

Decision Making

61. **LO.8, 9** Chris purchased an oil interest for \$2 million. Recoverable barrels were estimated to be 500,000. During the year, 120,000 barrels were sold for \$3.84 million, other business expenses (including cost recovery) were \$1.24 million, and IDCs were \$1 million. Calculate Chris's taxable income under the expensing and capitalization methods of accounting for IDCs.

Cumulative Problems

Tax Return Problem



TAX SOFTWARE

62. Janice Morgan, age 32, is single and has no dependents. She is a freelance writer. In January 2013, Janice opened her own office located at 2751 Waldham Road, Pleasant Hill, NM 88135. She called her business Writers Anonymous. Janice is a cash basis taxpayer. She lives at 132 Stone Avenue, Pleasant Hill, NM 88135. Her Social Security number is 123-45-6789. Janice wants to contribute to the Presidential Election Campaign Fund.

During 2013, Janice reported the following income and expense items connected with her business. *Sch C*

Income from sale of articles	\$85,000 = Revenue
Rent — for "other Bs" property	16,500
Utilities	7,900
Supplies	1,800
Insurance	5,000
Travel (including meals of \$1,200)	3,500 — 1200 = 2300

meals = half will do but not 50% will do this for you

less meals separate line

Janice purchased and placed in service the following fixed assets for her business. Janice wants to elect immediate expensing under § 179.

- Furniture and fixtures (new) costing \$21,000 on January 10.
- Computer equipment (new) costing \$12,400 on July 28.

Janice's itemized deductions include:

State income tax	\$3,000
Home mortgage interest paid to First Bank	6,000
Property taxes on home	1,500
Charitable contributions	1,200

Sch A

Janice did not keep a record of the sales tax she paid. The pertinent amount from the sales tax table is \$437. *Sch A... Sch B*

Janice reports interest income of \$4,000 on certificates of deposit at Second Bank. Janice makes estimated tax payments of \$3,000 for 2013. *Tax Pymts Fed*

Compute Janice Morgan's 2013 Federal income tax payable (or refund due). If you use tax forms for your computations, you will need Forms 1040 and 4562 and Schedules A, B, and C. Suggested software: H&R BLOCK Tax Software. *or ProSeries*

In Pro Series click on deprec line on Sch C to access asset entry. Shows up on Form 4562,

Tax Computation Problem

Decision Making

Communications

63. John Smith, age 31, is single and has no dependents. At the beginning of 2014, John started his own excavation business and named it Earth Movers. John lives at 1045 Center Street, Lindon, UT, and his business is located at 381 State Street, Lindon, UT. The ZIP Code for both addresses is 84042. John's Social Security number is 111-11-1111, and the business identification number is 11-1111111. John is a cash basis taxpayer. *EIN*

During 2014, John reports the following items in connection with his business.

Fee income for services rendered	\$460,000
Building rental expense = other Bs	36,000
Office furniture and equipment rental expense = equipment	9,000
Office supplies	2,500
Utilities	4,000
Salary for secretary	34,000
Salary for equipment operators	42,000
Payroll taxes	7,000
Fuel and oil for the equipment	21,000

→ Purchase of three new front-end loaders on January 15, 2014, for \$550,000. *Treat as one asset entry* 550,000

Purchase of a new dump truck on January 18, 2014 80,000

use § 179 for proportional not used by truck,

add'l asset entry § 179 for all

During 2014, John recorded the following additional items.

Interest income from First National Bank	\$10,000	} Sch B
Dividends from ExxonMobil	9,500	
Quarterly estimated tax payments	11,500	

assume qualified

Fed Tax pymts.

for now this is not available expired 12-31-13

John does not claim any available additional first-year depreciation. On October 8, 2014, John inherited IBM stock from his Aunt Mildred. John had been her favorite nephew. According to the data provided by the executor of Aunt Mildred's estate, the stock was valued for estate tax purposes at \$110,000. John is considering selling the IBM stock for \$125,000 on December 29, 2014, and using \$75,000 of the proceeds to purchase an Acura ZDX. He would use the car 100% for business. John wants to know what effect these transactions would have on his 2014 adjusted gross income.

Form 1040 4562

Sch A SE B C

Write a letter to John in which you present your calculations and prepare a memo for the tax files. Ignore any Federal self-employment tax implications.

Use Tax Rate Schedule to Calculate tax

Break out dividends @ 15%

Research Problems

Note: Solutions to Research Problems can be prepared by using the **Checkpoint® Student Edition** online research product, which is available to accompany this text. It is also possible to prepare solutions to the Research Problems by using tax research materials found in a standard tax library.



Research Problem 1. Your client, Dave's Sport Shop, sells sports equipment and clothing in three retail outlets in New York City. Earlier this year, the CFO decided that keeping track of inventory using a combination of QuickBooks and Excel was not an efficient way to manage the stores' inventories. So Dave's purchased an inventory management system for \$9,000 that allowed the entity to keep track of inventory, as well as automate ordering and purchasing, without replacing QuickBooks for its accounting function.

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The CFO would like to know whether the cost of the inventory management program can be expensed in the year of purchase. Write a letter to the CFO, Cassandra Martin, that addresses the tax treatment of purchased software. Cassandra's mailing address is 867 Broadway, New York, NY 10003.

Research Problem 2. In 2010, Jed James began planting a vineyard. The costs of the land preparation, labor, rootstock, and planting were capitalized. The land preparation costs do not include any nondepreciable land costs. In 2014, when the plants became viable, Jed placed the vineyard in service. Jed wants to know whether he can claim a deduction under § 179 on his 2014 income tax return for the costs incurred in 2010 with respect to planting the vineyard.

Research Problem 3. Juan owns a business that acquires exotic automobiles that are high-tech, state-of-the-art vehicles with unique design features or equipment. The exotic automobiles are not licensed or set up to be used on the road. Rather, the cars are used exclusively for car shows or related promotional photography. With respect to the exotic automobiles, Juan would like to know whether he can take a cost recovery deduction on his Federal income tax return.

*Partial list of research aids:
Bruce Selig, 70 TCM 1125, T.C.Memo. 1995-519.*

Use the tax resources of the Internet to address the following questions. Do not restrict your search to the Web, but include a review of newsgroups and general reference materials, practitioner sites and resources, primary sources of the tax law, chat rooms and discussion groups, and other opportunities.



Research Problem 4. Locate a financial calculator program that assesses the wisdom of buying versus leasing a new car. Install the program on your computer and become familiar with it. Use the program to work through Problem 54 in this chapter.

Research Problem 5. Changes to depreciation systems often are discussed by policymakers and observers of the tax system. Outline the terms and policy objectives of one of the changes currently proposed by the Treasury, a member of Congress, or a tax policy think tank.

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