
7a	Net income (loss	s) of other includible foreign di	sregarded entities (attach stat	ement)	🗋	7a	
b		s) of other includible U.S. disre				7b	
c	Net income (loss	s) of other includible entities (a	ttach statement)			7c	
8		iminations of transactions bet		,		。	
9	,					8	
10a	•	vidend adjustments to reconci	• •	,		0a	
b		accounting adjustments to reco				0b	
C	•	its to reconcile to amount on li	, ,			0c	
11	-	ss) per income statement of a 11, must equal Part II, line 3	-	-		<b>11</b>   717	7,727
12	Enter the total ar	mount (not just the corporatior	's share) of the assets and lia	bilities of all entities inc	luded or rem	oved on the	
	following lines.	1					
-	Included co. D.		Total Assets	Total Liabilitie			
a b		: I, line 4........ ► rt I, line 5....... ►	13,802,727	6	<u>,705,000</u>		
с С		rt I, line 6					
d		I, line 7					
		on Act Notice, see the Instruction	ons for Form 1120.		Sch	edule M-3 (Form 112	0) 2015

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Schedu	ule M-3 (Form 1120) 2015				Page <b>2</b>
Name	of corporation (common parent, if consolidated return)			Employer identif	ication number
Pet K	ïngdom, Inc.			11-1	111111
Check a	pplicable box(es): (1) Consolidated group (2) Parent corp (3)	Consolidated eliminati	ions (4) Subsidia	ary corp (5) M	ixed 1120/L/PC group
Check if	a sub-consolidated: (6) 1120 group (7) 1120 eliminations				
Name	of subsidiary (if consolidated return)			Employer identif	ication number
Par	Reconciliation of Net Income (Loss) per Inco	me Statement o	of Includible Co	rporations Witl	<u>ו</u>
	Taxable Income per Return (see instructions)				
	Income (Loss) Items	(a)	(b)	(c)	(d)
	(Attach statements for lines 1 through 12)	Income (Loss) per Income Statement	Temporary Difference	Permanent Difference	Income (Loss) per Tax Return
1	Income (loss) from equity method foreign corporations				
2	Gross foreign dividends not previously taxed				
3	Subpart F, QEF, and similar income inclusions				
4	Section 78 gross-up				
5	Gross foreign distributions previously taxed				
6	Income (loss) from equity method U.S. corporations				
7	U.S. dividends not eliminated in tax consolidation	43,750			43,750
8	Minority interest for includible corporations	,			
9	Income (loss) from U.S. partnerships				
10	Income (loss) from foreign partnerships				
11	Income (loss) from other pass-through entities				
12	Items relating to reportable transactions				
13	Interest income (see instructions).	35,000		( 15,000)	20,000
14	Total accrual to cash adjustment				
15	Hedging transactions				
16	Mark-to-market income (loss)				
17	Cost of goods sold (see instructions).	( 2,300,000)			( 2,300,000)
18	Sale versus lease (for sellers and/or lessors)				
19	Section 481(a) adjustments				
20	Unearned/deferred revenue				
21	Income recognition from long-term contracts				
22	Original issue discount and other imputed interest				
23a	Income statement gain/loss on sale, exchange,				
	abandonment, worthlessness, or other disposition of				
	assets other than inventory and pass-through entities .				
b	Gross capital gains from Schedule D, excluding				
	amounts from pass-through entities				
с	Gross capital losses from Schedule D, excluding				
-	amounts from pass-through entities, abandonment				
	losses, and worthless stock losses				
d	Net gain/loss reported on Form 4797, line 17,				
	excluding amounts from pass-through entities,				
	abandonment losses, and worthless stock losses				
е	Abandonment losses				
f	Worthless stock losses (attach statement)				
g	Other gain/loss on disposition of assets other than inventory .				
24	Capital loss limitation and carryforward used.				
25	Other income (loss) items with differences (attach statement).				
26	Total income (loss) items. Combine lines 1 through 25	( 2,221,250)	0	( 15,000)	( 2,236,250)
27	Total expense/deduction items (from Part III, line 38)	( 756,023)	( 30,000)	405,023	( 381,000)
28	Other items with no differences	3,695,000	, , , ,	,	3,695,000
29a	Mixed groups, see instructions. All others, combine				
	lines 26 through 28	717,727	( 30,000)	390,023	1,077,750
b	PC insurance subgroup reconciliation totals	,	, , , , , , , , , , , , , , , , , , , ,	,	, ,
	Life insurance subgroup reconciliation totals				
30	Reconciliation totals. Combine lines 29a through 29c	717,727	( 30,000)	390,023	1,077,750
	Note: Line 30, column (a), must equal Part I, line 11, and co		, , ,	,	. , -
		· · · ·	• •		M-3 (Form 1120) 2015

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Name of computing communication number         Employer identification number           Per Kingdom, Inc.         11:1111111           One stagets between:         10         Consultation for the inclusion of the inclusion of the inclusion number           Perform of subsidiary (if consolidated stars)         Imployer identification number         Employer identification number           Perform of subsidiary (if consolidated stars)         Employer identification number         Employer identification number           Perform of subsidiary (if consolidated stars)         Exponse/Deduction items         (e) (e) (for the inclusion of the in	Scheo	lule M-3 (Form 1120) 2015				Page 3
Construction         CP	Name	of corporation (common parent, if consolidated return)	Employer ider	Employer identification number		
Creek of a sub-constant         Image         Imag	Pet	Kingdom, Inc.			1'	1-1111111
Name of subsidiary (if consolidated stamt)         Employer identification number           Part III         Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items (see instructions)         (a)         (b)         (c)           Expense/Deduction Items         (a)         (b)         (c)         <	Check	applicable box(es): (1) Consolidated group (2) Parent corp (3)	Consolidated eliminatio	ns (4) 🗌 Subsidi	ary corp (5)	Mixed 1120/L/PC group
Part III         Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items (see instructions)         (e)         (f)         (e)         (e)         (f)	Check	if a sub-consolidated: (6) 1120 group (7) 1120 eliminations				
Income per Return—Expense/Deduction Items (see instructions)           Expense/Deduction Items         (a)         (b)         (c)         (d)           U.S. current income tax expense         356.023         (.356.023)         Deduction per Tax Return           1.U.S. deferred income tax expense         356.023         (.356.023)         Deduction per Tax Return           2.U.S. deferred income tax expense	Name	of subsidiary (if consolidated return)			Employer ide	ntification number
Income per Return—Expense/Deduction Items (see instructions)           Expense/Deduction Items         (a)         (b)         (c)         (d)           U.S. current income tax expense         356.023         (.356.023)         Deduction per Tax Return           1.U.S. deferred income tax expense         356.023         (.356.023)         Deduction per Tax Return           2.U.S. deferred income tax expense	Par	t III Reconciliation of Net Income (Loss) per Inco	ome Statement o	f Includible Co	rporations W	/ith Taxable
Expense/Deduction Items     Expense of Deduction Items     Defension     Perminent Deduction Perminent Difference     Deduction Perminent Difference       1 U.S. current income tax expense.     356.023     ( 356.023)       2 State and local deferred income tax expense.     56.023     ( 356.023)       4 State and local deferred income tax expense.     56.023     ( 356.023)       5 Foreign current income tax expense.     56.023     ( 356.023)       6 Foreign withholding taxes.     50.000     ( 9.000)       7 Foreign withholding taxes.     215.000     ( 9.000)       9 Stock option expense.     215.000     ( 9.000)       10 Other equiv-based compensation.     215.000     ( 9.000)       11 Meals and entertainment.     215.000     ( 9.000)       12 Fines and penalties.     215.000     ( 9.000)       13 Udgments.     215.000     ( 9.000)       14 Parachute payments.     215.000     ( 9.000)       15 Orenpensation with section 162(m) limitation.     20.000     ( 9.000)       16 Perside contribution of cash and tangible property.     38.000     38.000       17 Current year acquisition or roorganization integration reorganization int						
2       U.S. deferred income tax expense.         3       State and local current income tax expense.         5       Foreign current income tax expense.         6       Foreign deferred income tax expense.         7       Foreign deferred income tax expense.         8       Interest expense (see instructions).         9       Stock option expense.         10       Other equity-based compensation.         11       Meals and entrainment.         12       Fines and penalties.         13       Judgments, damages, awards, and similar costs.         14       Parachuke payments.         15       Compensation with section 162(m) limitation.         16       Pension and portis-sharing.         17       Other opst-retirement benefits.         18       Deferred contribution of ratangible property.         19       Charitable contribution of intangible property.         10       Charitable contribution or reorganization accounting fees.         10       Current year acquisition or reorganization or impairment write-offs.         10       Depletion.         10       Depletion.         10       Depletion.         10       Depletion.         10       Depreciation or impairment write-offs.		Expense/Deduction Items	Expense per	Temporary	Permanent	Deduction per
3       State and local current income tax expenses	1	U.S. current income tax expense	356,023		( 356,02	3)
4       State and local deferred income tax expense         5       Foreign utihholding taxes).         6       Foreign deferred income tax expense (other than foreign withholding taxes).         7       Foreign deferred income tax expense.         8       Interest expense (see instructions).         9       Stock option expense.         10       Other equity-based compensation.         11       Meals and entertainment.         12       Fines and penalties         13       Judgments, damages, awards, and similar costs.         14       Parachute payments.         15       Compensation with section 162(m) limitation.         16       Compose-streament benefits.         17       Other compensation.         18       Deferred compensation.         19       Charitable contribution of intangible property.         12       Domestic production activities deduction.         13       Current year acquisition or reorganization investment banking fees.         14       Current year acquisition or reorganization and start-up costs.         15       Current year acquisition reorganization and start-up costs.         16       Amortization / amortization	2	U.S. deferred income tax expense				
5       Foreign current income tax expense (other than foreign withholding taxes).         6       Foreign deferred income tax expense.         7       Foreign withholding taxes.         9       Stock option expense.         10       Other equity-based compensation.         11       Meals and entertainment.         12       Fines and penalties.         13       Judgments, damages, awards, and similar costs.         14       Parachute payments.         15       Compensation with section 162(m) limitation.         16       Pension and profit-sharing.         17       Other expense (see the net net the net net the net the net the net the net the ne	3	State and local current income tax expense				
foreign withholding taxes						
6       Foreign deferred income tax expense.         7       Foreign withholding taxes.         8       Interset expense (see instructions).         9       Stock option expense.         10       Other equity-based compensation.         11       Meals and entertainment.         12       Fines and penalties.         13       Judgments, damages, awards, and similar costs.         14       Parachute payments.         15       Compensation with section 182(m) limitation.         16       Pension and profit-sharing.         17       Other post-retirement benefits.         19       Charitable contribution of intangible property.         12       Current year acquisition or reorganization legal and accounting fees.         12       Current year acquisition reorganization ether costs.         10       Cher addition, reorganization, and start-up costs.         10       Defertion.         10       Depreciation.         11       Depreciation.         10       Current year acquisition reorganization shard tampion.         10       Current year acquisition reorganization and start-up costs.         10       Depreciation.         10       Depreciation.         10       Depreciation. <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td>	5					
7       Foreign withholding taxes.         8       Interest expense (see instructions).         9       Stock option expense.         10       Other equity-based compensation         11       Meals and entertainment.         12       Fines and pentalines.         13       Judgments, damages, awards, and similar costs.         14       Parachute payments.         15       Compensation with section 162(m) limitation.         16       Pension and profit-sharang.         17       Other opst-retirement benefits.         18       Deferred compensation         19       Charitable contribution of intangible property.         10       Charitable contribution of intangible property.         12       Domestic production activities deduction         12       Domestic on ribution or reorganization legal and accounting fees.         12       Current year acquisition or reorganization other costs.         14       Amortization/impairment of goodvill.         17       Other amortization or impairment write-offs.         18       Other amortization or impairment write-offs.         12       Current year acquisition reorganization and profit-shares endult if insurance premiums.         14       Qurrent year acquisiting or thorganization and profit-shares endult if insu						
8         Interest expense (see instructions).         216,000         (9,000)         207,000           9         Stock option expense		<b>.</b> .				
9       Stock option expense         10       Other equity-based compensation         11       Meals and entertainment         12       Fines and penalties         13       Judgments, damages, awards, and similar costs         14       Parachute payments         15       Compensation with section 152(m) limitation         16       Pension and proft-sharing         17       Other regulty-based compensation         18       Deferred compensation         19       Charitable contribution of cash and tangible property         10       Charitable contribution of intagible property         21       Charitable contribution of intagible property         22       Domestic production activities deduction         23       Current year acquisition or reorganization legal and accounting fees         24       Current year acquisition/reorganization end costs         26       Amortization/impairment wite-offs         29       Reserved         30       Depletion         31       Depreciation or impairment wite-offs         32       Current year acquisition/reorganization, and start-up costs         33       Corporate owned life insurance premiums         34       Amortization or impairment wite-offs		5 S				
10       Other equity-based compensation         11       Meals and entertainment         12       Fines and penalties         13       Judgments, damages, awards, and similar costs         14       Parachute payments         15       Compensation with section 162(m) limitation         16       Pension and profit-sharing         17       Other post-retirement benefits         18       Deferred compensation         19       Charitable contribution of intangible property         11       Charitable contribution of intangible property         12       Domestic production activities deduction         13       Current year acquisition reorganization investment banking fees         14       Current year acquisition reorganization other costs         16       Current year acquisition, reorganization other costs         16       Amortization / reorganization other costs         16       Current year acquisition, reorganization other costs         16       Current year acquisition, reorganization other costs         16       Current year acquisition, reorganization other costs         17       Amortization of rupairment write-offs         18       Other amortization or impairment write-offs         19       Depireciation       Impairment of Impairment			216,000		( 9,00	0) 207,000
11       Meals and entertainment.         12       Fines and penalties.         13       Judgments, damages, awards, and similar costs.         14       Parachute payments.         15       Compensation with section 162(m) limitation .         16       Deferred compensation .         17       Other post-retirement benefits.         18       Deferred compensation .         19       Charitable contribution of intangible property .         11       Charitable contribution of intangible property .         12       Charitable contribution of intangible property .         12       Charitable contribution or intangible property .         12       Charitable contribution imitation/carryforward .         12       Current year acquisition or eorganization or ther costs .         12       Current year acquisition reorganization or ther costs .         13       Other amortization or impairment of goodwill .         14       Current year acquisition, reorganization and start-up costs .         15       Ead elbet expense .         16       Corporate owned life insurance premiums .         10       Depreciation or impairment write-offs .         12       Reserved .         13       Corporate owned life insurance premiums .         14		· ·				_
12       Fines and penalties         13       Judgments, damages, awards, and similar costs         14       Parachute payments         15       Compensation with section 162(m) limitation         16       Pension and profit-sharing         17       Other post-retirement benefits         18       Deferred compensation         19       Charitable contribution of cash and tangible property         10       Charitable contribution of intangible property         12       Domestic production activities deduction         13       Current year acquisition or reorganization or reorganization investment banking fees         14       Current year acquisition/reorganization other costs         15       Current year acquisition, reorganization other costs         16       Amortization or facquisition, reorganization other costs         17       Amortization or facquisition, reorganization and start-up costs         10       Eperication         10       Eperication         11       Depreciation         12       Derestex and inferences (attach statement)         13       Depreciation (ifferences (attach statement)         13       Depreciation (ifferences (attach statement)         13       Total expense/deduction items. Combine lines 1 through 37. Enter here and o						-
13       Judgments, damages, awards, and similar costs         14       Parachute payments         15       Compensation with section 162(m) limitation         16       Pension and protit-sharing         17       Other post-retirement benefits         18       Deferred compensation with section 162(m) limitation         19       Charitable contribution of cash and tangible property         10       Charitable contribution of cash and tangible property         12       Domestic production activities deduction         13       Current year acquisition or reorganization other costs         14       Current year acquisition reorganization other costs         15       Current year acquisition reorganization other costs         14       Current year acquisition reorganization and start-up costs         15       Current year acquisition reorganization and start-up costs         16       Depletion         17       Amortization of impairment wirte-offs         18       Coparate owned life insurance premiums         19       Chartable sechard wite costs         10       Expresses)         11       Depletion         12       Current year acquisition reorganization and start-up costs         13       Corporate owned life insurance premiums						
14       Parachute payments         15       Compensation with section 162(m) limitation         16       Compensation with section 162(m) limitation         17       Other post-retirement benefits         18       Deferred compensation         19       Charitable contribution of intangible property         10       Charitable contribution of intangible property         21       Charitable contribution of intangible property         22       Domestic production activities deduction         23       Current year acquisition or reorganization legal and accounting fees         24       Current year acquisition/reorganization addition/reorganization accounting fees         25       Current year acquisition/reorganization and startup costs         26       Other amortization or impairment write-offs         29       Reserved         30       Depletion         31       Depreciation         32       Other amortization or impairment write-offs         36       Section 118 exclusion (attach statement)         37       Other expense (for purchasers and/or lessees)         38       Section 118 exclusion (attach statement)         37       Other expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
15       Compensation with section 162(m) limitation         16       Pension and profit-sharing         17       Other post-retirement benefits         18       Deferred compensation         19       Charitable contribution of intangible property         19       Charitable contribution of intangible property         11       Charitable contribution limitation/carryforward         12       Domestic production activities deduction         13       Current year acquisition or reorganization legal and accounting fees         14       Current year acquisition reorganization legal and accounting fees         15       Current year acquisition reorganization and start-up costs         16       Other amortization or impairment write-offs         15       Other amortization or impairment write-offs         16       Depletion         17       Depreciation         18       Deter evense         19       Current year acquisition, reorganization, and start-up costs         10       Depreciation         10       Depreciation         10       Depreciation         10       Depreciation interns with differences (attach statement)         10       Current year acquisiti differences (attach statement)         10       Current year acqu						
16       Pension and profit-sharing         17       Other post-retirement benefits         18       Deferred compensation         19       Charitable contribution of cash and tangible property         19       Charitable contribution of intangible property         20       Charitable contribution of intangible property         21       Charitable contribution of intangible property         22       Domestic production activities deduction         23       Current year acquisition or reorganization legal and accounting fees         24       Current year acquisition/reorganization other costs         25       Current year acquisition, reorganization, and start-up costs         26       Amortization or impairment write-offs         27       Reserved         20       Depletion         31       Depreciation         32       Coprorate owned life insurance premiums         33       Coprorate owned life insurance premiums         34       Reserved         35       Section 118 exclusion (attach statement)         37       Other expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and						
17       Other post-retirement benefits         18       Deferred compensation         19       Charitable contribution of intangible property         20       Charitable contribution of intangible property         21       Charitable contribution of intangible property         22       Connestic production activities deduction         23       Current year acquisition or reorganization legal and accounting fees         24       Current year acquisition reorganization legal and accounting fees         25       Current year acquisition, reorganization legal and accounting fees         26       Amortization/impairment of goodwill         27       Amortization of acquisition, reorganization, and start-up costs         26       Reserved         27       Amortization or impairment write-offs         28       Reserved         30       Depletion         31       Depreciation         32       Corporate owned life insurance premiums         33       Corporate owned life insurance premiums         34       debt expense         35       Research and development costs         36       Research and development costs         37       Other expense/deduction items with differences (attach statement)         38       Total expense/d						
18       Deferred compensation						
19       Charitable contribution of cash and tangible property       38,000       38,000         20       Charitable contribution limitation/carryforward       20       21         21       Charitable contribution limitation/carryforward       20       21         22       Domestic production activities deduction       21       21         23       Current year acquisition or reorganization investment banking fees       21       21         24       Current year acquisition or reorganization legal and accounting fees       21       21         24       Current year acquisition, reorganization other costs       21       21         25       Current year acquisition, reorganization other costs       21       21         26       Amortization of acquisition, reorganization, and start-up costs       21       21         20       Cher amortization or impairment write-offs       21       21         21       Depletion       21       21         32       Corporate owned life insurance premiums       21       21       21         33       Research and development costs       21       21       21       21         33       Research and development costs       21       21       21       21       21         34       <						
property       38,000       38,000         20       Charitable contribution of intangible property						
20       Charitable contribution of intangible property	10	5	38.000			38 000
21       Charitable contribution limitation/carryforward         22       Domestic production activities deduction         23       Current year acquisition or reorganization investment banking fees         24       Current year acquisition or reorganization legal and accounting fees         25       Current year acquisition/reorganization other costs         26       Amortization/impairment of goodwill         27       Amortization or acquisition, reorganization, and start-up costs         28       Other amortization or impairment write-offs         29       Depreciation         30       Depletion         31       Depreciation         32       Corporate owned life insurance premiums         33       Corporate owned life insurance premiums         34       Development costs         35       Research and development costs         36       Section 118 exclusion (attach statement)         37       Other expense/deduction items with differences (attach statement)         38       Total expense/deduction items with differences (attach statement)         39       Total expense/deduction items an egative and	20					
22       Domestic production activities deduction						
23       Current year acquisition or reorganization investment banking fees         24       Current year acquisition reorganization legal and accounting fees         25       Current year acquisition/reorganization other costs         26       Amortization/impairment of goodwill         27       Amortization of acquisition, reorganization, and start-up costs         28       Other amortization or impairment write-offs         29       Reserved         20       Depletion         21       Depletion         22       Current year acquisition, reorganization, and start-up costs         29       Reserved         20       Depletion         21       Depletion         22       Reserved         31       Depreciation         32       Corporate owned life insurance premiums         33       Corporate owned life insurance premiums         34       Purchase versus lease (for purchasers and/or lessees)         19       Research and development costs         35       Research and development costs         36       Section 118 exclusion (attach statement)         37       Other expense/deduction items. Combine lines 1         38       Total expense/deduction items. Combine lines 1         through 37. Enter						
investment banking fees		•				
accounting fees						
25       Current year acquisition/reorganization other costs	24	Current year acquisition or reorganization legal and				
26       Amortization/impairment of goodwill		accounting fees				
27       Amortization of acquisition, reorganization, and start-up costs         28       Other amortization or impairment write-offs         29       Reserved         30       Depletion         31       Depreciation         32       Bad debt expense         33       Corporate owned life insurance premiums         34       Purchase versus lease (for purchasers and/or lessees)         35       Research and development costs         36       Section 118 exclusion (attach statement)         37       Other expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and	25	Current year acquisition/reorganization other costs				
start-up costs	26					
28       Other amortization or impairment write-offs	27	Amortization of acquisition, reorganization, and				
29       Reserved		start-up costs				
30       Depletion		·				
31       Depreciation       106,000       30,000       136,000         32       Bad debt expense       40,000       (40,000)         33       Corporate owned life insurance premiums       40,000       (40,000)         34       Purchase versus lease (for purchasers and/or lessees)       40,000       (40,000)         35       Research and development costs						
32       Bad debt expense						
33       Corporate owned life insurance premiums       40,000       (40,000)         34       Purchase versus lease (for purchasers and/or lessees)       9       1000       1000         35       Research and development costs       9       1000       1000       1000         36       Section 118 exclusion (attach statement)       9       1000       1000       1000         37       Other expense/deduction items with differences (attach statement)       9       1000       1000       1000         38       Total expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and       10000       10000       10000		•	106,000	30,000		136,000
34       Purchase versus lease (for purchasers and/or lessees).         35       Research and development costs.         36       Section 118 exclusion (attach statement).         37       Other expense/deduction items with differences (attach statement).         38       Total expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and		-	40.000		/ 40.00	0
lessees)			40,000		( 40,00	0)
35       Research and development costs	34					
36       Section 118 exclusion (attach statement)	25	,	├			
37       Other expense/deduction items with differences (attach statement)		•				
(attach statement)		· · · · · · · · · · · · · · · · · · ·				
38 Total expense/deduction items. Combine lines 1         through 37. Enter here and on Part II, line 27,         reporting positive amounts as negative and	31					
through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and	30					
reporting positive amounts as negative and	50					
		-				
			756.023	30.000	( 405.02	3) 381,000
Schedule M-3 (Form 1120) 201		• prosection of the test of the test	, 00,020	23,000		11

orm 1125-E						
Rev. December 2013)		OMB No. 1545-2225				
epartment of the Treasury Iternal Revenue Service	<ul> <li>Attach to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC, or 1120S</li> <li>Information about Form 1125-E and its separate instructions is at www.irs.gov/form1125e.</li> </ul>					
lame						yer identification number
Pet Kingdom, Inc. 11-111					11111	

(a) Name of officer	(h) Casial acquist a pumber	(c) Percent of	Percent of stock owned		(f) Amount of
(a) Name of officer	(b) Social security number	time devoted to business	(d) Common	(e) Preferred	compensation
1 Janet Morton	123-45-6789	100.00%	50.00%	%	262,500
Kim Wong	987-65-4321	100.00%	50.00%	%	262,500
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers				<b>2</b>	525,000
3 Compensation of officers claim	ed on Form 1125-A or elsewher	re on return		3	
	er the result here and on Form 1 urn...............			4	525,000

HTA

Form 8916-A Department of the Treasury

# Supplemental Attachment to Schedule M-3

► Attach to Schedule M-3 for Form 1065, 1120, 1120-L, 1120-PC, or 1120S.

OMB No. 1545-0123 20 15

▶ Information about Form 8916-A and its instructions is at www.irs.gov/form1120.

Internal Revenue Service Name of common parent Pet Kingdom, Inc. Name of subsidiary

Employer identification number 11-1111111

Employer identification number

Par	t Cost of Goods Sold				
	Cost of Goods Sold Items	<b>(a)</b> Expense per Income Statement	<b>(b)</b> Temporary Difference	<b>(c)</b> Permanent Difference	<b>(d)</b> Deduction per Tax Return
1	Amounts attributable to cost flow assumptions .				
2	Amounts attributable to:				
а	Stock option expense				
b	Other equity based compensation				
C	Meals and entertainment				
d	Parachute payments				
е	Compensation with section 162(m) limitation				
f	Pension and profit sharing				
g	Other post-retirement benefits				
h	Deferred compensation				
i	Reserved				
j	Amortization				
k	Depletion				
I	Depreciation				
m	Corporate owned life insurance premiums				
n	Other section 263A costs				
3	Inventory shrinkage accruals				
4	Excess inventory and obsolescence reserves				
5	Lower of cost or market write-downs				
6	Other items with differences (attach statement) .				
7	Other items with no differences	2,300,000			2,300,000
8	<b>Total cost of goods sold.</b> Add lines 1 through 7 in columns a, b, c, and d. Enter totals on the applicable Schedule M-3. See instructions	2,300,000	0	0	2,300,000
For P	aperwork Reduction Act Notice, see instructions.				Form 8916-A (2015)

HTA

Par	8916-A (2015) Pet Kingdom rt II Interest Income	1, INC.			11-1111111 Page
Fai	Interest Income Item	<b>(a)</b> Income (Loss) per Income Statement	<b>(b)</b> Temporary Difference	<b>(c)</b> Permanent Difference	<b>(d)</b> Income (Loss) per Tax Return
1	Tax-exempt interest income	15,000		-15,000	
2	Interest income from hybrid securities				
3	Sale/lease interest income				
4a	Intercompany interest income — From outside tax affiliated group				
4b	Intercompany interest income — From tax affiliated group				
5	Other interest income	20,000			20,000
6	Total interest income. Add lines 1 through 5 in columns a, b, c, and d. Enter total on the applicable Schedule M-3.				
Dar	See instructions.	35,000	0	-15,000	20,000
Par	t III Interest Expense	(a)	(b)	(c)	
	Interest Expense Item	Expense per Income Statement	Temporary Difference	Permanent Difference	<b>(d)</b> Deduction per Tax Return
1	Interest expense from hybrid securities				
2	Lease/purchase interest expense				
3a	Intercompany interest expense — Paid to outside tax affiliated group				
3b	Intercompany interest expense — Paid to tax affiliated group				
4	Other interest expense	216,000		-9,000	207.000
5	Total interest expense. Add lines 1 through 4 in columns a, b, c, and d. Enter total on the applicable Schedule M-3.				
	See instructions.	216,000	0	-9,000	207,000

Form 8916-A (2015)

E-59

### Line 6, Sch L (1120) - Other Current Assets

			Beginning	End
1	Certificates of Deposit	1	400,000	400,000
2	Federal Income Tax Refund Due	2		3,977
3	Total other current assets	3	400,000	403,977

### Line 9, Sch L (1120) - Other Investments

			Beginning	End
1	Stock Investments	1 [	1,125,000	1,125,000
_2	Total other investments	2 [	1,125,000	1,125,000

### Line 14, Sch L (1120) - Other Assets

			Beginning	End
1	Other Assets	1	140,000	128,500
_2	Total other assets	2	140,000	128,500

## Line 18, Sch L (1120) - Other Current Liabilities

			Beginning	End
1	Other Current Liabilities	1	175,000	155,000
2	Total other current liabilities	2	175,000	155,000

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# **PROBLEM 4 SOLUTIONS**

Form	11	12(	0		U.S. Co	orporation	Income T	ſax Re	turn		ŀ	OMB No. 1545-0123	
	tment of	of the Tr	reasury			<sup>.</sup> tax year beginnir						<i>1</i> 200 <b>15</b>	
	al Reve heck i	enue Se	rvice		Information about Fo	orm 1120 and its sepa	rate instructions is	s at www.irs.g	gov/form1		overide	entification number	
	Consolidated return								oyer ide	intration number			
		Form 85			Kingfisher Corpo		0			a Data	11-111111 e incorporated		
		ilife cons eturn .			1717 Main Street	oom or suite no. If a F t	2.0. box, see instruc	ctions.		C Date	incorpor	ated	
<b>2</b> P	ersona	al holding	g co.	PRINT	City or town		State	ZIP code				2/2003	
		Sch. PH al service			Ely Foreign country nam		MN nce/state/county	55731 Foreign po		D Total	assets (	see instructions)	
		tructions			r oreign country name	i oreign provi	nce/state/county	r oreigir po	star coue	\$		2,564,100	
4 S	chedul	le M-3 a	ttached	E Chec	kif: <b>(1)</b> Initial	return (2) Fina	l return (3)	Name change	e (4)	Address	change		
	1a	Gros	s receipts or s	ales				1a	2,40	8,000			
	b	Retu	rns and allowa	nce				1b	8	0,000			
	С	Balar	nce. Subtract li	ne 1b from l	line 1a						1c	2,328,000	
	2		-								2	920,000	
0	3		•								3	1,408,000	
ncome	4										4	<u> </u>	
lnce	5 6										6	10,000	
	7										7		
	8		,			1120))					8		
	9	Net	gain or (loss) fr	om Form 47	97, Part II, line 17	(attach Form 4797)					9		
	10	Othe	r income (see	instructions-	-attach statement	)					10		
	11					<u> </u>					11	1,430,000	
s.)	12		•	•		n Form 1125-E)					12	320,000	
tion	13 14	Salaries and wages (less employment credits)								13 14	290,000		
quc	15										15		
ן de	16										16	68,000	
s ol	17										17	85,000	
tion	18	Intere	est								18	12,000	
mita	19										19	15,000	
or li	20					n 1125-A or elsewh					20	40,000	
1s fe	21										21 22	6,000	
ctio	22 23		-								22	8,000	
stru	24										24	24,000	
e in:	25					orm 8903)					25		
(Se	26										26		
suc	27	Tota	I deductions.	Add lines 12	through 26					🕨	27	916,000	
ctic	28				•	on and special dedu		1 1	n line 11 .	· · · .	28	514,000	
Deductions (see instructions for limitations on deductions.)	29a				,					8.400			
Ő	b										29c	8,400	
	30					ee instructions) .					30	505,600	
tredits,	31				,						31	171,904	
le Cr nents	32					J, Part II, line 21) .					32	175,000	
, Refundable Ci and Payment:	33	Estim	nated tax pena	lty (see instr	ructions). Check if	Form 2220 is attach	ned				33		
tefur and F	34	Amo	unt owed. If li	ne 32 is sma	aller than the total of	of lines 31 and 33, e	enter amount owe	ed			34	0	
Tax, F	35			0		lines 31 and 33, en		aid			35	3,096	
	36			,		2016 estimated tax n, including accompanyin		mente and to th		nded <b>&gt;</b>	36 <b>36</b>	3,096	
<b>Si</b> ~	<u> </u>	and co	penalties of perjury mplete. Declaration	of preparer (oth	ner than taxpayer) is base	n, including accompanyin ed on all information of wh	ich preparer has any k	nerius, and to th nowledge.	e nest ot m	_			
Sig						l	ĸ					discuss this return with shown below (see	
Her	re	Signa	ture of officer			Date	Title				reparer s ctions)?		
			Print/Type prepa	rer's name	Preparer's signatu		I	Date				PTIN	
Paic	d		7F - F. 5Pe			RED RETURN				Check self-emp			
Pre		er H	Firm's name	•	JULL - FREPA				Fi	rm's EIN			
Use	-	E E	Firm's address	•						none no.			
			City				State		ZI	P code			

For Paperwork Reduction Act Notice, see separate instructions.

Form 1120 (2015)

Sc	hedule C Dividends and Special Deductions (see instructions)	(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)	12,000	70	8 400
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)	12,000	80	8,400
			see	
3	Dividends on debt-financed stock of domestic and foreign corporations			(
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	(
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	(
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs $\ldots$ .		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			8,400
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	(
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12.			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471).			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4	12,000		
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line	29b		8.400

Form	1120 (2015) Kingfisher Corporation	11-	1111111	Page <b>3</b>
Scl	hedule J Tax Computation and Payment (see instructions)			
Part	: I–Tax Computation			
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))			
2	Income tax. Check if a qualified personal service corporation (see instructions)	2	171,9	04
3	Alternative minimum tax (attach Form 4626)	3		
4	Add lines 2 and 3	4	171,9	04
5a	Foreign tax credit (attach Form 1118)			
b	Credit from Form 8834 (see instructions)			
с	General business credit (attach Form 3800)			
d	Credit for prior year minimum tax (attach Form 8827)			
е	Bond credits from Form 8912			
6	Total credits. Add lines 5a through 5e	6		0
7	Subtract line 6 from line 4	7	171,9	04
8	Personal holding company tax (attach Schedule PH (Form 1120))	8		
9a	Recapture of investment credit (attach Form 4255)			
b	Recapture of low-income housing credit (attach Form 8611) 9b			
С	Interest due under the look-back method—completed long-term contracts (attach			
	Form 8697)			
d	Interest due under the look-back method—income forecast method (attach Form			
	8866)			
	Alternative tax on qualifying shipping activities (attach Form 8902)			
f	Other (see instructions—attach statement)			
10	Total. Add lines 9a through 9f.	10	474.0	0
<u>11</u>	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31.	11	171,9	04
	II-Payments and Refundable Credits	12		
12 13	2014 overpayment credited to 2015	12	175,0	00
13	2015 estimated tax payments	14 (	175,0	, 100
14	Combine lines 12, 13, and 14.	14	175,0	, ,
16		16	175,0	.00
17	Withholding (see instructions)	17		
18	Total payments. Add lines 15, 16, and 17.	18	175,0	00
19	Refundable credits from:			
a	Form 2439			
b	Form 4136			
с	Form 8827, line 8c			
d	Other (attach statement—see instructions)			
20	Total credits. Add lines 19a through 19d	20		0
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	175,0	00
Scl	hedule K Other Information (see instructions)			
1	Check accounting method: a Cash b X Accrual c Other (specify) ▶		<u>ч</u>	'es No
2	See the instructions and enter the:			
а	Business activity code no.  451110			
b	Business activity 🕨 Retail Sporting Goods			
	Product or service Fishing Tackle			
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?			X
	If "Yes," enter name and EIN of the parent corporation ►			
4	At the end of the tax year:			
а	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt			
	organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of			
	corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		· · ·	X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of a lease of the experimental part life Schedule C (Form 1100) (attach Schedule C			V
	classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G	<b>)</b>	· · ·	X

Form **1120** (2015)

Form	1120 (2015) Kingfisher Corporation		11	1-1111111	Page <b>4</b>
S	Chedule K Other Information continued (see instructions)				Yes No
5	At the end of the tax year, did the corporation:				res No
а	Own directly 20% or more, or own, directly or indirectly, 50% or more of the t	otal voting power of all clas	sses of stock entitled to vo	e of any	
	foreign or domestic corporation not included on Form 851, Affiliations Sched	ule? For rules of constructi	ve ownership, see instruct	ions	X
	If "Yes," complete (i) through (iv) below. (i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	Owned	rcentage in Voting tock
		(ii aiiy)			
					<del></del>
b	Own directly an interest of 20% or more, or own, directly or indirectly, an inte (including an entity treated as a partnership) or in the beneficial interest of a If "Yes," complete (i) through (iv) below.				X
	(i) Name of Entity	(ii) Employer Identification Number	(iii) Country of		aximum ge Owned in
	()	(if any)	Organization		s, or Capital
6	During this tax year, did the corporation pay dividends (other than stock divid		• /	•	
	excess of the corporation's current and accumulated earnings and profits? (S	See sections 301 and 316.)			X
	If "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on	Form 851 for each subsid	iary.		
7	At any time during the tax year, did one foreign person own, directly or indire classes of the corporation's stock entitled to vote or (b) the total value of all of	• • • • •	• •		X
	For rules of attribution, see section 318. If "Yes," enter:				
	(i) Percentage owned ► and (ii) Owner's country ► (c) The corporation may have to file Form 5472, Information Return of a 25%				
	Corporation Engaged in a U.S. Trade or Business. Enter the number of Form				
8	Check this box if the corporation issued publicly offered debt instruments with				
	If checked, the corporation may have to file Form 8281, Information Return f				
9 10	Enter the amount of tax-exempt interest received or accrued during the tax y Enter the number of shareholders at the end of the tax year (if 100 or fewer)			-	
11	If the corporation has an NOL for the tax year and is electing to forego the ca				
	If the corporation is filing a consolidated return, the statement required by Re the election will not be valid.	gulations section 1.1502-2	1(b)(3) must be attached o	or	
12	Enter the available NOL carryover from prior tax years (do not reduce it by an				
13	Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) f tax year less than \$250,000?				X
	If "Yes," the corporation is not required to complete Schedules L, M-1, and M and the book value of property distributions (other than cash) made during the	I-2. Instead, enter the total	amount of cash distributio	าร	
14	Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax If "Yes," complete and attach Schedule UTP.				<u> </u>
15а b	Did the corporation make any payments in 2015 that would require it to file F If "Yes," did or will the corporation file required Forms 1099?				X X
16	During this tax year, did the corporation have an 80% or more change in own				
4-	own stock?				X
17	During or subsequent to this tax year, but before the filing of this return, did the of its assets in a taxable, non-taxable, or tax deferred transaction?				×
18	Did the corporation receive assets in a section 351 transfer in which any of the	ne transferred assets had a	ı fair market basis or fair		
	market value of more than \$1 million?				X
				Form '	1120 (2015)

	1120 (2015) Kingfisher Corporation				1111111 Page <b>5</b>
Sc	hedule L Balance Sheets per Books	Beginning	of tax year	End of ta	ax year
	Assets	(a)	(b)	(c)	(d)
1	Cash		380,000		335,524
2a	Trade notes and accounts receivable	308,400		480,280	
b	Less allowance for bad debts	()	308,400	()	480,280
3			900,000	-	1,012,000
4	U.S. government obligations		100.000	-	100.000
5	Tax-exempt securities (see instructions).		160,000	-	160,000
6	Other current assets (attach statement)			-	3,096
7 8	Loans to shareholders			-	
9	Other investments (attach statement)		440,000	-	440,000
10a	Buildings and other depreciable assets	240,000	440,000	240,000	440,000
b	Less accumulated depreciation	( 88,800)	151,200	( 128,800)	111,200
11a	Depletable assets	( 00,000/	101,200	( 120,000)	111,200
b	Less accumulated depletion	( )	0	( )	0
12	Land (net of any amortization)		20,000		20,000
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	( )	0	( )	0
14	Other assets (attach statement)		3,600		2,000
15	Total assets		2,363,200		2,564,100
	Liabilities and Shareholders' Equity				
16	Accounts payable		300,000		299,104
17	Mortgages, notes, bonds payable in less than 1 year .			-	
18	Other current liabilities (attach statement)		80,300	-	40,000
19	Loans from shareholders			-	
20	Mortgages, notes, bonds payable in 1 year or more .		210,000	-	200,000
21 22	Other liabilities (attach statement)				
22	Capital stock: a Preferred stock	500,000	500,000	500,000	500,000
23	Additional paid-in capital	300,000	300,000	300,000	500,000
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated		1,272,900	-	1,524,996
26	Adjustments to shareholders' equity (attach statement)		, ,		, ,
27	Less cost of treasury stock		( )		( )
28	Total liabilities and shareholders' equity		2,363,200		2,564,100
Sc	hedule M-1 Reconciliation of Income (Lo	ss) per Books Wi	th Income per Re	turn	<i>i i</i>
	Note: The corporation may be require	d to file Schedule M-3 (	see instructions).		
1	Net income (loss) per books	332,096 7	Income recorded or	n books this year not	
2	Federal income tax per books	171,904	included on this retu	urn (itemize):	
3	Excess of capital losses over capital gains		Tax-exempt interes	t \$ 14,000	
4	Income subject to tax not recorded on books				
	this year (itemize):				14,000
_		0 8		•	
5	Expenses recorded on books this year not			e this year (itemize):	
_	deducted on this return (itemize):			\$	
	Depreciation		<ul> <li>Charitable contributions</li> </ul>	\$	
	Travel and entertainment f				
Ľ	State Bond Interest Expense 8,000				0
	Life Insurance Premiums 16,000	24,000 9			14,000
6	Add lines 1 through 5	528,000 10		e 28)—line 6 less line 9	
	hedule M-2 Analysis of Unappropriated F				
1	Balance at beginning of year	1,272,900 5		Cash	80,000
2	Net income (loss) per books	332,096		Stock	
3	Other increases (itemize):			Property	
		6			
			,	<i>,</i>	
		0 7			80,000
_4	Add lines 1, 2, and 3	1,604,996 <b>8</b>	Balance at end of y	ear (line 4 less line 7)	1,524,996
					Earm 1120 (2015)

Form **1120** (2015)

	125-A Cost of Goods Sold			OMB No. 1545-2225
	t of the Treasury venue Service Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.	n1125a	a.	
Name			Emple	oyer identification number
Kingfisl	ner Corporation		11-11	11111
1	Inventory at beginning of year	1		900,000
2	Purchases	2		1,032,000
3	Cost of labor	3		
4	Additional section 263A costs (attach schedule)	4		
5	Other costs (attach schedule).	5		
6	Total. Add lines 1 through 5	6		1,932,000
7	Inventory at end of year	7		1,012,000
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2			
	or the appropriate line of your tax return (see instructions).	8		920,000
9 a	Check all methods used for valuing closing inventory:			
	(i) Cost			
	(ii) X Lower of cost or market			
	(iii) Other (Specify method used and attach explanation.)			
ь	Check if there was a writedown of subnormal goods			
c	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form S			
d	If the LIFO inventory method was used for this tax year, enter amount of closing inventory	70).		
u	computed under LIFO	9d		
е	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instru	uctions	)?	Yes X No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inver	ntory? I	lf	
	"Yes," attach explanation			Yes X No

SCHEDULE G (Form 1120) (Rev. December 2011) Department of the Treasury Internel Revenue Service	1120)       Corporation's Voting Stock         t of the Treasury       ► Attach to Form 1120.					ne	OMB No.1545-0123	
Name					Employ	er identificati	on number (EIN)	
Kingfisher Corporation					11-111	1111		
	Entities Owning the Corpo	oration's Vot	ing Stoc	k. (Form			estion 4a).	
any entity owns, dir	e columns (i) through (v) by y treated as a partnership) rectly or indirectly, 50% or itled to vote (see instructio	, trust, or tax- more of the to	exempt	organiza	tion that own	s directly	20% or more, or	
(i) Name of Entity	(ii) Employer Identificatio Number (if any)	n (iii) Type o	f Entity	(iv) Count	ry of Organization	(v) Percenta	age Owned in Voting Stock	
Question or more,	Adividuals and Estates ( 4b). Complete columns (i) or owns, directly or indirection's stock entitled to vote (	) through (iv) tly, 50% or m	below fo lore of th	r any ind	dividual or es	tate that o	wns directly 20%	
	Name of Individual or Estate		(ii) Ide	ntifying r (if any)	(iii) Cou Citizens instruc	nip (see	(iv) Percentage Owned in Voting Stock	
Nancy Trout			123-4	5-6789	United States		50.000%	
Delores Lake			987-6	5-4321	United States		50.000%	
For Paperwork Reduction	on Act Notice,					Schedule G (	Form 1120) (Rev. 12-2011)	

see the Instructions for Form 1120.



# **Compensation of Officers**

Attach to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC, or 1120S ▶ Information about Form 1125-E and its separate instructions is at www.irs.gov/form1125e. OMB No. 1545-2225

Kingfisher Corporation

HTA

Employer identification number 11-1111111

Note. Complete Form 1125-E only if total receipts are \$500,000 or more. See instructions for definition of total receipts.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to	Percent of	stock owned	(f) Amount of
		business	(d) Common	(e) Preferred	compensation
<b>1</b> Nancy Trout	123-45-6789	100.00%	50.00%	%	160,000
	123-43-07.09	100.0076	30.0070	70	100,000
Delores Lake	987-65-4321	100.00%	50.00%	%	160,000
		%	%	%	
		70	70	70	
		%	%	%	
		%	%	%	
		70	70	70	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		70	/0	70	
		%	%	%	
		%	%	%	
		%	%	%	
		0/		0/	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers .				2	320,000
3 Compensation of officers claimed or	Form 1125-A or elsewhe	re on return		3	
	and the second second second	1400	- 40 <del>-</del> -		
4 Subtract line 3 from line 2. Enter the appropriate line of your tax return .				4	320,000
For Paperwork Reduction Act Notice, see se					rm <b>1125-E</b> (Rev. 12-2013)

Kingfisher Corporation

#### 11-1111111

#### Line 6, Sch L (1120) - Other Current Assets

			Beginning	End
1	Federal Income Tax Refund Due	1		3,096
2	Total other current assets	2	0	3,096

### Line 9, Sch L (1120) - Other Investments

			Beginning	End
1	Certificates of Deposit	1	140,000	140,000
2	Stock Investments	2	300,000	300,000
3	Total other investments	3	440,000	440,000

### Line 14, Sch L (1120) - Other Assets

			Beginning	End
1	Other Assets	1	3,600	2,000
2	Total other assets	2	3,600	2,000

## Line 18, Sch L (1120) - Other Current Liabilities

			Beginning	End
1	Other Current Liabilities	1	80,300	40,000
2	Total other current liabilities	2	80,300	40,000

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## **PROBLEM 5 SOLUTIONS**

- When preparing page 1 of Form 1065, the payment for the partners' services is deducted on line 10 as a guaranteed payment.
- When preparing Schedule K-1, the net earnings from self-employment (line 14a) equals the combination of lines 1 and 4 on the K-1. This is Ryan's 1/4 share of the partnership's ordinary income plus his guaranteed payment for services.
- Ryan Ross's "current year increase/decrease" in item L of the Schedule K-1 is computed as follows: \$40,000 (book income)  $\div 4 = \$210,000$ . This amount consists of the following items on the K-1:

Line 1, Ordinary business income (loss)	\$244,800
Plus: Line 5, Interest income	400
Less: Line 8, Net short-term capital gain (loss)	(5,000)
Plus: Line 9a, Net long-term capital gain (loss)	6,000
Less: Line 12, Section 179 deduction	(5,000)
Less: Line 13a, Charitable contributions	(7,000)
Plus: Line 18 (Code A), Tax-exempt interest inco	me 800
Less: Line 18 (Code C), Nondeductible expenses	(25,000)
Line L, current year increase (decrease)	<u>\$210,000</u>

• On Schedules K and K–1, no amount is shown for net investment income on line 20, Code Y, because all components of net investment income are readily identifiable (e.g., interest income). An amount would have been shown, for example, if some or all of the guaranteed payments had been for use of the members' capital.

	10	65		U.S. Re	turn of Partners	hin l	ncome	L	OMB No. 154	45-0123	
	ment of the <sup>-</sup>		For calendar year 2015, or tax year beginning, ending ▶ Information about Form 1065 and its separate instructions is at www.irs.gov/form1065.						2015		
A Pr	rincipal bus	siness activity	D	D Employer identification number							
Musi	Musican Agents/Mgrs ROCK the Ages LLC									555	
B Pr	rincipal pro	duct or service	Tune	Number, street, and	room or suite no. If a P.O. box, see	e the instru	uctions.	E	Date business s	tarted	
			Type or		ulevard, Suite 2100						
	nt Servic		Print	City or town	State	9	ZIP code		1/1/20		
C Bu	usiness co	de number		Los Angeles	CA		90036		Total assets (see instructions)	e the	
7114	10			Foreign country nam	ne Foreign province/s	state/coun	ty Foreign postal code	÷	,	000,000	
H (	Check ac	plicable boxes	(6) od: (1) X	Cash (2)	on - also check (1) or (2) Accrual (3) Oth	me chang her (spec	ify)				
					vho was a partner at any time						4
J	Check if §	Schedules C ar	nd M-3 are a	attached							
Caut	tion. Inc	lude <b>only</b> tra	ade or bus	iness income and	expenses on lines 1a throu	igh 22 b	elow. See the instructi	ons for	more informa	tion.	
	1a G	Gross receipts	or sales .			1a	4,800,000				
		•				1b					
	с В	alance. Subt	ract line 1	o from line 1a .				1c	4,80	00,000	
e	<b>2</b> C	cost of goods	sold (attac	ch Form 1125-A) .				2			
ncome	3 🤆	Gross profit. S	ubtract lin	e 2 from line 1c .				3	4,80	00,000	
ũ		•	income (loss) from other partnerships, estates, and trusts (attach statement)								
_			. , .	ach Schedule F (F							
		0 ( )	ain (loss) from Form 4797, Part II, line 17 (attach Form 4797)								
		- ( )(								0.000	
		Total income (loss). Combine lines 3 through 7							/	00,000 00,000	
(suc		Guaranteed payments to partners								0.000	
nitatio									1,40	,000	
or lir		•									
ons 1								12	8	30,000	
tructi								14		92,000	
e inst								15		10,000	
ee th	16a 🛛	epreciation (	if required	, attach Form 4562	2)	16a					
e S	b L	ess depreciati	on reported	on Form 1125-A ar	nd elsewhere on return.	16b		16c	:	0	
ü	17 D	epletion <b>(Do</b>	not dedu	ct oil and gas de	oletion.)			17			
Deductions (see the instructions for limitations)			,					18			
np	-							19			
å			•	,				20	· · · · ·	38,800	
					n in the far right column for	intes 9		21		20,800	
	22 C				act line 21 from line 8 mined this return, including accom	oanving se	chedules and statements and	22		79,200  lae	
					tion of preparer (other than general						
Sig	n	information of	which prepare	er has any knowledge.							
Her	re								ay the IRS discuss th e preparer sh <u>own</u> bel		πn
								ins	structions)?	es	No
				partner or limited liabilit	y company member manager		Date		/		
<b>D</b> -'	-1	Print/Type pre	parer's name		Preparer's signature		Date	Cheo	ck 🗌 if 🏻	TIN	
Paie					SELF-PREPARED RETUR	RN			employed		
	parer	Firm's name	•						's EIN 🕨		
Use	e Only	Firm's address	•						Phone no.		
For	20000000	City	Act Notice	con congrate insta	uctions	Sta	ate	ZIP		<b>1065</b> (	2045
HTA	aperwor	K REQUCTION A	-or nouce,	see separate instru	10110113.				Form	1000 (	2013)

		ROCK the Ages LLC	1	555555 Page <b>4</b>
Schedu	ule K		<u> </u>	tal amount
	1	Ordinary business income (loss) (page 1, line 22)	1	979,200
	2	Net rental real estate income (loss) (attach Form 8825)	2	
	3a	Other gross rental income (loss)		
	b	Expenses from other rental activities (attach statement)		
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c	0
<b>(</b> )	4	Guaranteed payments	4	1,400,000
ő	5	Interest income	5	1,600
Ŀ	6	Dividends: <b>a</b> Ordinary dividends	6a	
ne		<b>b</b> Qualified dividends		
Income (Loss)	7	Royalties	7	
<u>n</u>	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8	-20,000
	9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065)).	9a	24,000
		Collectibles (28%) gain (loss)		
		Unrecaptured section 1250 gain (attach statement)		
	10	Net section 1231 gain (loss) (attach Form 4797).	10	
	11	Other income (loss) (see instructions) Type	11	
			+ +	20,000
Deductions	12	Section 179 deduction (attach Form 4562)	12	20,000
ti		Contributions	13a	28,000
nc			13b	
eq		Section 59(e)(2) expenditures: (1) Type ► (2) Amount ►	13c(2)	
	d	Other deductions (see instructions) Type ►	13d	
Self- Employ- ment		Net earnings (loss) from self-employment	14a	2,379,200
Self- Emplo ment	b	Gross farming or fishing income	14b	
ъ	С	Gross nonfarm income	14c	4,800,000
		Low-income housing credit (section 42(j)(5))	15a	
6	b	Low-income housing credit (other)	15b	
dit	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c	
Credits	d	Other rental real estate credits (see instructions) Type ►	15d	
U		Other rental credits (see instructions) Type ►	15e	
	f	Other credits (see instructions) Type ►	15f	
	16a	Name of country or U.S. possession		
	h	Gross income from all sources	16b	
su		Gross income sourced at partner level	16c	
tio		Foreign gross income sourced at partnership level	100	
act	Ь	Passive category ► e General category ► f Other ►	16f	
su	ŭ	Deductions allocated and apportioned at partner level	101	
ra_	, a	Interest expense  h Other	16h	
L L	9	Deductions allocated and apportioned at partnership level to foreign source income		
ig	.		16k	
Foreign Transactions		Passive category ►       j General category ►       k Other ►         Total foreign taxes (check one): ►       Paid       Accrued	161	
ш		Reduction in taxes available for credit (attach statement)	16m	
		Other foreign tax information (attach statement)		
		Post-1986 depreciation adjustment	17a	
s ax		Adjusted gain or loss	17a 17b	
n T em:		Depletion (other than oil and gas)	170 17c	
) It		Oil, gas, and geothermal properties—gross income	170	
Alternative Minimum Tax (AMT) Items		Oil, gas, and geothermal properties—gloss income	17u 17e	
A R R			17e	
		Other AMT items (attach statement)		3 200
u n		Tax-exempt interest income	18a 18b	3,200
ati				100,000
Ē		Nondeductible expenses	18c	<i>.</i>
Į		Distributions of cash and marketable securities	19a	1,000,000
<u> </u>		Distributions of other property	19b	1 600
ler			20a	1,600
Other Information		Investment expenses	20b	
	C	Other items and amounts (attach statement)		= 4000
				Form <b>1065</b> (2015)

	/sis of Net Income	ne Ages LLC e <b>(Loss)</b>						5-5555555 Pa
		ombine Schedule K, line	s 1 through 1	1. From th	e result, su	ubtract the sum of		
	Schedule K, lines 12	through 13d, and 16l		<u></u>		<u> </u>	1	2,336,800
2	Analysis by	(ii) Individual (iii) Individual (v) Exempt		(v) Exempt	(vi)			
	partner type:	(i) Corporate	(active)	()	bassive)	(iv) Partnership	Organization	Nominee/Othe
а	General partners		1,034,2	200				
b	Limited partners		2,336,8	00				
che	edule L Bala	nce Sheets per Bool	ks	Beg	ginning of ta	x year	End of	tax year
		Assets		(a)		(b)	(c)	(d)
1	Cash					444,000		380,0
2a	Trade notes and acc	ounts receivable						
b	Less allowance for b	ad debts				0		
3	Inventories							
		igations						
5	Tax-exempt securitie	s				120,000		120,0
		(attach statement)						
7a	Loans to partners (or	persons related to partr	ners).					
		state loans	· ·					
		ttach statement)				436,000		300,0
	•	lepreciable assets		960	,000		980,000	
	-	preciation			,000	0	980,000	
					1		,	
	•	epletion				0		
		ortization)						
		nortizable only)						
		nortization				0		
		statement)						
	•					1,000,000		800,0
-		and Capital				1,000,000		000,0
5								
		onds payable in less than						-
		es (attach statement)				200,000		160,0
		S				200,000		100,0
		r persons related to partne						<u> </u>
			· ·					
		onds payable in 1 year o ch statement) .....						
		ounts				800,000		640.0
						1.000.000		640,0
	Total liabilities and ca			Deeke			2 ~ 4 · · · · · ·	800,0
cm		onciliation of Income . The partnership may b					keturn	
1	Net income (loss) pe	· · · · ·	i	0,000 6		corded on books th	ie veen net in eluder	
	· · ·	r books Schedule K, lines 1, 2, 3		0,000 0		ule K, lines 1 throug		1
		nd 11, not recorded on	c,			mpt interest \$	3,200	
	books this year (item			0		nprimeiesr a	5,200	3,
	Guaranteed paymen				Deductio	ons included on So	shedule K lines 1	-
			1 40	0,000		13d, and 16l, not o	,	
	,	on books this year not	. 1,40	10,000	•	book income this y	•	
	included on Schedule	•			_			
	13d, and 16l (itemize	, <b>U</b>		a	Deprecia	φ		
	Depression P	·		8	Add lines	s 6 and 7		- 3,2
a h	Travel and entertainr	nent \$100,00	10	<b>9</b> 000,000		loss) (Analysis of		5,.
		1		0,000		ne 1). Subtract lin		2,336,
		lysis of Partners' Ca			(LUSS), II	ne i). Subtract ini	eononnines .	2,330,
					Dictributi	ions: a Cash		1 000
		ofyear		<u>0,000</u> 6	Distributi			, , ,
2	Capital contributed:	a Cash		—   _	0		rty	
•	Notineens (lass)	<b>b</b> Property		7	Utner de	creases (itemize)		-
3	Other increases (iter	r books nize):	. 84	0,000	Add lines	s 6 and 7		- 1.000
4				010		5 u anu /		1,000,

Form	8949
1 01111	

# Sales and Other Dispositions of Capital Assets

Information about Form 8949 and its separate instructions is at www.irs.gov/form8949. File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074
2015
Attachment
Sequence No. 12A

Department of the Treasury Internal Revenue Service Name(s) shown on return ROCK the Ages LLC

Part I

Social security number or taxpayer identification number

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Short-Term. Transactions involving capital assets you held 1 year or less are short term. For long-term transactions, see page 2.

**Note:** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

X (A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

(C) Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	<b>(b)</b> Date acquired (Mo., day, yr.)	<b>(c)</b> Date sold or disposed of (Mo., day, yr.)	<b>(d)</b> Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column</i> (e) in the separate instructions	If you enter an enter a co	any, to gain or loss. amount in column (g), ode in column (f). arate instructions. (g) Amount of adjustment	(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
Tech, Inc 1,000 Shares	6/15/2015	12/15/2015	80,000	100,000			-20,000
2 Totals. Add the amounts in columns (d), negative amounts). Enter each total her Schedule D, line 1b (if Box A above is o above is checked), or line 3 (if Box C at	e and include on hecked), line 2 (i	your f Box B	80.000	100.000		0	-20.000
Note: If you checked Box A above bu adjustment in column (g) to correct th	it the basis rep	orted to the IF	S was incorrect,	enter in column (e	·	reported to the IR	S, and enter an

For Paperwork Reduction Act Notice, see your tax return instructions.

Form 8949 (2015)				/	Attachment Se	quence No. <b>12A</b>	Page <b>2</b>
Name(s) shown on return. Name and SSN o	r taxpayer identifi	cation no. not red	quired if shown on ot			nber or taxpayer ider	ntification number
ROCK the Ages LLC					5555555		
Before you check Box D, E, or F below statement will have the same information broker and may even tell you which bo	ion as Form 10 ox to check.	99-B. Either wi	ll show whether y	our basis (usually	your cost) was	reported to the IRS	
Part II Long-Term. Transact transactions, see pag	-	g capital asse	ts you held mor	e than 1 year are	e long term. F	or short-term	
<b>Note:</b> You may aggre to the IRS and for whi 8a; you aren't require	ich no adjustn	nents or code	es are required.	Enter the totals of	directly on Sc	•	
You must check Box D, E, or F					,	g-term transactio	ns, complete
a separate Form 8949, page 2, for more of the boxes, complete as m		•		•	ons than will	fit on this page fo	or one or
(D) Long-term transactions (E) Long-term transactions	reported on F	orm(s) 1099-	B showing basi	-	-	-	
(F) Long-term transactions	not reported t	:o you on ⊦or	m 1099-B		Adjuctment if	any, to gain or loss.	
1 (a) Description of property	(b) Date acquired	(c) Date sold or	(d) Proceeds	<b>(e)</b> Cost or other basis. See the <b>Note</b> below	If you enter an enter a co	amount in column (g), de in column (f). arate instructions.	(h) Gain or (loss). Subtract column (e)
(Example: 100 sh. XYZ Co.)	(Mo., day, yr.)	disposed of (Mo., day, yr.)	(sales price) (see instructions)	and see <i>Column (e)</i> in the separate instructions	(f) Code(s) from instructions	<b>(g)</b> Amount of adjustment	from column (d) and combine the result with column (g)
BioLabs, Inc 2,000 Shares	3/15/2014	12/15/2015	160,000	136,000			24,000
2 Totals. Add the amounts in columns (d), negative amounts). Enter each total here	e and include on y	/our					
Schedule D, line 8b (if Box D above is ch above is checked), or line 10 (if Box F a	bove is checked)	►	160,000			0	24,000
Note: If you checked Box D above bu adjustment in column (g) to correct th	•			•	,	•	

Form 8949 (2015)

	EDULE D		Capital	Gains and L	.osses				OMB No. 1545-0123
(FOII	n 1065)	Attach to Form 1065 or Form 8865.							
			Use Form 8949 to list your			i 10.			2015
	ent of the Treasury Revenue Service		Information about Schedule D (Form 106				i.		
	f partnership					Employe	r idenf	tificat	ion number
ROCK	the Ages LLC						5	5-55	55555
			apital Gains and Losses—A	ssets Held One `	Year or Less			0.00	
-			gure the amounts to enter on the			(	(g)		(h) Gain or (loss)
lines be	elow.			(d) Proceeds	(e) Cost	Adjus to gain o	tments		Subtract column (e) from column (d) and
		r to co	omplete if you round off cents to	(sales price)	(or other basis)	Form(s) 8	949, P	art I,	combine the result with
whole						line 2, c	olumn	(g)	column (g)
			m transactions reported on Form						
			s was reported to the IRS and for justments (see instructions).						
	-		se to report all these transactions						
	on Form 8949, le	eave t	his line blank and go to line 1b .						0
1b	Totals for all trans	nsactio	ons reported on Form(s) 8949 with						
	Box A checked .			80,000	100,000				-20,000
			ons reported on Form(s) 8949 with						
	Box B checked . Totals for all trans		ons reported on Form(s) 8949 with						0
	Box C checked .								0
									· ·
4	Short-term cap	pital g	gain from installment sales from F	orm 6252, line 26 o	r 37		4		
5	Short-term cap	pital g	gain or (loss) from like-kind excha	nges from Form 88	24		5		
6	•		e of net short-term capital gain (los		•	term			
			es), from other partnerships, estate				6		
7			pital gain or (loss). Combine line	-			_ '		~~~~~
Dart			iedule K, line 8 or 11; or Form 886 apital Gains and Losses—As				7		-20,000
			gure the amounts to enter on the			(	(g)		(h) Gain or (loss)
lines be				(d)	(e)	Adjus	tments		Subtract column (e)
This fo	rm mav be easier	r to c	omplete if you round off cents to	Proceeds (sales price)	Cost (or other basis)	to gain o Form(s) 8			from column (d) and combine the result with
whole of	•			(ouloo phoo)		line 2, c			column (g)
8a	Totals for all long	g-term	n transactions reported on Form						
	1099-B for which	n basi	s was reported to the IRS and for						
	which you have n	no ad	justments (see instructions).						
	However, if you c	choos	se to report all these transactions						
	on Form 8949, le	eave t	his line blank and go to line 8b						0
		nsactio	ons reported on Form(s) 8949 with						
	Box D checked .			160,000	136,000				24,000
		isactio	ons reported on Form(s) 8949 with						
	Box E checked .		ons reported on Form(s) 8949 with						0
	Box F checked .	Isacii	ons reported on Porm(s) 6949 with						0
	DOX F CHECKED .						<u> </u>		<u> </u>
11	Long-term cap	oital c	ain from installment sales from Fo	orm 6252. line 26 o	r 37		11		
			,						
12	Long-term cap	oital o	ain or (loss) from like-kind exchar	nges from Form 882	24		12		
13	Partnership's s	share	e of net long-term capital gain (los	s), including specia	lly allocated long-te	erm			
			es), from other partnerships, estate				13		
							_		
	• •		utions				14		
15			ital gain or (loss). Combine lines						
	on Form 1065,	, Sch	edule K, line 9a or 11; or Form 88	865, Schedule K, lin	e 9a or 11		15		24,000
For Pa HTA	perwork Reduct	tion /	Act Notice, see the Instructions for	Form 1065.			s	Sched	lule D (Form 1065) 2015

			Г		г	<b>_</b>		651113
0				Final K-1	Deuteerl	Amend		
	edule K-1	2015		Part III				Surrent Year Income,
•	m 1065) mant of the Treesury	endar year 2015, or tax	1	Ordinary bus	iness income		15	, and Other Items Credits
	1 D	eginning, 2015	Γ.			244.800	10	oreans
		ling, 20	2	Net rental rea	al estate incon			
Part	ner's Share of Income, De	ductions,						
Cree	dits, etc. ► See back of f	orm and separate instructions.	3	Other net ren	ital income (lo	ss)	16	Foreign transactions
_								
	art I Information About t		4	Guaranteed	-			
A	Partnership's employer identification numb	er	5	Internet in eeu		800,000		
55-55 B	555555 Partnership's name, address, city, state, ar	d ZIP code	ľ	Interest incor	ne	400		
ľ			6a	Ordinary divi	dends	400		
ROC	K the Ages LLC				aonao			
	Wilshire Boulevard, Suite 2100		6b	Qualified divi	dends			
	ngeles, CA 90036							
С	IRS Center where partnership filed return		7	Royalties				
e-file								
D	Check if this is a publicly traded part	nership (PTP)	8	Net short-teri	m capital gain	· ·		
						-5,000		
	rt II Information About t		9a	Net long-tern	n capital gain (	` '	17	Alternative minimum tax (AMT) items
E	Partner's identifying number	Partner: 1	9b	Collectibles (	28%) gain /log	6,000		
F	1-1112 Partner's name, address, city, state, and Z	Picode	90		28%) gain (los	55)		
	Ross	r code	9c	Unrecanture	d section 1250	l nain		
1 ·	0 West Earlson Street		1			gan		
	c Palisades, CA 90272		10	Net section 1	231 gain (loss	5)	18	Tax-exempt income and
					0	,		nondeductible expenses
G	X General partner or LLC	Limited partner or other LLC	11	Other income	e (loss)		А	800
	member-manager	member						
н	X Domestic partner	Foreign partner					С	25,000
11	What type of entity is this partner? <u>Ac</u>	tive Individual						
12	If this partner is a retirement plan (IRA/SEF	P/Keogh/etc.), check here					19	Distributions
			12	Section 179	deduction		Α	250,000
J	Partner's share of profit, loss, and capital (					5,000		
	Beginning	Ending	13	Other deduct	ions	7 000		
	Profit 25.00000% Loss 25.00000%	25.00000%	A			7,000	20	Other information
	Loss 25.00000% Capital 25.000000%	<u>25.000000%</u> 25.000000%					А	400
		23.00000070						400
к	Partner's share of liabilities at year end:							
	Nonrecourse \$		14	Self-employn	nent earnings	(loss)		
	Qualified nonrecourse financing \$		А		1,	,044,800		
	Recourse \$	40,000						
			С			,200,000		
L	Partner's capital account analysis:		*S	see attache	d statemen	t for addi	tiona	l information.
	Beginning capital account \$							
		210.000						
		( 250,000)	Only					
	Ending capital account	100.000						
	g	,	For IRS Use					
	X Tax basis GAAP Se	ection 704(b) book	RS					
I	Other (explain)							
			ľ					
м	Did the partner contribute property with a b	uilt-in gain or loss?						
I	Yes X No		1					
<u> </u>	If "Yes," attach statement (see instruct		<u> </u>					
For Pa HTA	perwork Reduction Act Notice, see Instru	ctions for Form 1065. IRS.go	v/form	1065				Schedule K-1 (Form 1065) 2015

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Ryan Ross 111-11-1112		
K-1 Statement (Sch K-1, Form 1065)		
Line 13 - Deductions		
<b>A</b> Code A - Cash contributions (50%)	Α_	7,000
Line 14 - Self-Employment		
A Code A - Net earnings (loss) from self-employment	. Α	1,044,800
C Code C - Gross non-farm income		
Line 18 - Tax-Exempt Income and Nondeductible Expenses		
A Code A - Tax-exempt interest income	Α	800
C Code C - Nondeductible expenses		
Line 19 - Distributions		
A Code A - Cash and marketable securities	Α_	250,000
Line 20 - Other Information		
A Code A - Investment income	Α_	400

Form       4562       (Including Information on Listed Property)       ≥ 0 15         Department of the Treasury Internal Revenue Service (99)       > Attach to your tax return.       > Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.       > Attachment Sequence No. 179         Name(s) shown on return ROCK the Ages LLC       Business or activity to which this form relates 1065 - Musican Agents/Mgrs       Identifying number 55-5555555         Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.       1 500,0 2 20,0 3 2,000,0 4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- 4
Department of the Treasury Internal Revenue Service (99)       Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.       Attachment Sequence No. 179         Name(s) shown on return ROCK the Ages LLC       Business or activity to which this form relates 1065 - Musican Agents/Mgrs       Identifying number 55-5555555         Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.       1       500,0 2         1       Maximum amount (see instructions)       1       500,0 2       2       20,0 3         3       Threshold cost of section 179 property before reduction in limitation (see instructions)       3       2,000,0 4
Internal Revenue Service       (99)       Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.       Sequence No. 179         Name(s) shown on return ROCK the Ages LLC       Business or activity to which this form relates 1065 - Musican Agents/Mgrs       Identifying number 55-555555         Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.       1       500,0         1       Maximum amount (see instructions)       1       500,0       2       20,0         3       Threshold cost of section 179 property before reduction in limitation (see instructions)       3       2,000,0         4       4       4
Name(s) shown on return       Business or activity to which this form relates       Identifying number         ROCK the Ages LLC       1065 - Musican Agents/Mgrs       55-555555         Part I       Election To Expense Certain Property Under Section 179       Steel f you have any listed property, complete Part V before you complete Part I.         1       Maximum amount (see instructions)       1       500,0         2       Total cost of section 179 property placed in service (see instructions).       2       20,0         3       Threshold cost of section 179 property before reduction in limitation (see instructions).       3       2,000,0         4       Aeduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-       4       4
ROCK the Ages LLC       1065 - Musican Agents/Mgrs       55-555555         Part I       Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I.       1       500,0         1       Maximum amount (see instructions)       1       500,0       2       20,0         2       Total cost of section 179 property placed in service (see instructions).       2       20,0       3       2,000,0         3       Threshold cost of section 179 property before reduction in limitation (see instructions).       3       2,000,0       3       2,000,0         4       4       4       4       4       4       4
Part I       Election To Expense Certain Property Under Section 179         Note: If you have any listed property, complete Part V before you complete Part I.       1         1       Maximum amount (see instructions)       1       500,0         2       Total cost of section 179 property placed in service (see instructions).       2       20,0         3       Threshold cost of section 179 property before reduction in limitation (see instructions).       3       2,000,0         4       Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-       4       4
Note:       If you have any listed property, complete Part V before you complete Part I.         1       Maximum amount (see instructions)       1       500,0         2       Total cost of section 179 property placed in service (see instructions).       2       20,0         3       Threshold cost of section 179 property before reduction in limitation (see instructions).       3       2,000,0         4       4       4
2 Total cost of section 179 property placed in service (see instructions).       2 20,0         3 Threshold cost of section 179 property before reduction in limitation (see instructions).       3 2,000,0         4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-       4
3 Threshold cost of section 179 property before reduction in limitation (see instructions)       3 2,000,0         4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-       4
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0
E. Dellas limitation for tax was . Subtract line 4 from line 4 If you as less, onten 0. If manial filing
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0 If married filing
separately, see instructions
6 (a) Description of property (b) Cost (business use only) (c) Elected cost
Furniture and Fixtures         20,000         20,000
7 Listed property. Enter the amount from line 29
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7
9 Tentative deduction. Enter the smaller of line 5 or line 8       9       20,0         10 Carryover of disallowed deduction from line 13 of your 2014 Form 4562       10
10 Carryover of disallowed deduction from line 13 of your 2014 Form 4562.       10         11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions).       11
<b>12</b> Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11
13 Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12
Note: Do not use Part II or Part III below for listed property. Instead, use Part V.
Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)
14 Special depreciation allowance for qualified property (other than listed property) placed in service
during the tax year (see instructions).
15         15
16 Other depreciation (including ACRS).
Part III MACRS Depreciation (Do not include listed property.) (See instructions.)
Section A
17 MACRS deductions for assets placed in service in tax years beginning before 2015
18 If you are electing to group any assets placed in service during the tax year into one or more general
asset accounts, check here
Section B - Assets Placed in Service During 2015 Tax Year Using the General Depreciation System
(b) Month and (c) Basis for depreciation
(a) Classification of property year placed (business/investment use (d) Recovery period (e) Convention (f) Method (g) Depreciation deduc
in service only—see instructions) period
19 a 3-year property
b 5-year property
c 7-year property
d 10-year property
e 15-year property
f 20-year property
g 25-year property 25 yrs. S/L
h Residential rental 27.5 yrs. MM S/L
property 27.5 yrs. MM S/L
i Nonresidential real 39 yrs. MM S/L
property MM S/L
Section C - Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation System
20 a Class life S/L
b 12-year 12 yrs. S/L
c 40-year 40 yrs. MM S/L
Part IV Summary (See instructions.)
21 Listed property. Enter amount from line 28
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter
here and on the appropriate lines of your return. Partnerships and S corporations—see instructions
portion of the basis attributable to section 263A costs

HTA

55-5555555

E-79

Li	ne 15 (1065) - Interest Expense		
1	Interest expense on line of credit	1	10,000
2	Total interest expense.	2	10,000

### Line 20 (1065) - Other Deductions

1	Travel, Meals and Entertainment		
	<b>a</b> Travel	1a	320,000
	<b>b</b> Meals and entertainment, subject to 50% limit	_	
	d Less disallowed		
	e Subtract line d from lines b and c	1e	100,000
2	Insurance	2	52,000
3	Laundry and cleaning	3	132,000
4	Office expenses	4	200,000
5	Utilities	5	54,800
6	Advertising	6	380,000
7	Total other deductions	7	1,238,800

#### Line 13a, Sch K (1065) - Contributions

A Code A - Cash contributions (50%)	 A 28,000
Total contributions	 <b>13a</b> 28,000

#### Line 8, Sch L (1065) - Other Investments

		Beginning	Ending
1	Marketable Securities 1	436,000	300,000
2	Total other investments	436,000	300,000

## Line 17, Sch L (1065) - Other Current Liabilities

		Beginning	Ending
1 Operating Line of Credit	1	200,000	160,000
2 Total other current liabilities	2	200,000	160,000

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#### ROCK the Ages LLC

#### 55-5555555

#### Line 9 (1065) - Salaries and Wages

	ic o (1000) - Calalics and Wages		
1	Salaries		
2	Wages		
3	3		
4	Total salaries and wages	4	1,000,000
	Salaries and wages reported elsewhere on return:		
5	Amounts included in Cost of Goods Sold		
6	Elective contributions to a section 401(k) cash or deferred		
	arrangement, or amounts contributed under a salary reductions SEP		
	agreement or a SIMPLE IRA plan		
7	Total salaries and wages reported elsewhere on return	7	0
	Less employment credits:	-	
8	From Form 5884 - Work Opportunity Credit		
9	From Form 8844 - Empowerment Zone Employment Credit		
10	From Form 8845 - Indian Employment Credit	•	
11	11	•	
12	12		
13	13	•	
14		14	0
	Reduction of expenses for offsetting credits		
	Total salaries and wages less employment credits and expense reductions	-	1.000.000
			1,000,000

#### Line 10 (1065) - Guaranteed Payments to Partners

1	Guaranteed payments to partners	1	1,400,000
2	Medical insurance payments for partners, partners' spouses or dependents	2	
3		3	
4		4	
5	Total guaranteed payments to partners	5	1,400,000

#### Line 14 (1065) - Taxes and Licenses

1	Payroll tax	1	92,000
2	Sub Total	2	92,000
3	Total taxes and licenses	3	92,000

### Lines 5, 6a and 6b, Sch K (1065) - Interest and Dividends

Inte	erest income (line 5)		
1	Bank	1	1,600
2	Total interest income	2	1,600

#### Line 18c, Sch K (1065) - Nondeductible Expenses

С	Code C - Nondeductible expenses	
	Nondeductible portion of meals, travel and entertainment expenses	100,000
	Total nondeductible expenses         18c	100,000

## **PROBLEM 6 SOLUTIONS**

Form	11:	20S			ne Tax Retui			•			OMB No. 1545-0123	3
		the Treasury ue Service	<ul> <li>Inform</li> </ul>	attac	ile this form unless t hing Form 2553 to el 1120S and its separa	lect to be	an S co	orporation.		m1120s.	2015	
For ca	alenda	ar year 2015 or ta:			•		nding					-
		effective date	ŕ	Name						D Employer	identification number	
	1/	15/2009		Premium, Inc.							11-111111	
B Bu		activity code	TYPE		room or suite no. If a P.O	), box, see ir	nstructio	ns.		E Date incor		
nu	mber (s	ee instructions)	OR	1005 16th Street								
			PRINT	City or town			tate X	ZIP code 77303		E Total acco	1/15/2009 ts (see instructions)	
3113	00		PRINT	Cut and Shoot Foreign country name	Foreign provin			Foreign post	al code	F TULATASSE		
C Ch	eck if S	ch. M-3 attached			i i orongir provin	100/31410/00	unty	r oreign post	ar ooue	\$	844,422	
C la	the e		to ho on (	Corporation baging	ing with this tax year?	<u>о</u>		Yes 🗌 No	If "Voo "	ottooh Form	2553 if not already fil	
				Č ,			님		, in the second s	_	•	
	neck i			(2) Name change		•	(4)	Amended retu			termination or revocation	1
					rs during any part of th						•	2
Cauti	ion: I	nclude only trade	or busines	s income and exper	ises on lines 1a throug	gh 21. See	e the ins			rmation.		
	1a						1a 📃	2,410,	000			
	b						1b					
ē										1c	2,410,000	
Income	2	•	•	,						2	736,741	
Ŭ	3									3	1,673,259	
-	45	- , ,			n Form 4797)					4 5		
	6		, ,		statement)					6	1,673,259	
- 6	7				attach Form 1125-E)					7	150.000	
ion	8									8	442,103	
itat	9									9	206,106	
lim	10									10	200,100	
for	11									11	40,000	
suc	12									12	65,101	
rctio	13									13	35,222	
stru	14				elsewhere on return (a		 m 4562	) )		14	15,254	
.⊑.	15	•			ion.)					15	10,201	—
See	16			• •	· · · · · · · · · · ·					16	20,000	
ŝ	17	•								17		
jo	18		-							18		
īct	19									19	59,899	
Deductions (see instructions for limitations)	20		-						🕨	20	1,033,685	
ă	21	Ordinary busin	ness incon	ne (loss). Subtract I	ine 20 from line 6	<u></u>	<u></u>			21	639,574	
	22a	Excess net pas	sive incom	e or LIFO recapture	tax (see instructions)	2	22a					
Ś	b	Tax from Scheo	lule D (For	m 1120S)		2	2b					
ent	c				ditional taxes)		· . ·		· · .	22c	0	
and Payments	23a				ayment credited to 20	-	23a					
ay	b						23b					
Ъ	C C				n 4136)							
an					k if Form 2220 is other					23d	0	
XE	24			,	k if Form 2220 is attac			<b>.</b>		24	0	
Ta	25 26				total of lines 22c and 2 tal of lines 22c and 24					25	0	
	20			Credited to 2016 e		+, enter an	iouni o	· · ·	nded <b>&gt;</b>	20	0	
					return, including accompanyi	ing schedules	and state				-	
		and complete. Declar	ration of prepa	rer (other than taxpayer) is	based on all information of w	which prepare	r has any	knowledge.		May the IRS	3 discuss this return	
Sig	n										parer shown below	
-		<b></b>								(see instruc	tions)?	No
Her	e	Signature of off		Due	Date r's signature	Т	itle	Date			DTIN	_
Dair	4	Print/Type prep	arer s name	Prepare	ารอยู่แลเนเษ			Date		Check if		
Paio				SELF-	PREPARED RETU	IRN				self-employed		
Pre			<u> </u>						Firm's EIN			
Use	On		₽				01-1		Phone no			
		City					State		ZIP code		- 44000	

For Paperwork Reduction Act Notice, see separate instructions.

Form **1120S** (2015)

Form	1120S (2015) Premium,	Inc.				11-111111	Р	age <b>2</b>
Sc	hedule B Other In	formation	(see instructions)	1				
1	Check accounting method	: a	Cash b X A	ccrual			Yes	No
		с	Other (specify)					
2	a Business activity ►		sina	<b>b</b> Product or ser	vice ► Candy			
3	At any time during the tax					estate, or a		
	nominee or similar person	? If "Yes," att	ach Schedule B-1, Int	formation on Certai	n Shareholders of an S	Corporation		Х
4	At the end of the tax year,	did the corpo	ration:					
а	Own directly 20% or more		•					
	foreign or domestic corpor		es of constructive ow	nership, see instru	ctions. If "Yes," complete	e (i) through (v)		v
	below	<u></u>	<u>.</u>	<u></u>	<u></u>	(v) If Percentage in (iv) is 100	0% Ent	X
	(i) Name of Corporation	(ii) Employer	Identification Number	(iii) Country of	(iv) Percentage of Stock Owned	Date (if any) a Qualified Su	,	
			(if any)	Incorporation	Owned	Subsidiary Election Wa	s Made	
b	Own directly an interest of	20% or more	, or own, directly or in	ndirectly, an interes	t of 50% or more in the	profit, loss, or		
	capital in any foreign or do	omestic partne	ership (including an e	ntity treated as a p	artnership) or in the ben	eficial interest of a		
	trust? For rules of constru			f "Yes," complete (i				X
	(i) Name of Entity	(ii) Employe	· Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Ow Loss, or Capital	ned in I	Profit,
			(in unity)		organization			
5 a	At the end of the tax year,		•	anding shares of re	estricted stock?			X
	If "Yes," complete lines (i) (i) Total shares of res			►				
			ock					
b	At the end of the tax year,	-	•	anding stock option	ns, warrants, or similar ir	nstruments?		X
	If "Yes," complete lines (i)							
	.,		g at the end of the tax g if all instruments we					
6	Has this corporation filed				Disclosure Statement, t	o provide		
	information on any reporta	ble transactio	on?			· · · · · · · · · · · · · · · · · · ·		X
7	Check this box if the corpo							
	If checked, the corporatio	n may have t	o file Form 8281, Info	ormation Return for	Publicly Offered Origina	al Issue Discount		
	Instruments.							
8	If the corporation: (a) was	•			•	•		
	asset with a basis determine the hands of a C corporation	•			• • • • •			
	from prior years, enter the							
	instructions)							
9	Enter the accumulated ea	•	•		tax year.	\$		
10	Does the corporation satis The corporation's total rec	-	-		\$250,000			
	The corporation's total rec		· · ·					Х
	If "Yes," the corporation is							
11	During the tax year, did th	e corporation	have any non-share	older debt that wa	s canceled, was forgiver	, or had the		
	terms modified so as to re		•					Х
40	If "Yes," enter the amount							v
12 13 а	During the tax year, was a Did the corporation make						x	X
	If "Yes," did the corporation						X	
						Form <b>1</b> 1	205	(2015)

	0S (201		1	1111111 Pag
Schee				otal amount
	1	Ordinary business income (loss) (page 1, line 21)	1	639,574
	2	Net rental real estate income (loss) (attach Form 8825)	2	
	3a	Other gross rental income (loss)		
	b	Expenses from other rental activities (attach statement) 3b		
(s	с	Other net rental income (loss). Subtract line 3b from line 3a	3c	0
Income (Loss)	4	Interest income	4	100,000
Ľ	5	Dividends: a Ordinary dividends	5a	
ē		b Qualified dividends		
Ĕ	6	Royalties.	6	
ğ	7	Net short-term capital gain (loss) (attach Schedule D (Form 1120S)).	7	
-	8a	Net long-term capital gain (loss) (attach Schedule D (Form 1120S))	8a	
	b	Collectibles (28%) gain (loss)		
	c	Unrecaptured section 1250 gain (attach statement)		
	9	Net section 1231 gain (loss) (attach Form 4797).         . <th< td=""><td>9</td><td></td></th<>	9	
	10		10	
		Other income (loss) (see instructions) Type	11	
ns	11	Section 179 deduction (attach Form 4562)		20,000
ti		Charitable contributions	12a	20,000
ñ			12b	
Deductions		Section 59(e)(2) expenditures (1) Type ► (2) Amount ►	12c(2)	
	d	Other deductions (see instructions)	12d	
	13a	Low-income housing credit (section 42(j)(5))	13a	
	b	Low-income housing credit (other)	13b	
Ś	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	13c	
dit	d	Other rental real estate credits (see instructions) Type	13d	
Credits	е	Other rental credits (see instructions) Type	13e	
0	f	Biofuel producer credit (attach Form 6478)	13f	
	g	Other credits (see instructions)	13g	
		Name of country or U.S. possession		
	b	Gross income from all sources	14b	
		Gross income sourced at shareholder level	14c	
	Ŭ	Foreign gross income sourced at corporate level	140	
	d		14d	
	u	General category	14u	
S	e ء			
jo		Other (attach statement)	14f	
act		Deductions allocated and apportioned at shareholder level		
US,	-		14g	
rai	h	Other	14h	
Ē		Deductions allocated and apportioned at corporate level to foreign source income		
igi	i	Passive category	14i	
Foreign Transactions	j	General category	14j	
шĭ,	k	Other (attach statement)	14k	
		Other information		
	1	Total foreign taxes (check one):  Paid Accrued	141	
	m	Reduction in taxes available for credit (attach statement)	14m	
	n	Other foreign tax information (attach statement)		
	15a	Post-1986 depreciation adjustment	15a	
ve ns	b	Adjusted gain or loss	15b	
Alternative Minimum Tax (AMT) Items	c	Depletion (other than oil and gas).	15c	
T) I	d	Oil, gas, and geothermal properties—gross income	15d	
A line	e	Oil, gas, and geothermal properties—deductions	15e	
ΣĽ	f	Other AMT items (attach statement)	15f	
-			16a	
fer (tinc	10a	•		
žisi Šistec	b	Other tax-exempt income	16b	15 000
Items Affecting Shareholder Basis	C d	Nondeductible expenses	16c	15,000
Sh	d	Distributions (attach statement if required) (see instructions)	16d	100,000
-	е	Repayment of loans from shareholders	16e	Form <b>1120S</b> (20

Form 1	1120S (201	<sup>5)</sup> Premium, Inc.				11	-1111111 Page <b>4</b>
Sch	edule K	Shareholders' Pro Rata Share	Items (continued	)		Тс	otal amount
	5   17a	Investment income			1	17a	100,000
Other	lutormation b c	Investment expenses			1	7b	
Ē	Lo c	Dividend distributions paid from accumulate		7c			
1	É d	Other items and amounts (attach statemen					
Recon-		Income/loss reconciliation. Combine the	,	through 10 in the for rig	ht		
å:		column. From the result, subtract the sum of				18	719,574
	edule L	,		g of tax year		End of ta	
001		Assets	(a)	(b)	(c)	End of a	(d)
1	Cash		(a)	47,840	(0)		612,410
		tes and accounts receivable	93,100	47,040	4	23,104	012,410
		wance for bad debts	33,100	93,100		23,104	123,104
				9,607			3,467
		ernment obligations		0,001			0,407
	•	npt securities (see instructions)					
		rrent assets (attach statement)		8,333			17,582
		shareholders					
8	Mortgage	and real estate loans					
9	Other inv	estments (attach statement)					
10a	Buildings	and other depreciable assets	138,203		1	85,348	
b	Less accu	umulated depreciation	84,235	53,968		99,489	85,859
11a	Depletabl	e assets					
		umulated depletion		0			0
		of any amortization)		2,000			2,000
	-	e assets (amortizable only)		0			0
		umulated amortization		0			0
		sets (attach statement)		214,848			844,422
15		ets		214,040			044,422
16		payable		42,500			72,300
		notes, bonds payable in less than 1 year		4,500			2,100
		rent liabilities (attach statement)		.,			_,
		m shareholders					
20	Mortgages,	notes, bonds payable in 1 year or more		26,700			24,300
21	Other liab	pilities (attach statement)					
22	Capital st	ock		30,000			30,000
	Additiona	I paid-in capital					
		earnings		111,148			715,722
		s to shareholders' equity (attach statement) .					
		of treasury stock					
27	I otal liab	ilities and shareholders' equity		214,848			844,422 Form <b>1120S</b> (2015)

Form **1120S** (2015)

	nedule M-1 Reconciliation of Income (Los Note: The corporation may be req			•	· •			
1	Net income (loss) per books	704,574	5	Income	recorded on books this year not includ	ded		
2	Income included on Schedule K, lines 1, 2, 3c, 4,			on Sche	dule K, lines 1 through 10 (itemize):			
	5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize):		a	Tax-exe	mpt interest \$		- L	C
3	Expenses recorded on books this year not		6	Deduct	tions included on Schedule K, I	ines		
	included on Schedule K, lines 1 through 12			1 throu	igh 12 and 14l, not charged			
	and 14I (itemize):			agains	t book income this year (itemiz	e):		
а	Depreciation \$		a	Depred	ciation \$		_	
b	Travel and entertainment \$							C
	Payroll Penalties 15,000	15,000	7	Add lin	es 5 and 6			(
4	Add lines 1 through 3	719,574	8	Income (le	oss) (Schedule K, line 18). Line 4 less line	7		719,574
Sc	nedule M-2 Analysis of Accumulated Adju			-		areho	lders'	
	Undistributed Taxable Income	Previously Taxe	d (see	instruc	ctions)			
	Undistributed Taxable Income	(a) Accumu adjustments a	lated	instruc	ctions) (b) Other adjustments account			lers' undistributed e previously taxed
1	Undistributed Taxable Income	(a) Accumu	lated iccount	instruc	(b) Other adjustments			
1		(a) Accumu	lated iccount		(b) Other adjustments			
1 2 3	Balance at beginning of tax year	(a) Accumu	ilated iccount 1 6	11,148	(b) Other adjustments			
-	Balance at beginning of tax year	(a) Accumu	ilated iccount 1 6	11,148 39,574	(b) Other adjustments			
3	Balance at beginning of tax year	(a) Accumu	lated iccount 1 6	11,148 39,574	(b) Other adjustments			
- 3 4	Balance at beginning of tax year          Ordinary income from page 1, line 21          Other additions	(a) Accumu	llated iccount 6: 1!	11,148 39,574 00,000	(b) Other adjustments	taxa		e previously taxed
3 4 5	Balance at beginning of tax year          Ordinary income from page 1, line 21          Other additions	(a) Accumu	lated liccount 1 6 1 1 1	11,148 39,574 00,000 35,000	(b) Other adjustments account	taxa		

Form **1120S** (2015)

		Final K-1		ded K-1	<b>67113</b> OMB No. 1545-0123
Schedule K-1					f Current Year Income,
Schedule K-1 20 <b>15</b> (Form 1120S)					nd Other Items
Department of the Treasury For calendar year 2015, or tax	1	Ordinary business inc		13	Credits
Internal Revenue Service year beginning, 2015			447,702		
ending, 20	2	Net rental real estate incon	ne (loss)		
Shareholder's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.	3	Other net rental incom	ne (loss)		
Part I Information About the Corporation	4	Interest income	70.000		
A Corporation's employer identification number	5a	Ordinary dividends	70,000		
11-111111					
B Corporation's name, address, city, state, and ZIP code	5b	Qualified dividends		14	Foreign transactions
	6	Royalties			
Premium, Inc.	7	Net short-term capital	gain (loss)		
1005 16th Street	l '	Net Short-term capital	gain (ioss)		
Cut and Shoot, TX 77303 C IRS Center where corporation filed return e-file	8a	Net long-term capital	gain (loss)		
	8b	Collectibles (28%) gai	in (loss)		
Part II Information About the Shareholder					
D Shareholder's identifying number Shareholder: 1	8c	Unrecaptured section	1250 gain		
123-45-6781         E       Shareholder's name, address, city, state, and ZIP code	9	Net section 1231 gain	(loss)		
	-		()		
John Parsons	10	Other income (loss)		15	Alternative minimum tax (AMT) items
5607 20th Street					
Cut and Shoot, TX 77303					
F Shareholder's percentage of stock					
ownership for tax year					
	11	Section 179 deductior	ı	16	Items affecting shareholder basis
				С	10,500
	12	Other deductions			
	A		14,000	D	70,000
>					
ō					
lse					
SS				17	Other information
For IRS Use Only				A	70,000
μ <sup>μ</sup>					
		* See attached	statement	for ac	Iditional information.
For Paperwork Reduction Act Notice, see Instructions for Form 1120S. IRS.g	ov/form	11120s			Schedule K-1 (Form 1120S) 2015

John Parsons	123-45-6781
K-1 Statement (Sch K-1, Form 1120S)	
Line 12 - Deductions         A Code A - Cash contributions (50%)	<b>A</b> <u>14,000</u>
C       Code C - Nondeductible expenses       C         D       Code D - Distributions       C	
Line 17 - Other Information A Code A - Investment income	<b>A</b> 70,000

	_	1				61773
Schedule K-1		Final K-1			ended K-	1 OMB No. 1545-0123 of Current Year Income,
Schedule K-1 (Form 1120S) 2015		art III				and Other Items
Department of the Treasury Internal Revenue Service For calendar year 2015, or tax	1	Ordinary	business inc	come (loss)	13	Credits
year beginning, 2015	2	Net rental	real estate incor	191,87	2	
ending, 20	<b>1</b>	NetTentari	lear estate moor	110 (1035)		
Shareholder's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.	3	Other ne	t rental incon	ne (loss)		
Part I Information About the Corporation	4	Interest i	ncome			
A Corporation's employer identification number	5a	Ordinary	dividends	30,00	0	
B Corporation's name, address, city, state, and ZIP code	5b	Qualified	l dividends		14	Foreign transactions
Premium, Inc.	6	Royalties	S			
1005 16th Street	7	Net shor	t-term capital	l gain (loss)	· ·	
Cut and Shoot, TX 77303 C IRS Center where corporation filed return	8a	Net long	-term capital	gain (loss)		
e-file Part II Information About the Shareholder	8b	Collectib	les (28%) ga	in (loss)		
D Shareholder's identifying number Shareholder: 2 123-45-6782	8c	Unrecap	tured section	1250 gain		
E Shareholder's name, address, city, state, and ZIP code	9	Net secti	ion 1231 gair	ı (loss)		
George Smith 5607 20th Street	10	Other inc	come (loss)		15	Alternative minimum tax (AMT) items
Cut and Shoot, TX 77303						
F Shareholder's percentage of stock						
ownership for tax year						
	11	Section <sup>-</sup>	179 deductio	n	16	Items affecting shareholder basis
	12	Other de	ductions		<u> </u>	4,500
	A			6,00	10 D	30,000
Only						
For IRS Use Only						
					17 A	Other information 30,000
						00,000
		* See	attached	statemer	nt for a	l dditional information.
For Paperwork Reduction Act Notice, see Instructions for Form 1120S. IRS.g	ov/form	11120s				Schedule K-1 (Form 1120S) 2015

HTA

George Smith	123-45-6782	
K-1 Statement (Sch K-1, Form 1120S)		
Line 12 - Deductions A Code A - Cash contributions (50%)	A	6,000
Line 16 - Items affecting shareholder basis         C Code C - Nondeductible expenses         D Code D - Distributions		4,500 30,000
Line 17 - Other Information A Code A - Investment income	<b>A</b>	30,000

ev. De	cember 2012)			OMB No. 1545-2225
	► Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.     ► Information about Form 1125-A and its instructions is at www.irs.gov/f	orm1125a		
ame			Emp	loyer identification numb
remiu	ım, Inc.		11-11	111111
1	Inventory at beginning of year	. 1		9,607
2	Purchases	2		278,143
3	Cost of labor	. 3		203,102
4	Additional section 263A costs (attach schedule)	. 4		
5	Other costs (attach schedule).	. 5		249,356
6	Total. Add lines 1 through 5	. 6		740,208
7	Inventory at end of year	. 7		3,467
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2			
	or the appropriate line of your tax return (see instructions).	. 8		736,741
9 a	Check all methods used for valuing closing inventory: (i) X Cost (ii) Lower of cost or market (iii) Other (Specify method used and attach explanation.)			
b	Check if there was a writedown of subnormal goods			🕨 🛄
	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach For If the LIFO inventory method was used for this tax year, enter amount of closing inventory	, 1	 I	
	computed under LIFO			
е	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see in		,	Yes No
f	Was there any change in determining quantities, cost, or valuations between opening and closing ir "Yes," attach explanation		f	

For Paperwork Reduction Act Notice, see instructions.

11-1111111

ne 19 (1120S) - Other Other Deductions				1	59,899
Total other deductions				- ·	59,899
	<u></u>	<u></u>	<u></u>	. 2	59,699
ne 12a, Sch K (1120S)	- Contributions				
Code A - Cash contributions (				. A	20,000
Total contributions	<u></u>			12a	20,000
Cash					100,000
	Date	Date	FMV on date		sis in
Description	Acquired	Distributed	of distribution	pro	operty

## Line 6, Sch L (1120S) - Other Current Assets

Line 0, 3ch L (11203) - Other Current Assets			
		Beginning	End
1 Prepaid expenses	1 [	8,333	17,582
2 Total other current assets	2	8,333	17,582

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# **PROBLEM 7 SOLUTIONS**

A summary of the determination of the gift tax liability appears below.

	James	Ella
Condominium in Conroe	\$1,900,000	\$1,900,000
Office building in Round Rock	2,300,000	2,300,000
Vacation home in Bandera	1,300,000	1,300,000
Father's bypass operation <sup>(1)</sup>	41,000	41,000
Daughter's wedding $(2)$	-0-	-0-
Graduation present <sup>(3)</sup>	21,000	21,000
Total gifts for 2015	\$5,562,000	\$5,562,000
Less annual exclusion $(5 \times \$14,000)$	(70,000)	(70,000)
Taxable gifts for 2015	\$5,492,000	\$5,492,000
Add prior taxable gifts	0	0
Total of current and prior taxable gifts	<u>\$5,492,000</u>	<u>\$5,492,000</u>
Tax on current and past taxable gifts—		
\$345,800 + 40%(\$5,492,000 - \$1,000,000)	\$2,142,600	\$2,142,600
Less: Unified transfer tax credit for 2015	<u>(2,117,800</u> )	<u>(2,117,800</u> )
Gift tax due for 2015	<u>\$ 24,800</u>	<u>\$ 24,800</u>

# **FOOTNOTES**

- (1) No taxable gift would have resulted had the providers of the medical care (e.g., physicians, hospital) been paid directly [§ 2503(e)(2)(B)].
- (2) Paying for a child's wedding constitutes satisfying an obligation of support and is not a gift.

(3) The niece is not a dependent of the Polks. Thus, the obligation of support (see Footnote 2) does not exist.

Completed Forms 709 for the Polks follow.

E-93	
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7	///	United States Gift (and Generation-Skipping Transfer) Tax	Return	OMB No.	1545-0	020
	Information about Form 709 and its separate instructions is at www.irs.gov/form709		m709.	2015		5
<b>1</b> D	onor's fir	st name and middle initial 2 Donor's last name 3 Donor's	social securit	y number		
Jan	nes A.	Polk	123-	45-6789		
<b>4</b> A	ddress (r	umber, street, and apartment number) 5 Legal re	sidence (don	nicile)		
133	19 Tayl	orcrest Street USA				
6 C	ity or tow	rn, state or province, country, and ZIP or foreign postal code 7 Citizens	nip (see instr	uctions)		
Ηοι		X 77079 USA				
8	lf th	e donor died during the year, check here   and enter date of death	,		Yes	No
9		u extended the time to file this Form 709, check here 🕨 🗌				
10	Ente	er the total number of donees listed on Schedule A. Count each person only once >				
11		e you (the donor) previously filed a Form 709 (or 709-A) for any other year? If "No," skip line 11b your address changed since you last filed Form 709 (or 709-A)?				√
8 9 10 11 12	by y inst sho	s by husband or wife to third parties. Do you consent to have the gifts (including generation-sk you and by your spouse to third parties during the calendar year considered as made one-half ructions.) (If the answer is "Yes," the following information must be furnished and your spouse in win below. If the answer is "No," skip lines 13–18.)	by each of nust sign t	you? (see he consent	1	
13		ne of consenting spouse Ellen R. Polk 14 SSN	123-45-67			
15		e you married to one another during the entire calendar year? (see instructions)			✓	
10		is "No," check whether imarried indivorced or indivorced widowed/deceased, and give date (see instruc				
17		a gift tax return for this year be filed by your spouse? (If "Yes," mail both returns in the same envelo	• •		<ul><li>✓</li></ul>	
18	Con cons	sent of Spouse. I consent to have the gifts (and generation-skipping transfers) made by me and by my spouse idered as made one-half by each of us. We are both aware of the joint and several liability for tax created by the	e to third par execution of	ties during the this consent.	calend	ar y
Co	nsenting	spouse's signature ►	Date 🕨			
19		e you applied a DSUE amount received from a predeceased spouse to a gift or gifts reported on t ? If "Yes," complete Schedule C				
		Enter the amount from Schedule A, Part 4, line 11			2,000	
	2	Enter the amount from Schedule B, line 3	2			
	3	Total taxable gifts. Add lines 1 and 2	3	5,49	2,000	
	4	Tax computed on amount on line 3 (see Table for Computing Gift Tax in instructions)	4	2,14	2,600	
	5	Tax computed on amount on line 2 (see Table for Computing Gift Tax in instructions)	5			
	6	Balance. Subtract line 5 from line 4	6	2,14	2,600	
Computation		Applicable credit amount. If donor has DSUE amount from predeceased spouse(s), enter amou from Schedule C, line 4; otherwise, see instructions		2.11	7,800	
Ľť,	8	Enter the applicable credit against tax allowable for all prior periods (from Sch. B, line 1, col. C)		_,	.,	
l d		Balance. Subtract line 8 from line 7. Do not enter less than zero		2.11	7,800	
ļ Ņ	10	Enter 20% (.20) of the amount allowed as a specific exemption for gifts made after September	8.	_,	.,	
×		1976, and before January 1, 1977 (see instructions)				
Tax	11	Balance. Subtract line 10 from line 9. Do not enter less than zero	11	2.11	7,800	
 	12	Applicable credit. Enter the smaller of line 6 or line 11	12		7,800	
art		Credit for foreign gift taxes (see instructions)	13	,		
Pa	14	Total credits. Add lines 12 and 13	14	2,11	7,800	
] [		Balance. Subtract line 14 from line 6. Do not enter less than zero	15		4,800	
Autacin crieck or moriey order mere.	16	Generation-skipping transfer taxes (from Schedule D, Part 3, col. H, Total)	16			
	17	Total tax. Add lines 15 and 16	17	2	4,800	
	18	Gift and generation-skipping transfer taxes prepaid with extension of time to file	18			
	19	If line 18 is less than line 17, enter balance due (see instructions)	19	2	4,800	
	20	If line 18 is greater than line 17, enter amount to be refunded				
Sign Here		Under penalties of perjury, I declare that I have examined this return, including any accompanying schedule knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than donor) is based any knowledge.	on all inform May with	nents, and to t nation of which the IRS discus the preparer sł instructions)? [	n prepa is this r hown b	rer etur elov
		Signature of donor Date				
Pa		Print/Type preparer's name         Preparer's signature         Date		if PT	ΊN	
	epare		· · ·	nployed 's EIN ►		
Us	e Onl					
		Firm's address F	Phor	ne no.		

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see the instructions for this form. Cat. No. 16783M Form 709 (2015)

Form 709				·····	- la star - P -	<u>۱</u>	Page
	<b>EDULE A</b> Computation of Taxable Gifts (Ir		0	/ \		,	<u>,                                     </u>
	es the value of any item listed on Schedule A reflect any val						
₿ [_]	Check here if you elect under section 529(c)(2)(B) to treat 5-year period beginning this year. See instructions. Attach			year to a c	luaimed tuition p	rogram as made	ratably over a
Dart 1	-Gifts Subject Only to Gift Tax. Gifts less political org.	•		ducations	l ovolucione (c		
ant i-			n, meulcal, and e	uucationa			
<b>A</b> Item number	<ul> <li>B</li> <li>Donee's name and address</li> <li>Relationship to donor (if any)</li> <li>Description of gift</li> <li>If the gift was of securities, give CUSIP no.</li> <li>If closely held entity, give EIN</li> </ul>	с	<b>D</b> Donor's adjusted basis of gift	E Date of gift	<b>F</b> Value at date of gift	<b>G</b> For split gifts, enter <sup>1/2</sup> of column F	H Net transfer (subtract col. G from col. F)
1	Condo in Conroe to children		1,200,000	2015	1,900,000	950,000	950,000
	Office building in Round Rock to children		1,800,000	2015	2,300,000	1,150,000	1,150,000
	Vacation home to children		900,000	2015	2,600,000	1,300,000	1,300,000
	BMW automobile to niece		42,000	2015	42,000	21,000	21,000
Gifts m	ade by spouse — complete <b>only</b> if you are splitting gifts	with you	ur spouse and he	/she also	made gifts.		
	Condo in Conroe to children		1,200,000	2015	1,900,000	950,000	950,000
	Office building in Round Rock to children		900,000	2015	2,300,000	1,150,000	1,150,000
	Reimbursement of expenses for father		82,000	2015	82,000	41,000	41,000
			· · · · ·			🕨	5,562,00
	-Direct Skips. Gifts that are direct skips and are subje ogical order.	ct to bo	th gift tax and ge	neration-	skipping transfe	r tax. You must	list the gifts i
A Item number 1	B • Donee's name and address • Relationship to donor (if any) • Description of gift • If the gift was of securities, give CUSIP no. • If closely held entity, give EIN	C 2632(b) election out	D Donor's adjusted basis of gift	<b>E</b> Date of gift	F Value at date of gift	G For split gifts, enter <sup>1/2</sup> of column F	H Net transfer (subtract col. G from col. F)
àifts m	ade by spouse — <i>complete</i> <b>only</b> if you are splitting gifts	with you	ur spouse and he	/she also	made gifts.		
Part 3-	f Part 2. Add amounts from Part 2, column H - Indirect Skips. Gifts to trusts that are currently subje st these gifts in chronological order.						ansfer tax. Yo
A Item number	B • Donee's name and address • Relationship to donor (if any) • Description of gift • If the gift was of securities, give CUSIP no. • If closely held entity, give EIN	C 2632(c) election	<b>D</b> Donor's adjusted basis of gift	<b>E</b> Date of gift	<b>F</b> Value at date of gift	<b>G</b> For split gifts, enter <sup>1/2</sup> of column F	H Net transfer (subtract col. G from col. F)
1							
lifto m	 ade by spouse — <i>complete <b>only</b> if you are splitting gift</i> s	with you	ur spouse and he	/she also	made gifts.		
ants m							

#### Form 709 (2015)

Form 7	09 (2015)		Page 3
Part 4	-Taxable Gift Reconciliation		
1	Total value of gifts of donor. Add totals from column H of Parts 1, 2, and 3	1	5,562,000
2	Total annual exclusions for gifts listed on line 1 (see instructions)	2	70,000
3	Total included amount of gifts. Subtract line 2 from line 1	3	5,492,000
Deduc	tions (see instructions)		
4	Gifts of interests to spouse for which a marital deduction will be claimed, based		
	on item numbers of Schedule A 4		
5	Exclusions attributable to gifts on line 4		
6	Marital deduction. Subtract line 5 from line 4		
7	Charitable deduction, based on item nos less exclusions . 7		
8	Total deductions. Add lines 6 and 7	8	
9	Subtract line 8 from line 3	9	5,492,000
10	Generation-skipping transfer taxes payable with this Form 709 (from Schedule D, Part 3, col. H, Total) .	10	
11	Taxable gifts. Add lines 9 and 10. Enter here and on page 1, Part 2-Tax Computation, line 1	11	5,492,000

#### Terminable Interest (QTIP) Marital Deduction. (see instructions for Schedule A, Part 4, line 4)

If a trust (or other property) meets the requirements of qualified terminable interest property under section 2523(f), and:

a. The trust (or other property) is listed on Schedule A, and

b. The value of the trust (or other property) is entered in whole or in part as a deduction on Schedule A, Part 4, line 4, then the donor shall be deemed to have made an election to have such trust (or other property) treated as qualified terminable interest property under section 2523(f).

If less than the entire value of the trust (or other property) that the donor has included in Parts 1 and 3 of Schedule A is entered as a deduction on line 4, the donor shall be considered to have made an election only as to a fraction of the trust (or other property). The numerator of this fraction is equal to the amount of the trust (or other property) deducted on Schedule A, Part 4, line 6. The denominator is equal to the total value of the trust (or other property) listed in Parts 1 and 3 of Schedule A.

If you make the QTIP election, the terminable interest property involved will be included in your spouse's gross estate upon his or her death (section 2044). See instructions for line 4 of Schedule A. If your spouse disposes (by gift or otherwise) of all or part of the qualifying life income interest, he or she will be considered to have made a transfer of the entire property that is subject to the gift tax. See *Transfer of Certain Life Estates Received From* Spouse in the instructions.

#### 12 Election Out of QTIP Treatment of Annuities

Check here if you elect under section 2523(f)(6) not to treat as qualified terminable interest property any joint and survivor annuities that are reported on Schedule A and would otherwise be treated as qualified terminable interest property under section 2523(f). See instructions. Enter the item numbers from Schedule A for the annuities for which you are making this election >

#### SCHEDULE B Gifts From Prior Periods

If you answered "Yes," on line 11a of page 1, Part 1, see the instructions for completing Schedule B. If you answered "No," skip to the Tax Computation on page 1 (or Schedules C or D, if applicable). Complete Schedule A before beginning Schedule B. See instructions for recalculation of the column C amounts. Attach calculations.

cale	A endar year or endar quarter instructions)	<b>B</b> Internal Revenue office where prior return was filed	C Amount of applicable credit (unified credit) against gift tax for periods after December 31, 1976	D Amount of specil exemption for pri periods ending bet January 1, 1977	or fore	E Amount of taxable gifts	
1	Totals for pr	ior periods					
2 3		ny, by which total specific exemption, line 1, column D is mo It of taxable gifts for prior periods. Add amount on line 1, cc			2		
<u> </u>					3		
(If mor	re space is ne	eded, attach additional statements.)				Form <b>709</b>	(2015)

(If more space is needed, attach additional statements.)

James A. Polk — 123-45-6789

## Schedule A – Form 709, page 2 – Tax Year 2015

Part 1: Gifts made by taxpayer

Α	В	C	D	E	F	G	Н
1	Benjamin, Michael, Olivia Polk;		1,200,000	2015	1,900,000	950,000	950,000
	children; condo; Conroe (TX)		1,200,000	2013	1,900,000	930,000	930,000
2	Benjamin, Michael, Olivia Polk; children;		1,800,000	2015	2,300,000	1,150,000	1,150,000
	office building; Round Rock (TX)		1,800,000	2013	2,300,000	1,150,000	1,150,000
3	Benjamin, Michael, Olivia Polk;		900,000	2015	2,600,000	1,300,000	1,300,000
	children; vacation home; Bandera (TX)		900,000	2013	2,000,000	1,300,000	1,300,000
4	Carol Polk; niece; BMW auto		42,000	2015	42,000	21,000	21,000

### Part 1: Gifts made by spouse

children;	n, Michael, Olivia Polk; condo; Conroe (TX)		1,200,000	2015	1,900,000	950,000	950,000
5	n, Michael, Olivia Polk; children; ilding; Round Rock (TX)		1,800,000	2015	2,300,000	1,150,000	1,150,000
7 Alan Rol expenses	berts; father; reimbursement for	8	42,000	2015	82,000	41,000	41,000

Total of Part 1

5,562,000

## Appendix E

U	nited States	Gift (and	Generation-Skipping	Transfer)	Tax Return
---	--------------	-----------	---------------------	-----------	------------

709

Form

▶ Information about Form 709 and its separate instructions is at www.irs.gov/form709.

		nt of the Tre evenue Ser		(Fe	or gifts made during calendar year 201  See instructions.	15)	-		2	301	5				
	1 Do	onor's firs	t name a	nd middle initial	2 Donor's last name		3 Donor's soci	al securit	y number						
	Ella	B.			Polk			123-	45-6788						
- H			imber, s	treet, and apartment number)	1 om		5 Legal reside								
	122	19 Taylo	rcroet	Street			USA		,						
				or province, country, and ZIP or foreign p	postal code		7 Citizenship (	see instri	uctions)						
		-					USA								
		iston, T)		died during the year, check here ►	and onter data of death					Ye	s No				
5	8							,		10	0 110				
ati	9			ded the time to file this Form 709, c											
E	10			al number of donees listed on Sch	· · · · ·										
ē	11a			ne donor) previously filed a Form 70							✓				
General Information				dress changed since you last filed							_				
ra	12		-	sband or wife to third parties. Do		00		0	,						
B				by your spouse to third parties d ) (If the answer is "Yes," the follow											
9			-												
ĭ				w. If the answer is "No," skip line:	s 13–18.)	1		• •		· _ *					
<b>T</b>	13			nsenting spouse James A. Polk		14 SSN		3-45-67							
Part	15	Were	e you m	arried to one another during the en	tire calendar year? (see instruction	ns)				. 🗸					
┻	16	lf 15 i	s "No,"	check whether 🗌 married 🔲 divor	ced or 🔲 widowed/deceased, an	id give date (s	ee instruction	s) 🕨							
	17	Will a	a gift ta:	k return for this year be filed by you	r spouse? (If "Yes," mail both retu	urns in the sa	me envelope.	)		. 🖌					
	18	Cons	ent of S	<b>pouse.</b> I consent to have the gifts (and	I generation-skipping transfers) made	by me and by	my spouse to	third par	ties during	the cale	ndar ye				
		considered as made one-half by each of us. We are both aware of the joint and several liability for tax created by the execution of this cor													
	Cor	nsenting s	spouse's	s signature 🕨				Date 🕨	•						
	19			pplied a DSUE amount received fro											
		709?	If "Yes	," complete Schedule C											
		1 E	Inter th	e amount from Schedule A, Part 4,	line 11			1		5,492,00	0				
		<b>2</b> E	Inter th	e amount from Schedule B, line 3				2							
		<b>3</b> T	otal tax	able gifts. Add lines 1 and 2				3		5,492,00	0				
		<b>4</b> T	ax con	nputed on amount on line 3 (see Ta	ble for Computing Gift Tax in instr	ructions) .		4	:	2,142,60	0				
		<b>5</b> T	ax con	nputed on amount on line 2 (see Ta	ble for Computing Gift Tax in instr	ructions) .		5							
		6 E	Balance	. Subtract line 5 from line 4				6	:	2,142,60	0				
	Computation	7 A	Applical	ole credit amount. If donor has D	SUE amount from predeceased	spouse(s), er	nter amount								
	ati	f	rom Sc	hedule C, line 4; otherwise, see ins	tructions			7	:	2,117,80	0				
	Ξ	<b>8</b> E	Inter th	e applicable credit against tax allov	vable for all prior periods (from Sc	ch. B, line 1, c	ol.C).	8							
	Ĕ	<b>9</b> E	Balance	. Subtract line 8 from line 7. Do not	enter less than zero			9	:	2,117,80	0				
	ပါ	10 E	Inter 20	0% (.20) of the amount allowed as	a specific exemption for gifts n	nade after Se	eptember 8,								
	×	1	976, ar	nd before January 1, 1977 (see inst	ructions)			10							
	Tax	11 E	Balance	. Subtract line 10 from line 9. Do no	ot enter less than zero			11	:	2,117,80	00				
	2	12 A	Applicat	ble credit. Enter the smaller of line 6	Sorline 11			12	:	2,117,80	00				
	art	<b>13</b> (	Credit fo	or foreign gift taxes (see instruction	s)			13							
	Pa	<b>14</b> T	otal cre	edits. Add lines 12 and 13 .				14	:	2,117,80	00				
		<b>15</b> E	Balance	. Subtract line 14 from line 6. Do no	ot enter less than zero			15		24,80	00				
		<b>16</b> (	Generat	ion-skipping transfer taxes (from S	chedule D, Part 3, col. H, Total) .			16							
e l		<b>17</b> T	otal tax	Add lines 15 and 16				17		24,80	0				
Ĕ		<b>18</b> (	Gift and	generation-skipping transfer taxes	prepaid with extension of time to	file		18							
l e		<b>19</b> li	f line 18	is less than line 17, enter <b>balance</b>	due (see instructions)			19		24,80	0				
Š		<b>20</b> It	f line 18	is greater than line 17, enter <b>amou</b>	unt to be refunded			20		,					
	Się He	gn ere	know	r penalties of perjury, I declare that I ha ledge and belief, it is true, correct, and nowledge.	ve examined this return, including an complete. Declaration of preparer (of	y accompanyir ther than dono	ig schedules ai r) is based on	all inform May with	nents, and nation of v the IRS di the prepa	which prep iscuss this rer shown	parer ha s return 1 below				
ě.				mark was of slaves		Det									
≓ ⊒				gnature of donor	Dura surale sin 1	Date	-+-	1		DTIN					
<u>ia</u>	Pai	id	Print/	Type preparer's name	Preparer's signature		ate		🗆 if	PTIN					
¥	Pre	eparer						· · · ·	nployed						
	Us	e Only		name					s EIN ►						
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or D	JISC	iosure, P	rivacy /	Act, and Paperwork Reduction Act I	votice, see the instructions for this	s form.	Cat.	No. 1678	33M	Form <b>70</b>	<b>ງອ</b> (201				

rivacy Act, and Paperwork Reduction Act Notice, see the instructions for this form.

OMB No. 1545-0020

2015

Form 709		(Includia	a transforo in t	ruot) (oc	oinotructions	)	Page
	EDULE A Computation of Taxable Gifts ( es the value of any item listed on Schedule A reflect any v	-	-				Yes 🗌 No
	<ul> <li>Check here if you elect under section 529(c)(2)(B) to the</li> </ul>						
	5-year period beginning this year. See instructions. Attac	-		year to a c	uanned tuttori p	logram as made	
	-Gifts Subject Only to Gift Tax. Gifts less political or			ducations	al exclusions (s	e instructions)	
arti-	B	ganzatio		uucatione			
	• Donee's name and address		_	_	_	G	н
A Item	Relationship to donor (if any)	С	<b>D</b> Donor's adjusted	E Date	F Value at	For split gifts, enter	Net transfer (subtract
number	<ul> <li>Description of gift</li> </ul>		basis of gift	of gift	date of gift	1/2 of	col. G from
	<ul> <li>If the gift was of securities, give CUSIP no.</li> <li>If closely held entity, give EIN</li> </ul>		occord or give	5. <b>5</b>	acto or give	column F	col. F)
	• It closely held entity, give Env						
1	Condo in Conroe to children	_	1,200,000	2015	1,900,000	950,000	950,00
	Office building in Round Rock to children	_	1,800,000	2015	2,300,000	1,150,000	1,150,00
	Reimbursement of expenses for father	_	82,000	2015	82,000	41,000	41,00
àifts m	ade by spouse — <i>complete</i> <b>only</b> if you are splitting gif	ts with yo	ur spouse and he	/she also	made gifts.		
	Condo in Conroe to children	_	1,200,000	2015	1,900,000	950,000	950,00
	Office building in Round Rock to children	_	900,000	2015	2,300,000	1,150,000	1,150,00
	Vacation home to children	_	1,800,000	2015	2,600,000	1,300,000	1,300,00
	BMW automobile to niece		42,000	2015	42,000	21,000	21,00
otal o	f Part 1. Add amounts from Part 1, column H					🕨	5,562,00
	<ul> <li>Direct Skips. Gifts that are direct skips and are sub ogical order.</li> </ul>	ject to bo	th gift tax and ge	neration-	skipping transfe	r tax. You must	list the gifts
	В						
	Donee's name and address		_	_	_	_ G	н
A Item	<ul> <li>Relationship to donor (if any)</li> </ul>	2632(b)	<b>D</b> Donor's adjusted	E Date	F Value at	For split gifts, enter	Net transfer (subtract
number	Description of gift	election	basis of gift	of gift	date of gift	1/2 of	col. G from
	<ul> <li>If the gift was of securities, give CUSIP no.</li> <li>If closely held entity, give EIN</li> </ul>	out		0	Ŭ	column F	col. F)
	• It closely held entity, give Env						
1							
àifts m	ade by spouse —complete <b>only</b> if you are splitting gif	ts with yo	ur spouse and he	/she also	made gifts.		
	f Part 2. Add amounts from Part 2, column H						
	<ul> <li>-Indirect Skips. Gifts to trusts that are currently sub at these gifts in chronological order.</li> </ul>	oject to gi	ft tax and may la	ter be sul	bject to generat	ion-skipping tra	anster tax. Yo
	в					G	н
Α	Donee's name and address     Deletionship to denor (if any)	с	D	Е	F	For split	Net transfer
Item	<ul> <li>Relationship to donor (if any)</li> <li>Description of gift</li> </ul>	2632(c)	Donor's adjusted	Date	Value at	gifts, enter	(subtract
number	If the gift was of securities, give CUSIP no.	election	basis of gift	of gift	date of gift	1/2 of	col. G from
	If closely held entity, give EIN					column F	col. F)
1							
		-					
aifts m	ade by spouse — <i>complete</i> <b>only</b> if you are splitting gif	ts with yo	ur spouse and he	/she also	made gifts.		
						I	

Page 3

#### Form 709 (2015)

Part 4	4-Taxable Gift Reconciliation			
1	Total value of gifts of donor. Add totals from column H of Parts 1, 2, and 3 ...............	1	5,562,000	
2	Total annual exclusions for gifts listed on line 1 (see instructions)	2	70,000	
3	Total included amount of gifts. Subtract line 2 from line 1	3	5,492,000	
Dedu	ctions (see instructions)			
4	Gifts of interests to spouse for which a marital deduction will be claimed, based			
	on item numbers of Schedule A 4			
5	Exclusions attributable to gifts on line 4			
6	Marital deduction. Subtract line 5 from line 4			
7	Charitable deduction, based on item nos less exclusions . 7			
8	Total deductions. Add lines 6 and 7	8		
9	Subtract line 8 from line 3	9	5,492,000	
10	Generation-skipping transfer taxes payable with this Form 709 (from Schedule D, Part 3, col. H, Total) .	10		
11	<b>Taxable gifts.</b> Add lines 9 and 10. Enter here and on page 1. Part 2-Tax Computation, line 1	11	5 492 000	

Terminable Interest (QTIP) Marital Deduction. (see instructions for Schedule A, Part 4, line 4)

If a trust (or other property) meets the requirements of qualified terminable interest property under section 2523(f), and:

a. The trust (or other property) is listed on Schedule A, and

b. The value of the trust (or other property) is entered in whole or in part as a deduction on Schedule A, Part 4, line 4,

then the donor shall be deemed to have made an election to have such trust (or other property) treated as qualified terminable interest property under section 2523(f).

If less than the entire value of the trust (or other property) that the donor has included in Parts 1 and 3 of Schedule A is entered as a deduction on line 4, the donor shall be considered to have made an election only as to a fraction of the trust (or other property). The numerator of this fraction is equal to the amount of the trust (or other property) deducted on Schedule A, Part 4, line 6. The denominator is equal to the total value of the trust (or other property) listed in Parts 1 and 3 of Schedule A.

If you make the QTIP election, the terminable interest property involved will be included in your spouse's gross estate upon his or her death (section 2044). See instructions for line 4 of Schedule A. If your spouse disposes (by gift or otherwise) of all or part of the qualifying life income interest, he or she will be considered to have made a transfer of the entire property that is subject to the gift tax. See Transfer of Certain Life Estates Received From Spouse in the instructions.

#### 12 Election Out of QTIP Treatment of Annuities

Check here if you elect under section 2523(f)(6) not to treat as qualified terminable interest property any joint and survivor annuities that are reported on Schedule A and would otherwise be treated as qualified terminable interest property under section 2523(f). See instructions. Enter the item numbers from Schedule A for the annuities for which you are making this election > \_\_\_\_\_

#### SCHEDULE B Gifts From Prior Periods

If you answered "Yes," on line 11a of page 1, Part 1, see the instructions for completing Schedule B. If you answered "No," skip to the Tax Computation on page 1 (or Schedules C or D, if applicable). Complete Schedule A before beginning Schedule B. See instructions for recalculation of the column C amounts. Attach calculations.

caler	<b>A</b> ndar year or ndar quarter instructions)	<b>B</b> Internal Revenue office where prior return was filed		C Amount of applicable credit (unified credit) against gift tax for periods after December 31, 1976	D Amount of specific exemption for prior periods ending before January 1, 1977	E Amount of taxable gifts	
1	Totals for pr	ior periods	1				
2 3	Total amour Enter here a	ny, by which total specific exemption, line 1, column D it of taxable gifts for prior periods. Add amount on line nd on page 1, Part 2–Tax Computation, line 2.	1, co	lumn E and amount, if		700 mar	

(If more space is needed, attach additional statements.)

## Ella R. Polk — 123-45-6788

## Schedule A – Form 709, page 2 – Tax Year 2015

Part 1: Gifts made by taxpayer

Α	В	С	D	E	F	G	Н
	Benjamin, Michael, Olivia Polk; children; condo; Conroe (TX)		1,200,000	2015	1,900,000	950,000	950,000
	Benjamin, Michael, Olivia Polk; children; office building; Round Rock (TX)		1,800,000	2015	2,300,000	1,150,000	1,150,000
3	Alan Roberts; father; reimbursement for expenses		82,000	2015	82,000	41,000	41,000

## Part 1: Gifts made by spouse

4	Benjamin, Michael, Olivia Polk; children; vacation home; Bandera (TX)	900,000	2015	2,600,000	1,300,000	1,300,000
5	Benjamin, Michael, Olivia Polk; children; condo; Conroe (TX)	1,200,000	2015	1,900,000	950,000	950,000
6	Benjamin, Michael, Olivia Polk; children; office building; Round Rock (TX)	1,800,000	2015	2,300,000	1,150,000	1,150,000
7	Carol Polk; niece; BMW auto	42,000	2015	42,000	21,000	21,000

Total	of	Part	1
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5,562,000

## **PROBLEM 8 SOLUTIONS**

A summary of the determination of estate tax liability follows.

John Harper Trust (Schedule F, Note 1)		\$2,100,000
Insurance on Harriet's life (Schedule D)		100,000
Insurance on the lives of others (Schedule F, Note 2)		80,000
Tract of undeveloped land (Schedule A, Note 3)		1,000,000
Beach cottages (Schedule A)		1,200,000
Vacation lodge (Schedule E, Note 4)		700,000
Personal residence (Schedule A)		800,000
Lawsuit settlement (Schedule F, Note 5)		700,000
Cash—checking account (\$18,000), income tax		22 000
refund (\$4,000)—(Schedule C)		22,000
Municipal bonds (Schedule B)		205,000
Personal and household effects (Schedule F)		60,000
Gross estate		\$6,967,000
Funeral and administration expenses (Schedule J):	<b>*</b> • • • • •	
Funeral	\$ 9,000	
Attorney's fees	24,000	
Accounting fees	10,000	
Appraisal fees and court costs	6,000	(49,000)
Debts of the decedent (Schedule K):		
Credit card debt and household bills	\$21,000	
Federal income tax $(1/1 - 6/6/15)$	27,000	(48,000)
Mortgage (Schedule K)		(200,000)
Charitable contribution (Schedule O, Note 6)		(40,000)
Taxable estate		<u>\$6,630,000</u>
Tax on taxable estate of \$6,630,000—		\$2,597,800
\$345,800 + 40% (\$6,630,000 - \$1,000,000)		
Less: Unified transfer tax credit for 2015		(2,117,800)
Estate tax due		\$ 480,000

### NOTES

- (1) Under § 2044, the QTIP election made by her husband's executor forces the inclusion of the trust in Harriet's gross estate.
- (2) Because these insurance policies have not matured, their value is not the face amount. They are included in the gross estate under § 2033, not § 2042.
- (3) The mortgage on this property is deducted separately.
- (4) As Harriet contributed one-half of the purchase price, only one-half of the value is included under § 2040.
- (5) The lawsuit settlement was not cash (Schedule C) as of the date of death. It is uncertain when the income tax refund was received (i.e., before or after Harriet's death).
- (6) The church pledge could have been reported as a debt of the decedent (Schedule K).

On Form 706, line 5, page 2, an estimate must be given as to how much the major heirs of the estate will receive. The estimate was determined by using the taxable estate of \$6,630,000, subtracting the estate tax of \$480,000, and dividing by two to arrive at \$3,075,000 for each heir (Travis and Hannah). Completed Form 706 follows.

Probate Court, X County, Horda         8       If decedent did testate, check here        I and attach a certified copy of the will.       9       If you extended the time to file this Form 706, check         10       If Schedule R-1 is attached, check here        I if you are estimating the value of assets included in the grass state on line 1 pursuant to the special rule of Reg. sector 202010-27[6] (706), check         1       Total gross estate less exclusion (from Part 5 – Recapitulation, item 13)       1       6,967         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       3a       6,630         b       5       Addiusted taxable estate (subtract line 3 from line 3a)       3c       6,630         c       Taxable estate (subtract line 3 b from line 3a)       4       5       6,630         c       Total gift stax paid or payable (see instructions)       7       7       6       2,597         9       Basic exclusion amount 1       0       Deceased spousal unused exclusion (DSUE)       9a       5,430,000       9b       9c       5,430,000       9c       5,430,000       9d       2,117,800 </th <th></th> <th></th> <th></th> <th>OMB No. 15</th> <th>45-00</th>				OMB No. 15	45-00
Information about Form 706 and its apprate instructions is at www.irs.gov/form706.         In Decodent's first name and middle initial (and maiden name, if any)         In Decodent's first name and middle initial (and maiden name, if any)         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706 and its apprate instructions is at www.irs.gov/form706.         Intermation about Form 706, check its approbate opprotene addresse, telephone numbers, and SNN		r			
Harriet C.     Harriet C.     Harper     123     45       3a     City, town, or post office; county; state or province; country; and ZIP or ( foreign postal code, 1320 Martin Drive Clearwater, FL 33768     3b Yare domicile established     4 Date of birth     5 Date of death       3a     City, town, or post office; county; state or province; country; and ZIP or ( Be Executor's address (number and street including apartment or suble or phone no.     3b Yare domicine established     4 Date of birth     5 Date of death       6a     Name of executor's social security number (see instructions)     123     45     6782     Phone no.       7a     Name and location of court where will was probated or estate administered     Tb Can     Tb Can     Tb Can       Probate Court, X County, Florida     If 3chedic H is attabut, check here \science and attach a last showing the names, addresses, telephone numbers, and SNs of the additional exe     1     Tb Can       7a     Name and location of court where will was probated or estate administered     Tb Can     Tb Can       7b Oat gross estate less exclusion (from Part 5—Recapitulation, item 13)     1     6,967       2     Tentative taxable estate (subtract line 2 from line 1)     3a     6,633       5     6,633     5     6,633       6     Tatative taxable disk less enstructions)     7     3a     6,633       7     Totad gross estate less exclusion from Table A in the instruct		6.			
3a       City, town, or post of tific; county; state or province; county; and ZIP or foreign postal code.       4 Date of birth       5 Date of death         1520 Martin Drive       Clearwater,FL 33758       6 Executor's address (number and street huckling apartment or suite no post office; state or province; county; and ZIP or foreign postal code phone no.       6 Decentor's address (number and street huckling apartment or suite no post office; state or province; county; and ZIP or foreign postal code phone no.         6 a       Name of executor's ascial security number (see instructions)       Phone no.       9 Phone no.         123       45       6 762       Phone no.         6 dt       If there armuttipe executors, check here bard attach a list showing the names, addresses, telephone numbers, and SSNs of the additional executor's address exclusion of court where will was probated or estate administered       7 Dea         7 a       Name and location of court where will was probated or estate administered       7 Bea         7 total gross estate less exclusion (from Part 6 – Recapitulation, item 13)       1       6,967         7 total gross estate less exclusion (from Part 6 – Recapitulation, item 24)       2       3 a         8 tract death tax deduction       3 a       6,633         9 beceased spousal unused exclusion (SUE) amount from predecased spouse), if any (from Section 1	Dec	2	2 Decedent	t's social sec	urity r
Sa       City, town, or post office; county; state or province; country; and ZIP or foreign postal code.       Sb Year domicile established       4 Date of birth       5 Date of death         1520 Martin Drive       Clearwater,FL 33759       Bb Year domicile established       4 Date of birth       5 Date of death         Ga       Name of executor (see instructions)       Bb Year domicile established       4 Date of birth       5 Date of death         Ge       Executor's accular (see instructions)       Bb Year domicile established       0 post office; state or province; country; and ZIP or foreign postal coc phone no.         Ge       Executor's accular executor, check here bar and attach a list showing the names, addresses, telephone numbers, and SSNs of the additional exections and ocation of court where will was probated or estate administered       7b Car         Probate Court, X County, Florida       Bi I decodent died testate, check here bar and attach a certified copy of the will.       9 If you extended the time to file this Form 700, check         10       If Schedule R-1 is attached, check here bar and attach a certified copy of the will.       9 If you extended the time to file this Form 206, check         11       Schedule R-1 is attached, check here bar and attach a certified copy of the will.       9 If you extended the time to file this Form 700, check         12       Tentative toxalble eductions (from Part 5 – Recapitulation, item 24)       2 2 337         3a       Tentative total allowable eductions (fr	123		123	45	678
1520 Marilin Drive Clearwater,FL 33758       Clearwater,FL 33758         Ga       Name of executor (see instructions)         Travise Harper and Hannah Baker       Clearwater, SL 33758         Ge       Executor's social security number (see instructions)       Phone no.         Ge       Executor's social security number (see instructions)       Phone no.         Ge       Executor's social security number (see instructions)       Phone no.         Ge       H dree armuttiple executors, check here ☐ and attach a list showing the names, addresses, telephone numbers, and SSNs of the additional executors addresses telephone numbers, and SSNs of the additional executors addresses is attached, deck here ☐ and attach a certified copy of the will.       9 If you extended the time to file this Form 706, check         10       If Schedent died testate, check here ▷ ☐ and attach a certified copy of the will.       9 If you extended the time to file this Form 706, check         10       If Schedent died testate, check here ▷ ☐ and attach a certified copy of the will.       9 If you extended the time to file this Form 706, check         11       Schedent died testate, check here ▷ ☐ and attach a certified copy of the will.       9 If you extended the time to file this Form 706, check         10       If Schedent died testate, check here ▷ ☐ and attach a certified copy of the will.       9 If you extended the time to file this Form 706, check         11       Schedent died testate, check here ▷ ☐ and attach a certified copy of the will. </td <td></td> <td>5</td> <td></td> <td></td> <td></td>		5			
1520 Marin Drive Clearwater,FL 33758       B         6a       Name of executor (see instructions)       B         123       45       6782         6b       Executor's social security number (see instructions)       12         123       45       6782         7       Amage and location of courtly, Florida       To be a fill be executors, check hare □ and attach a list showing the names, addresses, telephone numbers, and SSNs of the additional executions of courtly, Florida       To be a fill be addresses induct in the system of		1		06/06/2015	
Ga       Name of executor (see instructions)         Travis Harper and Hannah Baker       or post office, state or province; country; and 21P of horeign postal coc phone no.         Ge       Executor's social security number (see instructions)       Phone no.         It       123       45       6782         B       If decore are multiple executors, check here   and attach a list showing the names, addresses, telephone numbers, and SSNs of the additional exec         7a       Name and location of court where will was probated or estate administered       To Cat         Probate Court, X County, Florida       It decodent did ettastic, check here ▶ () and attach a certified copy of the will.       9 If you extended the time to file this Form 706, check         1       If schedule R-1 is attached, check here ▶ () and attach a certified copy of the will.       9 If you extended the time to file this Form 206, check         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2 337         3       Tentative taxable estate (subtract line 2 from line 1)       3a 6,6,630         4       5       6,6,300         5       Adjusted taxable gifts (see instructions)       7         6       2,597         7       Total gift tax paid or payable (see instructions)       7         6       2,597         9       Bacic exclusion amount	ipa				
Ga       Name of executor (see instructions)       Phone no.         Ge       Executor's social security number (see instructions)       Phone no.         Gd       If there are multiple executors, check here □ and attach a list showing the names, addresses, telephone numbers, and SSNs of the additional executor.       Tb Ca         Probate Court. X County, Florida       If decedent did testate, check here ▷ ☑ and attach a certified copy of the will. ● If you extended the time to file this Form 706, check       If shedule R-I is attached, check here ▷ ☑ and attach a certified copy of the will. ● If you extended the time to file this Form 706, check         10       If Schedule R-I is attached, check here ▷ ☑ and attach a certified copy of the will. ● If you extended the time to file this Form 706, check         10       If decedent did testate, check here ▷ ☑ and attach a certified copy of the will. ● If you extended the time to file this Form 706, check         10       If decedent did testate, check here ▷ ☑ and attach a certified copy of the will. ● If you extended the time to file this Form 706, check         10       If otal gross estate less exclusion (from Part 5 – Recapitulation, item 13)	or f	and ZIP	IP or foreigr	n postal code	) and
6c       Executor's social security number (see instructions)       Phone no.         123       45       6782         6d       If there are multiple executors, check here are are multiple executors, check here are multiple executors, check here are are multiple executions (from Part 5 – Recapitulation, item 13)       9       If you extended the istinction of the special nucle of					
Probate Court, X County, Horida         8       If decedent did testate, check here ▷ □ 11 If you are stimating the value of assets included in the gress estate on line 1 pursuant to the special rule of Reg. sector 202010-2716 (7/00, check         10       If Schedule R-1 is attached, check here ▷ □ 11 If you are estimating the value of assets included in the gress estate on line 1 pursuant to the special rule of Reg. sector 202010-2716 (7/00, check         1       Total gross estate less exclusion (from Part 5 – Recapitulation, item 13)       1       6,967         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       3a       6,630         b       5       Add lines 32 and 4       3a       6,630         c       Taxable estate (subtract line 3b from line 3a)       4       5       6,630         6       Total gift stax baid or payable (see instructions)       7       7       7         8       Gross estate tax (subtract line 7 from line 6)       9a       5,430,000       9b       9c       5,430,000         9b       9b       9c       5,430,000       9c       5,430,000       9c       5,430,000       <					
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Probate Court, X County, Horda         8       If decedent did testate, check here        I and attach a certified copy of the will.       9       If you extended the time to file this Form 706, check         10       If Schedule R-1 is attached, check here        I if you are estimating the value of assets included in the grass state on line 1 pursuant to the special rule of Reg. sector 202010-27[6] (706), check         1       Total gross estate less exclusion (from Part 5 – Recapitulation, item 13)       1       6,967         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       3a       6,630         b       5       Addiusted taxable estate (subtract line 3 from line 3a)       3c       6,630         c       Taxable estate (subtract line 3 b from line 3a)       4       5       6,630         c       Total gift stax paid or payable (see instructions)       7       7       6       2,597         9       Basic exclusion amount 1       0       Deceased spousal unused exclusion (DSUE)       9a       5,430,000       9b       9c       5,430,000       9c       5,430,000       9d       2,117,800 </td <td>no</td> <td>Phone</td> <td>ne no</td> <td></td> <td></td>	no	Phone	ne no		
Probate Court, X County, Horda         8       If decedent did testate, check here        I and attach a certified copy of the will.       9       If you extended the time to file this Form 706, check         10       If Schedule R-1 is attached, check here        I if you are estimating the value of assets included in the grass state on line 1 pursuant to the special rule of Reg. sector 202010-27[6] (706), check         1       Total gross estate less exclusion (from Part 5 – Recapitulation, item 13)       1       6,967         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       2       337         3a       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       3a       6,630         b       5       Addiusted taxable estate (subtract line 3 from line 3a)       3c       6,630         c       Taxable estate (subtract line 3 b from line 3a)       4       5       6,630         c       Total gift stax paid or payable (see instructions)       7       7       6       2,597         9       Basic exclusion amount 1       0       Deceased spousal unused exclusion (DSUE)       9a       5,430,000       9b       9c       5,430,000       9c       5,430,000       9d       2,117,800 </td <td>_</td> <td></td> <td></td> <td>ditional exec</td> <td>utors</td>	_			ditional exec	utors
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8       If decedent died testate, check here ► ☑ and attach a certified copy of the will.       9       If you extended the time to file this Form 706, check         10       If ScheduleR-I is attached, check here ► ☑ 11. If you are estimating the value of assets included in the gross estate on line 1 pursuant to the special rule of Rep. sector 202010-27(a) (7(b), ch         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 13)       1       6,967         3       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       3a       6,630         b       State death tax deduction       3a       6,630         c       Taxable estate (subtract line 3b from line 3a)       3c       6,632         4       Adjusted taxable gifts (see instructions)       4       5       6,632         5       Add lines 3c and 4       5       6,632       6       2,597         7       Total gift tax paid or payable (see instructions)       7       8       2,597         9       Basic exclusion amount       9       5,430,000       9       9         9       Deceased spousal unused exclusion (DSUE) amount from predeceased spouse(s), if any (from Section D, Part 6 – Portability of Deceased Spousal Unused Exclusion).       9       9       5,430,000       9         9       Deceased spousal unused exclusion unount (add lines 9 a an					
10       If Schedule R-1 is attached, check here Image: Instant to the gross estate on line 1 pursuant to the special rule of Reg. sector 202010-27[a] (7)[a], ch         1       Total gross estate less exclusion (from Part 5 – Recapitulation, item 13)       1       6,967         2       Tentative total allowable deductions (from Part 5 – Recapitulation, item 24)       3a       6,630         2       Tentative taxable estate (subtract line 2 from line 1)       3a       6,630         4       3c       6,630         5       Add lines 3c and 4       3c       6,630         6       Tentative tax on the amount on line 5 from Table A in the instructions       7       7         7       Total gift tax paid or payable (see instructions)       7       7         8       Gross estate tax (subtract line 7 from line 6)       9a       5,430,000       9b         9       Deceased spousal unused exclusion (DSUE) amount from predeceased spouse(s), if any (from Section D, Part 6 – Portability of Deceased Spousal Unused Exclusion)       9c       5,430,000       9c       5,430,000         9       Decide exclusion amount (May not exceed \$6,000. See instructions)       11       2,117,800       11       2,117         10       Adjustment to applicable credit amount (May not exceed \$6,000. See instructions.)       10       11       2,117,800       11       2,117	is F	to file t	this Form	706, check h	iere 🕨
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5       Add lines 3c and 4       5       6,630         6       Tentative tax on the amount on line 5 from Table A in the instructions       7       7         7       Total gift tax paid or payable (see instructions)       7       7         8       Gross estate tax (subtract line 7 from line 6)       9       9       7         9a       Basic exclusion amount       9       5,430,000       9         9b       Deceased spousal unused exclusion (DSUE) amount from predeceased spouse(s), if any (from Section D, Part 6–Portability of Deceased Spousal Unused Exclusion).       9       9       9         9c       Applicable exclusion amount (add lines 9a and 9b)       9       9c       5,430,000       9         9d       Applicable credit amount (tentative tax on the amount in 9c from Table A in the instructions)       9c       5,430,000       9       9       9       9       9       9       9       9       9       11       2,117,800       10       11       2,117,800       10       11       2,117,800       10       11       2,117,800       11       2,117,800       11       2,117,800       11       2,117,800       10       11       2,117,800       11       2,117,800       11       2,117,800       11       2,117,17       12       480	-			0,000,	
6       Tentative tax on the amount on line 5 from Table A in the instructions       6       2,597         7       Total gift tax paid or payable (see instructions)       7       7         8       Gross estate tax (subtract line 7 from line 6)       8       2,597         9a       5,430,000       8       2,597         9b       Deceased spousal unused exclusion (DSUE) amount from predeceased spouse(s), if any (from Section D, Part 6–Portability of Deceased Spousal Unused Exclusion).       9a       5,430,000         9c       Applicable exclusion amount (add lines 9a and 9b)       9c       5,430,000       9d         9d       Applicable credit amount (tentative tax on the amount in 9c from Table A in the instructions)       9c       5,430,000       9d         9d       Applicable credit amount (May not exceed \$6,000. See instructions.)       10       11       2,117,800         11       Allowable applicable credit amount (subtract line 10 from line 9d)       10       11       2,117         12       Ut do not enter less than zero)       11       2,117       12       480         13       Credit for foreign death taxes (from Schedule P). (Attach Form(s) 706-CE.)       13       14       14         15       Total credits (add lines 13 and 14)       15       16       480         16       Ut	_			6 630	000
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11       Allowable applicable credit amount (subtract line 10 from line 9d)       11       2,117         12       Subtract line 11 from line 8 (but do not enter less than zero)       12       480         13       Credit for foreign death taxes (from Schedule P). (Attach Form(s) 706-CE.)       13       14       12       480         14       Credit for tax on prior transfers (from Schedule Q)       14       14       15       16       480         15       Total credits (add lines 13 and 14)       15       16       480       17       16       480         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17       18       48       48					
11       Allowable applicable credit amount (subtract line 10 from line 9d)       11       2,117         12       Subtract line 11 from line 8 (but do not enter less than zero)       12       480         13       Credit for foreign death taxes (from Schedule P). (Attach Form(s) 706-CE.)       13       14       12       480         14       Credit for tax on prior transfers (from Schedule Q)       14       14       15       16       480         15       Total credits (add lines 13 and 14)       15       16       480       17       16       480         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17       18       48       48					
12       Subtract line 11 from line 8 (but do not enter less than zero)       12       480         13       Credit for foreign death taxes (from Schedule P). (Attach Form(s) 706-CE.)       13       14       12       480         14       Credit for tax on prior transfers (from Schedule Q)       14       14       15       16       480         15       Total credits (add lines 13 and 14)       15       14       15       16       480         16       Net estate tax (subtract line 15 from line 12)       16       16       480         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17       18       480         18       480       480       480       480       480	1		11	2 117	800
13       Credit for foreign death taxes (from Schedule P). (Attach Form(s) 706-CE.)       13       14         14       Credit for tax on prior transfers (from Schedule Q)       14       14         15       Total credits (add lines 13 and 14)       15         16       Net estate tax (subtract line 15 from line 12)       16       480         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17         18       Total transfer taxes (add lines 16 and 17)       18       480	_			480,	
14       Credit for tax on prior transfers (from Schedule Q)       14       14         15       Total credits (add lines 13 and 14)       15       15         16       Net estate tax (subtract line 15 from line 12)       16       16         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17         18       Total transfer taxes (add lines 16 and 17)       18	-				
15       Total credits (add lines 13 and 14)       15         16       Net estate tax (subtract line 15 from line 12)       16       480         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17       17         18       Total transfer taxes (add lines 16 and 17)       18       480					
16       Net estate tax (subtract line 15 from line 12)       16       480         17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       17       17         18       Total transfer taxes (add lines 16 and 17)       18       480	5		15		
17       Generation-skipping transfer (GST) taxes payable (from Schedule R, Part 2, line 10)       10       17         18       Total transfer taxes (add lines 16 and 17)       18       18       480	-			480.	000
18         Total transfer taxes (add lines 16 and 17)         18         480	-	-		400,	
	-	-		480,	000
	-		19	400,	
	_	-		480.	000

Sign Here	Signature of executor			Date		
Paid Preparer	Print/Type preparer's name	Preparer's signature		Date	Check if self-employed	PTIN
Use Only	Firm's name		· · · · · · · · · · · · · · · · · · ·		Firm's EIN ►	·
	Firm's address ►				Phone no.	
For Privacy Act	and Paperwork Reduction Act Notice,	see instructions.	Cat. No. 20548	BR	Form	706 (Rev. 8-2013)

								Decedent's s	ocial sec	urity	y num	ber
	te of: Harriet C. Harper							123	45		6781	
Part	3—Elections by the Executor											
Note.	For information on electing portability o	f the decedent's I	DSUE	amour	nt, including h	ow to opt	t out of the ele	ction, see Par	t6—			
	Portability of Deceased Spousal Unused										V	N
	Some of the following elections may rec				iens.					-	Yes	No
	e check "Yes" or "No" box for each qu	•										,
1		<u> </u>							• •	1 2		<b>√</b>
2	Do you elect special-use valuation? If	"Yes," you must	comp	lete an	d attach Sche	dule A-I			· ·	2		<u> </u>
3	Do you elect to pay the taxes in instal										_	<b>√</b>
	If "Yes," you must attach the addition											
	Note. By electing section 6166 insta			-	-	•	security for	estate tax de	terred	3		
4	under section 6166 and interest in t		-				aa daaaribad i	n anation 616	22	4		✓
	Do you elect to postpone the part of t <b>4-General Information</b>	The lakes due to a	Tever	sionary	or remainder	Interest	as described i	II Section 010	51 .	-		•
	Please attach the necessary supplement	al documents Yo	u mus	st atta	h the death o	ertificate	e. (See instruct	tions)				
	ization to receive confidential tax informati						-		IBS: and	to m	ako wr	itten
	presentations on behalf of the estate:	on under neg. see		1.00+(	0/(2/()), to dot a	5 110 0514			into, and	10 111		itteri
Name c	of representative (print or type)	Stat	е	Add	ress (number, st	treet, and i	room or suite no	., city, state, an	d ZIP code	)		
l declar	re that I am the 🗌 attorney/ 🗌 certified pu	blic accountant/	enrolle	ed agen	t (check the an	plicable br	ox) for the execu	itor. I am not un	der susper	ision	or	
	nent from practice before the Internal Revenu			•			,				-	
Signatu					number	Date		Telephon	e number			
1	Death certificate number and issuing	authority (attach a	сору	/ of the	death certific	ate to this	s return).					
	-	• •					-					
2	Decedent's business or occupation. If	retired, check he	re 🕨		and state dece	edent's fo	ormer busines	s or occupatio	n.			
3a	Marital status of the decedent at time	of death:										
	Married Widow/	widower	[	🗌 Sir	ngle		Legally separ	ated	🗌 Di	ivorc	ed	
3b	For all prior marriages, list the name a			•		•	ended, and w	hether the ma	rriage en	ded I	зу	
	annulment, divorce, or death. Attach a	additional stateme	ents of	f the sa	ame size if neo	cessary.						
			41.0				4			<u>،</u>		
4a	Surviving spouse's name		40 50	ocial se	ecurity numbe	r	4C Amount r	eceived (see ir	Istructions	5)		
5				1			 	(1				
5	Individuals (other than the surviving space in schedule O) (and instruction		otner e	estates	who receive b	enetits tro	om the estate	(do not include	e charitab	ie be	neticia	aries
	shown in Schedule O) (see instruction			للمسملها	f in a munch ou		Deletienskie te		A	1		+:)
Travia	Name of individual, trust, or estate receiving	\$5,000 or more			fying number		Relationship to	decedent	Amount	(see		,
	Harper				3-45-6782	Son					,	<u>'5,000</u>
nanna	ah Baker			12.	3-45-6783	Daugh	ter				3,07	5,000
									-			
All una	ascertainable beneficiaries and those wh	o receive less th	an \$5	000				Þ				
Total												
	<u> </u>											
lf vou	answer "Yes" to any of the following	auestions. vou r	nust a	attach	additional inf	ormatio	n as describe	d.			Yes	No
6	Is the estate filing a protective claim for											1
•	If "Yes," complete and attach two cop									İ		
7	Does the gross estate contain any sec					erest pror	perty (QTIP) fr	om a prior gift	or estate	)2		
•										,.		✓
8a	Have federal gift tax returns ever beer											
54	If "Yes," attach copies of the returns,			the fol	lowing inform	ation:				İ		
b	Period(s) covered	c Internal Rever								$\neg$		
				(-)								
9a	Was there any insurance on the deced	dent's life that is r	iot inc	luded	on the return a	as part of	the gross est	ate?				✓
b	Did the decedent own any insurance of											✓
											Pa	ge 2

#### Form 706 (Rev. 8-2013)

				Deceder	nt's s	social securit	y num	iber
Estate	e of: Harriet C. Harper			123		45	6781	
	-General Information (continued)							
lf you a	nswer "Yes" to any of the following questions, you must attach additional inform	nation	as describe	d.			Yes	No
	Did the decedent at the time of death own any property as a joint tenant with right o other joint tenants was someone other than the decedent's spouse, and <b>(b)</b> less tha the return as part of the gross estate? If "Yes," you must complete and attach Sched	n the f	ull value of th	e proper	ty is	included on	1	
	Did the decedent, at the time of death, own any interest in a partnership (for unincorporated business, or a limited liability company; or own any stock in an inacti				•	1.7.		1
	If "Yes," was the value of <b>any</b> interest owned (from above) discounted on this estate reporting the total accumulated or effective discounts taken on Schedule F or G							1
	Did the decedent make any transfer described in sections 2035, 2036, 2037, or complete and attach Schedule G							1
	Were there in existence at the time of the decedent's death any trusts created by the							✓
	Were there in existence at the time of the decedent's death any trusts not created possessed any power, beneficial interest, or trusteeship?						1	
	Was the decedent receiving income from a trust created after October 22, 1986, by a If "Yes," was there a GST taxable termination (under section 2612) on the death of the							√ √
	If there was a GST taxable termination (under section 2612), attach a statement to creating the trust, and give the name, address, and phone number of the current trus			copy of	the	trust or will		
	Did the decedent at any time during his or her lifetime transfer or sell an interest in closely held corporation to a trust described in lines 13a or 13b?		•					1
	If "Yes," provide the EIN for this transferred/sold item. ►							
	Did the decedent ever possess, exercise, or release any general power of appointment? If "Yes," yo							- 1
	Did the decedent have an interest in or a signature or other authority over a financial account, securities account, or other financial account?		-	-				1
	Was the decedent, immediately before death, receiving an annuity described in the							•
	Schedule I or a private annuity? If "Yes," you must complete and attach Schedule I							1
	Was the decedent ever the beneficiary of a trust for which a deduction was claim			•				
	under section 2056(b)(7) and which is not reported on this return? If "Yes," attach an							✓
	- Recapitulation. Note. If estimating the value of one or more assets pursuant to the		•	ection 20.	2010-	-2⊤(a)(7)(ii), ente	er on bo	oth
Item no.	and 23 the amount noted in the instructions for the corresponding range of values. (See instruc Gross estate		Alternat	e value		Value at dat	e of de	ath
1	Schedule A-Real Estate	1	7 11011101				0,000	
2	Schedule B—Stocks and Bonds	2				,, ,,	5,000	
3	Schedule C-Mortgages, Notes, and Cash	3					2,000	
4	Schedule D-Insurance on the Decedent's Life (attach Form(s) 712)	4					0,000	
5	Schedule E—Jointly Owned Property (attach Form(s) 712 for life insurance)	5					0,000	
6	Schedule E – Other Miscellaneous Property (attach Form(s) 712 for life insurance)	6					0,000	
7	Schedule G—Transfers During Decedent's Life (att. Form(s) 712 for life insurance)	7				2,94	0,000	
8		8						
9	Schedule H – Powers of Appointment	9						
 10		10						
	Estimated value of assets subject to the special rule of Reg. section 20.2010-2T(a)(7)(ii) Total gross estate (add items 1 through 10)	11				6.00	7 000	
11		12				6,90	7,000	
12	Schedule U—Qualified Conservation Easement Exclusion	12						
13	on line 1 of Part 2–Tax Computation	13						
Item no.						Amount		
14	Schedule J–Funeral Expenses and Expenses Incurred in Administering Property Subject to	Claims			14	4	9,000	
15	Schedule K—Debts of the Decedent			-	15	4	8,000	
16	Schedule K-Mortgages and Liens			-	16		0,000	
17	Total of items 14 through 16				17		7,000	
18	Allowable amount of deductions from item 17 (see the instructions for item 18 of the Recapit			-	18		.,	
19	Schedule L—Net Losses During Administration	,		. –	19			
20	Schedule L-Expenses Incurred in Administering Property Not Subject to Claims .				20			
21	Schedule M—Bequests, etc., to Surviving Spouse			-	21			
					22		0.000	
22 23	Schedule O-Charitable, Public, and Similar Gifts and Bequests				22 23	4	0,000	
23	Estimated value of deductible assets subject to the special rule of Heg. section 20.2 Tentative total allowable deductions (add items 18 through 23). Enter here and on line 2				23 24	23	7,000	
		51 116	. an computat				<u>,000</u>	

Form 706 (Rev. 8-2013)	
	Decedent's social security number
Estate of: Harriet C. Harper	123 45 6781

#### SCHEDULE A—Real Estate

- For jointly owned property that must be disclosed on Schedule E, see instructions.
- Real estate that is part of a sole proprietorship should be shown on Schedule F.
- Real estate that is included in the gross estate under sections 2035, 2036, 2037, or 2038 should be shown on Schedule G.
- Real estate that is included in the gross estate under section 2041 should be shown on Schedule H.
- If you elect section 2032A valuation, you must complete Schedule A and Schedule A-1.

**Note.** If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the basic exclusion amount and the Form 706 is being filed solely to elect portability of the DSUE amount, consideration should be given as to whether you are required to report the value of assets eligible for the marital or charitable deduction on this schedule. See the instructions and Reg. section 20.2010-2T (a)(7)(ii) for more information. If you are not required to report the value of an asset, identify the property but make no entries in the last three columns.

ltem number	Description	Alternate valuation date	Alternate value	Value at date of death
1	Land in Pinellas County, Florida			1,000,000
	Beach cottage in Destin, Florida			1,200,000
	Residence at 1520 Marlin Drive, Clearwater, Florida			800,000
Tot	al from continuation schedules or additional statements attached to this s	chedule		
	<b>FAL.</b> (Also enter on Part 5—Recapitulation, page 3, at item 1.)			3,000,000

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

Schedule A-Page 5

Form 706 (Rev. 8-2013)

Estate of: Harriet C. Harper

123
45
6781

## SCHEDULE B-Stocks and Bonds

(For jointly owned property that must be disclosed on Schedule E, see instructions.)

**Note.** If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the basic exclusion amount and the Form 706 is being filed solely to elect portability of the DSUE amount, consideration should be given as to whether you are required to report the value of assets eligible for the marital or charitable deduction on this schedule. See the instructions and Reg. section 20.2010-2T (a)(7)(ii) for more information. If you are not required to report the value of an asset, identify the property but make no entries in the last four columns.

ltem umber	Description, including face amount of bonds or nur and par value for identification. Give CUSIP r If trust, partnership, or closely held entity, gi	nber of snares number. ve EIN.	Unit value	Alternate valuation date	Alternate value	Value at date of death
		CUSIP number or EIN, where applicable				
1	State of Georgia municipal bonds					205,00
T	btal from continuation schedules (or additional sta	tements) attached	to this sche	dule		
	OTAL. (Also enter on Part 5-Recapitulation, page					205,0

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

Schedule B—Page 10

#### Form 706 (Rev. 8-2013)

	Decedent's	socia	al se	curit	y number
Estate of: Harriet C. Harper	123		45		6781

#### SCHEDULE C-Mortgages, Notes, and Cash

#### (For jointly owned property that must be disclosed on Schedule E, see instructions.)

**Note.** If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the basic exclusion amount and the Form 706 is being filed solely to elect portability of the DSUE amount, consideration should be given as to whether you are required to report the value of assets eligible for the marital or charitable deduction on this schedule. See the instructions and Reg. section 20.2010-2T (a)(7)(ii) for more information. If you are not required to report the value of an asset, identify the property but make no entries in the last three columns.

ltem iumber	Description	Alternate valuation date	Alternate value	Value at date of death
1	Dunedin State Bank checking account			18,00
	Federal income tax refund			4,00
Т	otal from continuation schedules (or additional statements) attached to this	schedule		
	<b>DTAL.</b> (Also enter on Part 5—Recapitulation, page 3, at item 3.)			22,0

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

Schedule C-Page 11

Form 706 (Rev. 8-2013)			
	Decedent's social security number		
Estate of: Harriet C. Harper	123	45	6781

#### SCHEDULE D-Insurance on the Decedent's Life

You must list all policies on the life of the decedent and attach a Form 712 for each policy.

**Note.** If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the basic exclusion amount and the Form 706 is being filed solely to elect portability of the DSUE amount, consideration should be given as to whether you are required to report the value of assets eligible for the marital or charitable deduction on this schedule. See the instructions and Reg. section 20.2010-2T (a)(7)(ii) for more information. If you are not required to report the value of an asset, identify the property but make no entries in the last three columns.

ltem umber	Description	Alternate valuation date	Alternate value	Value at date of death
1	Falcon Assurance policy on Harriet			100,00
Тс	otal from continuation schedules (or additional statements) attached to this	schedule		
	<b>DTAL.</b> (Also enter on Part 5-Recapitulation, page 3, at item 4.)			100,0

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

Schedule D—Page 12

#### Form 706 (Rev. 8-2013)

	Decedent's so	ocial sec	curity r	number
Estate of: Harriet C. Harper	123	45	6	6781

### SCHEDULE E—Jointly Owned Property

(If you elect section 2032A valuation, you must complete Schedule E and Schedule A-1.)

#### PART 1. Qualified Joint Interests – Interests Held by the Decedent and His or Her Spouse as the Only Joint Tenants (Section 2040(b)(2))

Note. If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the basic exclusion amount and the Form 706 is being filed solely to elect portability of the DSUE amount, consideration should be given as to whether you are required to report the value of assets eligible for the marital or charitable deduction on this schedule. See the instructions and Reg. section 20.2010-2T (a)(7)(ii) for more information. If you are not required to report the value of an asset, identify the property but make no entries in the last three columns.

ltem numbe	Description. For securities, give CUSIP number. If trust, partnership, o give EIN.	or closely held entity,	Alternate valuation date	Alternate value	Value at date of death	
		CUSIP number or EIN, where applicable				
1						
-	Total from continuation schedules (or additional statements) attached to this schedule					
1a <sup>·</sup>	1a Totals					
1b /	Amounts included in gross estate (one-half of line <b>1a</b> )		1b			

#### **PART 2. All Other Joint Interests**

State the name and address of each surviving co-tenant. If there are more than three surviving co-tenants, list the additional co-tenants on an 2a attached statement.

	Name	Address (number and street, city, state, and ZIP code)
А.		
В.		
6		

C.						
ltem numbe	Enter letter for co-tenant	Description (including alternate valuation date if any). For s number. If trust, partnership, or closely held entit		Percentage includible	Includible alternate value	Includible value at date of death
1		Vacation lodge in Union, South Carolina	CUSIP number or EIN, where applicable	50%		700,000
	otal from c	ontinuation schedules (or additional statements) attac	ched to this schedu	e		
		pint interests				
3 1	<b>Total includible joint interests</b> (add lines 1b and 2b). Also enter on Part 5-Recapitulation, page					
0	8, at item 5			3		700,000

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.) Schedule E—Page 13 Form 706 (Rev. 8-2013)

	Decedent's	s soc	ial se	curi	ty number
Estate of: Harriet C. Harper	123		45		6781

### SCHEDULE F-Other Miscellaneous Property Not Reportable Under Any Other Schedule

(For jointly owned property that must be disclosed on Schedule E, see instructions.) (If you elect section 2032A valuation, you must complete Schedule F and Schedule A-1.)

**Note.** If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the basic exclusion amount and the Form 706 is being filed solely to elect portability of the DSUE amount, consideration should be given as to whether you are required to report the value of assets eligible for the marital or charitable deduction on this schedule. See the instructions and Reg. section 20.2010-2T (a)(7)(ii) for more information. If you are not required to report the value of an asset, identify the property but make no entries in the last three columns.

	as the decedent's estate, spouse, or any other person r e decedent's employment or death?	,	, ,		
	"Yes," submit full details on this schedule.				
lf	d the decedent at the time of death have, or have acce "Yes," state location, and if held jointly by decedent ar any of the contents of the safe deposit box are omitted	nd another, state n	ame and relationsh	ip of joint deposit	or.
ltem umber	Description. For securities, give CUSIP number. If trust, partnership, give EIN	or closely held entity,	Alternate valuation date	Alternate value	Value at date of death
1	Household effects	CUSIP number or EIN, where applicable			60,0
	Life insurance policy on Travis Harper				40,0
	Life insurance policy on Hannah Baker				40,0
	John Harper QTIP trust Lawsuit settlement claim				2,100,0 700,0
	otal from continuation schedules (or additional statemer				

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

Schedule F—Page 14

Form	706	(Rev.	8-2013)
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	Decedent's	s social securit	ty number
Estate of: Harriet C. Harper	123	45	6781
SCHEDULE J – Funeral Expenses and Expenses Incurred in Administering	Property	Subject to	Claims
Use Schedule PC to make a protective claim for refund due to an expense not cu	rrently dedu	ctible.	

For such a claim, report the expense on Schedule J but without a value in the last column.

Note. Do not list expenses of administering property not subject to claims on this schedule. To report those expenses, see instructions.

If executors' commissions, attorney fees, etc., are claimed and allowed as a deduction for estate tax purposes, they are not allowable as a deduction in computing the taxable income of the estate for federal income tax purposes. They are allowable as an income tax deduction on Form 1041, U.S. Income Tax Return for Estates and Trusts, if a waiver is filed to forgo the deduction on Form 706 (see Instructions for Form 1041).

Are you	aware of any actual or potential reimbursement to the estate for any expense claimed as a	deduction on this		Yes	No
schedu	le?				✓
	" attach a statement describing the expense(s) subject to potential reimbursement. (see inst				
ltem number	Description	Expense amount	Tota	al amou	nt
	A. Funeral expenses:				
1	Funeral home and cemetery charges			:	9,000
	Total funeral expenses	🕨			9,000

#### **B.** Administration expenses:

3 Accountant fees-amount estimated/agreed upon/paid. (Strike out the words that do	o not apply.)	10,000
4 Miscellaneous expenses:	Expense amount	
Appraisal fees and court costs		6,000
Total miscellaneous expenses from continuation schedules (or additional statements) attached to this schedule		
Total miscellaneous expenses   ····································		6,00
TOTAL. (Also enter on Part 5-Recapitulation, page 3, at item 14.)		49,00

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

Schedule J—Page 17

Form 706	i (Rev. 8-2013)					
<b>F</b> -4-4-			Decedent's soc	:		
Estate	e of: Harriet C. Harper SCHEDULE K—Debts of the Decedent, and Mortga	anos	123	45	678	1
	► Use Schedule PC to make a protective claim for refund due to a claim no	•				
	For such a claim, report the expense on Schedule K but without a value		-			
					Yes	No
Are you	aware of any actual or potential reimbursement to the estate for any debt of the dece	edent,	mortgage, or lie	en		1
	as a deduction on this schedule?					ľ
	" attach a statement describing the items subject to potential reimbursement. (see ins					
	of the items on this schedule deductible under Reg. section 20.2053-4(b) and Reg. so					
	" attach a statement indicating the applicable provision and documenting the value of	the c	laim.			
Item number	Debts of the Decedent—Creditor and nature of debt, and allowable death taxes		Amou	nt		
1	Credit card balances					1,000
•	Income tax liability					7,000
					_	,
Т	otal from continuation schedules (or additional statements) attached to this schedule					
Т	OTAL. (Also enter on Part 5—Recapitulation, page 3, at item 15.)				4	8,000
Item	Mortgages and Liens – Description				Amount	
number						
1	Mortgage on land in Pinellas County, Florida				20	0,000
	otal from continuation schedules (or additional statements) attached to this schedule					
	<b>DTAL.</b> (Also enter on Part 5—Recapitulation, page 3, at item 16.)			<u> </u>		0,000
If more	e space is needed, attach the continuation schedule from the end of this package or a	dditio	nal statements c	of the sa	ime sizo	ə.)

Schedule K-Page 18

Form 70	6 (Rev. 8-2013)			
Fotot		Decedent's		-
Estat	e of: Harriet C. Harper SCHEDULE O—Charitable, Public, and Similar Gifts and	123 Boguos	45 to	6781
Form 7 report	If the value of the gross estate, together with the amount of adjusted taxable gifts, is less than the '06 is being filed solely to elect portability of the DSUE amount, consideration should be given as the value of assets eligible for the marital or charitable deduction on this schedule. See the instru of or more information. If you are not required to report the value of an asset, identify the property	e basic exclus to whether y ctions and R	sion amoun ou are requ eg. section	uired to 20.2010-2T e last
1a	If the transfer was made by will, has any action been instituted to contest or have interpreted affecting the charitable deductions claimed in this schedule?	d any of its p	orovisions 	Yes No ✓
b	According to the information and belief of the person or persons filing this return, is any such If "Yes," full details must be submitted with this schedule.	h action plar	ined?	✓ ✓
2	Did any property pass to charity as the result of a qualified disclaimer?			✓ ✓
Item number	Name and address of beneficiary Character	er of institution		Amount
Total f	Church pledge			40,000
3	Total		3	40,000
4a	Federal estate tax payable out of property interests listed above	-		,003
b	Other death taxes payable out of property interests listed above			
С	Federal and state GST taxes payable out of property interests listed above . 4c			
d	Add items 4a, 4b, and 4c		4d	
5	Net value of property interests listed above (subtract 4d from 3). Also enter on Part 5-Reca page 3, at item 22	apitulation,	5	40,000

(If more space is needed, attach the continuation schedule from the end of this package or additional statements of the same size.)

#### Schedule O—Page 21

## **PROBLEM 9 SOLUTIONS**

The Green Trust is a complex trust. It accumulated the \$25,000 corpus capital gain, and it pays \$4,473 entitylevel tax on this amount. Marcus receives a \$40,000 check and pays tax on \$28,771: \$23,587 taxable interest income and \$5,184 qualified dividend income.

Five-step procedure for	computing solution	(as illustrated in	Exhibit 28.5): Steps 1–4
-------------------------	--------------------	--------------------	--------------------------

Item	Totals	Accounting Income	Taxable Income	Distributable Net Income/Distribution Deduction
Dividend income	\$10,000	\$10,000	\$10,000	
Taxable interest income	50,000	50,000	50,000	
Exempt interest income	20,000	20,000		
Net long-term capital gain	25,000		25,000	
Fiduciary fees	6,000		(4,500)	6,000 × (60/80)
Personal exemption			(100)	
Accounting income/Taxable before the distribution dedu		<u>\$80,000</u>	\$80,400	▶ \$80,400
before the distribution dedu	ction	STEP 1	STEP 2	
Exemption				100
Corpus capital gain/loss				(25,000)
Net exempt income				18,500
Distributable net income			Taxable portion           \$74,000 <u>-18,500</u> \$55,500	<u>\$74,000</u>
Distribution deduction			<u>(55,500</u> ) STEP 3	Lesser of \$80,000 distributed or \$55,500 taxable DNI distributed
Entity taxable income			<u>\$24,900</u> STEP 4	

Proof of Entity TI: Capital gain accumulated \$25,000 - Exemption \$100 = \$24,900

## STEP 5: Allocate DNI

STEP 5:			Іпсоте Туре					
Beneficiary Taxation	Amount Received	DNI Received	Interest Income	Exempt Interest	Dividend Income			
Totals	\$80,000	\$74,000	\$45,500▼	\$18,500∎	\$10,000			
Marcus	\$40,000	\$38,364•	\$23,587	\$9,591	\$5,184▲			
Ellen	\$40,000	\$35,636	\$21,913	\$8,909	\$4,816			

## NOTES

DNI received

	Marcus		Ellen	Total
First tier		\$25,000	\$ -0-	\$25,000
Second tier	(15/55 distributions × \$49,000 remaining DNI) =	13,364	35,636	49,000
Totals		<u>\$38,364</u> •	<u>\$35,636</u>	<u>\$74,000</u>

✤ Schedule K−1, Marcus:

Interest income:  $$45,500 \times ($38,364/$74,000) = $23,587$ Dividend income:  $$10,000 \times ($38,364/$74,000) = $5,184 \blacktriangle$ Exempt income:  $$18,500 \times ($38,364/$74,000) = $9,591$ 

- Net exempt income = 20,000 1,500 disallowed fiduciary fees = 18,500
- ♦ Net taxable interest = \$50,000 \$4,500 deductible fiduciary fees = \$45,500 V

Entity tax:

Tax on net long-term capital gain				
\$ 2,500	×	0%	=	\$ -0-
9,800	×	15%	=	1,470
12,600	×	20%	=	2,520
\$ 24,900				\$3,990
Tax on undistributed net investment income				
\$25,000 - \$12,300	×	3.8%	=	483
Total				\$4,473

Completed Form 1041 for the Green Trust, and Schedule K–1 for Marcus White, follow.

Form	10	)4	U.S.	Income	Tax R		ites and Trus	ts 20	15	c	0MB No. 1545-009	92
_			at apply:			or fiscal year beginning	ww.irs.gov/form1041.	, 2015, and end	lina		. 20	
_			estate			grantor type trust, see the			-	ver ident	ification number	
_	Simple					5 JI /						
=				GREEN TRU Name and title					Date e	ntity crea	111111 ted	
_	Compl				-				Duto o			
_			sability trust			TIONAL BANK r suite no. (If a P.O. box, s	on the instructions )	F	Noney		4/1953 ritable and split-	
_			tion only)	Number, stree	anu room u	r suite no. (il a P.O. box, s	ee the instructions.)	-	interes	t trusts, c	heck applicable	
_			e trust					_	_ ``	), see inst		
=			estate-Ch. 7	3100 EAST				L	Descr	ibed in sec	c. 4947(a)(1). Check	there
E	Bankru	ptcy	estate-Ch. 11	City or town, s	state or provin	ce, country, and ZIP or fo	reign postal code	if	not a pri	vale found	dation	•
_			me fund	MILWAUKE	_				Desc	ribed in s	ec. 4947(a)(2)	
	lumbe ttache		Schedules K-1	F Check applicable	lnitial retu	rn 🔄 Final return	n Amended retur	n L	_ Net o	perating I	oss carryback	
	nstruct			boxes:		ust's name 🛛 Change in fid		ciary's name	Chan	ge in fiduo	ciary's address	
GC	heck h	here i	f the estate or fili	ing trust made a	a section 645	election	.  Trust TIN					
	1	In	nterest incom	ie						1	50,000	
	2a	i Te	otal ordinary	dividends .					. :	2a	10,000	
	b	) Q	ualified divide	ends allocable	e to: (1) Ben	eficiaries	(2) Estate or trust					
e	3						orm 1040)			3		
E C	4	С	apital gain o	r (loss). Atta	ch Schedul	e D (Form 1041) .				4	25,000	
Income	5	R	ents, royaltie	es, partnersh	ips, other e	estates and trusts, et	tc. Attach Schedule	E (Form 1040)		5		
L	6	Fa	arm income o	or (loss). Atta	ach Schedi	ule F (Form 1040) .				6		
	7	0	rdinary gain	or (loss). Att	ach Form 4	797				7		
	8	0	ther income.	. List type ar	nd amount					8		
	9	T	otal income	. Combine li	nes 1, 2a, a					9	85,000	
	10	In	terest. Chec	k if Form 49	52 is attacl	ned 🕨 🗌 👘				10	, i i i i i i i i i i i i i i i i i i i	
	11	Т	axes						· . 🗆	11		
	12	Fi	iduciary fees			. 🗆	12	4,500				
	13	С	haritable dec	duction (from	n Schedule	. 🗆	13	,				
	14		ttorney, acco				14					
Deductions	15a		ther deduction			. 1	5a					
tio	b									5b		
nc	с					,	the 2% floor			5c		
be	16		dd lines 10 tl							16	4,500	
	17			0		act line 16 from line					1,000	
	18			,	,		Attach Schedules K	-1 (Form 1041)	) .	18	55,500	_
	19						g taxes (attach com			19	,	
	20				•	•		· ·		20	100	
	21	А								21	55,600	
	22						ee instructions			22	24,900	
	23								-	23	4,473	
	24		,				applied from 2014 re		_	24a	4,000	
nts	b					beneficiaries (from F				24b	.,	
	c	-	ubtract line 2						. 2	24c	4,000	
yn	d		ax paid with			tions)				24d	.,	
Ра	е					from Form(s) 1099,	check 🕨 🗌 🗉 .		. 2	24e		
Tax and Payme	-						4136	: Total	-	24h		
ar	25									25		
ax	26					•				26		
	27					,	126, enter amount o			27	473	
	28						and 26, enter amou			28		
	29				0	o 2016 estimated t		: b Refunded		29		
		Unde	er penalties of p	erjury, I declare	that I have e	amined this return, includ	ling accompanying sched	ules and statement	ts, and to	o the bes		e and
Się	gn	belie	f, it is true, corre	ect, and comple	te. Declaratior	of preparer (other than ta	expayer) is based on all infe	ormation of which p	oreparer	_	-	
He	-	<b>N</b>									ne IRS discuss this r ne preparer shown b	
	-	🕨 📊	gnature of fiduci	iary or officer re	presenting fid	uciary Date	EIN of fiducia	ary if a financial inst	titution	(see ins		No
<b>D</b> -1			Print/Type pre	parer's name		Preparer's signature		Date	Char	k∏if	PTIN	
Pai									Chec self-e	k [ if mployed		
	epai		Firm's name	•		I		Firm	n's EIN ▮	•		
US	e O	шу	Firm's address						ne no.			
For	Pape	erwo			ee the sepa	rate instructions.	Cat.	No. 11370H			Form <b>1041</b> (	2015)

# Appendix E

Form 10	041 (2015)			Ρ	age <b>2</b>
Sch	edule A Charitable Deduction. Do not complete for a simple trust or a pooled income	fund.			
1	Amounts paid or permanently set aside for charitable purposes from gross income (see instructions)	1			
2	Tax-exempt income allocable to charitable contributions (see instructions)	2			
3	Subtract line 2 from line 1	3			
4	Capital gains for the tax year allocated to corpus and paid or permanently set aside for charitable purposes	4			
5	Add lines 3 and 4	5			
6	Section 1202 exclusion allocable to capital gains paid or permanently set aside for charitable purposes (see instructions) .	6			
7	Charitable deduction. Subtract line 6 from line 5. Enter here and on page 1, line 13	7			
Sch	edule B Income Distribution Deduction				
1	Adjusted total income (see instructions)	1	80	,500	
2	Adjusted tax-exempt interest	2		,500	
3	Total net gain from Schedule D (Form 1041), line 19, column (1) (see instructions)	3			
4	Enter amount from Schedule A, line 4 (minus any allocable section 1202 exclusion)	4			
5	Capital gains for the tax year included on Schedule A, line 1 (see instructions)	5			
6	Enter any gain from page 1, line 4, as a negative number. If page 1, line 4, is a loss, enter the loss as a positive number	6	-25	,000	
7	Distributable net income. Combine lines 1 through 6. If zero or less, enter -0	7		,000	
8	If a complex trust, enter accounting income for the tax year as			,	
	determined under the governing instrument and applicable local law . 8 80,000				
9	Income required to be distributed currently	9	25	,000	
10	Other amounts paid, credited, or otherwise required to be distributed	10		,000	
11	Total distributions. Add lines 9 and 10. If greater than line 8, see instructions	11		,000	
12	Enter the amount of tax-exempt income included on line 11	12		,500	
13	Tentative income distribution deduction. Subtract line 12 from line 11	13		,500	
14	Tentative income distribution deduction. Subtract line 2 from line 7. If zero or less, enter -0-	14		,500	
15	Income distribution deduction. Enter the smaller of line 13 or line 14 here and on page 1, line 18	15		,500	
Sch	edule G Tax Computation (see instructions)			,	
	Tax: a Tax on taxable income (see instructions)				
	<b>b</b> Tax on lump-sum distributions. Attach Form 4972				
	c Alternative minimum tax (from Schedule I (Form 1041), line 56)				
	d Total. Add lines 1a through 1c	1d	3	,990	
2a	Foreign tax credit. Attach Form 1116			,550	
b	General business credit. Attach Form 3800	-			
c	Credit for prior year minimum tax. Attach Form 8801 2c	-			
d	Bond credits. Attach Form 8912	-			
e	<b>Total credits.</b> Add lines 2a through 2d	2e			
3	Subtract line 2e from line 1d. If zero or less, enter -0-	3		483	
4	Net investment income tax from Form 8960, line 21         . <th< td=""><td>4</td><td></td><td>400</td><td></td></th<>	4		400	
5	Recapture taxes. Check if from: Form 4255 Form 8611	5			
6	Household employment taxes. Attach Schedule H (Form 1040)	6			
7	Total tax. Add lines 3 through 6. Enter here and on page 1, line 23	7		,473	
<u> </u>	Other Information	· ·			No
1	Did the estate or trust receive tax-exempt income? If "Yes," attach a computation of the allocation	n of e		√	
•	Enter the amount of tax-exempt interest income and exempt-interest dividends <b>&gt;</b> \$		20,000	•	
2	Did the estate or trust receive all or any part of the earnings (salary, wages, and other compe	nsatio			
-	individual by reason of a contract assignment or similar arrangement?				✓
3	At any time during calendar year 2015, did the estate or trust have an interest in or a signature or				<u> </u>
•	over a bank, securities, or other financial account in a foreign country?		-		✓
	See the instructions for exceptions and filing requirements for FinCEN Form 114. If "Yes," enter t	he nar	ne of the		
	foreign country				
4	During the tax year, did the estate or trust receive a distribution from, or was it the grantor of, or foreign trust? If "Yes," the estate or trust may have to file Form 3520. See instructions				✓
5	Did the estate or trust receive, or pay, any qualified residence interest on seller-provided financing the instructions for required attachment	g? If "`	Yes," see		• √
6	If this is an estate or a complex trust making the section 663(b) election, check here (see instruction				
7	To make a section 643(e)(3) election, attach Schedule D (Form 1041), and check here (see instruction				
8	If the decedent's estate has been open for more than 2 years, attach an explanation for the delay in closing the estate, and c				
9	Are any present or future trust beneficiaries skip persons? See instructions				✓
			Form <b>1</b>	041	-

				ſ			667773
Schedule K-1			Final K-1	Bonofici	Amende		OMB No. 1545-0092 of Current Year Income,
(Form 1041)	2015	Pa	art III				and Other Items
Department of the Treasury	For calendar year 2015,	1	Interest	income		11	Final year deductions
Internal Revenue Service					23,587		
	or tax year beginning, 2015, and ending, 20	2a	Ordinar	y dividends			
					5,184		
	nare of Income, Deductions,	2b	Qualifie	d dividends			
Credits, etc.	See back of form and instructions.	3	Not cho	ort-term capital	5,184		
Part I Informat	ion About the Estate or Trust	ľ	Net Sho	nt-term capital	gain		
A Estate's or trust's employ		4a	Net long	g-term capital g	gain		
	11-111111	4b	28% rat	te gain		12	Alternative minimum tax adjustment
B Estate's or trust's name							
GREEN TRUST		4c	Unreca	ptured section	1250 gain		
		5		ortfolio and iness income			
C Fiduciary's name, address	s situ state and ZIP code	4	nonbus	mess income			
	IATIONAL BANK, TRUSTEE	6	Ordinar	y business inco	ome		
3100 EAST WISCONS	-			,			
MILWAUKEE, WI 532		7	Net rent	tal real estate i	ncome		
, , , , , , , , , , , , , , , , , , , ,					-	13	Credits and credit recapture
		8	Other re	ental income			
		9	Directly	apportioned de	ductions		
D Check if Form 1041	T was filed and enter the date it was filed					14	Other information
	-					A	9,591
E Check if this is the fi	inal Form 1041 for the estate or trust					A	9,391
		10	Estate t	ax deduction		Е	28,771
Part II Informat	ion About the Beneficiary						2
F Beneficiary's identifying n	umber						
	123-45-6789						
G Beneficiary's name, addre	ess, city, state, and ZIP code						
MARCUS WHITE							
9880 EAST NORTH A							
SHOREWOOD, WI 532	211						
		*Se	e attac	hed statem	ent for ac	ditio	nal information.
		No	te. A st	atement mu	ust be att	ache	d showing the
		bei	neficiary	y's share of	income a	and c	lirectly apportioned
					busines	s, rer	ntal real estate, and
		otr	ier renta	al activity.			
		1					
		For IRS Use Only					
		se (					
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H X Domestic beneficiary	Foreign beneficiary	For					
For Paperwork Reduction Act	Notice, see the Instructions for Form 1041.	gov/forr	n1041	Cat I	No. 11380D		Schedule K-1 (Form 1041) 2015

### **CHAPTER 7**

## DEDUCTIONS AND LOSSES: CERTAIN BUSINESS EXPENSES AND LOSSES

## SOLUTIONS TO PROBLEM MATERIALS

### **DISCUSSION QUESTIONS**

- 1. (LO 1) An account receivable can give rise to a bad debt deduction if income arising from the creation of the account receivable was previously included in gross income.
- 2. (LO 1) Ron has no bad debt deduction because he is a cash basis taxpayer. Rather, Ron has \$70,000 of income.
- 3. (LO 1) A loss is deductible only in the year of total worthlessness for a nonbusiness bad debt and is classified as a short-term capital loss.
- 4. (LO 1) The business bad debt is treated as an ordinary loss; hence, the fact that the business has long-term capital gains has no relevance.
- 5. (LO 1) Jack should be concerned with the following issues:
  - Should this be treated as a worthless security?
  - Should this be treated as a theft loss?
    - Does the theft loss create an NOL?
    - Can the NOL be carried back three years?
  - Is it § 1244 stock?
- 6. (LO 2) Sean cannot take the loss as a business bad debt because a bond is a security. Sean cannot take the loss as a worthless security because losses are allowed only when the security is completely worthless.
- 7. (LO 2) The gain on the sale of § 1244 stock is treated as a capital gain.
- 8. (LO 3, 4) Some courts have held that termite damage over periods of up to 15 months after infestation constituted a sudden event and was, therefore, deductible as a casualty loss. However, the current position of the IRS is that termite damage is not deductible (it is not considered a sudden event).
- 9. (LO 3, 4) Casualty losses are not allowed for a decline in the value of the property. Losses are allowed only for actual damage.
- 10. (LO 4) Generally, a theft loss is deducted in the year of discovery. However, no theft loss is permitted if a reimbursement claim with a reasonable prospect of full recovery exists. If the taxpayer has a partial claim of recovery, only part of the loss can be claimed in the year of discovery, and the remainder is deducted in the year the claim is settled.
- 11. (LO 4) The cost of repairs can be used as a method for measuring the amount of a casualty loss if the repairs are necessary to restore the property to its condition before the casualty, the amount spent for the

repairs is not excessive, and the repairs do not extend beyond the damage suffered. In addition, the value of the property after the repairs must not, as a result of the repairs, exceed the value of the property immediately before the casualty.

- 12. (LO 4) If the painting is treated as personal use property, the amount of the loss is limited to \$20,000 and is subject to the \$100 and 10%-of-AGI floors. However, if the painting is treated as investment property, the loss is \$20,000 and is treated as an other miscellaneous itemized deduction and is not subject to the 2%-of-AGI floor. Hence, all of the \$20,000 could be taken as a deduction.
- 13. (LO 4) Kelly should be concerned with the following issues:
  - Is this a theft loss?
  - What is the amount of the loss?
  - In which year can the loss be taken?
- 14. (LO 3, 4) The tax issues for John are as follows:
  - Is the loss a theft loss or an investment loss?
  - Is the loss subject to either the personal loss limits (\$100 floor and 10%-of-AGI floor) or the limits on itemized deductions (2%-of-AGI floor)?
  - How is the amount of the loss determined?
  - What year can the loss be taken?
- 15. (LO 5) Research and experimental expenditures are usually amortized rather than expensed when a company does not have sufficient income to offset the expenses.
- 16. (LO 6) The tax issues for Silver, Inc., are as follows:
  - Is the extraction and processing of silver ore a manufacturing activity?
  - Can the deduction be taken for prior years?
  - What laws will apply for prior years?
- 17. (LO 6) DPAD is a deduction that is determined in a unique manner. Unlike most deductions that are generated by expenditures, DPAD is based on income. If certain production activities produce a profit, DPAD is a percentage of that profit (but cannot exceed 50% of specified wages). Consequently, the larger the profit, the larger the deduction. Of course, the profit increases the income tax, whereas the deduction reduces the income tax.
- 18. (LO 7) Individual Retirement Account deductions and alimony paid deductions are deductions *for* AGI. However, they are treated as nonbusiness deductions in computing an individual's NOL.

### **COMPUTATIONAL EXERCISES**

- 19. (LO 1) Jane must include the \$10,000 in gross income of the current tax year, but only to the extent of the tax benefit in the previous year. Because Jane had capital gains of \$5,000 in the previous year, \$8,000 of the \$50,000 bad debt would have been deducted last year (\$5,000 + \$3,000). Hence, Jane would have to include \$8,000 of the \$10,000 received in gross income in the current year.
- 20. (LO 1) Bob has no bad debt deduction. Rather, he has income of \$12,000 [\$60,000 \$48,000 (basis in the account receivable)].
- 21. (LO 2) It is possible to receive an ordinary loss deduction if the loss is sustained on small business stock (§ 1244 stock). Only individuals who acquired the stock from the corporation are eligible to receive ordinary loss treatment under § 1244. The ordinary loss treatment is limited to \$50,000 (\$100,000 for married individuals filing jointly) per year. Losses on § 1244 stock in excess of the statutory limits receive capital loss treatment.

Therefore, Calvin's total loss of 61,750 (868,750 - 7,000) is treated as follows: 50,000 is ordinary loss, and the remaining 11,750 (61,750 - 50,000) is long-term capital loss.

22. (LO 4) Mary should include the recovery as gross income in her 2016 tax return, but only to the extent of the tax benefit in the prior year. Mary's deduction in the prior year would have been \$3,900 computed as follows:

Amount of loss	\$ 8,000
Less: \$100 floor	(100)
10% × 40,000	(4,000)
Deduction	<u>\$ 3,900</u>

Therefore, Mary must include \$3,900 in gross income in 2016.

- 23. (LO 4) The amount of the loss is 600,000, the lesser of the decline in FMV 600,000 (800,000 -200,000) or basis of 650,000.
- 24. (LO 4) For partial or complete destruction of personal use property, the loss is the lesser of the following:
  - The adjusted basis of the property.
  - The difference between the fair market value of the property before the event and the fair market value immediately after the event.

Any insurance recovery reduces the loss. The amount of the loss for personal use property must be further reduced by a \$100-per-event floor and a 10%-of-AGI aggregate floor. The \$100 floor applies separately to each casualty loss. The loss is then reduced by 10% of the taxpayer's AGI. The resulting loss is the taxpayer's itemized deduction for casualty and theft losses.

Belinda's casualty loss deduction is \$200 [\$14,000 basis - \$10,000 insurance recovery - \$100 floor - \$3,700 (10% × \$37,000 AGI)]. The \$200 casualty loss is an itemized deduction (from AGI).

25. (LO 4) A taxpayer who has both gains and losses for the taxable year must first net (offset) the personal casualty gains and personal casualty losses. If the gains exceed the losses, the gains and losses are treated as gains and losses from the sale of capital assets. The capital gains and losses are short-term or long-term, depending on the period the taxpayer held each of the assets.

In the netting process, personal casualty and theft gains and losses are not netted with the gains and losses on business and income-producing property.

Tucker has a net casualty gain of 1,050 (1,500 + 750 - 1,200). Therefore, he treats all of the gains and losses as capital gains and losses:

Long-term capital loss (Asset 1) \$ 1,200. Short-term capital gain (Asset 2) \$750. Long-term capital gain (Asset 3) \$1,500.

Note: If personal casualty losses exceed personal casualty gains, all gains and losses are treated as ordinary items. The gains—and the losses to the extent of gains—are treated as ordinary income and ordinary loss in computing AGI. Losses in excess of gains are deducted as itemized deductions to the extent the losses exceed 10% of AGI.

26. (LO 5) Research and experimental expenditures may be deferred and amortized if the taxpayer makes an election. Under the election, research and experimental expenditures are amortized ratably over a period of not less than 60 months. A deduction is allowed beginning with the month in which the taxpayer first realizes benefits from the experimental expenditure. The election is binding, and a change requires permission from the IRS.

Because the benefits from the project will be realized starting in July 2017, Sandstorm Corporation has no deduction prior to July 2017, the month benefits from the project begin to be realized. The deduction for 2017 is \$12,750, computed as follows:

(\$85,000 + \$30,000 + \$12,500 = \$127,500). \$127,500 × 6 months /60 months = \$12,750.

27. (LO 6) The formula is  $9\% \times$  Lesser of (1) Qualified production activities income (QPAI) or (2) Taxable (or modified adjusted gross) income or alternative minimum taxable income. In addition, the amount of the DPAD cannot exceed 50% of certain W-2 wages paid by the taxpayer during the tax year.

The DPAD is computed as follows:

9% of the lesser of \$4,500,000 or \$3,100,000 or  $9\% \times $3,100,000 = $279,000$ . However, the \$279,000 is subject to the 50% of W–2 wages limitation or \$107,000 ( $50\% \times $214,000$ ). Therefore, the deduction for 2016 is only \$107,000.

### PROBLEMS

28. (LO 1)

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

January 29, 2017

Mr. John Johnson 100 Tyler Lane Erie, PA 16563

Dear Mr. Johnson:

This letter is to inform you of the possibility of taking a bad debt deduction.

Your loan to Sara is a business bad debt; therefore, you are allowed to take a bad debt deduction for partial worthlessness. You will be able to take a bad debt deduction in the current year of 25,000 [(30,000 - 1,000) - 4,000].

Should you need more information or need to clarify anything, please contact me.

Sincerely,

John J. Jones, CPA Partner

TAX FILE MEMORANDUM

DATE: January 29, 2017

FROM: John J. Jones

SUBJECT: Bad Debt Deduction

John Johnson's \$30,000 loan to Sara is a business bad debt. Therefore, a bad debt deduction is allowed for partial worthlessness. John will be able to claim a bad debt deduction in the current year of \$25,000 [(\$30,000 - \$1,000) - \$4,000].

- 29. (LO 1) Monty must include up to \$10,000 in gross income, but only to the extent of a tax benefit in a prior year. Because the debt is a nonbusiness bad debt, the \$11,000 would have been reported as a short-term capital loss. Last year, Monty had capital gains of \$4,000 and taxable income of \$20,000. Therefore, \$7,000 of the \$11,000 loss produced a tax benefit (\$4,000 + \$3,000). Hence, only \$7,000 would be included in Monty's gross income this year.
- 30. (LO 1) Sally has no bad debt deduction. Sally has income of \$5,000 (\$65,000 - \$60,000) because she collected more than her basis in the receivable.

31.	<ul> <li>(LO 1, 2)</li> <li>Salary</li> <li>§ 1244 ordinary loss (limit of \$100,000)</li> <li>Short-term capital gain on § 1244 stock</li> <li>Short-term capital loss (nonbusiness bad debt)</li> <li>Net short-term capital gain</li> <li>Net long-term capital loss (remaining § 1244 loss)</li> <li>Net capital loss (limited to \$3,000; \$1,000 LTCL carryover)</li> <li>Adjusted gross income</li> </ul>	\$ 20,000 (19,000) \$ 1,000 (5,000)	\$120,000 (100,000) (3,000) (3,000) (3,000) (3,000)
32.	(LO 2, 8) Sell all of the stock in the current year:		<u>\$ 17,000</u>
	<u>Current year's AGI</u> Salary		\$ 80,000
	Ordinary loss (§ 1244 limit) Long-term capital gain	\$ 8,000	(50,000)
	Long-term capital loss (\$80,000 – \$50,000) Long-term capital loss (limited to \$3,000; \$19,000 LTCL carryover) AGI	<u>(30,000)</u>	<u>(3,000)</u> <u>\$ 27,000</u>
	<u>Next year's AGI</u> Salary Long-term capital gain	\$ 10,000	\$ 90,000
	Long-term capital loss carryover (\$30,000 – \$11,000) Long-term capital loss (limited to \$3,000; \$6,000 LTCL carryover) AGI	<u>(19,000)</u>	(3,000) <u>\$ 87,000</u>

<u>Total AGI</u> Current year Next year Total	\$ 27,000 <u>87,000</u> <u>\$114,000</u>
Sell half of the stock this year and half next year:	
<u>Current year's AGI</u> Salary Ordinary loss (§ 1244 stock) Long-term capital gain AGI	\$ 80,000 (40,000) <u>8,000</u> <u>\$ 48,000</u>
<u>Next year's AGI</u> Salary Ordinary loss (§ 1244 stock) Long-term capital gain AGI	\$ 90,000 (40,000) <u>10,000</u> <u>\$ 60,000</u>
<u>Total AGI</u> Current year Next year Total	\$ 48,000 <u>60,000</u> <u>\$108,000</u>

Mary's combined AGI for the two years is lower if she sells half of her § 1244 stock this year and half next year.

33. (LO 3, 4, 8) The amount of the loss before the 10%-of-AGI limitation is computed as follows:

Home (\$350,000 - \$280,000) Auto (\$30,000 - \$20,000)	\$70,000 10,000
Total loss	\$80,000
Less: \$100	(100)
Loss before 10% of AGI	<u>\$79,900</u>

Because the President declared the area a disaster area, Olaf and Anna could claim the loss on last year's return (2015) or on the current year's return (2016).

Amount of loss on last year's return:

Loss	\$ 79,900
Less: 10% of AGI (10% × \$180,000)	<u>(18,000)</u>
Total loss	<u>\$ 61,900</u>
Amount of loss on current year's return:	
Loss	\$ 79,900
Less: 10% of AGI (10% × \$300,000)	<u>(30,000)</u>
Total loss	<u>\$ 49,900</u>

If Olaf and Anna apply the loss to 2015, the benefit of the loss will be at a rate of 25% because taxable income will be \$78,100 (\$140,000 - \$61,900) and the loss falls entirely within the 25% tax bracket. If the loss is applied to 2016, the benefit will be at a rate of 28% because taxable income will be \$165,100 (\$215,000 - \$49,900) and the loss falls entirely within the 28% tax bracket. The tax savings will be \$15,475 ( $25\% \times $61,900$ ) if the loss is taken in 2015 and \$13,972 ( $28\% \times $49,900$ ) if the loss is taken in 2016. Therefore, Olaf and Anna should include the loss on their 2015 return, because the tax savings is \$1,503 (\$15,475 - \$13,972) greater.

#### **Deductions and Losses: Certain Business Expenses and Losses**

(LO 3, 4) Cost Depreciation Adjusted basis	<u>Total</u> \$ 800,000 <u>(100,000)</u> \$ 700,000	Business <u>Portion (40%)</u> \$ 320,000 <u>(100,000)</u> \$ 220,000	Personal <u>Portion (60%)</u> \$480,000 <u>(-0-)</u> \$480,000
Loss on building:			
Loss (\$900,000 - \$200,000)	\$ 700,000	\$ 220,000*	\$420,000
Less: Insurance reimbursement	\$ 600,000	(240,000)	(360,000)
Loss (gain)		<u>(\$ 20,000)</u>	<u>\$ 60,000</u>
Business contents loss			\$220,000
Less: Insurance recovery			(175,000)
Loss			\$ 45,000
Personal casualty gain—contents (\$65,00 adjusted basis)	00 insurance proc	eeds - \$50,000	<u>\$ 15,000</u>
Personal casualty loss—building			<u>(\$ 60,000)</u>
AGI before effects of accident			\$100,000
Business gain—building			20,000
Business loss—contents			(45,000)
Personal casualty gain			15,000
Personal casualty loss to extent of gain			(15,000)
AGI			<u>\$ 75,000</u>
Personal casualty loss—building (\$60,00 Less: 10%-of-AGI floor (10% × \$75,000 Itemized deduction		100)	$(\$ \ 44,900) \\ - \frac{7,500}{(\$ \ 37,400)}$

\*Adjusted basis is less than the decline in FMV of \$280,000 ( $700,000 \times 40\%$ ).

35. (LO 3, 4)

34.

Hoffman, Maloney, Raabe, & Young, CPAs 5191 Natorp Boulevard

### Mason, ÔH 45040

January 26, 2017

Mr. Sam Smith 450 Colonel's Way Warrensburg, MO 64093

Dear Mr. Smith:

This letter is to inform you of the tax and cash flow consequences of filing a claim versus not filing a claim with your insurance company for reimbursement for damages to your business use car.

If an insurance claim is filed, you will have a taxable gain of \$2,000 computed as follows:

Insurance recovery	\$ 12,000
Less: Lesser of adjusted basis of \$10,000	
or decline of FMV of \$12,000	(10,000)
Gain	\$ 2,000

#### 2017 Comprehensive Volume/Solutions Manual

This will produce a net cash flow of \$11,300 computed as follows:

Insurance reimbursement received	\$12,000
Less: Tax on gain (35% × \$2,000)	(700)
Net cash flow	\$11,300

If no insurance claim is filed, you will have a deductible loss of \$10,000, which will reduce your tax liability by  $3,500 (35\% \times 10,000)$ ; see Concept Summaries 7.3 and 7.4.

The net cash benefit resulting from filing an insurance reimbursement claim would be \$7,800 (\$11,300 - \$3,500).

Should you need more information or need to clarify anything, please contact me.

Sincerely,

John J. Jones, CPA Partner

TAX FILE MEMORANDUM

- DATE: January 26, 2017
- FROM: John J. Jones
- SUBJECT: Tax consequences for Sam Smith if he does not file an insurance claim for reimbursement for damages to his business use car

If an insurance claim is filed, Sam will have a taxable gain of \$2,000 computed as follows:

Insurance recovery	\$ 12,000
Less: Lesser of adjusted basis of \$10,000 or	
decline of FMV of \$12,000	(10,000)
Gain	<u>\$ 2,000</u>

This will produce a net cash flow of \$11,300 computed as follows:

Insurance reimbursement received	\$12,000
Less: Tax on gain (35% × \$2,000)	(700)
Net cash flow	<u>\$11,300</u>

If no insurance claim is filed, Sam will have a deductible loss of \$10,000, which will reduce his tax liability by  $3,500 (35\% \times 10,000)$ ; see Concept Summaries 7.3 and 7.4.

In my correspondence with Sam, I pointed out that the net cash benefit from filing an insurance reimbursement claim would be \$7,800 (\$11,300 - \$3,500).

36. (LO 5)

a.

\$500,000
90,000
8,000
6,000
15,000
<u>\$619,000</u>

Cost of inspection of materials for quality control (\$7,000), promotion expenses (\$11,000), and cost of market survey (\$8,000) are not included as research and experimental expenditures.

<u>2017</u>	
Salaries	\$600,000
Materials	70,000
Insurance	11,000
Utilities	8,000
Equipment depreciation	14,000
Total expenses	<u>\$703,000</u>

Cost of inspection of materials for quality control (\$6,000), advertising (\$20,000), and promotion expenses (\$18,000) are not included as research and experimental expenditures.

2018 No deduction based on data provided.

b. The research and experimental expenditures are amortized over a 60-month period beginning with the month in which the taxpayer first realizes benefits from the experimental expenditures (i.e., July 2018 for Blue Corporation). The monthly amortization is 22,033 ( $1,322,000 \div 60$ ).

### <u>2016</u>

No deduction for research and experimental expenditures.

#### 2017

No deduction for research and experimental expenditures.

#### <u>2018</u>

Deduction for research and experimental expenditures:  $22,033 \times 6$  months = 132,198

- 37. (LO 6) Sarah's DPAD is \$30,000 [9% × \$350,000 (the smaller of \$350,000 modified AGI or \$400,000 QPAI)] [not to exceed \$30,000 (50% × \$60,000 of W-2 wages)].
- 38. (LO 6) Barbara's DPAD is \$45,000 [9%  $\times$  \$500,000 (the smaller of \$500,000 AGI and \$550,000 QPAI)].
- 39. (LO 6) Red Corporation's taxable income for the year is 1,200,000 (2,000,000 800,000 NOL). This is not less than the QPAI (1,000,000); hence, the QPAD is 90,000 ( $9\% \times 1,000,000$ ). This assumes that the QPAD is not limited by W-2 wages.
- 40. (LO 6) The QPAI for a skirt is 6(12 5 1). The QPAI for a blouse is a negative 1(10 6 5). Green must net the two items to arrive at the QPAI of 5(6 1).

#### 41. (LO 6)

- a. The DPAD is \$200,000 (50%  $\times$  \$400,000 associated W-2 wages), which is less than \$270,000 (9%  $\times$  \$3,000,000).
- b. Because the wage base limits the deduction, Rose may want to outsource less of its work.

## 2017 Comprehensive Volume/Solutions Manual

42.	(LO 1, 3) Salary Interest income Business bad debt Nonbusiness bad debt (short-term capital loss) Short-term capital loss Total short-term capital loss Long-term capital gain Net short-term capital loss Capital loss limit Adjusted gross income	$(\$6,000) \\ \underline{(3,000)} \\ (\$9,000) \\ \underline{4,000} \\ (\$5,000)$	\$50,000 3,000 (2,000) <u>(3,000)</u> <u>\$48,000</u>
43.	(LO 1, 4) Salary Interest income Business bad debt Nonbusiness bad debt Short-term capital loss Total short-term capital loss Short-term capital gain* Net short-term capital gain Long-term capital gain Long-term capital gain Adjusted gross income	$(\$ 6,000) \\ (3,000) \\ (\$ 9,000) \\ 10,000 \\ \$ 4,000 \\ (1,000) \\ \end{cases}$	\$50,000 3,000 (2,000) 1,000 <u>3,000</u> <u>\$55,000</u>

\*Personal casualty gains exceed personal casualty losses (10,000 - 1,000 = 9,000); therefore, all personal casualty items are treated as capital gains and losses.

### **CUMULATIVE PROBLEMS**

## 44. Part 1—Tax Computation

Salary and bonus (\$100,000 + \$1,000) Typing service business net receipts (\$20,000 - Interest income (Note 1) Life insurance proceeds (Note 2) Gift (Note 3) Bingo prize Alimony Nonbusiness bad debt (Note 4) Adjusted gross income Less: Itemized deductions Home mortgage interest Charitable contributions Sales taxes Property taxes Silverware loss: Lesser of adjusted basis of \$14,000 or FMV of \$15,000 Less: Insurance proceeds	\$14,000 (1,500)	#12.400	\$9,500 2,500 946 1,100	
Less: \$100	(100)	\$12,400		
Auto: Lesser of decline in FMV (\$7,000) or adjusted basis (\$52,000) Less: Insurance proceeds if claim filed Less: \$100	\$ 7,000 (2,000) (100)	4,900		

7-10

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### **Deductions and Losses: Certain Business Expenses and Losses**

Total Less: 10% of AGI	\$17,300 (10,512)	6,788	
Total itemized deductions	<u> </u>	<u> </u>	(20,834)
Less: Personal exemption			(4,000)
Taxable income			<u>\$ 80,286</u>
Tax on taxable income (from Tax Table) Less: Federal income tax withheld and estimated			\$ 15,863
tax payments (\$16,000 + \$1,000) Net tax payable (or refund due) for 2015			<u>(17,000)</u> (\$ 1,137)

See the tax return solution beginning on p. 7-19 of the Solutions Manual.

#### <u>Notes</u>

- (1) The \$800 interest on the City of Boca Raton bonds is tax-exempt.
- (2) Life insurance proceeds of \$60,000 payable as the result of the death of Jane's sister are excludible from gross income.
- (3) The \$5,000 gift from Jane's aunt is excludible from gross income.
- (4) The \$2,100 loss on the loan to her friend, Joan Jensen, is deductible as a nonbusiness bad debt (i.e., short-term capital loss). The loan is a bona fide loan.

### Part 2—Tax Planning

Salary and bonus Gross receipts from business		\$26,000	\$ 101,000
Less:			
Office rent	\$7,000		
Supplies	4,840		
Utilities and telephone	5,148		
Wages	5,500		
Payroll taxes	550		
Equipment rentals	3,300	(26,338)	
Net business income			(338)
Interest income			700
Alimony			10,000
Adjusted gross income			\$ 111,362
Less:			
Itemized deductions		\$14,046	
Personal exemption		4,050	(18,096)
Taxable income			<u>\$ 93,266</u>
Tax on \$93,266 [\$18,558.75 + .28(\$93,266 - \$91,150)]			\$ 19,151
Less: Federal income tax withheld			(16,000)
Net tax payable (or refund due)			<u>\$ 3,151</u>

Jane would need to make estimated tax payments of \$3,151 for 2016 because the Federal income tax withholdings are expected to be less than the tax liability.

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

January 26, 2016

Ms. Jane Smith 2020 Oakcrest Road Boca Raton, FL 33431

Dear Ms. Smith:

This letter is in response to your request concerning the minimum amount of estimated tax you must pay for 2016 so that you will not have to pay any additional tax upon filing your 2016 Federal income tax return.

Based on the 2016 estimates you provided to us, we have determined that your estimated tax payments for the 2016 calendar year should total \$3,151. This estimate is based on the following computation.

Salary and bonus			\$101,000
Gross receipts from business		\$26,000	
Less:			
Office rent	\$7,000		
Supplies	4,840		
Utilities and telephone	5,148		
Wages	5,500		
Payroll taxes	550		
Equipment rentals	3,300	(26,338)	
Net business income			(338)
Interest income			700
Alimony			10,000
Adjusted gross income			\$111,362
Less:			
Itemized deductions		\$14,046	
Personal exemption		4,050	(18,096)
Taxable income			<u>\$ 93,266</u>
Tax on \$93,266			\$ 19,151
Less: Federal income tax withheld			(16,000)
Net tax payable (or refund due)			\$ 3,151

Should you need more information or want to clarify anything, please contact me.

Sincerely yours,

John J. Jones, CPA Partner

#### TAX FILE MEMORANDUM

DATE: January 10, 2016

FROM: John J. Jones

SUBJECT: Jane Smith's 2016 estimated tax

Today I talked with Jane Smith concerning her 2016 estimated tax. She wanted to know the minimum amount of estimated tax she would have to pay for the calendar year 2016 so that she would not have to pay any additional tax upon filing her 2016 Federal income tax return.

In addition to the gross receipts from her typing business increasing to \$26,000 (from \$20,000 in 2015), the following projections for 2016 were provided by Jane Smith:

(1) Items remaining unchanged from 2015:

	2015	2016
Salary	\$100,000	\$100,000
Christmas bonus	\$1,000	\$1,000
Itemized deductions	\$14,046	\$14,046
Interest income	\$700	\$700
Alimony	\$10,000	\$10,000
Office rent expense	\$7,000	\$7,000

(2) Business expenses expected to increase by 10% from 2015 to 2016:

	2015	2016
Supplies	\$4,400	\$4,840
Utilities and telephone	\$4,680	\$5,148
Wages	\$5,000	\$5,500
Payroll taxes	\$500	\$550
Equipment rentals	\$3,000	\$3,300

(3) The following 2015 items will not recur in 2016: life insurance proceeds (\$60,000), gift (\$5,000), bingo winnings (\$100), bad debt (\$2,100), stolen silverware, auto accident.

Based on this estimated information for 2016, Jane Smith should make 2016 estimated tax payments totaling \$3,151. The determination was made as follows:

Salary and bonus Gross receipts from business		\$26,000	\$101,000
Less: Office rent	\$7,000		
Supplies	4,840		
Utilities and telephone	5,148		
Wages	5,500		
Payroll taxes	550		
Equipment rentals	3,300	(26,338)	
Net business income		<u> </u>	(338)
Interest income			700
Alimony			10,000
Adjusted gross income			\$111,362
Less:			-
Itemized deductions		\$14,046	
Personal exemption		4,050	(18,096)
Taxable income			<u>\$ 93,266</u>
Tax on \$93,266			\$ 19,151
Less: Federal income tax withheld			(16,000)
Net tax payable (or refund due)			\$ 3,151

45.	Salary Rental income Less: Rental expenses Casualty loss on rental property Bad debt on uncollected rent (Note 1) Rent collected from prior year (Note 2) Ordinary loss on § 1244 stock (Note 3) Short-term capital loss—limit (Note 4) AGI		\$60,000 (33,000)	
	Less: \$100 floor Less: 10% AGI Loss on investment property (painting)	\$20,000 (100) (6,000) \$ 5,000 (1,200)		$(13,900) \\ (8,000) \\ (3,800) \\ (18,000) \\ \underline{(8,100)} \\ \underline{\$,200} \\ \underline{\$,200} \\ \underline{\$,200} \\ \underline{\$,200} \\ \underline{\$,200} \\ \underline{\$,2180} $

#### Notes

- (1) No bad debt deduction on uncollected rents can be taken because Mason and Ruth are cash basis taxpayers.
- (2) Rent collected from prior year must be included in gross income because Mason and Ruth are cash basis taxpayers.
- (3) The loss of up to \$100,000 on the § 1244 stock is classified as ordinary loss.
- (4) The additional \$5,000 loss on § 1244 stock is short-term capital loss. Only \$3,000 of the loss can be used to offset ordinary income.
- (5) Mason and Ruth's filing status is married filing jointly.

Tax on \$8,200:  $\$8,200 \times 10\% = \$820$ 

## **RESEARCH PROBLEMS**

- 1. This fact pattern is similar to *Clifford L. Brody and Barbara J. De Clerk*, T.C. Summary Opinion, 2004–149. In this case, the petitioners were not allowed to claim their payment of the portion of the loan that they contend was the responsibility of the corporation as a bad debt deduction under § 166. The record indicated that the loan was a personal loan between the bank and petitioners and not a loan from petitioners to the corporation. In addition, it appeared likely that the corporation was capable of eventually paying its alleged share of the debt if necessary.
- 2. The fact pattern in this situation is similar to the fact pattern in *Mark D. Ambrose and Jennifer L. Ambrose v. The United States*, 2012–2 USTC ¶50,518 (Ct. Cl., 2012). In this case, the Court held that taxpayers were not barred from claiming a casualty loss deduction for damage to their home due to fire despite their insurance company's denial of their recovery for failure to provide timely proof of loss. The Regulations clearly distinguish between the claim requirement under Code § 165(h)(5)(E) and the proof a policy required as a precondition to recovery.

3. The key is to determine in which year the casualty was sustained. Reg. § 1.165–1(a) provides that a casualty or theft loss is deductible in the year the loss was "actually sustained" but does not clarify what "actually sustained" means. Thus, we look to case law for additional guidance. In *Oregon Mesabi Corp. v. CIR*, 39 BTA 1033 (1939), appeal dismissed, *Com'r v. Oregon Mesabi Corporation*, 24 AFTR 458 (109 F2d 1014) (CA 9, 1940), fire killed trees in 1933. However, the timber was rendered worthless when attacked by insects and fungi in 1934 and 1935. The court determined that a loss deduction was not necessarily taken in the year of the fire, but in the years, as shown by the evidence, that worthlessness occurred. As a result, Esther's loss is deductible in 2016, the year in which the trees died from disease. Despite the fact that the trees were weakened by the hurricane, they were not worthless until they died of disease.

#### **Research Problems 4 and 5**

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

#### **CHECK FIGURES**

19.	\$8,000.	33.	\$79,900 loss should be taken in
20.	No bad debt deduction; gain of		prior year.
	\$12,000.	34.	AGI of \$75,000; \$37,400
21.	\$50,000 ordinary loss; \$11,750 long-		itemized deduction.
	term capital loss.	35.	Net cash benefit of \$7,800 of
22.	\$3,900.		filing an insurance claim.
23.	\$600,000.	36.a.	2016 \$619,000; 2017 \$703,000;
24.	\$200.		2018 \$0.
25.	\$1,050 personal casualty gain.	36.b.	2016 \$0; 2017 \$0; 2018 \$132,198.
26.	2016 \$0; 2017 \$12,750.	37.	\$30,000.
27.	\$107,000.	38.	\$45,000.
28.	In the year of partial	39.	\$90,000.
	worthlessness.	40.	\$5 (\$6 - \$1).
29.	Include \$7,000 in gross income.	41.a.	\$200,000.
30.	No bad debt deduction; gain of	42.	\$48,000.
	\$5,000.	43.	\$55,000.
31.	\$17,000.	44.	Refund due for 2015 \$1,137.
32.	Mary should sell half each year.	45.	Refund due for 2016 \$2,180.

#### SOLUTION TO ETHICS & EQUITY FEATURE

**Is Policy Cancellation an Escape Hatch? (p. 7-11).** Section 165(h)(5)(E), enacted in 1986, states that "[a]ny loss of an individual described in subsection (c)(3) to the extent covered by insurance shall be taken into account under this section only if the individual files a timely insurance claim with respect to such loss."

Prior to the enactment of § 165(h)(5)(E), a number of courts considered whether under § 165(a) a taxpayer's election not to file an insurance claim for a loss precluded him or her from deducting the loss. In these cases, which involved casualty or theft losses, the IRS argued that the loss in question derived not from the casualty or theft itself, but from the taxpayer's intervening decision not to file an insurance claim. It contended that as a result of the latter decision, the deduction did not correspond to a loss "sustained . . . and not compensated for by insurance or otherwise," as required by § 165(a). *See* Rev.Rul. 78–141, 1978 C.B. 57 (1978).

While this argument met some initial success (see, for example, *Kentucky Utilities Co. v. Glenn*, 394 F.2d 631 (6th Cir. 1968), ultimately it was soundly rejected by the courts—first by the specialized U.S. Tax Court and then by various appellate decisions affirming the decisions of that tax tribunal. See *Miller v. Comm.*, 733 F.2d 399 (6th Cir. 1984), *aff'g*, 42 T.C.M. (CCH) 665 (1981); *Hills v. Comm.*, 691 F.2d 997 (11th Cir. 1982), *aff'g*, 76 T.C. 484 (1981).

In these cases, the taxpayers were allowed to deduct casualty losses under § 165 even though they failed to file insurance claims.

In the Tax Reform Act of 1986, Congress intervened, denying a loss deduction under § 163(c)(3) for any loss covered by insurance unless "the individual files a timely insurance claim with respect to such loss." Citing *Hills* and *Miller*, the accompanying House Committee Report noted that "[c]ertain courts have ruled that a taxpayer whose loss was covered by an insurance policy could nevertheless deduct the loss if the taxpayer decided not to file a claim under the terms of the insurance policy." H.R. Rep. No. 99–426, at 658 (1985). It then continues with the following rationale for § 165(h)(5)(E):

The deduction for personal casualty losses should be allowed only when a loss is attributable to damages to property that is caused by one of the specified types of casualties. Where the taxpayer has the right to receive insurance proceeds that would compensate for the loss, the loss suffered by the taxpayer is not damage to property caused by the casualty. Rather, the loss results from the taxpayer's personal decision to forego [*sic*] making a claim against the insurance company. The committee believes that losses resulting from a personal decision of the taxpayer should not be deductible as a casualty loss.

Under the bill, a taxpayer is not permitted to deduct a casualty loss for damages to property . . . unless the taxpayer files a timely insurance claim with respect to damages to that property.

As a result, Noah's casualty loss deduction will be disallowed by the IRS.

## SOLUTIONS TO ROGER CPA REVIEW QUESTIONS

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

- 1. a 4. c
- 2. a 5. d
- 3. b

44.

	ec. 31, 201	5, or other tax year beginning			, 2015, ending	MB No. 1545-0	20			e or staple in structions.	
Your first name and	initial	, , ,	Last name					Your s	ocial sec	curity num	ber
JANE			SMITH					1	23-45	5-6789	
If a joint return, spor	use's first	t name and initial	Last name					Spous	e's socia	I security I	number
Home address (nun 2020 OAKC		street). If you have a P.O.	box, see instruction	ons.			Apt. no.			the SSN(s)	
		e, and ZIP code. If you hav	e a foreign addres	s also complete spa	ces below (see in	structions)				lection Ca	
BOCA RATO		-,,, <b>,</b>	FL 334					Check h	ere if you,	or your spou	se if filing
Foreign country nan				province/state/county		Foreign po	ostal code	a box be or refund	elow will no	go to this fund the change you You	ir tax Spouse
Filing Status	1 🛛 2 🗌	Single	(even if only on	e had income)	🕇 🛄 qualify		old (with qua i is a child b e.				
Check only one box.	3	Married filing separa and full name here.	ately. Enter spou	ise's SSN above	• — • —		<u> </u>				
		•			5 Qualif	ying widow	v(er) with de	pender	nt child		
Exemptions	6a	X Yourself. If som	eone can claim	you as a depende	nt, <b>do not</b> che	ck box 6a		]	Boxes of on 6a a	checked nd 6b	1
•	b	Spouse							No. of	children	
	 C	Dependents:		(2) Dependent's	(3) Depen		i) X if child und ualifying for child	ler age 17	on 6c v • lived	who: with you	
	(1) First I	name Last name		social security number	er relationship	o to you	(see instructio	ons)	• did n	ot live with to divorce	
If more than four									or sepa		
dependents, see										lents on 6c	
instructions and										ered above	
check here ►	d	Total number of exem	ptions claimed	<u> </u>					Add nu lines ab	mbers on bove	1
Income	7	Wages, salaries, tips,	etc. Attach For	rm(s) W-2			• • • • •		7	101	,000
	8a	Taxable interest. Atta	ch Schedule B i	frequired					8a		700
	b	Tax-exempt interest.	Do not include	on line 8a		8b		800			
Attach Form(s) W-2 here. Also	9a	Ordinary dividends. A	ttach Schedule	B if required					9a		0
attach Forms	b	Qualified dividends .				9b		0			_
W-2G and	10	Taxable refunds, cred			come taxes .				10		0
1099-R if tax	11	Alimony received							11		,000 ,580
was withheld.	12	Business income or (I	,						12		, 100
lf you did not	13 14	Capital gain or (loss). Other gains or (losses							13	-2	.,100
If you did not get a W-2,	14 15a	IRA distributions	·				le amount	· · · ·	15b		0
see instructions.	16a	Pensions and annuitie				-	le amount		16b		0
	17	Rental real estate, roy			s. trusts. etc. /				17		
	18	Farm income or (loss							18		0
	19	Unemployment comp	ensation						19		
	20a	Social security benefit	ts 20	a	<b>b</b> Taxa	ble amoun	t		20b		
	21	Other income. List typ	e and amount_		GAMBLIN	G 			21		100
	22	Combine the amounts	s in the far right	column for lines 7	through 21. Th	nis is your <b>t</b>	otal incom		22	105	,120
Adjusted	23	Educator expenses				23		(	D		
Gross	24	Certain business expe				24		(			
Income	25	fee-basis government Health savings accou						(			
	25 26	Moving expenses. Att						(			
	20	Deductible part of sel						(	ז		
	28	Self-employed SEP, S						(			
	29	Self-employed health	, ,								
	30	Penalty on early with						(	D		
	31a	Alimony paid <b>b</b> Red	•				1				
	32	IRA deduction				32		(	2		
	33	Student loan interest	deduction								
	34	Tuition and fees. Atta									
	35	Domestic production						(			0
	36 37	Add lines 23 through Subtract line 36 from						 ▶	36 37	105	0
KIA For Dis		e, Privacy Act, and Pa								Form <b>104</b>	

Form 1040 (2015)	Jž	ANE SMITH	123	8-45-	-6789	Page <b>2</b>
Tax and	38	Amount from line 37 (adjusted gross income)			38	105,120
Tax and	39a	Check <b>You</b> were born before January 2, 1951, Blind. <b>Tota</b>	al boxes			
Credits		if: Spouse was born before January 2, 1951, Blind. Scher	cked 🕨 39a	0		
Standard	b	If your spouse itemizes on a separate return or you were a dual-status alien, c	heck here ► 3	9b		
Deduction for—	40	Itemized deductions (from Schedule A) or your standard deduction (see lef	t margin)		40	20,834
People who	41	Subtract line 40 from line 38			41	84,286
check any box on line	42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Other	rwise, see instructio	ns .	42	4,000
39a or 39b <b>or</b>	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	80,286
who can be claimed as a	44	Tax (see instructions). Check if any from: a Form(s) 8814 b Form 4972 c			44	15,863
dependent, see	45	Alternative minimum tax (see instructions). Attach Form 6251			45	0
instructions.	46	Excess advance premium tax credit repayment. Attach Form 8962			46	
All others:	47	Add lines 44, 45, and 46			47	15,863
Single or Married filing	48	Foreign tax credit. Attach Form 1116 if required	8	0		
separately,	49	Credit for child and dependent care expenses. Attach Form 2441 4	9			
\$6,300 Married filing	50	Education credits from Form 8863, line 19	0			
jointly or	51	Retirement savings contributions credit. Attach Form 8880 5	1	0		
Qualifying widow(er),	52	Child tax credit. Attach Schedule 8812, if required				
\$12,600	53	Residential energy credits. Attach Form 5695				
Head of household,	54	Other credits from Form: <b>a</b> 3800 <b>b</b> 8801 <b>c</b> 5		0	-	
\$9,250	55	Add lines 48 through 54. These are your total credits	-	-	55	0
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-			56	15,863
<u></u>	57				57	0
Other		Self-employment tax. Attach Schedule SE	8919		58	0
Taxes	58				59	0
	59 60 -	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329	•		60a	0
	60 a	Household employment taxes from Schedule H			60b	0
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	-			0
	61	Health care: individual responsibility (see instructions) Full-year coverage	-		61	0
	62	Taxes from: a Form 8959 b Form 8960 c Instructions; enter code(s)			62	
	63	Add lines 56 through 62. This is your total tax		· •	63	15,863
Payments	64		-	000	-	
	65			000	-	
If you have a	<u>66</u> a		6a			
qualifying child, attach	b	Nontaxable combat pay election 66b	-			
Schedule EIC.	67		57		-	
$\subseteq$	68		58			
	69		<u>59</u>		-	
	70		70		-	
	71	Excess social security and tier 1 RRTA tax withheld	71	0	-	
	72		72		-	
	73	Credits from Form:		~		
			73	0		17 000
	74			. 🕨	74	17,000
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount		· · ·	75	1,137
Direct deposit?	76a	Amount of line 75 you want <b>refunded to you.</b> If Form 8888 is attached, check			76a	1,137
See	► b	Routing number XXXXXXXX ► c Type: X Checking	Savings			
instructions.	▶ d	Account number XXXXXXXXXXXXXXXXXX		0		
-	77		7	0		
Amount	78	Amount you owe. Subtract line 74 from line 63. For details on how to pay, see	1	. 🕨	78	
You Owe	79	, , , , , , , , , , , , , , , , , , ,	<b>'9</b>			V
Third Party	Do yo Desigi	ou want to allow another person to discuss this return with the IRS (see instructi nee's Phone	Persona		e below	X No
Designee	name	▶ no. ▶	number	(PIN)		
Sign	Under   they ar	penalties of perjury, I declare that I have examined this return and accompanying schedules and statemen e true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of v	its, and to the best of n which preparer has any	ny knowle v knowled	edge and b Ige.	elief,
Here Joint return? See	Your s	ignature Date Your occupation		Daytim	e phone i	number
instructions.	Spour	e's signature. If a joint return, both must sign. Date Spouse's occupation	IARI	lf the LF	S cart un	an Identity Protostig=
Keep a copy for your records.	opous	S Signature. In a joint return, both must sign. Date Suppose's occupation		PIN, en	ter it	an Identity Protection
	Print/T	ype preparer's name Preparer's signature Da	ate	here (se		PTIN
Paid				Check self-en	nployed	
Preparer	Firm's	name 🕨	Firm's EIN►			
Use Only	Eirm's		Phone no			

Firm's address 🕨

Phone no.

SCHEDULE A (Form 1040)		Itemized Deductions				OMB No. 1545-0074
Department of the Treasu	irv	Information about Schedule A and its separate instructions is at	www	v.irs.gov/schedulea	a.	2015
nternal Revenue Service	(99				Vou	Sequence No. 07 r social security number
Name(s) shown on Fo JANE	rm 10	40 SMITH				23-45-6789
Medical		Caution. Do not include expenses reimbursed or paid by others.				
and	1	Medical and dental expenses (see instructions)	1	0		
Dental Exponsor	2	Enter amount from Form 1040, line 38 2 105, 120				
Expenses	3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead	3	10,512		
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0			4	0
Taxes You	5	State and local				
Paid		a. Income taxes, or	5	946		
		<b>b.</b> X General sales taxes				
	6	Real estate taxes (see instructions)	6	0		
	7	Personal property taxes	7	1,100		
	8	Other taxes. List type and amount				
	•		8	0		
	9	Add lines 5 through 8			9	2,046
Interest	10	Home mortgage interest and points reported to you on Form 1098	10	9,500		
You Paid	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►			-	
Note.						
Your mortgage interest				0		
deduction may			11	0	-	
be limited (see instructions).	12	Points not reported to you on Form 1098. See instructions for special rules	12	0		
instructions).	13	Mortgage insurance premiums (see instructions)	13	0		
		Investment interest. Attach Form 4952 if required. (See instructions.			1	
		Add lines 10 through 14			15	9,500
Gifts to		Gifts by cash or check. If you made any gift of \$250 or more,				
Charity		see instructions	16	2,500	-	
If you made a	17	Other than by cash or check. If any gift of \$250 or more, see	17			
gift and got a	10	instructions. You <b>must</b> attach Form 8283 if over \$500	18		-	
benefit for it, see instructions.		Carryover from prior year			19	2,500
Casualty and	19				19	2,300
Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.) .			20	6,788
Job Expenses	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required.				
and Certain		(See instructions.) ►				
Miscellaneous						
Deductions			21	0		
	22	Tax preparation fees	22			
		Other expenses—investment, safe deposit box, etc. List type				
		and amount		0		
			23	0	-	
	24	Add lines 21 through 23	24	0		
		Enter amount from Form 1040, line 38 25 105, 120	06	2,102		
		Multiply line 25 by 2% (.02)	26		~~	0
Other	27 28	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- Other—from list in instructions. List type and amount ►				0
Otner Miscellaneous		,, , , , , , , , , , , , , , , , , , ,				
Deductions					28	0
Total	29	Is Form 1040, line 38, over \$154,950?				
Itemized		<b>No.</b> Your deduction is not limited. Add the amounts in the far right column	nn	ר	29	20,834
Deductions		<ul> <li>for lines 4 through 28. Also, enter this amount on Form 1040, line 40.</li> <li>Yes. Your deduction may be limited. See the Itemized Deductions</li> </ul>		<b>}</b> • • • • • • •	29	20,034
	20	Worksheet in the instructions to figure the amount to enter.		L		
	30	If you elect to itemize deductions even though they are less than your standard eduction, check here	ard			
KIA For Pap	~~~~	rk Reduction Act Notice, see Form 1040 instructions.	• •	Sc	hedu	le A (Form 1040) 2015

	IEDULE C m 1040)			From Business			5-0074
Depart	ment of the Treasury	ation about Schedule C and	its sep	arate instructions is at <i>www.irs.go</i> partnerships generally must file Form 10		Attachment Sequence No	<b>)</b>
Name	of proprietor					/ number (SSN)	
		ITH			123- B Enter code fro	-45-6789	
A F	Principal business or profession, in TYPING SERVICES	ncluding product or service (see	e instru	ctions)		561410	
CE	Business name. If no separate bus	siness name, leave blank.			D Employer ID r	number (EIN), (see	instr.)
	TYPING SERVICES						
	Business address (including suite of City, town or post office, state, and	IZIP code BOCA RATO	N FL	33431			
	Accounting method: (1) $X$ Ca			ner (specify) ▶			
				015? If "No," see instructions for limi			No
				s) 1099? (see instructions)			X No
				· · · · · · · · · · · · · · · · · · ·			No
Pa							
1		ructions for line 1 and check th	ie box if	f this income was reported to you on		20.0	
		•				20,0	100
2						20,0	00
3						20,0	0
4 5					· · ·	20,0	000
5 6				refund (see instructions)		, _	
7		v		· · · · · · · · · · · · · · · · · · ·		20,0	000
Par		enses for business use o					
8	Advertising	8	18	Office expense (see instructions)			
9	Car and truck expenses (see		19	Pension and profit-sharing plans	10		
	instructions)	9 0	20	Rent or lease (see instructions):			
10	Commissions and fees	10	a	Vehicles, machinery, and equipme	nt . 20a	3,0	
11	Contract labor (see instructions)	11	b	Other business property	20b	7,0	000
12	Depletion	12	21	Repairs and maintenance	21		
13	Depreciation and section 179		22	Supplies (not included in Part III)	22	4,4	
	expense deduction (not included in Part III) (see		23	Taxes and licenses	23		500
	instructions)	13 0	24	Travel, meals, and entertainment:			
14	Employee benefit programs	14	а	Travel	<b>24a</b>		
	(other than on line 19)	15	b		24b		0
15	Insurance (other than health) .		25	entertainment (see instructions) Utilities	25	4,6	580
16 а	Interest: Mortgage (paid to banks, etc.)	16a	25	Wages (less employment credits)	00	5,0	000
b	Other	16b	27a	Other expenses (from line 48)			0
17	Legal and professional services	17	-	Reserved for future use	076		
28	•			8 through 27a	00	24,5	580
29	•			· · · · · · · · · · · · · · · · · · ·		-4,5	580
30	Expenses for business use of yo	ur home. Do not report these e	expense	es elsewhere. Attach Form 8829			
	unless using the simplified methor Simplified method filers only:	od (see instructions).			_		
	and (b) the part of your home us						0
		0	nter on	line 30	30		
31	Net profit or (loss). Subtract line		ID 11	19) and an Rehadule OF line a	-		
	<ul> <li>If a profit, enter on both Form (If you checked the box on line 1</li> </ul>	· · · ·	,	e 13) and on Schedule SE, line 2.	31	-4,5	580
	<ul> <li>If a loss, you must go to line 3</li> </ul>	. ,	น แนรเร	, ontor ont ontin 1041, illie 3.	j 🛄	-, -	
32	If you have a loss, check the box		nt in thi	is activity (see instructions).	ר		
	• If you checked 32a, enter the	loss on both Form 1040, line	<b>12</b> , (or <b>I</b>	Form 1040NR, line 13) and	32a 🛛	All investmen	it is at risk.
	on Schedule SE, line 2. (If you		the line	e 31 instructions). Estates and	32b	Some investr	nent is not
	<ul> <li>trusts, enter on Form 1041, line</li> <li>If you checked 32b, you must</li> </ul>	• <b>3</b> . •t attach Form 6198. Your loss	may be	e limited.	J	at risk.	
KIA		Act Notice, see the separate			Schedu	le C (Form 10	40) 2015

SCHEDULE D Capital Gains and Losses							OMB No. 1545-0074
(Foi	m 1040)	-	rm 1040 or Form 10				2015
	ment of the Treasury I Revenue Service (99)	<ul> <li>Information about Schedule D and i</li> <li>Use Form 8949 to list your tr</li> </ul>	ts separate instruc	tions is at <i>www.irs</i>			Attachment Sequence No. 12
	I Revenue Service (99) (s) shown on return		ansactions for line	5 10, 2, 3, 60, 9, an			ial security number
JA	NE	SMITH				123	3-45-6789
Pa	rt I Short-Terr	n Capital Gains and Losses—Ass	ets Held One Y	ear or Less			
	instructions for how below.	v to figure the amounts to enter on the	(d)	(e)	(g) Adjustmen	ls	(h) Gain or (loss) Subtract column (e)
This		r to complete if you round off cents to	Proceeds (sales price)	Cost (or other basis)	to gain or loss Form(s) 8949, line 2, colum	from Part I,	from column (d) and combine the result with column (g)
1a	1099-B for which b which you have no However, if you ch	-term transactions reported on Form basis was reported to the IRS and for b adjustments (see instructions). hoose to report all these transactions ive this line blank and go to line 1b	0	0			0
1b		actions reported on Form(s) 8949 with	0	0		0	0
2		actions reported on Form(s) 8949 with	0	0		0	0
3		actions reported on Form(s) 8949 with	0	2,100		0	-2,100
4		n Form 6252 and short-term gain or (loss) fro	om Forme 4684 679	21 and 8824		4	0
5	0	n or (loss) from partnerships, S corpora	ations, estates, an	d trusts from		5	
6	Short-term capital	loss carryover. Enter the amount, if any		our Capital Loss		6	( <sup>0</sup> )
7	-	a <b>pital gain or (loss).</b> Combine lines 1a					
		gains or losses, go to Part II below. Oth				7	-2,100
Par	t II Long-Tern	n Capital Gains and Losses—Ass	ets Held More 1	Fhan One Year			
	instructions for hov below.	v to figure the amounts to enter on the	(d)	(a)	(g) Adjustmen	te	(h) Gain or (loss) Subtract column (e)
This		r to complete if you round off cents to	Proceeds (sales price)	<b>(e)</b> Cost (or other basis)	to gain or loss Form(s) 8949, line 2, colum	from Part II,	from column (d) and combine the result with column (g)
	Totals for all long- 1099-B for which b which you have no However, if you ch	term transactions reported on Form asis was reported to the IRS and for adjustments (see instructions). noose to report all these transactions we this line blank and go to line 8b	0	0			0
8b		actions reported on Form(s) 8949 with	0	0		0	0
9	Totals for all trans	actions reported on Form(s) 8949 with	0	0		0	0
10	Totals for all trans	actions reported on Form(s) 8949 with	0	0		0	0
11		797, Part I; long-term gain from Forms				11	0
12		or (loss) from partnerships, S corporat	tions, estates, and	trusts from Scheo	dule(s) K-1	12	
13	Capital gain distrik	outions. See the instructions				13	0
14	Long-term capital Carryover Works	loss carryover. Enter the amount, if any <b>heet</b> in the instructions	y, from line 13 of y			14	( <sup>0</sup> )
15	Net long-term ca	pital gain or (loss). Combine lines 8a	through 14 in colu	mn (h). Then go to	o Part III on	15	0
KIA	For Paperwork	Schedu	le D (Form 1040) 2015				

Sche	dule D (Form 1040) 2015 JANE SMITH	123-45-6789	Page <b>2</b>
Pa	rt III Summary		
16	Combine lines 7 and 15 and enter the result	. 16 –	2,100
	<ul> <li>If line 16 is a gain, enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.</li> </ul>		
	<ul> <li>If line 16 is a loss, skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.</li> </ul>		
	<ul> <li>If line 16 is zero, skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.</li> </ul>		
17	Are lines 15 and 16 <b>both</b> gains?		
	Yes. Go to line 18. No. Skip lines 18 through 21, and go to line 22.		
18	Enter the amount, if any, from line 7 of the 28% Rate Gain Worksheet in the instructions	▶ 18	
19	Enter the amount, if any, from line 18 of the <b>Unrecaptured Section 1250 Gain Worksheet</b> in the instructions	▶ 19	
20	Are lines 18 and 19 <b>both</b> zero or blank?		
	Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). Do not complete lines 21 and 22 below.		
	No. Complete the Schedule D Tax Worksheet in the instructions. Do not complete lines 21 and 22 below.		
21	If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the <b>smaller</b> of:		
	<ul> <li>The loss on line 16 or</li> <li>(\$3,000), or if married filing separately, (\$1,500)</li> </ul>	. 21 (	2,100)
	Note. When figuring which amount is smaller, treat both amounts as positive numbers.		
22	Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?		
	Yes. Complete the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).	r	
	X No. Complete the rest of Form 1040 and Form 1040NR.		
KIA		Schedule D (Form	1040) 2015



Department of the Treasury

Sales and Other Dispositions of Capital Assets

► Information about Form 8949 and its separate instructions is at www.irs.gov/form8949



▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

Internal nevenue Service	5	Sequence No.
Name(s) shown on re	turn	Social security number or taxpayer identification number
JANE	SMITH	123-45-6789

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are short-term. For long-term transactions, see page 2.

**Note.** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You *must* check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

Χ	(C)	Short-term	transactions	not reported	to you on	Form	1099-B
---	-----	------------	--------------	--------------	-----------	------	--------

1 (a) Description of property (Example: 100 sh. XYZ Co.)	<b>(b)</b> Date acquired (Mo., day, yr.)	(c) Date sold or disposed of	(d) Proceeds (sales price)	(e) Cost or other basis. See the Note below	If you enter a enter a	if any, to gain or loss. n amount in column (g), code in column (f). parate instructions.	( <b>h)</b> Gain or (loss). Subtract column (e)
()	(	(Mo., day, yr.)	(see instructions)	and see <i>Column (e)</i> in the separate instructions	(f) Code(s) from instructions	(g) Amount of adjustment	from column (d) and combine the result with column (g)
NONBUSINESS BAD DEBT - JENSE		08/15/15	0	2,100		0	-2,100
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
							0
2 Totals. Add the amounts in column negative amounts). Enter each tota Schedule D, line 1b (if Box A abov above is checked), or line 3 (if Box	al here and inclu /e is checked), <b>l</b>	de on your <b>ine 2</b> (if <b>Box B</b>	0	2,100		0	-2,100

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

	Casualties and Thefts						OMB No. 1545-0177		
Form	4004	Information about Form 4684 and it			at www.irs.gov/for	m4684.	- 20	015	
Department of the Treasury Internal Revenue Service     Use a separate Form 4684 for each casualty or theft.							Attach	nment ence No. 26	
_	al Revenue Service e(s) shown on tax re		111 400-	+ IOI each casually (		Identi	fying nun		
	JANE	SMITH					123-4	15-6789	
SEC	CTION A—Per	sonal Use Property (Use this sectio	n to re	eport casualties a	nd thefts of prop	ertv <b>not</b>	used in	a trade	
		income-producing purposes.)				,,			
1	Description of pre	operties (show type, location, and date acquir	ed for e	each property). Use a	separate line for ea	ch property	lost or d	lamaged from	
	the same casual	CTIVEDWADE	ном	r.	07/01/0	16			
	Property A				0770170	/0			
	Property <b>B</b>								
	Property D				Propert	ies			
				Α	B	С		D	
2	Cost or other bas	sis of each property	2	14,000	_				
3		er reimbursement (whether or not		1 0.0					
		(see instructions)	3	1,500					
	Note: If line 2 is	more than line 3, skip line 4.							
4		Ity or theft. If line 3 is <b>more</b> than line 2,							
		nce here and skip lines 5 through 9 for e instructions if line 3 includes insurance							
	or other reimburs	sement you did not claim, or you	4	0	0		0	0	
		t for your loss in a later tax year	5	15,000					
5		e <b>before</b> casualty or theft	6	0					
6		e <b>after</b> casualty or theft	7	15,000	0		0	0	
7		om line 5	8	14,000	0		0	0	
8 9			9	12,500	0		0	0	
9 10		om line 8. If zero or less, enter -0	throug	Th D	1		10	12,500	
11		er of line 10 or \$100					11	100	
12		from line 10					12	12,400	
		nly one Form 4684 for lines 13 through 18.							
13		s on line 12 of all Forms 4684					13	17,300	
14	Add the amounts	s on line 4 of all Forms 4684 ......					14	0	
15		ore than line 13, enter the difference here and							
		rest of this section (see instructions).					15	0	
	• If line 14 is les	s than line 13, enter -0- here and go to line 16	6.	Ì					
	• If line 14 is <b>eq</b>	ual to line 13, enter -0- here. Do not complete	e the re	st of this section.					
16	If line 14 is less	than line 13, enter the difference					16	17,300	
17	Enter 10% of vo	ur adjusted gross income from Form 1040, line	e 38. oi	r Form 1040NR. line :	37. Estates and trus	ts. see		10 510	
							17	10,512	
18	Subtract line 17	from line 16. If zero or less, enter -0 Also en	ter the	result on Schedule A	(Form 1040), line 2	0, or			
	Form 1040NR, S	Schedule A, line 6. Estates and trusts, enter th	e resul	ts on the "Other dedu	uctions" line of your	táx	18	6,788	
KIA	For Paperw	ork Reduction Act Notice, see instructions.	•				Forr	m <b>4684</b> (2015)	

ame AN	e(s) shown on tax return. Do not enter name and identifying number if	shown o	n first page of this	form.			ntifying i	number -6789	
	E SMITH CTION B—Business and Income-Producing Pi	onori	ha /			14	23-45	-0/89	
_	-	-	-	oh (	and the arth	<b>\f</b> + \			
							م م ساس م		
)	Description of properties (show type, location, and date acc from the same casualty or theft. See instructions if claim	ing a lo	or each property oss due to a Po	). US nzi-ty	se a separate line ype investment s	scheme and	Sectio	st or damaged n C is not comp	ple
	Property A	-			-			-	
	Property B								
	Property C								
	Property D								
					Prope	erties			
			Α		В		С	D	
	Cost or adjusted basis of each property	20							
	Insurance or other reimbursement (whether or not you								
	filed a claim). See the instructions for line 3	21							
	Note: If line 20 is more than line 21, skip line 22.								
	Gain from casualty or theft. If line 21 is <b>more</b> than line 20, enter the difference here and on line 29 or line 34, column (c), except								
	as provided in the instructions for line 33. Also, skip lines 23								
	through 27 for that column. See the instructions for line 4 if line								
	21 includes insurance or other reimbursement you did not claim, or you received payment for your loss in a later tax year	22		o	0		0		
		23							
	Fair market value <b>before</b> casualty or theft	24							
	Subtract line 24 from line 23	25		o 🗌	0		0		
		26		0 T	0		0		
	Enter the <b>smaller</b> of line 20 or line 25								
	from theft, enter on line 26 the amount from line 20.								
	from theft, enter on line 26 the amount from line 20. Subtract line 21 from line 26. If zero or less, enter -0	27		с	0		0		
,		L I		-		tructions).	0 28		
;	Subtract line 21 from line 26. If zero or less, enter -0	ne total	here and on line	29 <b>o</b>			28	(c) Gains fron	
_	Subtract line 21 from line 26. If zero or less, enter -0- Casualty or theft loss. Add the amounts on line 27. Enter the	ne total	here and on line	29 <b>o</b>	or line 34 (see ins (b) Losses from ca Frade, business, ental or royalty	sualties or thef (ii) Incom producing a	28 ts e- and	(c) Gains fron casualties or the includible in incc	n
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a	Subtract line 21 from line 26. If zero or less, enter -0- Casualty or theft loss. Add the amounts on line 27. Enter the <b>Summary of Gains and Losses</b> (from sep (a) Identify casualty or theft Casualty or Theft Casualty or Theft Totals. Add the amounts on line 29 Combine line 30, columns (b)(i) and (c). Enter the net gain not otherwise required, see instructions	of Pro or (loss or (loss or (loss the amo er the amo er the amo er the amo er the amo or (loss <b>b</b> )(ii) .	here and on line Parts I) perty Held ( 	(/) T re (/) T re (/) T re () () T re () () () () () () () () () () () () () (	r line 34 (see ins (b) Losses from ca frade, business, frade, business, (b) Losses from ca frade, business, (b) Losses from ca frade, business, (b) Losses from ca (b) Losses from ca (b) Losses from ca (c) I (c) (c) (c) (c) (c) (c) (c) (c) (c) (c)	sualties or thef (ii) Incom producing : employee pro- ( ( ( ( form 4797 is schedule structions ar ( ( ( ecting large 4. If Form property on perty on perty on porty on sts, enter on propartions,	28 ts e- and opperty ○) ○) ○) ○) ○) ○) ○) ○) ○) ○)	casualties or the	m eft om
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a	Subtract line 21 from line 26. If zero or less, enter -0- Casualty or theft loss. Add the amounts on line 27. Enter the <b>Summary of Gains and Losses</b> (from sep (a) Identify casualty or theft Casualty or Theft Casualty or Theft Totals. Add the amounts on line 29 Combine line 30, columns (b)(i) and (c). Enter the net gain not otherwise required, see instructions	of Pro or (loss or (loss or (loss the amo or the amo or	here and on line Parts I)	(/) T re (/) T re (/) T re <b>Dne</b> (/) ( () () () () () () () () () (	yr line 34 (see ins (b) Losses from ca Frade, business, 10 royalty property Year or Less 0) 0) 0) 4797, line 14. If F 10, 14. If F 10, 14. If F 10, 14. If F 10, 14. If F 10, 14. If F 10, 14. If F 10, 10, 10, 10, 10, 10, 10, 10, 10,	sualties or thef (ii) Incom producing : employee pro- i ( ( ( form 4797 is Schedule structions ar ( ( ( com 4797 is Schedule structions ar com 4797 is schedule structions ar - ecting large 4. If Form property on perty used as sts, enter on rporations, Partnerships Partnerships	28 ts e- and opperty 0) 0) 0) 31 32 32 33 0) 0) 0) 0) 36 37 38a 38a 38b	casualties or the	n

Form	4684 (2015)			Page <b>3</b>
	e(s) shown on tax return. ANE SMITH		Identifying 123-	<b>number</b> -45-6789
	CTION C—Theft Loss Deduction for Ponzi-Type Investment Scheme Using t cedure 2009-20 (Complete this section in lieu of Appendix A in Revenue Proceder			
Pa	rt I Computation of Deduction			
40	Initial investment	40		
41	Subsequent investments (see instructions)	41		
42	Income reported on your tax returns for tax years prior to the discovery year (see instructions)	42		
43	Add lines 40, 41, and 42	43	0	
44	Withdrawals for all years (see instructions)	44		
45	Subtract line 44 from line 43. This is your total qualified investment	45	0	
46	Enter .95 (95%) if you have no potential third-party recovery. Enter .75 (75%) if you have potential third-party recovery	46		
47	Multiply line 46 by line 45	47		0
48	Actual recovery	48		
49	Potential insurance/Securities Investor Protection Corporation (SIPC) recovery	49		
50	Add lines 48 and 49. This is your total recovery.	50		0
51	Subtract line 50 from line 47. This is your deductible theft loss. Include this amount on line 28 of Section B, Part I. Do not complete lines 19-27 for this loss. Then complete Section B, Part II .	51		0
Pa	rt II Required Statements and Declarations (See instructions.)			

• I am claiming a theft loss deduction pursuant to Revenue Procedure 2009-20 from a specified fraudulent arrangement conducted by the following individual or entity.

Name of individual or entity
Taxpaver identification number (if known)
Address

I have written documentation to support the amounts reported in Part I of this Section C.

• I am a qualified investor as defined in section 4.03 of Revenue Procedure 2009-20.

• If I have determined the amount of my theft loss deduction using .95 on line 46 above, I declare that I have not pursued and do not intend to pursue any potential third-party recovery, as that term is defined in section 4.10 of Revenue Procedure 2009-20.

• I agree to comply with the conditions and agreements set forth in Revenue Procedure 2009-20 and this Section C.

• If I have already filed a return or amended return that does not satisfy the conditions in section 6.02 of Revenue Procedure 2009-20, I agree to all adjustments or actions that are necessary to comply with those conditions. The tax year(s) for which I filed the return(s) or amended return(s) and the date(s) on which they were filed are as follows:

Form 4684 (2015)

	epartment of the Treasury termal Revenue Service       Information about Form 4684 and its separate instructions is at www.irs.gov/form4684.         • Attach to your tax return.         • Use a separate Form 4684 for each casualty or theft.					OMB No. 1545-0177 2015 Attachment Sequence No. 26		
Nam	e(s) shown on tax return				Ident	ifying nur		
	JANE SMITH						45-6789	
or b	CTION A—Personal Use Property (Use this section outprovide the section of the se	on to r	report casualties a	nd thefts of prope	rty <b>not</b>	used in	a trade	
1	Description of properties (show type, location, and date acquire the same casualty or theft. Property A	red for HON	,	separate line for each 01/01/12		lost or c	lamaged from	
	Property B							
	Property C							
	Property D							
				Properties	3			
			Α	В	С		D	
2	Cost or other basis of each property	2	52,000					
3	Insurance or other reimbursement (whether or not you filed a claim) (see instructions)		2,000					
	Note: If line 2 is more than line 3, skip line 4.							
4	Gain from casualty or theft. If line 3 is <b>more</b> than line 2, enter the difference here and skip lines 5 through 9 for that column. See instructions if line 3 includes insurance or other reimbursement you did not claim, or you	4	0	0		0	0	
	received payment for your loss in a later tax year	5	45,000					
5	Fair market value <b>before</b> casualty or theft	6	38,000					
6	Fair market value <b>after</b> casualty or theft	7	7,000	0		0	0	
7	Subtract line 6 from line 5		7,000	0		0	0	
8	Enter the <b>smaller</b> of line 2 or line 7	•	5,000	0		0	0	
9	Subtract line 3 from line 8. If zero or less, enter -0		,			10	5,000	
10	Casualty or theft loss. Add the amounts on line 9 in columns					11	100	
11	Enter the <b>smaller</b> of line 10 or \$100					12	4,900	
12	Subtract line 11 from line 10					12	-,	
	Caution: Use only one Form 4684 for lines 13 through 18.					13		
13	Add the amounts on line 12 of all Forms 4684					14		
14 15	Add the amounts on line 4 of all Forms 4684					14		
15	• If line 14 is <b>more</b> than line 13, enter the difference here and complete the rest of this section (see instructions).	d on So	chedule D. Do not			15		
	• If line 14 is less than line 13, enter -0- here and go to line 1	6.	Í					
	• If line 14 is equal to line 13, enter -0- here. Do not complet	the r	est of this section.					
16	If line 14 is <b>less</b> than line 13, enter the difference					16		
17	Enter 10% of your adjusted gross income from Form 1040, lir instructions					17		
18	Subtract line 17 from line 16. If zero or less, enter -0 Also er Form 1040NR, Schedule A, line 6. Estates and trusts, enter the return	he resi	ilts on the "Other dedu	ctions" line of your tax	(	18		
KIA	For Paperwork Reduction Act Notice, see instructions	5.				For	m <b>4684</b> (2015)	

_	· · ·		nt Sequence No. 26					Page <b>2</b>
							entifying n 23-45	
SEC	CTION B—Business and Income-Producing P	roper	ty					
Pa	rt I Casualty or Theft Gain or Loss (Use a se	epara	te Part I for ea	acl	h casualty or the	eft.)		
19	Description of properties (show type, location, and date act from the same casualty or theft. See instructions if claim	quired ing a l	for each property oss due to a Po	/). nzi	Use a separate line i-type investment s	for each pr scheme and	operty los d Sectior	st or damaged <b>1 C is not completed</b>
	Property A							
	Property B							
	Property C							
	Property D				Prope	rties		
			Α		В		С	D
00	Cast or adjusted basis of each presents	20						
20 21	Cost or adjusted basis of each property							
21	filed a claim). See the instructions for line 3	21						
	Note: If line 20 is more than line 21, skip line 22.							
22	Gain from casualty or theft. If line 21 is <b>more</b> than line 20, enter the difference here and on line 29 or line 34, column (c), except							
	as provided in the instructions for line 33. Also, skip lines 23							
	through 27 for that column. See the instructions for line 4 if line							
	21 includes insurance or other reimbursement you did not	22		0	0		0	0
05	claim, or you received payment for your loss in a later tax year	22						
25 24	Fair market value before casualty or theft         Fair market value after casualty or theft	24						
24 25	Subtract line 24 from line 23	25		0	0		0	0
23 26	Enter the <b>smaller</b> of line 20 or line 25	26		0	0		0	0
20	<b>Note:</b> If the property was totally destroyed by casualty or lost from theft, enter on line 26 the amount from line 20.			_				
27	Subtract line 21 from line 26. If zero or less, enter -0	27		0	0		0	0
28	Casualty or theft loss. Add the amounts on line 27. Enter the	ne tota	I here and on line	29	9 <b>or</b> line 34 (see ins	tructions).	28	0
Pa	rt II Summary of Gains and Losses (from sep	oarate	e Parts I)		(b) Losses from cas			(c) Gains from
	(a) Identify casualty or theft				i) Trade, business, rental or royalty property	<i>(ii)</i> Incon producing employee p	and	casualties or thefts includible in income
	Casualty or Theft	of Pr	operty Held C	Dn	e Year or Less			
29				(	)	(	)	
				(	)	(	)	
30	Totals. Add the amounts on line 29			(	)	(	/	
31	Combine line 30, columns (b)(i) and (c). Enter the net gain not otherwise required, see instructions					orm 4797 is 	· 31	
32	Enter the amount from line 30, column (b)(ii) here. Individuals, enter (Form 1040), line 28, or Form 1040NR, Schedule A, line 14, and enter	er the a	mount from property	/ us	ed as an employee on	Schedule		
	A (Form 1040), line 23, or Form 1040NR, Schedule A, line 9. Estates						. 32	
00	Casualty or Theft of			Jre	e man One Yea	41	00	
33 34	Casualty or theft gains from Form 4797, line 32	· · ·	•••••	1	$\cdots$	 (	. 33	
34				$\frac{1}{1}$	)	(	)	
35	Total losses. Add amounts on line 34, columns (b)(i) and (l	b)(ii)	35	Ì	)	(	)	
36	Total gains. Add lines 33 and 34, column (c)						36	
37	Add amounts on line 35, columns (b)(i) and (b)(ii)						. 37	
38 a	If the loss on line 37 is <b>more</b> than the gain on line 36: Combine line 35, column (b)(i) and line 36, and enter the ne	et gain	or (loss) here. P	art	nerships (except ele	ecting large		
	partnerships) and S corporations, see the note below. All o	thers,	enter this amoun	t o	n Form 4797, line 1	4. If Form	38a	
	4797 is not otherwise required, see instructions						·	
D	Enter the amount from line 35, column (b)(ii) here. Individu. Schedule A (Form 1040), line 28, or Form 1040NR, Schedu							
	an employee on Schedule A (Form 1040), line 23, or Form	1040N	IR, Schedule A, I	ine	9. Estates and trus	sts, enter or		
	the "Other deductions" line of your tax return. Partnerships see the note below. Electing large partnerships, enter on F						38b	
39	If the loss on line 37 is less than or equal to the gain on lin	ne 36, i	combine lines 36	an	d 37 and enter here	. Partnership	s an	
	(except electing large partnerships), see the note below. A					93	. 39	
	Note: Partnerships, enter the amount from line 38a, 38b, of S corporations, enter the amount from line 38a or 30							
KIA								Form 4684 (2015)

	e(s) shown on tax return. ANE SMITH		Identifying numbe	e <b>r</b> 6789
SE	CTION C—Theft Loss Deduction for Ponzi-Type Investment Scheme Using t	he Proc	edures in Reven	ue
_	cedure 2009-20 (Complete this section in lieu of Appendix A in Revenue Procedu	ure 2009	-20. See instructi	ons.)
Pa	rt I Computation of Deduction			
10	Initial investment	40		
1	Subsequent investments (see instructions)	41		
2	Income reported on your tax returns for tax years prior to the discovery year	40		
	(see instructions)	42	0	
3	Add lines 40, 41, and 42	43		
4	Withdrawals for all years (see instructions)	44		
5	Subtract line 44 from line 43. This is your total qualified investment	45		
6	Enter .95 (95%) if you have no potential third-party recovery. Enter .75 (75%) if you have potential third-party recovery	46		
7	Multiply line 46 by line 45	47		0
8	Actual recovery	48		
9	Potential insurance/Securities Investor Protection Corporation (SIPC) recovery	49		
0	Add lines 48 and 49. This is your total recovery.	50		0
51	Subtract line 50 from line 47. This is your deductible theft loss. Include this amount on line 28 of Section B, Part I. Do not complete lines 19-27 for this loss. Then complete Section B, Part II	51		0
Pa	rt II Required Statements and Declarations (See instructions.)			
in Ni	m claiming a theft loss deduction pursuant to Revenue Procedure 2009-20 from a specified fraudule dividual or entity.			
	Ixpayer identification number (if known)			
۱۲	ave written documentation to support the amounts reported in Part I of this Section C.			
Ιa	m a qualified investor as defined in section 4.03 of Revenue Procedure 2009-20.			
	have determined the amount of my theft loss deduction using .95 on line 46 above, I declare that I I y potential third-party recovery, as that term is defined in section 4.10 of Revenue Procedure 2009-2		ursued and do not int	end to pursue
۱a	gree to comply with the conditions and agreements set forth in Revenue Procedure 2009-20 and this	Section (	С.	
	have already filed a return or amended return that does not satisfy the conditions in section 6.02 of justments or actions that are necessary to comply with those conditions. The tax year(s) for which 1 is			

If I have already filed a return or amended return that does not satisfy the conditions in section 6.02 of Revenue Procedure 2009-20, I agree to all
adjustments or actions that are necessary to comply with those conditions. The tax year(s) for which I filed the return(s) or amended return(s) and the
date(s) on which they were filed are as follows:

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Form 4684 (2015)

## NOTES

## **CHAPTER 2**

# WORKING WITH THE TAX LAW

## **LECTURE NOTES**

## **OVERVIEW**

Federal tax law is a mixture of statutory provisions, administrative pronouncements, and court decisions.

## SUMMARY OF CHANGES IN THE CHAPTER

The following are notable changes in the chapter from the 2016 Edition. For major changes, see the Preface to the Instructor's Edition of the text.

- Updated references and citations throughout the chapter.
- Added a new Ethics & Equity feature on tax fraud.
- Updated materials on administrative tax law sources and commercial tax services.

## THE BIG PICTURE

The Big Picture discussion in Chapter 2 introduces the introductory tax student to the idea that answers to tax questions will not always be found in the tax textbook and that research often needs to be undertaken to answer the question.

The discussion in Section 2-3 of the chapter takes the student through the answer to the research questions posed. Depending on the research services available, the instructor might ask the students to formulate keyword searches and then demonstrate what happens when those searches are undertaken in the research service. The instructor could also demonstrate the index feature of the research services to look up topics related to dependents or dependency exemptions. Alternatively, the instructor could ask the students to see if they could verify the correctness of the textbook conclusion or change one of the key facts (e.g., change the relationship between the taxpayers so that the qualifying relative test applies) and ask the student to determine how the conclusion would change, if at all.

## TAX SOURCES

## Statutory Sources of the Tax Law

- 1. Statutory sources of law include the Constitution (Article I, Sections 7, 8, and 10), tax treaties, and the Internal Revenue Code.
- 2. Origin of the Internal Revenue Code.

- a. Constitution. The source of the Federal taxing authority is the U.S. Constitution:
  "The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States." (Art. I, § 8, Cl. 1)
- b. Sixteenth Amendment. The Sixteenth Amendment is the foundation of our Federal income tax: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."
- 3. Internal Revenue Code. The Code generally is supreme in the Federal tax area, unless a U.S. tax treaty is in direct conflict. In this case, TAMRA of 1988 provides that neither a tax law nor a tax treaty takes general precedence. Instead, the most recent item will take precedence.
  - a. Role of Congress. Unless a *constitutional* issue is involved, Congress can override a U.S. Supreme Court decision by amending the Code.
    - (1) Code supremacy. This Court supremacy is not the case when the Internal Revenue Code is concerned (i.e., Congress can change the law).
  - b. Congressional Committee Reports. Congressional Committee Reports may be helpful in interpreting the Code.
    - (1) Congressional intent. Such reports reflect the intent of Congress in implementing or changing the tax law.
    - (2) *Cumulative Bulletins*. The Committee Reports usually are conveniently available in special volumes of the *Cumulative Bulletins* as well as online, on the committee's web page (e.g., http://waysandmeans.house.gov/).
  - c. Public and closed congressional hearings. Congress holds both public and closed hearings on tax proposals.
    - (1) After public hearings before the House Ways and Means Committee, the public may be excluded in a closed session.
    - (2) Tax bills may be debated under a closed rule before the full House with approval by the Rules Committee.
    - (3) Under this closed rule, amendments are not allowed on the House floor unless approved by the House Ways and Means Committee.
    - (4) The full Senate, however, does not have a closed rule process.

- d. Organization of the Code. The Code is organized into Subtitles, Chapters, and Subchapters. See Figure 2-1 in these Lecture Notes.
- e. Interrelation of Code provisions. Tying the various Code provisions together to reach the total result is important.
  - (1) For example, consider why there are three separate sections dealing with alimony.
  - Section 71 (in the gross income sequence) makes it taxable to the payee;
     § 215 (in the deduction sequence) makes it deductible to the payor; while
     § 62(a)(10) classifies the deduction (as a deduction for AGI) for the payor.
- f. Subpart designations. The designation given to the subparts of a Code section will vary.
  - (1) The usual approach has been to use (a), (b), etc. [e.g., § 162(a)].
  - (2) On occasion, however, the designation is (1), (2), etc. [e.g., § 212(1)].
- g. Code section numbers. Section numbers do not repeat in the same title of the Code. Some Code section numbers contain a capital letter (e.g., a numerical designation such as §§ 453A, 453B).
  - (1) The reason is that certain numerical sequences in the Code have no space for expansion.
  - (2) Since there exists a § 453 and a § 454, how else would the two intervening provisions be designated?
- h. Recodification. The Internal Revenue Code has been recodified twice.
  - (1) Internal Revenue Codes of 1939 and 1954. The first was in 1939 and the second was in 1954.
  - (2) Internal Revenue Code of 1986. Although Congress did not codify and rearrange the law in the Tax Reform Act of 1986, the radical changes did provide some rationale for renaming the entire tax law in the Internal Revenue Code of 1986.
- i. General explanation of the act. Upon the completion of major tax legislation, the staff of the Joint Committee on Taxation (in consultation with the staffs of the House Ways and Means and Senate Finance Committees) often will prepare a general explanation of the act.

- Bluebook: no legal effect. Commonly known as the "bluebook" because of the color of its cover, the IRS will not accept this detailed explanation as having legal effect (except for purposes of the accuracy-related penalty in § 6662).
- (2) Bluebook: temporary guidance. The "bluebook," however, does provide valuable guidance to tax advisers and taxpayers until Regulations are issued, and some letter rulings and general counsel memoranda of the IRS cite such explanations.
- 4. The legislative process.
  - a. Evolution of tax law. Some provisions in the tax law take years to become law (e.g., H.R. 10 or Keogh plans).
    - (1) This process means that with each new Congress the measure had to be reintroduced until it finally gained the required support.
    - (2) An example of a provision that currently seems to be going through this process is the provision to tax carried interest at ordinary income rather than capital gains tax rates.
  - b. Deadwood bills. On occasion Congress will enact deadwood bills. The purpose of such legislation is to "clean up" provisions that are obsolete and possess no continuing validity.
  - c. Origin of a tax bill. Tax legislation normally originates in the House Ways and Means Committee of the House of Representatives because the U.S. Constitution mandates that revenue raising bills begin in the House. A tax bill might originate in the Senate when it is attached to other legislative proposals.
    - (1) The Tax Equity and Fiscal Responsibility Act of 1982 originated in the Senate, and its constitutionality was unsuccessfully challenged in the courts.
    - (2) The Senate version of the Deficit Reduction Act of 1984 was attached as an amendment to the Federal Boat Safety Act.
  - d. Naming tax legislation. Some tax provisions are commonly referred to by the number the bill received in the House when first proposed or by the name of the member of Congress sponsoring the legislation. For example, the Self-Employed Individuals Tax Retirement Act of 1962 is popularly known as H.R. 10 (House of Representatives Bill No. 10) or as the Keogh Act (Keogh being one of the members of Congress sponsoring the bill). The Roth IRA is named after Senator William Roth, an influential sponsor. Coverdell Education Savings Accounts

(first called education IRAs) are named after the late Senator Paul Coverdell (R–GA).

- e. Beginning in 1997, the president was supposed to be able to cancel provisions from enacted tax legislation under the Line Item Veto Act. President Clinton, on August 11, 1997, did strike two provisions from TRA of 1997 and one nontax provision from the Balanced Budget Act. Congress did not override these cancellations, but the constitutionality of the Line Item Veto Act was challenged in the court system and the Supreme Court held it unconstitutional.
- f. Tax legislation is referred from the Senate Finance Committee to the entire Senate. If the House and Senate tax bills disagree, the Joint Conference Committee resolves the differences. (See Exhibits 2.1 and 2.2 in the text.)
- 5. Arrangement of the Code. The Internal Revenue Code of 1986 is found in Title 26 of the U.S. Code. In working with the Code, it helps to understand the format. The key is usually the section number. For example, in citing Section 2(a), it is unnecessary to include Subtitle A, Chapter 1, Subchapter A, Part I. Mentioning Section 2(a) is sufficient. (See "Citing the Code" in the text.)

## Administrative Sources of the Tax Law (See Exhibit 2.3 in the text.)

- 6. Treasury Department Regulations. The Treasury Department under § 7805(a) has a duty to issue rules and regulations to explain and interpret the Code.
  - a. Treasury decisions. Final Regulations are issued as Treasury Decisions (TDs) in the *Federal Register*. Regulations carry considerable authority as the official interpretation of tax statutes. They are arranged in the same sequence as the Internal Revenue Code and have the force and effect of law.
  - b. Types of regulations issued:
    - (1) Legislative Regulations.
    - (2) Interpretative Regulations.
    - (3) Procedural Regulations.
    - (4) Temporary Regulations may be cited as precedent and are found in the *Federal Register, Internal Revenue Bulletin,* and *Cumulative Bulletin.* They are also concurrently issued as Proposed Regulations (in order to become Final Regulations) and automatically expire within three years after the date of issuance.

## **ETHICS & EQUITY**

**Reporting Tax Fraud.** Would you turn in someone you knew wasn't paying all their taxes? The IRS certainly tries to encourage tax fraud reporting by offering a portion of the resulting collections to the whistleblower. You can use this Ethics & Equity feature to spark a discussion with your class. What would motivate your students to turn someone in: the satisfaction of getting back at someone they didn't like, the need to adhere to a private moral code, or something else? Would the size of the monetary reward from the IRS affect your students' decisions? And is it ethical of the IRS to pay people to tattle on their tax-dodging literal and metaphorical neighbors, or should justice be its own reward?

- c. Validity of a Regulation. One way courts assess the validity of a Regulation is by the legislative reenactment doctrine. A Regulation is considered to have received congressional approval if the Regulation was finalized many years earlier and during the interim period Congress has not amended the relevant statutory language.
- d. Information in *Cumulative Bulletins* and *Internal Revenue Bulletins*. The I.R.B.s for a six-month period are gathered together and published in a bound volume designated as a C.B.
- 7. Revenue Rulings and Revenue Procedures. The C.B.s and I.R.B.s include a variety of administrative sources, including Revenue Rulings and Revenue Procedures.
  - a. Revenue Rulings are official pronouncements of the National Office of the IRS and provide guidance to both IRS personnel and taxpayers in handling routine tax matters. They usually deal with more restricted problems than Regulations and do not carry the same legal force and effect as Regulations.
  - b. Revenue Procedures are issued in the same manner as Revenue Rulings, but they deal with the internal management practices and procedures of the IRS. Revenue Procedures do not carry the same legal force and effect as Regulations.
  - c. Other materials included in the I.R.B and C.B.:
    - (1) Announcements of Proposed Regulations as well as the related public hearings.
    - (2) Treasury decisions.
    - (3) Executive orders.
    - (4) Tax conventions (i.e., international treaties).

- (5) Legislation (including Committee Reports).
- (6) Certain court decisions.
- (7) Announcements of court decisions to which the IRS acquiesces or does not acquiesce.
- (8) Punitive action (e.g., disbarment, suspension) taken against persons (e.g., attorneys, CPAs) practicing before the IRS.
- 8. Letter rulings. Letter rulings and determination letters have in common the fact that they apply only to the person who requested the ruling or letter. Note that neither is published by the IRS, but made available to private publishers.
  - a. Letter ruling. A letter ruling is a statement issued by the National Office of the IRS in response to a taxpayer's request, which applies the tax law to a proposed transaction. Revenue Rulings can result from a taxpayer request for a letter ruling.
  - b. Determination letter. A determination letter is a statement issued by the Area Director in response to a taxpayer, which applies the tax law to a completed transaction.
- 9. Other administrative pronouncements. These sources are not the same.
  - a. Technical Memoranda (TMs) are memoranda from the IRS Commissioner to the Assistant Secretary of the Treasury for Tax Policy. They are drafted by the Legislation and Regulation Division of the Office of Chief Counsel and relate to proposed Treasury Decisions or Regulations.
  - b. Technical Advice Memoranda (TAMs) are furnished by the National Office of the IRS upon request of an Area Director or an Appeals Officer of the IRS in response to any technical or procedural question (e.g., a completed transaction).

#### ADDITIONAL LECTURE RESOURCE

#### **Provider of the Tax Law Source**

Internal Revenue Code
Regulations
Revenue Ruling
Letter Ruling
Notices and Announcements
Determination Letter
Technical Advice Memorandum
Treasury Decision
Revenue Procedure
General Counsel Memorandum
Action on Decision
Field Service Advice

Congress/President U.S. Treasury Department National Office of IRS National Office of IRS National Office of IRS Area Director of IRS National Office of IRS U.S. Treasury Department National Office of IRS General Counsel's Office of IRS Office of Chief Counsel of IRS

#### Judicial Sources of the Tax Law

- 10. Precedential value. American law, following English common law, is frequently "made" by judicial decisions. Under the doctrine of *stare decisis*, each decision has precedential value for future decisions with the same controlling set of facts.
- 11. The judicial process in general. After a taxpayer has exhausted some or all of the remedies available within the IRS, the dispute can be taken to the Federal courts. A taxpayer chooses the route to pursue a tax conflict from among four alternatives (as illustrated in Exhibit 2.4 and Concept Summary 2.1 in the text).
  - U.S. Court of Federal Claims (hears tax and other monetary claims against the Federal government). This court formerly was called the U.S. Claims Court. There is only one U.S. Court of Federal Claims. The court meets most often in Washington, D.C. Decisions are appealed to the U.S. Court of Appeals (Federal Circuit).
  - b. U.S. Tax Court (hears only tax cases). Taxpayer does not pay the deficiency before trial. Decisions are appealed to the U.S. Court of Appeals (Regional Circuit).
  - Small Cases Division of the U.S. Tax Court (hears only tax cases). No appeal available. The broken line between the U.S. Tax Court and the Small Cases Division in Exhibit 2.4 in the text indicates that there is no appeal from the Small Cases Division.

- \$50,000 or less. This court hears cases involving disputed amounts of \$50,000 or less.
- (2) No written record. The proceedings are informal, and there was no written record of such cases before 2002. Some of the more recent cases can now be found on the U.S. Tax Court website or in online research services.
- (3) Informal proceedings.
  - (a) No necessity for the taxpayer to be represented by a lawyer or other tax adviser.
  - (b) Special trial judges, rather than Tax Court judges, preside over the proceedings.
  - (c) Decisions are not precedent for any other court and are not reviewable by any higher court.
- d. U.S. District Court (hears tax as well as nontax cases). A jury trial is available. Decisions are appealed to the U.S. Court of Appeals (Regional Circuit). See Exhibit 2.4 in the text.
- 12. Trial Courts. (See Concept Summary 2.2 in the text.) The differences among the various trial courts can be summarized as follows:
  - Number of courts.
  - Number of judges.
  - Location.
  - Jurisdiction of the Court of Federal Claims.
  - Jurisdiction of the Tax Court and District Courts.
  - Jury trial.
  - Payment of deficiency.
  - Termination of running of interest.
  - Appeals.
  - Bankruptcy.
- 13. Appellate courts. The two appellate courts are the Circuit Courts of Appeal (11 geographical circuits, the circuit for the District of Columbia, and the Federal Circuit) and the Supreme Court (see Exhibit 2.4 in the text).
  - a. All courts must follow the decisions of the U.S. Supreme Court.
  - b. A particular Court of Appeals need not follow the decisions of another Court of Appeals.

c. District Courts, the Tax Court, and the Court of Federal Claims must abide by the precedents set by the Court of Appeals of the relevant jurisdiction.

## ADDITIONAL LECTURE RESOURCE

## Jurisdiction of the Courts of Appeal

<u>First</u> Maine Maryland Massachusetts New Hampshire Rhode Island Puerto Rico	<u>Fourth</u> Arkansas North Carolina South Carolina Virginia West Virginia	<u>Eighth</u> Colorado Iowa Minnesota Missouri Nebraska North Dakota South Dakota	<u>Tenth</u> Kansas New Mexico Oklahoma Utah Wyoming
Second Connecticut New York Vermont Third Delaware New Jersey Pennsylvania Virgin Islands	<u>Fifth</u> Canal Zone Louisiana Mississippi Texas <u>Sixth</u> Kentucky Michigan Ohio Tennessee	<u>Ninth</u> Alaska Arizona California Hawaii Idaho Montana Nevada Oregon Washington Guam	<u>Eleventh</u> Alabama Florida Georgia <u>Federal</u> U.S. Court of Federal Claims
District of Columbia Washington, D.C.	<u>Seventh</u> Illinois Indiana Wisconsin		

- d. Bankruptcy court. In certain situations, a bankruptcy court may have jurisdiction over tax matters. Since the filing of a bankruptcy petition prevents creditors from filing a claim against a person, a tax dispute may be settled by the bankruptcy court.
- e. Locating court cases. Tax cases can be found in a variety of different official and unofficial sources. The instructor can utilize Figure 2-2 in these Lecture Notes to explain the different sources in which tax cases are published.
- 14. The appellate process. The role of the appellate court is limited to a review of the trial record compiled by the trial court. The appellate process usually involves a determination of whether the trial court applied the proper law in arriving at its decision.
  - a. Bound by findings of facts unless they are clearly erroneous.

- b. The appellate court may approve (affirm) or disapprove (reverse) the lower court's findings, or it may send the case back for further consideration (remand).
- c. District Courts, the Tax Court, and the Court of Federal Claims must abide by the precedents set by the Court of Appeals of jurisdiction.
- d. All courts must follow the decision of the U.S. Supreme Court.
- e. Since the *Golsen* decision [*Jack E. Golsen*, 54 T.C. 742 (1970)], the Tax Court decides a case as it believes the law should be applied only if the Court of Appeals has not passed on the issue.
- f. The U.S. Supreme Court grants certiorari to resolve a conflict among the Courts of Appeals or where the tax issue is extremely important.
  - (1) The granting of a Writ of Certiorari indicates that at least four of the nine members of the Supreme Court believe that the issue is of sufficient importance to be heard by the full Court.
- 15. Judicial citations. Judicial citations usually follow a standard pattern: case name, volume number, reporter series, page or paragraph number, court, and year of the decision.
  - a. U.S. Court of Federal Claims. Prior to October 1, 1982, the Claims Court was called the Court of Claims. Beginning on October 29, 1992, the Claims Court underwent a further name change. The new designation, U.S. Court of Federal Claims, begins with Volume 27 of the former *Cl.Ct.* (West citation) now abbreviated as *Fed.Cl.* Claims Court and Court of Federal Claims decisions are now appealable to the Federal Circuit, whereas they were previously appealable only to the Supreme Court.
    - (1) *Court of Claims Reporter*. The *Court of Claims Reporter* series, published by the U.S. Government Printing Office, is the primary source of these former Court of Claims cases.
    - (2) *Federal Reporter and Claims Court Reporter*. Court of Claims cases from 1929 to 1932 and from 1960 to September 1982 can be found in the *Federal Reporter*, published by West. Beginning in October 1982, these Claims Court decisions are published in West's *Claims Court Reporter*.
    - (3) *Federal Claims Reporter*. Beginning with Volume 27 on October 30, 1992, the name of the reporter is changed to the *Federal Claims Reporter*.
  - b. U.S. Tax Court. Often called the "poor person's court" because a taxpayer does not have to pay the proposed deficiency in order to bring a case before the court.

- (1) Organization and authority. In 1969, the Tax Court transitioned from an administrative court to a judicial court. Nineteen regular judges produce both "regular decisions" and so-called "memorandum decisions."
- (2) Tax Court decisions. Regular Tax Court decisions are published by the U.S. Government Printing Office as the *Tax Court of the United States Reports*.
- c. Memorandum decisions. Memorandum decisions are reproduced by the government in mimeograph form only. However, RIA publishes RIA (formerly Prentice-Hall) T.C. Memorandum Decisions and Commerce Clearing House makes them available as Tax Court Memorandum Decisions.

## Other Sources of the Tax Law

- 16. Tax treaties. Tax legislation enacted in 1988 provided that neither a tax law nor a tax treaty takes general precedence. If there is a conflict between the Code and a treaty, the most recent item takes precedence.
- 17. Tax periodicals.
  - a. Can shorten the research time needed to resolve a tax issue.

## WORKING WITH THE TAX LAW—TAX RESEARCH TOOLS

## **Commercial Tax Services**

- 18. Loose leaf tax services. A number of publishers provide loose leaf (or other currently supplemented) tax services for practitioners. Some of the major services include:
  - a. Research Institute of America's (RIA) *United States Tax Reporter* (formerly P-H's *Federal Taxes*).
  - b. Commerce Clearing House's (CCH) *Standard Federal Tax Reporter*.
  - c. RIA's Federal Tax Coordinator 2d.
  - d. Mertens Law of Federal Income Taxation (Clark, Boardman, Callaghan).
  - e. Federal Income, Gift, and Estate Taxation (Warren, Gorham and Lamont).
  - f. Bureau of National Affair's (BNA) *Tax Management Portfolios*. Many of these services are also available electronically.

- 19. Assessing tax services. In terms of assessing the major tax services, the following points are relevant:
  - a. Except for arrangement of the subject matter, there is not much difference between CCH's *Standard Federal Tax Reporter* and RIA's *United States Tax Reporter*.
  - RIA's editorial content is generally more detailed than CCH's editorial content. The RIA editorial materials also contain more detailed tax-planning discussions. However, many practitioners feel that rule coverage and case law background are more extensive in CCH.
  - c. Mertens is an excellent source if the emphasis is on background material for indepth research. Mertens is, however, difficult reading due to its legalistic style. Also, updating is less frequent than most other services and not as accessible.
  - d. BNA's *Tax Management Portfolios* (TMPs) comprise a series of monographs on various subjects. As the treatment of a subject usually is exhaustive, a portfolio can serve as a convenient means of familiarizing the reader with the material. Note that portfolios are generally updated on a three-year cycle.
  - e. In summary, the day-to-day, all-purpose services are CCH and RIA. Mertens and the TMPs are useful for more extensive research and background.

## **Using Online Tax Services**

- 20. RIA's *Checkpoint* and CCH's *Intelliconnect* are commonly used online tax research services. (Westlaw and Lexis are more commonly used by law firms.) Both services provide access to primary and secondary sources of tax law.
- 21. Internet. See Exhibits 2.6 and 2.7 in the text.
- 22. Key ways to use an online tax service.
  - a. Choose keywords for the search carefully.
  - b. Take advantage of connectors.
  - c. Be selective in choosing a database.
  - d. Use a table of contents, index, or citation approach.

## **Noncommercial Online Tax Services**

23. Search Home pages.

24. Search news groups.

## WORKING WITH THE TAX LAW—TAX RESEARCH

- 25. Definition of research. Tax research is the method whereby one determines the best available solution to a situation that possesses tax consequences. In other words, it is the process of finding a professional conclusion to a tax problem. The problem might originate either from completed or proposed transactions. Tax research involves the following procedures (see Exhibit 2.8 in the text):
  - a. Identifying and refining the problem.
  - b. Locating the appropriate tax law sources.
  - c. Assessing the validity of the tax law sources.
  - d. Arriving at the solution or at alternative solutions with due consideration given to nontax factors.
  - e. Effectively communicating the solution to the taxpayer or the taxpayer's representative. See Exhibits 2.9, 2.10, and 2.11 in the text.
    - (1) A short review of the fact pattern that raises the issue.
    - (2) A clear statement of the research question/issue.
    - (3) A review of the pertinent tax law sources (e.g., Code, administrative sources, judicial authority).
    - (4) Any assumptions made in arriving at the conclusion.
    - (5) The conclusion recommended and the logic or reasoning supporting it.
    - (6) The references consulted in the research process.
  - f. Following up on the solution in the light of new developments.

## **Identifying the Problem**

26. Problem identification must start with a compilation of the relevant facts involved. In other words, all of the facts that may have a bearing on the problem must be gathered.

## **Refining the Problem**

27. Use new facts to refine the tax problem.

#### 2-14

## Locating the Appropriate Tax Law Sources

28. Once the problem is clearly defined, we index the volume of a hard copy tax service or a keyword search on an online tax service.

#### Assessing the Validity of the Tax Law Sources

- 29. Once a source has been located, the next step is to assess it in light of the problem at hand. Proper assessment involves careful interpretation of the tax law with consideration given to its relevance and validity.
- 30. Interpreting the Internal Revenue Code. This is the greatest challenge for the IRS. The language of the Code is difficult to comprehend fully.
- 31. Assessing the validity of a Treasury Regulation.
  - a. Give the Code equal weight when dealing with taxpayers and their representatives.
  - b. Proposed Regulations are not binding.
  - c. The burden of proof is on the taxpayer.
  - d. If the taxpayer loses the challenge, then a 20% negligence penalty may be imposed.
  - e. Final Regulations provide instructions about internal management.
  - f. Interpretive Regulations are hard and solid and almost impossible to overturn.
  - g. In some Code sections, Congress has given the Treasury Secretary the authority to prescribe Regulations to carry out the details of administration.
  - h. Apply the legislative reenactment doctrine.
- 32. Assessing the validity of other administration sources of the tax law. In any dispute with the IRS on the interpretation of tax law.
- 33. Assessing the validity of judicial sources of the tax law.
  - a. The higher the level of the court that issued a decision, the greater the weight accorded to that decision.
  - b. More reliance is placed on decisions of courts that have jurisdiction in the area where the taxpayer's legal residence is located.

- c. A Tax Court Regulator decision carries more weight than a memorandum decision, because the Tax Court does not consider memorandum decisions to be binding.
- d. A Circuit Court decision where certiorari has been requested and denied by the U.S. Supreme Court carries more weight than a Circuit Court decision that was not appealed.
- e. A decision that is supported by cases from other courts carries more weight than a decision that is not supported by other cases.
- f. The weight of a decision also can be affected by its status on appeal.
- 34. Assessing the validity of other sources.
  - a. In Notice 90-20, the IRS expanded the list of substantial authority for purposes of the accuracy-related penalty in § 6662 to include a number of secondary materials.

## Arriving at the Solution or at Alternative Solutions

## **Communicating Tax Research**

- 35. A good tax research communication should contain:
  - A clear statement of the issue.
  - A short review of the facts that raise the issue.
  - A review of the pertinent tax law source.
  - Any assumptions made in arriving at the solution.
  - The solution recommended and the logic or reasoning supporting it.
  - The references consulted in the research process.
  - It should tell the audience what was researched, the results of the research, and the justification for the recommendation made. (See Exhibits 2.9 and 2.10 in the text.)

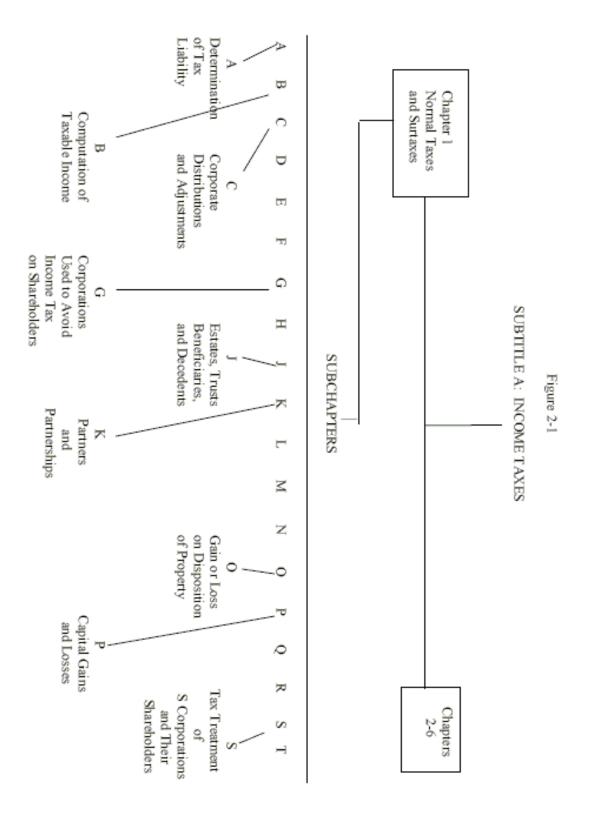
	<u>Primary</u>	<b>Secondary</b>
16th Amendment to Constitution	Х	
Tax Treaty	X	
Internal Revenue Code Section	X	
U.S. Supreme Court Decision	X	
U.S. Circuit Court of Appeals Decision	Х	
Tax Court Memorandum Decision	Х	
Tax Court Regular Decision	Х	
U.S. District Court Decision	Х	
U.S. Court of Federal Claims Decision	Х	
Small Cases Division of U.S. Tax Court	X**	
Final Regulation	Х	
Temporary Regulation	X*	
Proposed Regulation	X***	
Revenue Ruling	Х	
Revenue Procedure	Х	
Senate Finance Committee Report	Х	
Bluebook		Х
Letter Ruling		Х
Technical Advice Memorandum		Х
Actions on Decisions		Х
Determination Letter		Х
Harvard Law Review article		Х
Field Service Advice		Х
General Counsel Memorandum		Х

# Table 1Primary and Secondary Tax Law Sources

\* Can be outstanding for three years at most.

The categorization of a tax law source as a primary or a secondary source is not black and white. All of the sources categorized as primary in the above table are so categorized because all can be relied on to defend against the application of penalties by the IRS. However, note the following:

- \*\* The Tax Court indicates that Small Cases Division opinions should not be used or cited as precedent. As such, these decisions could be categorized as secondary sources.
- \*\*\* Proposed Regulations are not binding. That is, a taxpayer is not required to follow the guidance in the proposed Regulation unless (or until) the Regulation becomes final. This could lead to the categorization of a proposed Regulation as a secondary source.



## Figure 2-2 Location of Judicial Sources

	USTC <u>Series</u>	AFTR <u>Series</u>	F.Supp. <u>Series</u>	F.3d <u>Series</u>	Cls.Ct. <u>Series</u>	S.Ct. <u>Series</u> <sup>a</sup>
U.S. District Courts (tax cases)	Yes	Yes	Yes	No	No	No
U.S. Tax Court <sup>b</sup>	No <sup>c</sup>	No <sup>c</sup>	No	No	No	No
U.S. Court of Federal Claims <sup>d</sup>						
(tax cases)	Yes	Yes	No <sup>e</sup>	Yes <sup>e</sup>	Yes <sup>e</sup>	No
U.S. Courts of Appeal (tax cases)	Yes	Yes	No	Yes	No	No
U.S. Supreme Ct. (tax cases)	Yes	Yes	No	No	No	Yes
U.S. District Courts <sup>f</sup> (all cases)	No	No	Yes	No	No	No
U.S. Courts of Appeal (all cases)	No	No	No	Yes	No	No
U.S. Supreme Court (all cases)	No	No	No	No	No	Yes

## **Notes for Figure 2-2:**

- **a** Answers also apply to the *United States Supreme Court Reports* (abbreviated U.S.) and to the *United States Reports*, *Lawyers Edition* (abbreviated L.Ed.).
- **b** Regular (not memorandum) decisions are published by the U.S. Government Printing Office (GPO) in *Tax Court of the United States Reports*.
- **c** Both CCH and RIA (formerly P-H) have separate reporters for Regular, Memorandum, and Small Cases Division decisions of the U.S. Tax Court.
- **d** All decisions (both tax and nontax) of the U.S. Court of Federal Claims are published by the U.S. GPO in the *Claims Court Reporter Series*. From 1960 to October 1, 1982, Court of Claims decisions were published in the *Court of Claims Reporter Series*.
- e From 1932 to 1960, the Court of Claims decisions were published in the *F.Supp. Series*. Beginning October 1982, the Claims Court decisions are published in the *Claims Court Reporter*. Beginning on October 30, 1992, the Claims Court underwent a further name change. The new designation, U.S. Court of Federal Claims, begins with Volume 27 of the former *Cl.Ct*. (West citation) now abbreviated as *Fed.Cl*.
- **f** "All cases" has reference to nontax as well as tax decisions. Thus, it would include such varied issues as interstate transportation of stolen goods, civil rights violations, and anti-trust suits.

## WORKING WITH THE TAX LAW—TAX PLANNING

- 36. Tax research and tax planning are inseparable.
  - The primary purpose of effective tax planning is to reduce the taxpayer's total tax bill.
  - The secondary objective of effective tax planning is to reduce or defer the tax in the current tax year.

## **Nontax Considerations**

37. Tax considerations may impair the exercise of sound business judgment by the taxpayer. The goal should be a balance that recognizes the significance of taxes, but not beyond the point where planning detracts from the exercise of good business judgment.

## **Components of Tax Planning**

- 38. Avoid the recognition of income.
- 39. Defer the recognition of income.
- 40. Convert the classification of income.
- 41. Choose the business entity with the desired tax attributes.
- 42. Preserve formalities by generating and maintaining supporting documentation.
- 43. Act in a manner consistent with the intended objective.

## Tax Avoidance and Tax Evasion

- 44. Avoidance versus evasion. There is a fine line between legal tax planning and illegal tax planning—tax avoidance versus tax evasion. However, the consequences of the two are as vast as the difference between a lightning bug and lightning.
  - a. Tax avoidance. Tax avoidance is merely tax minimization through legal techniques. In this sense, tax avoidance becomes the proper objective of all tax planning.
  - b. Evasion. Evasion, while also aimed at the elimination or reduction of taxes, connotes the use of subterfuge and fraud as a means to an end.

## **Follow-Up Procedures**

## Tax Planning—A Practical Application

## TAXATION ON THE CPA EXAMINATION

- 45. The CPA examination has changed from a paper-and-pencil exam to a computer-based exam with increased emphasis on information technology and general business knowledge. The 14-hour exam has four sections, and taxation is included in the three-hour Regulations section.
- 46. Each exam section includes multiple-choice questions and two other sections that have short task-based simulation questions. The Regulations section is 60% Taxation and 40% Law & Professional Responsibilities.
- 47. Candidates can learn more about the CPA examination at www.cpa-exam.org. This online tutorial site's topics include:
  - Common tools.
  - Navigation.
  - Form completion.
  - Numeric entry.
  - Research questions.
  - Authoritative literature search.
  - Written communication.

## **RESEARCH PROBLEMS**

Solutions to end-of-chapter Research Problems are located in the Solutions Manual.

## **IN-CLASS EXERCISES**

**Q1.** The shareholders of Red Corporation and Green Corporation want assurance that the consolidation of the corporation into Blue Corporation will be a nontaxable reorganization.

## Solution:

The proper approach is to request that the National Office of the IRS issue a letter ruling concerning the income tax effect of the proposed transaction.

**Q2.** Chris operates a barbershop in which he employs eight barbers. To comply with the rules governing income tax and payroll tax withholding, Chris wants to know whether the barbers working for him are employees or independent contractors.

## Solution:

The proper procedure is to request a determination letter on their status from the appropriate Area Director.

No proofreading corrections

#### CHAPTER 1

#### AN INTRODUCTION TO TAXATION AND UNDERSTANDING THE FEDERAL TAX LAW

#### SOLUTIONS TO PROBLEM MATERIALS

#### **DISCUSSION QUESTIONS**

- 1. (LO 1)
  - a. By becoming a dealer, any gains and losses John has are converted from capital to ordinary classification.
  - b. Theresa has become self-employed. Now she will be subject to self-employment tax and will have to make quarterly installment payments of estimated income and payroll taxes.
  - c. Due to the home mortgage interest deduction and property tax deduction, most new homeowners will itemize their deductions *from* AGI. Thus, Paul probably will no longer claim the standard deduction on his income tax return.
- 2. (LO 1) The income tax consequences that result are Marvin's principal concern. Any rent he receives is taxed as income, but operating expenses and depreciation will generate deductions that offset some or all of the income or even yield a loss. Marvin must also consider the effect of other taxes. Because the property is being converted from residential to commercial use, he can expect an increase in the ad valorem property taxes levied by the local (and perhaps even the state) taxing authorities. Besides the real estate taxes, personal property taxes could be imposed on the furnishings.
- 3. (LO 2) The statement is only partly correct. The Federal income tax on corporations was not a problem as it had previously been sanctioned by the Supreme Court. What had been declared unconstitutional was the tax on individuals as it applied to the income *from property*.
- 4. (LO 2) To finance our participation in World War II, the scope of the income tax was expanded considerably—from a limited coverage of 6% to over 74% of the population. Hence, the description of the income tax as being a "mass tax" became appropriate.
- 5. (LO 2) For wage earners, the tax law requires employers to withhold a specified dollar amount from wages paid to the employee to cover income taxes and payroll taxes. Persons with nonwage income generally are required to make quarterly payments to the IRS for estimated taxes. Both procedures ensure that taxpayers will be financially able to meet their annual tax liabilities. That is, the amounts withheld are meant to prepay the employee's income taxes and payroll taxes related to the wages earned.
- 6. (LO 3) As to Adam Smith's canon on *economy*, the Federal income tax yields a mixed result. From the standpoint of the IRS, economy exists as collection costs are nominal (when compared with revenue generated). The government's cost of collecting Federal taxes amounts to less than one-half of 1 percent of the revenue collected. Economy is not present, however, if one looks to the compliance effort and costs expended by taxpayers. According to recent estimates, about 56% of individual taxpayers who file a return pay a preparer, and one-third purchase tax software.

- 7. (LO 3) A tax is *proportional* if the rate of tax remains constant for any given income level. The tax is *progressive* if a higher rate of tax applies as the tax base increases.
- 8. (LO 4)
  - a. The parsonage probably was not listed on the property tax rolls because it was owned by a taxexempt church. Apparently, the taxing authorities are not aware that ownership has changed.
  - b. Ethan should notify the authorities of his purchase. This will force him to pay back taxes but will eliminate *future* interest and penalties.
- 9. (LO 4) Although the Baker Motors bid is the lowest, from a long-term financial standpoint, it is the best. The proposed use of the property by the state and the church probably will make it exempt from the school district's ad valorem tax. This would hardly be the case with a car dealership. In fact, commercial properties (e.g., car dealerships) often are subject to higher tax rates.
- 10. (LO 4)
  - a. In this case, the "tax holiday" probably concerns exemption from ad valorem taxes. "Generous" could involve an extended period of time (e.g., 10 years) and include both realty and personalty.
  - b. The school district could be affected in two ways. First, due to the erosion of the tax base, less revenue would be forthcoming. Second, new workers would mean new families and more children to educate.
- 11. (LO 4) A possible explanation could be that Sophia made capital improvements (e.g., added a swimming pool) to her residence and her parents became retirees (e.g., reached age 65).
- 12. (LO 4) Presuming that the dockage facilities are comparable in Massachusetts, the Morgans may be trying to avoid ad valorem taxes. Taxes on nonbusiness personalty vary from one state to another and are frequently avoided.
- 13. (LO 4) Until recently, it appeared that Federal excise taxes had declined significantly as to the number of transactions covered. Taxes on the sale of jewelry, leather goods, cosmetics, and admission to entertainment events are no longer taxed by the Federal government. But the enactment of the gas guzzler tax and the tax on tanning salons, in addition to the increase in the tax on tobacco products, seems to indicate an expansion of excise taxes at the Federal level.
- 14. (LO 4) Herman could have been overcharged, but at least part of the excess probably is attributable to a hotel occupancy tax and a car rental tax. In major cities, these types of excise taxes have become a popular way of financing capital improvements such as sports arenas and stadiums. Consequently, the amount of the taxes could be significant.
- 15. (LO 4) An *excise tax* is limited to a particular transaction (e.g., sale of gasoline), while a general *sales tax* covers a multitude of transactions (e.g., sale of all nonfood goods).
  - a. The following states *do not* impose a general sales tax: Alaska, Delaware, Montana, New Hampshire, and Oregon.
  - b. There is no Federal general sales tax.
- 16. (LO 4)
  - a. Jackson County must be in a state that imposes a lower (or *no*) sales tax. With certain major purchases (i.e., big-ticket items), any use tax imposed by the state of the Grays' residence could come into play.
  - b. In some states, the sales tax rate varies depending on the county and/or city.

- 17. (LO 4) Earl probably purchased his computer out of state through a catalog or via the Internet. In such cases, state collection of the sales (use) tax is not likely.
- 18. (LO 4) If the tax is imposed on the right to pass property at death, it is classified as an estate tax. If it taxes the right to receive property from a decedent, it is termed an inheritance tax.
  - a. Some states impose both an estate tax and an inheritance tax. Some states (e.g., Florida and Texas) levy neither tax.
  - b. The Federal government imposes an estate tax.
- 19. (LO 4) Jake either has a severe misunderstanding as to the rules regarding transfer taxes or is lying to Jessica to delay any parting with his wealth. The marital deduction allows interspousal transfers (whether by gift or at death) free of any tax (either gift or estate). There is no tax reason, therefore, in the case of spousal transfers to prefer transfers at death over lifetime gifts.
- 20. (LO 4)
  - a. The purpose of the unified transfer tax credit is to eliminate the tax on all but substantial gifts and estates.
  - b. Yes. The credit for 2016 is \$2,125,800; for 2015, it is \$2,117,800.
  - c. Yes. The credit is available to cover transfers by gift or by death (or both), but the amount can be used only once.
- 21. (LO 4) \$532,000. 19 donees (5 married children + 5 spouses + 9 grandchildren) × \$14,000 (annual exclusion for 2016) × 2 donors (Elijah and Anastasia) = \$532,000.
- 22. (LO 4) Both taxes are progressive in nature, but the corporate income tax does not make any distinction as to deductions—only business deductions are allowed. Nor does it require the computation of adjusted gross income (AGI) or provide for the standard deduction and personal and dependency exemptions.
- 23. (LO 4)
  - a. For state income tax purposes, "piggyback" means making use of what was done for Federal income tax purposes. By "decoupling," a state decides not to allow a particular Federal provision (e.g., exclusion, deduction, credit) for state income tax purposes.
  - b. A diminishing number of states allow a deduction for Federal income taxes paid.
  - c. Most states allow their residents some form of tax credit for income taxes paid to other states.
- 24. (LO 4) What happened here likely is not a coincidence. The IRS probably notified the state of California regarding Hernando's omission of income. Thus, California followed up with its own audit.
- 25. (LO 4) If Mike is drafted by a team in one of the listed states, he will escape state income tax on income earned within that state (e.g., training camp, home games). He will not, however, escape the income tax (state and local) imposed by jurisdictions where he plays away games. Called the "jock tax," it is applied to out-of-state athletes and entertainers.
- 26. (LO 4, 5)
  - a. This type of question has no relevance to the state income tax, but is a less than subtle way of encouraging taxpayers to pay any use tax due on Internet and mail-order purchases.
  - b. As the preparer of the state income tax return, you should not leave questions unanswered unless there is a good reason for doing so. It appears that Harriet has no justifiable reason.

#### 2017 Comprehensive Volume/Solutions Manual

27. (LO 4) The checkoff boxes add complexity to the return and mislead taxpayers into presuming that they are not paying for the donation.

## 28. (LO 4)

- a. They uncover taxpayers who were previously unknown to the taxing authority.
- b. Amnesty provisions can apply to other than income taxes (e.g., sales, franchise, severance).
- c. As of yet, no general amnesty program has been offered for the Federal income tax.

## 29. (LO 4)

- a. FICA offers some measure of retirement security, and FUTA provides a modest source of income in the event of loss of employment.
- b. FICA is imposed on both employer and employee, while FUTA is imposed only on the employer.
- c. FICA is administered by the Federal government. FUTA, however, is handled by both the Federal and state government.
- d. This applies only to FUTA. The merit system rewards employers who have low employee turnover, because this reduces the payout of unemployment benefits.

#### 30. (LO 4)

- a. Unlike the Social Security portion of FICA, there is no dollar limit on the imposition of the Medicare tax.
- b. The .9% Medicare addition applies to taxpayers with wages or net self-employment income in excess of \$200,000 (\$250,000 for married filing jointly).
- 31. (LO 4) Only children under age 18 are excluded from FICA. Other family members, including spouses, must be covered.

## 32. (LO 4)

- a. Severance taxes are transaction taxes that are based on the notion that the state has an interest in its natural resources. The tax is imposed on the extraction of minerals.
- b. Franchise taxes are levied on the right to do business in the state. Typically, they are imposed on corporations and are based on their capitalization.
- c. Occupational fees are applicable to trades or businesses and are licenses to practice. Most are not significant revenue producers, and the amounts collected are utilized to defray the cost of regulating the profession.
- d. Customs duties are taxes on the importation of certain foreign goods. They are imposed by the Federal government and are not found at the state and local level.
- e. Export duties are taxes imposed on the export of certain commodities (e.g., oil, coffee). They are common to less-developed nations and are not levied by the United States.

## 33. (LO 4)

a. The United States is the only country in the OECD (Organization of Economic Cooperation and Development) that does not have a value added tax (VAT). Approximately 80 countries use a VAT. In spite of its extensive use by other countries, the adoption of a VAT by the United States appears doubtful. Instead, the U.S. places high reliance on the income tax as its major revenue source.

1-4

- b. A VAT taxes the increment in value as goods move through the production and manufacturing stages to the marketplace. Although the tax is paid by the producer, it is reflected in the selling price of the goods. Therefore, a VAT is a tax on consumption.
- c. Because it is an effective generator of revenue, the VAT has been criticized as leading to more government spending.
- 34. (LO 4)
  - a. Both the national sales tax and the VAT are taxes on consumption. Both taxes impose more of a burden on low-income taxpayers who must spend a larger proportion of their incomes on essential purchases. Thus, the taxes are regressive in effect.
  - b. At least in the case of a national sales tax, the regressive effect might be partly remedied by granting some sort of credit, rebate, or exemption to low-income taxpayers.
- 35. (LO 4, 5)
  - a. Due to the location of the business and the fact that the employees are "itinerant," Serena may be hiring undocumented aliens. Needless to say, this could cause serious nontax problems involving employment and immigration laws. As to tax problems, is Serena complying with the FICA and income tax withholding rules? Because of the high labor turnover Serena probably has, FUTA costs could be severe.
  - b. Very high. First, Serena is self-employed. Second, she operates on a cash basis. Third, the opportunity to understate income and/or overstate expenses is extremely high.
- 36. (LO 5)
  - a. A correspondence audit is probably involved. These audits involve a limited number of issues (i.e., taxpayer failed to report some dividend income) and most often are easily resolved.
  - b. What is described is an office audit.
  - c. The revenue agent's report (RAR) accepts the taxpayer's return as filed.
  - d. When a special agent becomes involved, this usually means that fraud is suspected.
- 37. (LO 5) In many unresolved audit disagreements at the agent level, the taxpayer should consider an appeal to the Appeals Division. Although it is part of the IRS, it is authorized to resolve audit disputes. It has greater settlement authority than does the agent. In many cases, a compromise reached at the Appeals Division can avoid a costly and time-consuming judicial proceeding.
- 38. (LO 5) The purpose of a statute of limitations is to preclude parties from prosecuting stale claims. The passage of time makes the defense of such claims difficult because witnesses and other evidence may no longer be available. In the Federal tax area, statutes of limitations cover additional assessments by the IRS and the pursuit of refund claims by taxpayers.
- 39. (LO 5)
  - a. The normal three-year statute of limitations will begin to run on April 15, 2016. When the return is filed early, the regular filing date controls.
  - b. Now the statute of limitations starts to run on the filing date. If the date of filing controlled (see part a. above), the taxpayer could shorten the assessment period by filing late.
  - c. If a return that is due is not filed, the statute of limitations does not start to run. It does not matter that the failure to file was due to an innocent error on the part of the taxpayer or adviser.

#### 2017 Comprehensive Volume/Solutions Manual

- d. Regardless of the fact that an innocent misunderstanding was involved, there is no statute of limitations when a return is not filed.
- 40. (LO 5) No. Interest is not paid if the refund is made within 45 days of when the return was filed. However, a return is not considered filed until its due date. Thus, the period from April 15 to May 28 does not satisfy the 45-day requirement.
- 41. (LO 5, 6)
  - a. Normally, the three-year statute of limitations applies to additional assessments the IRS can make. However, if a substantial omission from gross income is made, the statute of limitations is increased to six years. A substantial omission is defined as omitting in excess of 25% of the gross income reported on the return.
  - b. No, it would not. The proper procedure would be to advise Andy to disclose the omission to the IRS. Absent the client's consent, do not make the disclosure yourself.
  - c. If Andy refuses to make the disclosure and the omission has a material carryover effect to the current year, you should withdraw from the engagement.
- 42. (LO 5) \$4,000, determined as follows:

Failure to pay penalty $[.5\% \times \$40,000 \times 2 \text{ months}]$		\$ 400
Plus:		
Failure to file penalty $[5\% \times \$40,000 \times 2 \text{ months}]$	\$4,000	
Less failure to pay penalty for the same period	(400)	3,600
Total penalties		<u>\$4,000</u>

- 43. (LO 5)
  - a. \$100,000 (20% × \$500,000).
  - b.  $$375,000 (75\% \times $500,000)$ . The answer presumes that civil (not criminal) fraud is involved.
- 44. (LO 5, 6)
  - a. No. Because no return was filed, the statute of limitations never runs. But even if a return had been filed, the three-year period for the 2012 tax return would not expire until April 15, 2016, three years after the normal due date for filing.
  - b. Although you can only recommend that the return be filed, you cannot force him to do so. However, you should not undertake the engagement for 2013 through 2015 if you cannot correctly reflect the tax liability due to the omission for 2012.
- 45. (LO 5, 6) The practice of outsourcing the preparation of tax returns is ethical if three steps are taken.
  - Maintain client confidentiality.
  - Verify the accuracy of the work done.
  - Notify the client, preferably in writing, of the outsourcing.
- 46. (LO 7)
  - a. This is the ideal approach to handling a tax cut—for every dollar lost, a new dollar is gained.
  - b. Pay-as-you-go is another way of describing revenue neutrality. Thus, tax cuts should not result in an overall loss of revenue.

- c. All the sunset provision does is reinstate the law as it existed prior to the tax cut. Here, the possibility exists that Congress will rescind (or postpone) the sunset provision before it takes effect.
- d. Indexation is a procedure whereby the IRS makes annual adjustments to certain key tax components to take into account inflation. Some of the more important components that are adjusted include tax brackets, standard deduction, and personal and dependency exemptions.
- 47. (LO 7)
  - a. To encourage pension plans is to stimulate saving (economic consideration). Also, it provides security from the private sector for retirement to supplement rather meager public programs (social considerations).
  - b. To make education more widely available is to promote a socially desirable objective. A better educated workforce also serves to improve the country's economic capabilities. Thus, education tax incentives can be justified on both social and economic grounds.
  - c. The encouragement of home ownership can be justified on both social and economic grounds.
- 48. (LO 7, 8)
  - a. Social considerations explain the credit. It is socially desirable to encourage parents to provide care for their children while they work.
  - b. These deductions raise the issue of preferential tax treatment for homeowners—taxpayers who rent their personal residences do not receive comparable treatment. Even so, the encouragement of home ownership can be justified on economic and social grounds.
  - c. The joint return procedure came about to equalize the position of married persons living in common law states with those residing in community property jurisdictions. Political and equity considerations caused this result.
  - d. Social considerations dictate that the tax law should not be used to encourage certain activities that are deemed to be contrary to public policy.
  - e. The NOL carryback provision is an equity consideration that is designed to mitigate the effect of the annual accounting period concept.
  - f. The installment method of reporting gain is consistent with the wherewithal to pay concept—the seller is taxed when the payments are made by the purchaser.
  - g. The exclusion from Federal income taxation of interest from state and local bonds can be justified largely on political considerations. Political goodwill is generated by allowing state and local jurisdictions to secure financing at a lower cost (i.e., interest rate) due to favorable Federal income tax treatment.
  - h. The treatment of prepaid income is justified under the wherewithal to pay concept. It also eases the task of the IRS as to administration of the tax law.
- 49. (LO 7)
  - a. Mia's realized gain from the condemnation is \$320,000 [\$400,000 (amount of award) \$80,000 (cost basis of the warehouse)]. However, her recognized gain is limited to \$120,000—the amount received that was not reinvested.

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1-8 2017 Comprehensive Volume/Solutions Manual

- b. None of the gain is recognized because Mia reinvested the full amount of the condemnation award.
- c. As none of the gain was reinvested, the full \$320,000 is recognized as income.
- d. The involuntary conversion provision can be justified under the wherewithal to pay concept and the notion that the taxpayer's economic position has not changed. In part b., for example, Mia has retained none of the award and has reinvested in property similar to that taken by the city.
- 50. (LO 8) If the collection is worth more than \$1,000, the mother has probably made a gift of the excess value to the daughter. Quite possibly the transaction could result in the imposition of a gift tax. Sales or other transactions between related parties are subject to the arm's length test. In this case, for example, would the mother have made this sale for \$1,000 if the purchaser had been an unrelated third party?

#### SOLUTION TO ETHICS & EQUITY FEATURE

<u>Making Good Use of Out-of-State Relatives (p. 1-10)</u>. Who is the true purchaser of the bracelet? If the aunt really made the purchase with her funds and then gave the bracelet to Marcus, no sales or use tax evasion has occurred. More likely, the purchase was made by Marcus indirectly through his aunt—the aunt being reimbursed by Marcus or using funds provided by him. If such is the case, Marcus owes a sales tax on the purchase. Presuming the matter comes to light—the jewelry store might be the weak link—Marcus could be subject to prosecution for tax evasion.

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