recommendation on filing status for 2014. Bart and Susan reside at 2003 Highland Drive, Durham, NC 27707.

43. **LO.2, 3, 4, 5, 6, 7, 8** Linda, age 37, who files as a single taxpayer, had AGI of $280,000 for 2014. She incurred the following expenses and losses during the year:

| | |
|---|---|
| Medical expenses before the 10%-of-AGI limitation | $33,000 |
| State and local income taxes | 4,500 |
| State sales tax | 1,300 |
| Real estate taxes | 4,000 |
| Home mortgage interest | 5,000 |
| Automobile loan interest | 750 |
| Credit card interest | 1,000 |
| Charitable contributions | 7,000 |
| Casualty loss before 10% limitation (after $100 floor) | 34,000 |
| Unreimbursed employee expenses subject to the 2%-of-AGI limitation | 7,600 |

Calculate Linda's allowable itemized deductions for the year.

44. **LO.2, 3, 4, 5, 6, 7, 8** For calendar year 2014, Stuart and Pamela Gibson file a joint return reflecting AGI of $350,000. Their itemized deductions are as follows:

| | |
|---|---|
| Casualty loss after $100 floor (not covered by insurance) | $48,600 |
| Home mortgage interest | 19,000 |
| Credit card interest | 800 |
| Property taxes on home | 16,300 |
| Charitable contributions | 28,700 |
| State income tax | 18,000 |
| Tax return preparation fees | 1,200 |

Calculate the amount of itemized deductions the Gibsons may claim for the year.

## Cumulative Problems

Tax Return Problem

Decision Making

H&R BLOCK

TAX SOFTWARE

Pro Series

AGI
$122,850
Taxable Income
$91,785

45. Alice J. and Bruce M. Byrd are married taxpayers who file a joint return. Their Social Security numbers are 123-45-6789 and 111-11-1111, respectively. Alice's birthday is September 21, 1966, and Bruce's is June 27, 1965. They live at 473 Revere Avenue, Lowell, MA 01850. Alice is the office manager for Lowell Dental Clinic, 433 Broad Street, Lowell, MA 01850 (employer identification number 98-7654321). Bruce is the manager of a Super Burgers fast-food outlet owned and operated by Plymouth Corporation, 1247 Central Avenue, Hauppauge, NY 11788 (employer identification number 11-1111111).

The following information is shown on their Wage and Tax Statements (Form W-2) for 2013.

| Line | Description | Alice | Bruce |
|---|---|---|---|
| 1 | Wages, tips, other compensation | $58,000 | $62,100 |
| 2 | Federal income tax withheld | 4,500 | 6,300 |
| 3 | Social Security wages | 58,000 | 62,100 |
| 4 | Social Security tax withheld | 3,596 | 3,850 |
| 5 | Medicare wages and tips | 58,000 | 62,100 |
| 6 | Medicare tax withheld | 841 | 900 |
| 15 | State | Massachusetts | Massachusetts |
| 16 | State wages, tips, etc. | 58,000 | 62,100 |
| 17 | State income tax withheld | 2,950 | 3,100 |

check to make sure automatic agrees

The Byrds provide over half of the support of their two children, Cynthia (born January 25, 1989, Social Security number 123-45-6788) and John (born February 7, 1993, Social Security number 123-45-6786). Both children are full-time students and live with the Byrds except when they are away at college. Cynthia earned $4,200 from a summer internship in 2013, and John earned $3,800 from a part-time job.

During 2013, the Byrds furnished 60% of the total support of Bruce's widower father, Sam Byrd (born March 6, 1937, Social Security number 123-45-6787). Sam lived alone and covered the rest of his support with his Social Security benefits. Sam died in November, and Bruce, the beneficiary of a policy on Sam's life, received life insurance proceeds of $800,000 on December 28.

The Byrds had the following expenses relating to their personal residence during 2013: Sch A

| | |
|---|---|
| Property taxes = R/E Taxes | $5,000 |
| Qualified interest on home mortgage | 8,800 |
| Repairs to roof | 5,750 |
| Utilities | 4,100 |
| Fire and theft insurance | 1,900 |

The following facts relate to medical expenses for 2013:

| | | |
|---|---|---|
| Medical insurance premiums | $4,500 | Sch A |
| Doctor bill for Sam incurred in 2012 and not paid until 2013 | 7,600 | |
| Operation for Sam | 8,500 | |
| Prescription medicines for Sam | 900 | |
| Hospital expenses for Sam | 3,500 | |
| Reimbursement from insurance company, received in 2013 | 3,600 | |

The medical expenses for Sam represent most of the 60% that Bruce contributed toward his father's support.

Other relevant information follows:

- When they filed their 2012 state return in 2013, the Byrds paid additional state income tax of $900.
- During 2013, Alice and Bruce attended a dinner dance sponsored by the Lowell Police Disability Association (a qualified charitable organization). The Byrds paid $300 for the tickets. The cost of comparable entertainment would normally be $50. 300-50 = 250
- The Byrds contributed $5,000 to Lowell Presbyterian Church and gave used clothing (cost of $1,200 and fair market value of $350) to the Salvation Army. All donations are supported by receipts, and the clothing is in very good condition.
- In 2013, the Byrds received interest income of $2,750, which was reported on a Form 1099–INT from Second National Bank. Sch B
- Alice's employer requires that all employees wear uniforms to work. During 2013, Alice spent $450 on new uniforms and $225 on laundry charges. 2106 - alice
- Bruce paid $400 for an annual subscription to the *Journal of Franchise Management*. 2106 — Bruce
- Neither Alice's nor Bruce's employer reimburses for employee expenses.
- The Byrds do not keep the receipts for the sales taxes they paid and had no major purchases subject to sales tax.
- Alice and Bruce paid no estimated Federal income tax. Neither Alice nor Bruce wants to designate $3 to the Presidential Election Campaign Fund.

*Part 1—Tax Computation*

Compute net tax payable or refund due for Alice and Bruce Byrd for 2013. If they have overpaid, they want the amount to be refunded to them. If you use tax forms for your computations, you will need Forms 1040 and 2106 and Schedules A and B. Suggested software: ~~H&R BLOCK Tax Software~~. ProSeries

*Part 2—Tax Planning*

Alice and Bruce are planning some significant changes for 2014. They have provided you with the following information and asked you to project their taxable income and tax liability for 2014.

The Byrds will invest the $800,000 of life insurance proceeds in short-term certificates of deposit (CDs) and use the interest for living expenses during 2014. They expect to earn total interest of $32,000 on the CDs.

Bruce has been promoted to regional manager, and his salary for 2014 will be $88,000. He estimates that state income tax withheld will increase by $4,000 and the Social Security tax withheld will be $5,456.

Alice, who has been diagnosed with a serious illness, will take a leave of absence from work during 2014. The estimated cost for her medical treatment is $15,400, of which $6,400 will be reimbursed by their insurance company in 2014. Their medical insurance premiums will increase to $9,769.

John will graduate from college in December 2013 and will take a job in New York City in January 2014. His starting salary will be $46,000.

Assume that all of the information reported in 2013 will be the same in 2014 unless other information has been presented above.

Tax Computation Problem

Manual Return

46. Paul and Donna Decker are married taxpayers, ages 44 and 42, respectively, who file a joint return for 2014. The Deckers live at 1121 College Avenue, Carmel, IN 46032. Paul is an assistant manager at Carmel Motor Inn, and Donna is a teacher at Carmel Elementary School. They present you with W–2 forms that reflect the following information:

| | Paul | Donna |
|---|---|---|
| Salary | $68,000 | $56,000 |
| Federal tax withheld | 6,770 | 6,630 |
| State income tax withheld | 900 | 800 |
| FICA (Social Security and Medicare) withheld | 5,202 | 4,284 |
| Social Security numbers | 111-11-1111 | 123-45-6789 |

Donna is custodial parent

Donna is the custodial parent of two children from a previous marriage who reside with the Deckers through the school year. The children, Larry and Jane Parker, reside with their father, Bob, during the summer. Relevant information for the children follows:

| | Larry | Jane |
|---|---|---|
| Age | 17 | 18 |
| Social Security numbers | 123-45-6788 | 123-45-6787 |
| Months spent with Deckers | 9 | 9 |

8949 Part II – A for stk sale

Under the divorce decree, Bob pays child support of $150 per month per child during the nine months the children live with the Deckers. Bob says that he spends $200 per month per child during the three summer months they reside with him. Donna and Paul can document that they provide $2,000 support per child per year. The divorce decree is silent as to which parent can claim the exemptions for the children.

300 X 25 = Basis

15000 - Basis = LTCG

In August, Paul and Donna added a suite to their home to provide more comfortable accommodations for Hannah Snyder (123-45-6786), Donna's mother, who had moved in with them in February 2013 after the death of Donna's father. Not wanting to borrow money for this addition, Paul sold 300 shares of Acme Corporation stock for $50 per share on May 3, 2014, and used the proceeds of $15,000 to cover construction costs. The Deckers had purchased the stock on April 29, 2009, for $25 per share. They received dividends of $750 on the jointly owned stock a month before the sale.

assume qualified dividends

own half of Hannah support

SS not counted as income

Hannah, who is 66 years old, received $7,500 in Social Security benefits during the year, of which she gave the Deckers $2,000 to use toward household expenses and deposited the remainder in her personal savings account. The Deckers determine that they have spent $2,500 of their own money for food, clothing, medical expenses, and other items for Hannah. They do not know what the rental value of Hannah's suite would be, but they estimate it would be at least $300 per month.

Interest paid during the year included the following:

Sch A

| | |
|---|---|
| Home mortgage interest (paid to Carmel Federal Savings & Loan) | $7,890 |
| Interest on an automobile loan (paid to Carmel National Bank) | ~~1,660~~ |
| Interest on Citibank Visa card | ~~620~~ |

In July, Paul hit a submerged rock while boating. Fortunately, he was uninjured after being thrown from the boat and landing in deep water. However, the boat, which was uninsured, was destroyed. Paul had paid $25,000 for the boat in June 2013, and its value was appraised at $18,000 on the date of the accident.

Part I Form 4684

Casualty = lesser of adjtd basis or decrease in FMV less 100 less 10% AGI

10,700 + 5904 − 2000 + 640

The Deckers paid doctor and hospital bills of $10,700 and were reimbursed $2,000 by their insurance company. They spent $640 for prescription drugs and medicines and $5,904 for premiums on their health insurance policy. They have filed additional claims of $1,200 with their insurance company and have been told they will receive payment for that amount in January 2015. Included in the amounts paid for doctor and hospital bills were payments of $380 for Hannah and $850 for the children.

— don't have to include until next year

Additional information of potential tax consequence follows:

| | |
|---|---|
| Real estate taxes paid | $3,850 |
| Sales taxes paid (per table) | ~~1,379~~ state income higher |
| Contributions to church | 1,950 |
| Appraised value of books donated to public library | 740 Form 8283 → Sch A |
| Paul's unreimbursed employee expenses to attend hotel management convention: | |
| Airfare | 340 |
| Hotel | 170 |
| Meals | 1/2 × 95 |
| Registration fee | 340 |
| | 2106 |
| Refund of state income tax for 2013 (the Deckers itemized on their 2013 Federal tax return) | 1,520 line 10 of 1040 |

Compute net tax payable or refund due for the Deckers for 2014. Ignore the child tax credit in your computations. If the Deckers have overpaid, the amount is to be credited toward their taxes for 2015. 1040, 8949, 8283

Schedules A, D

AGI = # 133,770

Tax = # 13763

## Research Problems

THOMSON REUTERS CHECKPOINT®

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.** Ken and Mary Jane Blough, your neighbors, have asked you for advice after receiving correspondence in the mail from the IRS. You learn that the IRS is asking for documentation in support of the itemized deductions the Bloughs claimed on a recent tax return. The Bloughs tell you that their income in the year of question was $75,000. Because their record-keeping habits are poor, they felt justified in claiming itemized deductions equal to the amounts that represent the average claimed by other taxpayers in their income bracket. These averages are calculated and reported by the IRS annually based on actual returns filed in an earlier year. Accordingly, they claimed medical expenses of $7,102, taxes of $6,050, interest of $10,659, and charitable contributions of $2,693. What advice do you give the Boughs?

*Partial list of research aids:*
*Cheryl L. de Werff*, T.C. Summary Opinion, 2011–29.

**Research Problem 2.** Tom and Mary Smith, whose son was found murdered in a parking garage, offered a $100,000 reward for the city police to use to obtain information leading to the arrest and conviction of the murderer. As a result of the reward, a person who had overheard the murderer telling a friend about the crime reported the conversation to the police. The murderer was arrested and convicted, and the Smiths contributed the money to the police department, which gave the reward to the informant. Can the Smiths treat the payment as an itemized deduction? Explain.

Communications

**Research Problem 3.** Marcia, a shareholder in a corporation with stores in five states, donated stock with a basis of $10,000 to a qualified charitable organization in 2013. Although the stock of the corporation was not traded on a public stock exchange, many shares had been sold over the past several years. Based on the average selling price for the stock in 2013, Marcia deducted $95,000 on her 2013 tax return. Marcia received a notice from the IRS that the $95,000 deduction had been reduced to $10,000 because