JIM & PAM HALPERT

TAX PROBLEM --- AC 402 Fall, 2017

This tax problem should serve as an overview of the material covered to this point.

Jim and Pam Halpert are married taxpayers who live at 01812 Paper Avenue, Scranton, PA 16907. Jim is 65 years old, while Pam is 24. It is Jim's third marriage and Pam's first. Their social security numbers are 423-45-6789 (Jim) and 487-65-4321 (Pam).

Jim and Pam have six possible (you decide) dependents.

- Their oldest daughter, Kelly, is 22 years old works in Beverly Hills, CA where she lives. She is a part-time student at UCLA majoring in the theatrical arts. She worked on Rodeo Drive earning $4,100. Jim and Pam provided over half of her support. Her social security number is 423-44-3113.
- They have a daughter, Angela, who is 21 years old, goes to college full-time and worked in the summer earning $4,000. Her social security number is 424-77-6666. She also had unearned income of $1,075 in 2017.
- They have had a foster child, Dwight, living with them since 03/01/12. He is 8 years old and his Social Security number is 422-45-9843. He attended the "Beet's Daycare" ID # 67-08980808 at a cost of $4,200.
- Jim's mother, Meredith, is 84 years old and lives in a nursing home for medical reasons. Her gross income is $39,000. Jim and Pam send her $1,000 per month to help cover some of the cost of the nursing home. Her social security number is 455-23-8998. Her social security number is 555-22-3333.
- Pam's father, Stanley, lives with them and is a greeter at Sam-Mark. He earned $5,250 from the job. Jim and Pam provided over 50% of the support of her father. His social security number is 476-99-7374.
- Jim's good friend from Florida, Creed, is down on his luck in the Tallahassee jail. Jim sends him $500 per month. His social security number is 433-22-4447.

Jim is a salesman for Dunder-Mifflin, which has an excellent retirement plan for its employees (Jim participates in plan). His form W-2 shows his annual salary, federal income tax withholdings, and state income tax withholdings.

Wages	$	318,000
Federal Withholding Taxes		70,000
State Withholding Taxes		12,000

During 2017, Jim and Pam received interest and dividend income from several institutions. This information is summarized below from their Forms 1099-DIV and 1099-INT. In addition, Pam received $10,000 interest on Scranton County bonds.

Oscar Bank for Savings	$ 3,867
Pencil Corporation	1,470
Paper Corporation	2,210
(of which $742 a L/T capital gain distribution)	

In 2017, Jim and Pam paid an additional $2,000 in tax owed for their 2010 Pennsylvania income tax return.

In his job as salesman, most of Jim's expenses are reimbursed by his employer. However, the following expenses incurred in 2017 were not reimbursed:

Auto expenses (6,000 miles driven) . . . . $?

Parking fees and tolls on business trips 985

Entertainment expenses and business meals 2,474

Travel expenses on business trips (without meals) 3,475

Professional journal and trade subscriptions 874

Jim and Pam's personal records indicate that the following personal expenses were incurred in 2017.

Trip to Beverly Hills --- airfare and lodging. . . .	$ 8,049
while meals and entertainment	2,018
(trip was to visit Kelly)	
Preparation fee for 2016 tax return (paid in 2017)	2,400
IRA contribution	4,000
Health insurance premiums for the family	8,000
Unreimbursed physician charges	2,000
Property taxes	3,948
Sales taxes	11,456
Transportation to hospital (950 miles)	?
Prescription drugs	1,948
Contributions made in cash to United Way	5,393
Contributions made in cash to qualified charity	9,600
Home mortgage interest (qualifying residential)	12,589
Home mortgage interest on houseboat with living quarters .	3,888
Home mortgage interest on Condominium	4,999

Investment interest expense	6,000
Credit Card interest	10,375
Job hunting expenses	1,098
Personal property tax on value of personal autos	656
Estimated state income tax payments by Pam in 2017 . .	30,000
Contributions of LT capital gain property	Cost 2,897
(to a qualified charity)	FMV 8,000

Tsunami Michael totally destroyed the Halpert's condominium at Honolulu, Hawaii. It cost $200,000 in 1998 and its FMV before the tsunami was $305,000. Jim and Pam collected in 2017 an insurance reimbursement of $250,000. They do not plan to re-build.

Jim and Pam incurred the following transactions involving capital assets in 2017.

- On May 12, 2017, Pam sold 800 shares of Paper stock. Her basis in the stock was $10,220 (December 12, 1992) and she sold it for $16,200.
- On January 28, 2017, the Halpert's sold 2,000 shares of Jokester stock for $22,654. Jim had inherited the stock from his grandmother in 1986. His grandmother had originally purchased it for $876 on June 12, 1982. The stock was worth $10,589 on the date of her death.
- On August 31, 2017, the Halpert's discovered that their 1,000 shares of Paper Clip Corporation stock was worthless. Jim had purchased the shares for $3,000 in 1992.
- On May 12, 2017, Jim sold his personal desk. He had purchased it from his dad for $4,000 on May 30, 1998. He sold it for $2,560.

Pam Halpert owns and operates a bar called, “Chili’s,” which is located at Hooter’s Avenue, Scranton, PA 39876. Her employer ID number, is 67-87654321. She uses the cash method of accounting for tax purposes and reports her inventory on the cost basis. She is fully at-risk. Her accounting records disclose the following for 2017.

Gross receipts . . . . $ 589,958

Purchases 198,484

Physical inventory, 12/31/16 10,049

Physical inventory, 12/31/17 14,490

Gross wages paid to several employees 160,000

Various Insurance premiums paid (not health). 39,094

Office expense 6,097

Taxes and license expenses 11,484

Bad debts proven uncollectible 24,859

Business meals and entertainment (gross) 3,679

Legal and professional services expense 7,099

Mortgage interest paid on building 13,659

Advertising expenses 1,376

Supplies (not included in inventories) 1,598

Utilities expense 4,569

Miscellaneous expenses   2,658

"Payments" to city officials allowing her to operate . .   10,000

As a self-employed person, Pam Halpert made four estimated federal income tax payments all in 2017 of $10,000 each for a total of $40,000.

During 2017, Pam used the following assets in her business:

- Two vans were originally acquired and placed in service on 6/21/17 for $16,000 each. Pam elected MACRS recovery on the autos (5-year property). The vans were used 100% for business purposes in 2017. No section 179 was taken.
- Furniture and fixtures were acquired on 06/11/16, for $39,498.
- Pam acquired a building for her business on 02/06/08, for $425,000.
- Pam's purchased and placed in service computers and peripherals bought on June 1 for $15,321. She does not elect section 179 expensing on these items.

Jim has a hobby of modelling. His hobby income for 2017 was $9,000. He had the following expenses: Depreciation $3,500. Expenses had he been involved in a real business were $7,502. He had no mortgage interest, but did have taxes of $3,000.

The Halpert's own and rent-out a vacation home which was used for personal purposes by the Halpert' for 19 days and rented for 101 days. They received rents of $18,567 in 2017. Their expenses are as follows: cleaning and maintenance, $2,890; mortgage interest, $10,790; commissions, $2,000; real estate taxes, $4,001; and insurance $3,000. The home was acquired on June 30, 1988 for $325,000. They spend less than 20 hours per year dealing with the rental property.

Jim donated his services to his church at a value of $10,000, while Pam donated beverages from her bar to a qualified charity at a value of $4,000 and a cost of 1,000.

REQUIREMENTS

Prepare the Halpert's calendar year 2017 (on 2016 forms) federal income tax return, with supporting schedules and attachments (signed by you as preparer) in a form suitable for filing with the Internal Revenue Service.

1. The goal is to use all opportunities under the law to minimize the 2017 federal income tax. Assume that same goal (i.e., to minimize each year's current tax liability) has been used in the past.

2. Disregard any possible penalties for underpayment of estimated taxes (Form 2210).

3. Do not prepare a state income tax return.

4. Use whole dollars in preparing the tax return.

5. When a form calls for information not provided above, make assumptions that appear reasonable in the circumstances and complete the forms. For example, Form 1040, Schedule B asks whether the taxpayer is a grantor of a foreign trust. Answer - No.

6. Fill out all required forms even if it does not provide the Halpert's with a tax deduction.

7. Calculate the tax using the appropriate 2017 tax rate schedule (i.e., bypass the Tax Tables, even if their use would otherwise be required).

8. Do not prepare returns on any other potential dependents.

9. You may need the following 2016 forms: 1040, Schedules A,B,C,D,E,SE; 2106, 4562 (several copies), 2441, 4684, 4952, 8283, 8582. You can download the forms from the IRS homepage (you need to have adobe acrobat reader).

10. DO NOT USE COMPUTER SOFTWARE IN ANY INSTANCE. The purpose of the problem is help you understand and utilize the laws we have learned.

ABSOLUTELY NO INDIVIDUALS WILL WORK TOGETHER IN ANY WAY, SHAPE, FORM OR FASHION ON THIS TAX PROBLEM. DOING SO WILL RESULT IN AN "F" IN THIS COURSE WHERE VIOLATION OF THE UAB HONOR CODE HAS OCCURRED. IF YOU HAVE ANY QUESTIONS REGARDING THIS, PLEASE CONTACT ME BEFORE ANY PROBLEMS ARE DISCOVERED.