

Cumulative Problems

Tax Return Problem
Decision Making
Communications



TAX SOFTWARE

58. Daniel B. Butler and Freida C. Butler, husband and wife, file a joint return. The Butlers live at 625 Oak Street in Corbin, KY 40701. Dan's Social Security number is 111-11-1111, and Freida's is 123-45-6789. Dan was born on January 15, 1963, and Freida was born on August 20, 1964.

During 2013, Dan and Freida furnished over half of the total support of each of the following individuals, all of whom still live at home:

- a. Gina, their daughter, age 22, a full-time student, who married on December 21, 2013, has no income of her own and for 2013 did not file a joint return with her husband, Casey, who earned \$10,600 during 2013. Gina's Social Security number is 123-45-6788.
- b. Sam, their son, age 20, who had gross income of \$6,300 in 2013, dropped out of college in October 2013. He had graduated from high school in May 2013. Sam's Social Security number is 123-45-6787. *> 5 mos FT student*
- c. Ben, their oldest son, age 26, is a full-time graduate student with gross income of \$5,200. Ben's Social Security number is 123-45-6786. *Too old to be QC*

Dan was employed as a manager by WJJ, Inc. (employer identification number 11-1111111, 604 Franklin Street, Corbin, KY 40702), and Freida was employed as a salesperson for Corbin Realty, Inc. (employer identification number 98-7654321, 899 Central Street, Corbin, Ky 40701). Selected information from the W-2 Forms provided by the employers is presented below. Dan and Freida use the cash method.

Line	Description	Dan	Freida
1	Wages, tips, other compensation	\$74,000	\$86,000
2	Federal income tax withheld	\$11,000	\$12,400
17	State income tax withheld	\$2,960	\$3,440

*Cash Basis
do not include
until 2014*

Freida sold a house on December 30, 2013, and will be paid a commission of \$3,100 (not included in the \$86,000 reported on the W-2) on the January 10, 2014 closing date.

Other income (as reported on 1099 Forms) for 2013 consisted of the following:

Dividends on CSX stock (qualified)	\$4,200	<i>line 9a and 9b</i>
Interest on savings at Second Bank	1,600	<i>line 8a</i>
Interest on City of Corbin bonds	900	<i>minus line 8b</i>
Interest on First Bank CD	382	<i>line 8a</i>

*Assume
this was reported
on a 1099-INT*

The \$382 from First Bank was original issue discount. Dan and Freida collected \$16,000 on the First Bank CD that matured on September 30, 2013. The CD was purchased on October 1, 2011, for \$14,995, and the yield to maturity was 3.3%.

Dan received a Schedule K-1 from the Falcon Partnership, which showed his distributive share of income as \$7,000. In addition to the above information, Dan and Freida's itemized deductions included the following:

Paid on 2013 Kentucky income tax in April 2013	\$ 700	<i>Pymts Input</i>
Personal property tax paid	600	<i>Sch A ln 7</i>
Real estate taxes paid	1,800	<i>Sch A ln 6</i>
Interest on home mortgage (Corbin S&L) 1098 mt	4,900	<i>Sch A ln 10</i>
Cash contributions to the Boy Scouts	800	<i>Sch A ln 16</i>

*Assume
material participation
don't worry about rest of
K-1
Pymt Input*

Sales tax from the sales tax table is \$1,860. Dan and Freida made Federal estimated tax payments of \$8,000. The Kentucky income tax rate is 4%.

Part I—Tax Computation

Compute Dan and Freida's 2013 Federal income tax payable (or refund due). If you use tax forms for your computations, you will need Form 1040 and Schedules A, B, and E. Suggested software: H&R BLOCK Tax Software.