

## Decision Making

57. **LO.1, 3, 4** During the current year, Robert pays the following amounts associated with his own residence:

Property taxes	\$3,000
Mortgage interest	8,000
Repairs	1,200
Utilities	2,700
Replacement of roof	4,000

In addition, Robert paid \$1,500 of property taxes on the home that is owned and used by Anne, his daughter.

- Which of these expenses can Robert deduct?
- Can Anne deduct the \$1,500 of property taxes?
- Are the deductions for AGI or from AGI (itemized)?
- How could the tax consequences be improved?

## Cumulative Problems

## Tax Return Problem



TAX SOFTWARE

58. Roberta Santos, age 41, is single and lives at 120 Sanborne Avenue, Springfield, IL 60781. Her Social Security number is 123-45-6789. Roberta has been divorced from her former husband, Wayne, for three years. She has a son, Jason, who is 17, and a daughter, June, who is 18. Jason's Social Security number is 111-11-1111, and June's is 123-45-6788. Roberta does not want to contribute \$3 to the Presidential Election Campaign Fund.

Roberta, an advertising executive, earned a salary of \$80,000 in 2013. Her employer withheld \$9,000 in Federal income tax and \$3,100 in state income tax. *Sch A line 5a*

Roberta has legal custody of Jason and June. The divorce decree provides that Roberta is to receive the dependency deductions for the children. Jason lives with his father during summer vacation. Wayne indicates that his expenses for Jason are \$10,500. Roberta can document that she spent \$6,500 for Jason's support during 2013. In prior years, Roberta gave a signed Form 8332 to Wayne regarding Jason. For 2013, she has decided not to do so. Roberta provides all of June's support.

Roberta's mother died on January 7, 2013. Roberta inherited assets worth \$625,000 from her mother. As the sole beneficiary of her mother's life insurance policy, Roberta received insurance proceeds of \$300,000. Her mother's cost basis for the life insurance policy was \$120,000. Roberta's favorite aunt gave her \$13,000 for her birthday in October.

On November 8, 2013, Roberta sells for \$22,000 Amber stock that she had purchased for \$24,000 from her first cousin, Walt, on December 5, 2008. Walt's cost basis for the stock was \$26,000, and the stock was worth \$23,000 on December 5, 2008. On December 1, 2013, Roberta sold Falcon stock for \$13,500. She had acquired the stock on July 2, 2010, for \$8,000. *13,500 - 8,000 = 5,500*

An examination of Roberta's records reveals that she received the following:

- Interest income of \$2,500 from First Savings Bank. *Sch B use input 1040*
- Groceries valued at \$750 from a local grocery store for being the 100,000th customer. *line 21*
- Qualified dividend income of \$1,800 from Amber. *9a and 9b*
- Interest income of \$3,750 on City of Springfield school bonds. *muni = exempt line 8*
- Alimony of \$16,000 from Wayne. *Form 1040 line 11*
- Distribution of \$4,800 from ST Partnership. Her distributive share of the partnership passive taxable income was \$5,300. She had no prior passive losses. *taxable*

From her checkbook records, she determines that she made the following payments during 2013:

- Charitable contributions of \$4,500 to First Presbyterian Church and \$1,500 to the American Red Cross (proper receipts obtained). *Sch A*
- Mortgage interest on her residence of \$7,800. *Sch A*
- Property taxes of \$3,200 on her residence and \$1,100 (ad valorem) on her car. *Sch A*
- Estimated Federal income taxes of \$3,800 and estimated state income taxes of \$1,000. *Sch A*
- Medical expenses of \$5,000 for her and \$800 for Jason. In December, her medical insurance policy reimbursed \$1,500 of her medical expenses. *5,800 - 1,500 = 4,300 Sch A line 1*
- A \$1,000 ticket for parking in a handicapped space. *Sch A line 5a*

*Roberta gets both as she is custodial parent*

*Amber = 2000 LTCL*

*Falcon = 5500 LTCG*

*Net = 3500 LTCG*

*Back Sch E line 28 consider passive*

*Sch A RE tax*

*1040 line 63*



- Attorney's fees of \$500 associated with unsuccessfully contesting the parking ticket.
- Contribution of \$250 to the campaign of a candidate for governor.
- Because she did not maintain records of the sales tax she paid, she calculates the amount from the sales tax table to be \$994. *← state memo ref*

Calculate Roberta's net tax payable or refund due for 2013. If you use tax forms, you will need Form 1040 and Schedules A, B, D, and E. Suggested software: *H&R BLOCK Tax Software. + Form 8949 Pro Series*

59. John and Mary Jane Diaz are married, filing jointly. Their address is 204 Shoe Lane, Blacksburg, VA 24061. John is age 35, and Mary Jane is age 30. They are expecting their first child in early 2015. John's salary in 2014 was \$105,000, from which \$20,800 of Federal income tax and \$4,700 of state income tax were withheld. Mary Jane made \$52,000 and had \$3,000 of Federal income tax and \$3,100 of state income tax withheld. The appropriate amounts of FICA tax and Medicare tax were withheld for John and for Mary Jane. John's Social Security number is 111-11-1111, and Mary Jane's Social Security number is 123-45-6789.

John and Mary Jane are both covered by their employer's medical insurance policies with four-fifths of the premiums being paid by the employers. The total premiums were \$10,000 for John and \$6,200 for Mary Jane. Mary Jane received medical benefits of \$7,300 under the plan. John was not ill during 2014. Mary Jane paid noncovered medical expenses of \$1,300. *Sch A line 1*

John makes child support payments of \$15,000 for his son, Rod, who lives with June, John's former spouse, except for two months in the summer when he visits John and Mary Jane. At the time of the divorce, John worked for a Fortune 500 company and received a salary of \$225,000. As a result of corporate downsizing, he lost his job.

Mary Jane's father lived with them until his death in November. His only sources of income were salary of \$2,800, unemployment compensation benefits of \$3,500, and Social Security benefits of \$4,100. Of this amount, he deposited \$6,000 in a savings account. The remainder of his support of \$9,500, which included funeral expenses of \$4,500, was provided by John and Mary Jane. *9500 - 4500 = 5000 support*

Other income received by the Diazes was as follows:

Interest on certificates of deposit *Sch B answer 7 & 8 Bottom*

Share of S corporation taxable income (distributions from the S corporation to Mary Jane were \$1,400)

Award received by Mary Jane from employer for an outstanding suggestion for cutting costs

John has always wanted to operate his own business. In October 2014, he incurred expenses of \$15,000 in investigating the establishment of a retail computer franchise. With the birth of their child expected next year, however, he decides to forgo self-employment for at least a couple of years.

John and Mary Jane made charitable contributions of \$3,700 during the year and paid an additional \$1,800 in state income taxes in 2014 upon filing their 2013 state income tax return. Their deductible home mortgage interest was \$8,200, and their property taxes came to \$4,800. They paid sales taxes of \$2,000, for which they have receipts. They paid a ticket of \$150 that Mary Jane received for running a red light (detected by a red light camera).

#### Part 1—Tax Computation

Calculate John and Mary Jane's tax (or refund) due for 2014.

#### Part 2—Tax Planning

Assume that the Diazes come to you for advice in December 2014. John has learned that he will receive a \$30,000 bonus. He wants to know if he should take it in December 2014 or in January 2015. Mary Jane will quit work on December 31 to stay home with the baby. Their itemized deductions will decrease by \$3,100 because Mary Jane will not have state income taxes withheld. Mary Jane will not receive the employee award in 2015. She expects the medical benefits received to be \$9,000. The Diazes expect all of their other income items to remain the same in 2015. Write a letter to John and Mary Jane that contains your advice and prepare a memo for the tax files.

Tax Computation Problem

Decision Making

Communications

$$10000 + 6200 = 16200$$

$$= 3240 \text{ Sch } 5 \text{ A line 1}$$

$$2800 \text{ earned}$$

$$3500$$

$$4100$$

$$10400 - 6000 = 4400$$

*toward support*

$$1040$$

$$8a$$

$$1,500 \text{ Back Sch E}$$

$$4,000 \text{ add to MJ's income for W-2 wages}$$

*cannot deduct - not in same BS and new BS not acquired*

*Do full manual return for 2014*