Appendix C

Comprehensive Tax Return Problems

Ten additional Comprehensive Tax Return problems—covering individual, corporation, partnership, and S corporation tax returns—can be found in the *Connect Library*.

INDIVIDUAL TAX RETURN PROBLEM 1

Required:

- Use the following information to complete Keith and Jennifer Hamilton's 2017 federal income tax return. If any information is missing, use reasonable assumptions to fill in the gaps.
- Form 1040, supporting schedules, and instructions to the forms and schedules can be found at the IRS website (www.irs.gov).

Facts:

1. Keith Hamilton is employed as an airline pilot for Flyby Airlines in Las Vegas, Nevada. Jennifer is employed as a teacher's assistant at Small World Elementary School, in Henderson, Nevada. Keith and Jennifer live in a home they purchased this year. Keith and Jennifer have three children who lived with them all year, Joshua (17), Danielle (14), and Sara (10). Keith and Jennifer provided the following personal information:

    - Keith and Jennifer do not want to contribute to the presidential election campaign.
    - Keith and Jennifer do not claim itemized deductions.
    - Keith and Jennifer live at 3678 Blue Sky Drive, Henderson, Nevada 89052.
    - Keith's birthday is 10/12/1972 and his Social Security number is 535-22-4466.
    - Jennifer's birthday is 7/16/1975 and her Social Security number is 535-44-2255.
    - Joshua's birthday is 6/30/2000 and his Social Security number is 454-54-5454.
    - Danielle's birthday is 8/12/2003 and her Social Security number is 343-43-4343.
    - Sara's birthday is 5/13/2007 and her Social Security number is 232-32-3232.

2. Keith received the following Form W-2 for 2017 from Flyby Airlines.

22222	Void ☐
a Employee's social security number	535-22-4466
For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN)	91-0001002
c Employer's name, address, and ZIP code	Flyby Airlines 375 West Flight Blvd. Las Vegas, NV 89119
d Control number	
e Employee's first name and initial / Last name / Suff.	Keith Hamilton
f Employee's address and ZIP code	3678 Blue Sky Drive Henderson, NV 89052
1 Wages, tips, other compensation	163,645.00
2 Federal income tax withheld	31,000.00
3 Social security wages	127,200.00
4 Social security tax withheld	7,886.40
5 Medicare wages and tips	178,645.00
6 Medicare tax withheld	2,590.35
7 Social security tips	
8 Allocated tips	
9 Verification code	
10 Dependent care benefits	
11 Nonqualified plans	
12a See instructions for box 12	Code D 15,000
12b Code	
12c Code	
12d Code	
13 Statutory employee / Retirement plan / Third-party sick pay	☐ / X / ☐
14 Other	
15 State / Employer's state ID number	NV 987654321
16 State wages, tips, etc.	163,645.00
17 State income tax	0.00
18 Local wages, tips, etc.	
19 Local income tax	
20 Locality name	

Form **W-2** **Wage and Tax Statement** 2017

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

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Source: Form W-2, Department of the Treasury - Internal Revenue Service, 2017

3. Jennifer received the following Form W-2 for 2017 from Small World Elementary School.

22222	Void ☐
a Employee's social security number	535-44-2255
For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN)	91-0001003
c Employer's name, address, and ZIP code	Small World Elementary School 333 Tiny Tot Lane Henderson, NV 89053
d Control number	
e Employee's first name and initial / Last name / Suff.	Jennifer Hamilton
f Employee's address and ZIP code	3678 Blue Sky Drive Henderson, NV 89052
1 Wages, tips, other compensation	36,825.00
2 Federal income tax withheld	5,524.00
3 Social security wages	39,925.00
4 Social security tax withheld	2,475.35
5 Medicare wages and tips	39,925.00
6 Medicare tax withheld	578.90
7 Social security tips	
8 Allocated tips	
9 Verification code	
10 Dependent care benefits	
11 Nonqualified plans	
12a See instructions for box 12	Code D 3,100
12b Code	
12c Code	
12d Code	
13 Statutory employee / Retirement plan / Third-party sick pay	☐ / X / ☐
14 Other	
15 State / Employer's state ID number	NV 123456789
16 State wages, tips, etc.	36,825.00
17 State income tax	0.00
18 Local wages, tips, etc.	
19 Local income tax	
20 Locality name	

Form **W-2** **Wage and Tax Statement** 2017

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

Cat. No. 10134D

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Source: Form W-2, Department of the Treasury - Internal Revenue Service, 2017

4. During 2017, Keith and Jennifer received $550 in interest from Las Vegas municipal bonds, $1,070 interest from U.S. Treasury bonds, and $65 from their savings account at SCD Credit Union. Keith and Jennifer are joint owners of the Las Vegas city bonds and the U.S. Treasury bonds. They have a joint savings account at SCD Credit Union.

5. On January 21, 2017, Jennifer was involved in a car accident. Because the other driver was at fault, the other driver's insurance company paid Jennifer $1,350 for medical expenses relating to her injuries from the accident and $300 for emotional distress from the accident. She received payment on March 15, 2017.
6. Keith's father died on November 15, 2016. Keith received a $100,000 death benefit from his father's life insurance policy on February 8, 2017.
7. On February 15, 2017, Keith hurt his arm on a family skiing trip in Utah and was unable to fly for two weeks. He received $4,000 for disability pay from his disability insurance policy. He received the check on March 2, 2017. Flyby Airlines paid $600 in premiums on this policy during 2017. The disability insurance policy premiums are paid for by Flyby Airlines as a fully taxable fringe benefit to Keith (the premiums paid on his behalf are included in Keith's compensation amount on his W-2).
8. Jennifer's grandmother died on March 10, 2017, leaving Jennifer with an inheritance of $30,000. (She received the inheritance on May 12, 2017.) Flyby Airlines had space available on its Long Island, New York, flight and provided Keith, Jennifer, and their three children with free flights so they could attend the funeral. The value of the ticket for each passenger was $600.
9. On April 1, 2017, Jennifer slipped in the Small World Elementary lunchroom and injured her back. Jennifer received $1,200 in worker's compensation benefits because her work-related injury caused her to miss two weeks of work. She also received a $2,645 reimbursement for medical expenses from the health insurance company. Small World Elementary pays the premiums for Jennifer's health insurance policy as a nontaxable fringe benefit.
10. On May 17, 2017, Keith and Jennifer received a federal income tax refund of $975 from their 2016 federal income tax return.
11. On June 5, 2017, Keith and Jennifer sold their home in Henderson, Nevada, for $510,000 (net of commissions). Keith and Jennifer purchased the home 11 years ago for $470,000. On July 12, 2017, they bought a new home for $675,000.
12. On July 25, 2017, Keith's aunt Beatrice gave Keith $18,000 because she wanted to let everyone know that Keith is her favorite nephew.
13. On September 29, 2017, Jennifer won an iPad valued at $500 in a raffle at the annual fair held at Joshua's high school.
14. Keith and Jennifer have qualifying insurance for purposes of the the Affordable Care Act (ACA).

INDIVIDUAL TAX RETURN PROBLEM 2

Required:

- Use the following information to complete Johnelle and Latoya Henry's 2017 federal income tax return. If any information is missing, use reasonable assumptions to fill in the gaps.
- You may need the following forms to complete the project: Form 1040 and Schedule A. The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

1. Johnelle Henry is employed as a human resources manager for Toys Unlimited, Inc., and Latoya is a financial planner for her mother's company, Long-term Investments, Inc., a full-service wealth-planning firm. They provide the following information:

    - They both want to contribute to the presidential election campaign.
    - They live at 9876 Old Waverly, Charleston, South Carolina 29401.

- Johnelle's birthday is 7/17/1965 and his Social Security number is 555-12-6789.
- Latoya's birthday is 9/11/1967 and her Social Security number is 987-65-4321.
- Johnelle and Latoya do not have any foreign bank accounts or trusts.

2. Johnelle received a Form W-2 from Toys Unlimited, Inc. that contained the following information:

• Line 1 Wages, tips, other compensation	$45,000
• Line 2 Federal income tax withheld	7,500
• Line 3 Social Security wages	45,000
• Line 4 Social Security tax withheld	2,790
• Line 5 Medicare wages and tips	45,000
• Line 6 Medicare tax withheld	653
• Line 17 State income tax	2,200

3. Latoya received a Form W-2 from Long-term Investments, Inc., that contained the following information:

• Line 1 Wages, tips, other compensation	$85,000
• Line 2 Federal income tax withheld	12,500
• Line 3 Social Security wages	85,000
• Line 4 Social Security tax withheld	5,270
• Line 5 Medicare wages and tips	85,000
• Line 6 Medicare tax withheld	1,233
• Line 17 State income tax	4,200

4. Johnelle and Latoya incurred the following medical expenses for the year:

• Transportation to Chicago for Johnelle's cancer treatment	2,000 miles
• Unreimbursed hospital charges for Johnelle	$6,500
• Unreimbursed prescription drug charges for Johnelle and Latoya	1,750
• Unreimbursed physician charges for Johnelle and Latoya	2,200
• Unreimbursed prescription glasses for Latoya	150
• Laser hair treatment for Latoya (so that she will no longer need to shave her legs)	2,000

5. Johnelle and Latoya paid $12,000 of interest payments on their primary residence (acquisition debt of $225,000). They also paid $1,750 of interest expense on Latoya's car loan and $500 of interest on their Visa card.
6. Johnelle and Latoya paid $4,000 of real estate taxes on their home and $1,000 of real estate tax on a vacant lot they purchased with the hope of building their dream home in the future. They also paid $3,000 in sales tax on Latoya's car and other purchases and $1,000 of ad valorem tax on their cars.
7. Johnelle and Latoya made the following contributions this year:

• American Red Cross	$ 200
• United Way	150
• St. Joseph's Catholic Church	8,000
• Food for the family of Hannah Barbara (a neighbor who suffered a tragic car accident this past year)	225
• Stock transfer to the University of South Carolina (originally purchased for $1,000 in 2005)	750

8. Johnelle won $5,000 in the state lottery. He has been playing the lottery for years [$10 in lottery tickets every week ($520 in total) that he saves to keep track of the numbers he plays].
9. Johnelle and Latoya have qualifying insurance for purposes of the Affordable Care Act (ACA).

INDIVIDUAL TAX RETURN PROBLEM 3

Required:

- Use the following information to complete Rhonda Hill's 2017 federal income tax return. If any information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

1. Rhonda Hill (unmarried) is employed as an office manager at the main office of Carter and Associates CPA firm. Rhonda lives in a home she purchased 20 years ago. Rhonda's older cousin Mabel Wright lives with Rhonda in the home. Mabel is retired and receives $2,400 of Social Security payments each year. Mabel is able to save this money because Rhonda provides all of Mabel's support. Rhonda also provided the following information:
   - Rhonda does not want to contribute to the presidential election campaign.
   - Rhonda lives at 1234 Blue Ridge Way, Tulsa, Oklahoma 74101.
   - Rhonda's birthday is 12/18/1952 and her Social Security number is 335-67-8910.
   - Mabel's birthday is 11/2/1944 and her Social Security number is 566-77-8899.
   - Rhonda does not have any foreign bank accounts or trusts.
   - Rhonda has qualifying insurance for purposes of the Affordable Care Act (ACA).
2. Rhonda received a Form W-2 from Carter and Associates (her employer) that contained the following information:

• Line 1 Wages, tips, other compensation	$72,000
• Line 2 Federal income tax withheld	9,300
• Line 3 Social Security wages	72,000
• Line 4 Social Security tax withheld	4,464
• Line 5 Medicare wages and tips	72,000
• Line 6 Medicare tax withheld	1,044
• Line 16 State wages, tips, etc.	72,000
• Line 17 State income tax	2,700

   - Carter and Associates address is 1234 CPA Way Tulsa, Oklahoma 74101; its FEIN is 91:0001002; and its State ID number is 123456678
3. Rhonda received $250 in interest from Tulsa City bonds, $120 interest from IBM bonds, and $15 from her savings account at UCU Credit Union. She also received a $460 dividend from Huggies Company and $500 from Bicker Corporation. Both dividends are qualified dividends.
4. Rhonda sold 200 shares of DM stock for $18 a share on June 15, 2017. She purchased the stock on December 12, 2012, for $10 a share. She also sold 50 shares of RSA stock for $15 a share on October 2, 2017. She purchased

the stock for $65 a share on February 2, 2017. Stock basis amounts have been reported to the IRS.

5. The following is a record of the medical expenses that Rhonda paid for herself during the year. The amounts reported are amounts she paid in excess of insurance reimbursements. Rhonda drove 210 miles for medical purposes in 2017.

Insurance premiums	$3,700
Prescription medications	100
Over-the-counter medications	250
Doctor and dentist visits	1,450
Eyeglasses	300
Physical therapy	200

6. Rhonda paid $2,800 in mortgage interest during the year to UCU credit union (reported to her on Form 1098). She also paid $1,200 in real property taxes during the year.
7. Rhonda contributed $2,350 to Heavenly Church during the year. Heavenly Church's address is 1342 Religion Way, Tulsa, Oklahoma 74101.

INDIVIDUAL TAX RETURN PROBLEM 4

Required:

- Use the following information to complete Phillip and Claire Dunphy's 2017 federal income tax return. If any information is missing, use reasonable assumptions to fill in the gaps. Ignore the alternative minimum tax for this problem.
- Any required forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

1. Phillip and Claire are married and file a joint return. Phillip is self-employed as a real estate agent, and Claire is a flight attendant. Phillip and Claire have three dependent children. All three children live at home with Phillip and Claire for the entire year.

   The Dunphys provide you with the following additional information:

   - The Dunphys do not want to contribute to the presidential election campaign.
   - The Dunphys live at 3701 Brighton Avenue, Los Angeles, California 90018.
   - Phillip's birthday is 11/5/1971 and his Social Security number is 321-XX-5766.
   - Claire's birthday is 5/12/1974 and her Social Security number is 567-XX-1258.
   - Haley's birthday is 11/6/2005 and her Social Security number is 621-XX-7592.
   - Alex's birthday is 2/1/2007 and her Social Security number is 621-XX-8751.
   - Luke's birthday is 12/12/2011 and his Social Security number is 621-XX-9926.
   - The Dunphys do not have any foreign bank accounts or trusts.

2. Claire is a flight attendant for Western American Airlines (WAA), where she earned $57,000 in salary. WAA withheld federal income tax of $6,375, state income tax of $1,800, Los Angeles city income tax of $675, Social Security tax of $3,600, and Medicare tax of $825.
3. Phillip and Claire received $300 of interest from State Savings Bank on a joint account. They also received a qualified dividend of $395 on jointly owned stock in Xila Corporation.

4. Phillip's full-time real estate business is named "Phillip Dunphy Realty." His business is located at 645 Grove Street, Los Angeles, California 90018, and his employer identification number is 93-3488888. Phillip's gross receipts during the year were $730,000. Phillip uses the cash method of accounting for his business. Phillip's business expenses are as follows:

Advertising	$ 5,000
Professional dues	800
Professional journals	200
Employee wages	48,000
Insurance on office contents	1,120
Accounting services	2,100
Miscellaneous office expense	500
Utilities and telephone	3,360
Payroll taxes	3,600
Depreciation	To be calculated

On March 20, Phillip moved his business out of the old offices at 1103 Allium Lane into a newly constructed and equipped office on Grove Street. Phillip sold the old office building and all its furnishings. Phillip's expenditures for the new office building are as follows:

Date Acquired	Asset	Cost
3/20	Land	$ 300,000
3/20	Office building	2,500,000
3/20	Furniture	200,000
4/1	Computer system	350,000
6/1	Artwork	150,000

Phillip computes his cost recovery allowance using MACRS. He would like to use the §179 immediate expensing, but he has elected to not claim any bonus depreciation. Phillip has never claimed §179 or bonus depreciation before. The assets Phillip sold on March 20 are as follows:

Date Acquired	Asset	Sales Price	Original Cost	Accumulated Depreciation as of Beginning of the Year
5/1/11	Office building	$940,000	$900,000	$129,825
5/1/11	Land	200,000	100,000	0
7/1/11	Furniture	50,000	239,000	206,998
8/13/13	Furniture	10,000	324,000	222,782
4/12/14	Office equipment	100,000	120,000	67,524
5/13/15	Computers	30,000	50,000	10,000

Phillip has never sold any assets relating to his business before this transaction.

5. The Dunphys sold 60 shares of Fizbo Corporation common stock on September 3 for $65 a share (minus a $50 total commission). The Dunphys purchased the stock on November 8, 2016, for $90 a share. They also sold a painting for $13,000 on March 1. Claire purchased the painting for $20,050 on September 1, 2010, as an investment.
6. The Dunphys filed their 2016 federal, state, and local returns on April 13, 2017. They paid the following additional 2016 taxes with their returns: federal income taxes of $630, state income taxes of $250, and city income taxes of $75.
7. The Dunphys made timely estimated federal income tax payments of $17,000 each quarter during 2017. They also made estimated state income tax payments of

$1,000 each quarter and estimated city income tax payments of $300 each quarter. The Dunphys made all fourth-quarter payments on December 31, 2017. They would like to receive a refund for any overpayments.

8. Phillip and Claire have qualifying insurance for purposes of the Affordable Care Act (ACA).

INDIVIDUAL TAX RETURN PROBLEM 5

Required:

- Use the following information to complete Armando and Lourdes Gonzales's 2017 federal income tax return. If any information is missing, use reasonable assumptions to fill in the gaps.
- You may need the following forms and schedules to complete the project: Form 1040, Schedule A, Schedule B, Schedule C, Schedule D, Schedule E, Schedule SE, Form 4562 (for the dental practice), Form 4562 (for the rental property), Form 4797, Form 8863, and Form 8949. The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

1. Armando Z. and Lourdes K. Gonzales are married and file a joint return. Armando is self-employed as a dentist, and Lourdes is a college professor. Armando and Lourdes have three children. The oldest is Ricardo, who lives at home. Ricardo is a law student at the University of Cincinnati and worked part time during the year, earning $1,500, which he spent for his own support. Armando and Lourdes provided $6,000 toward Ricardo's support (including $4,000 for Ricardo's fall tuition). They also provided over half the support of their daughter, Selena, who is a full-time student at Edgecliff College in Cincinnati. Selena worked part time as an independent contractor during the year, earning $3,200. Selena lived at home until she was married in December 2017. She filed a joint return with her husband, Tony, who earned $20,000 during the year. Felipe is the youngest and lived in the Gonzales's home for the entire year. The Gonzaleses provide you with the following additional information:
   - Armando and Lourdes would like to take advantage on their return of any educational expenses paid for their children.
   - The Gonzaleses do not want to contribute to the presidential election campaign.
   - The Gonzaleses live at 621 Franklin Avenue, Cincinnati, Ohio 45211.
   - Armando's birthday is 3/5/1959 and his Social Security number is 333-45-6666.
   - Lourdes's birthday is 4/24/1962 and her Social Security number is 566-77-8888.
   - Ricardo's birthday is 11/6/1994 and his Social Security number is 576-18-7928.
   - Selena's birthday is 2/1/1998 and her Social Security number is 575-92-4321.
   - Felipe's birthday is 12/12/2005 and his Social Security number is 613-97-8465.
   - The Gonzaleses do not have any foreign bank accounts or trusts.
2. Lourdes is a lecturer at Xavier University in Cincinnati, where she earned $30,000. The university withheld federal income tax of $3,375, state income tax of $900, Cincinnati city income tax of $375, $1,860 of Social Security tax, and $435 of Medicare tax. She also worked part of the year for Delta Airlines. Delta paid her $10,000 in salary, and withheld federal income tax of $1,125, state income tax of $300, Cincinnati city income tax of $125, Social Security tax of $620, and Medicare tax of $145.
3. The Gonzaleses received $800 of interest from State Savings Bank on a joint account. They received interest of $1,000 on City of Cincinnati bonds they bought in January with the proceeds of a loan from Third National Bank of Cincinnati. They

paid interest of $1,100 on the loan. Armando received a dividend of $540 on General Bicycle Corporation stock he owns. Lourdes received a dividend of $390 on Acme Clothing Corporation stock she owns. Armando and Lourdes received a dividend of $865 on jointly owned stock in Maple Company. All of the dividends received in 2017 are qualified dividends.

4. Armando practices under the name "Armando Z. Gonzales, DDS." His business is located at 645 West Avenue, Cincinnati, Ohio 45211, and his employer identification number is 01-2222222. Armando's gross receipts during the year were $111,000. Armando uses the cash method of accounting for his business. Armando's business expenses are as follows:

Advertising	$ 1,200
Professional dues	490
Professional journals	360
Contributions to employee benefit plans	2,000
Malpractice insurance	3,200
Fine for overbilling State of Ohio for work performed on welfare patient	5,000
Insurance on office contents	720
Interest on money borrowed to refurbish office	600
Accounting services	2,100
Miscellaneous office expense	388
Office rent	12,000
Dental supplies	7,672
Utilities and telephone	3,360
Wages	30,000
Payroll taxes	2,400

In June, Armando decided to refurbish his office. This project was completed and the assets placed in service on July 1. Armando's expenditures included $8,000 for new office furniture, $6,000 for new dental equipment (seven-year recovery period), and $2,000 for a new computer. Armando elected to compute his cost recovery allowance using MACRS. He did not elect to use §179 immediate expensing, and he chose to not claim any bonus depreciation.

5. Lourdes's mother, Maria, died on July 2, 2012, leaving Lourdes her entire estate. Included in the estate was Maria's residence (325 Oak Street, Cincinnati, Ohio 45211). Maria's basis in the residence was $30,000. The fair market value of the residence on July 2, 2012, was $155,000. The property was distributed to Lourdes on January 1, 2013. The Gonzaleses have held the property as rental property and have managed it themselves. From 2013 until June 30, 2017, they rented the house to the same tenant. The tenant was transferred to a branch office in California and moved out at the end of June. Since they did not want to bother finding a new tenant, Armando and Lourdes sold the house on June 30, 2017. They received $140,000 for the house and land ($15,000 for the land and $125,000 for the house), less a 6 percent commission charged by the broker. They had depreciated the house using the MACRS rules and conventions applicable to residential real estate. To compute depreciation on the house, the Gonzaleses had allocated $15,000 of the property's basis to the land on which the house is located. The Gonzaleses collected rent of $1,000 a month during the six months the house was occupied during the year. They incurred the following related expenses during this period:

Property insurance	$500
Property taxes	800
Maintenance	465
Depreciation (to be computed)	?

6. The Gonzaleses sold 200 shares of Capp Corporation stock on September 3, 2017, for $42 a share (minus a $50 commission). The Gonzaleses received the stock from Armando's father on June 25, 1981, as a wedding present. Armando's father originally purchased the stock for $10 per share on January 1, 1969. The stock was valued at $14.50 per share on the date of the gift. No gift tax was paid on the gift.
7. Armando and Lourdes have given you a file containing the following receipts for expenditures during the year:

Prescription medicine and drugs (net of insurance reimbursement)	$ 376
Doctor and hospital bills (net of insurance reimbursement)	2,468
Penalty for underpayment of last year's state income tax	15
Real estate taxes on personal residence	4,762
Interest on home mortgage (paid to Home State Savings & Loan)	8,250
Interest on credit cards (consumer purchases)	595
Cash contribution to St. Matthew's church	3,080
Payroll deductions for Lourdes's contributions to the United Way	150

8. The Gonzaleses filed their 2016 federal, state, and local returns on April 12, 2017. They paid the following additional 2016 taxes with their returns: federal income taxes of $630, state income taxes of $250, and city income taxes of $75.
9. The Gonzaleses made timely estimated federal income tax payments of $1,500 each quarter during 2017. They also made estimated state income tax payments of $300 each quarter and estimated city income tax payments of $160 each quarter. The Gonzaleses made all fourth-quarter payments on December 31, 2017. They would like to receive a refund for any overpayments.
10. Armando and Lourdes have qualifying insurance for purposes of the Affordable Care Act (ACA).

INDIVIDUAL TAX RETURN PROBLEM 6

Required:

- Use the following information to complete Paige Turner's 2017 federal income tax return. If any information is missing, use reasonable assumptions to fill in the gaps.
- Any required forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

1. Paige Turner is single and has two children from her previous marriage. Ali lives with Paige, and Paige provides more than half of her support. Leif lives with his father, Will (Leif lived with Will for all of 2017). Will provides more than half of Leif's support. Paige provides you with the following additional information:

   - She uses the cash method of accounting and a calendar year for reporting.
   - She wishes to contribute to the presidential election campaign.
   - Paige lives at 523 Essex Street, Bangor, Maine 04401.
   - Paige's birthday is May 31, 1979.
   - Ali's birthday is October 5, 2008.
   - Leif's birthday is December 1, 2006.
   - Paige's Social Security number is 007-XX-4727.
   - Ali's Social Security number is 005-XX-7232.
   - Leif's Social Security number is 004-XX-3419.

- Will's Social Security number is 006-XX-6333.
- She does not have any foreign bank accounts or trusts.

2. Paige is employed as a nuclear engineer with Atom Systems Consultants, Inc. (ASCI). ASCI's federal employer identification number is 79-1234466. Paige's pay stubs indicate that she had $7,230 withheld in federal taxes, $4,987 in state taxes, $4,495 in Social Security taxes, and $1,051 in Medicare taxes. ASCI has an extensive fringe benefits program for its employees.
3. Paige earned salary of $70,000 (before subtracting her 401(k) and flexible spending plan contributions). She contributed $7,000 to her 401(k) account, and she contributed $2,500 to her flexible spending account.
4. ASCI paid $397 of whole life insurance premiums to cover Paige's personal whole life insurance policy. ASCI also paid health club dues of $900 to a nearby health club on Paige's behalf.
5. Taking advantage of ASCI's educational assistance program, during the fall Paige enrolled in two graduate engineering classes at a local college. ASCI paid her tuition, fees, and other course-related costs of $2,300.
6. Paige received free parking in the company's security garage that would normally cost $200 per month.
7. Paige manages the safety program for ASCI. In recognition of her superior handling of three potential crises during the year, Paige was awarded the Employee Safety Award on December 15. The cash award was $500.
8. On January 15, 2017, Paige's father died. From her father's estate, she received stock valued at $30,000 (his basis was $12,000) and her father's house valued at $90,000 (his basis in the house was $55,000).
9. Paige owns several other investments and in February 2018 received a statement from her brokerage firm reporting the interest and dividends earned on the investments for 2017. (See Exhibit A.)

EXHIBIT A **Forms 1099 and 1098**

This is important tax information and is being furnished to the Internal Revenue Service.

1099-Div Dividends & Distributions

Entity	Description	Amount
General Dynamics	Gross qualified dividends	$300

1099-Int Interest

Entity	Description	Amount
New Jersey Economic Development bonds	Gross interest	$300
IBM bonds	Gross interest	700
State of Nebraska bonds	Gross interest	700

1098-Mortgage Interest Statement

Entity	Description	Amount
Sunbelt Credit Union	Mortgage interest	$7,100
Northeast Bank	Home-equity loan interest	435

Grubstake Mining & Development: preliminary report (preliminary K-1) to Paige for the 2017 tax year:

Distribution to shareholder	$1,000
Ordinary income (1% of $200,000)	2,000

10. In addition to the investments discussed above, Paige owns 1,000 shares of Grubstake Mining & Development common stock. Grubstake is organized as an S corporation and has 100,000 shares outstanding (S corp. ID number 45-4567890). Grubstake reported taxable income of $200,000 and paid a distribution of $1.00 per share during the current year. Paige tells you that Grubstake typically does not send out its K-1 reports until late April. However, its preliminary report has been consistent with the K-1 for many years. (See Exhibit A.) Paige does not materially participate in Grubstake's activities.
11. Paige slipped on a wet spot in front of a computer store last July. She broke her ankle and was unable to work for two weeks. She incurred $1,300 in medical costs, all of which were paid by the owner of the store. The store also gave her $1,000 for pain and suffering resulting from the injury. ASCI continued to pay her salary during the two weeks she missed because of the accident. ASCI's plan also paid her $1,200 in disability pay for the time she was unable to work. Under this plan ASCI pays the premiums for the disability insurance as a taxable fringe benefit.
12. Paige received a Form 1099-B from her broker for the sale of the following securities during 2017. The adjusted basis amounts were reported to the IRS.

Security	Sales Date	Purchase Date	Sales Price	Commission Paid on Sale	Her Basis
Nebraska state bonds	03/14/17	10/22/11	$2,300	$160	$1,890
Cassill Corp (500 shares)	10/20/17	02/19/16	8,500	425	9,760

13. In addition to the taxes withheld from her salary, Paige also made timely estimated federal tax payments of $175 per quarter and timely estimated state income tax payments of $150 for the first three quarters. The $150 fourth-quarter state payment was made on December 28, 2017. Paige would like to receive a refund for any overpayment.
14. Because of her busy work schedule, Paige was unable to provide her accountant with the tax documents necessary for filing her 2016 state and federal income tax returns by the due date (April 15, 2017). In filing her extension on April 15, 2017 she made a federal tax payment of $750. Her return was eventually filed on June 25, 2017. In August 2017, she received a federal refund of $180 and a state tax refund of $60. Her itemized deductions for 2016 were $12,430.
15. Paige found a renter for her father's house on August 1. The monthly rent is $400, and the lease agreement is for one year. The lease requires the tenant to pay the first and last months' rent and a $400 security deposit. The security deposit is to be returned at the end of the lease if the property is in good condition. On August 1, Paige received $1,200 from the tenant per the terms of the lease agreement. In November, the plumbing froze and several pipes burst. The tenant had the repairs made and paid the $300 bill. In December, he reduced his rental payment to $100 to compensate for the plumbing repairs. Paige provides you with the following additional information for the rental in 2017:

Property taxes	$770
Other maintenance expenses	285
Insurance expense	495
Management fee	350
Depreciation (to be computed)	?

The rental property is located at 35 Harvest Street, Orono, Maine 04473. Local practice is to allocate 12 percent of the fair market value of the property to the land. (See item #8.) Paige makes all decisions with respect to the property.

16. Paige paid $2,050 in real estate taxes on her principal residence. The real estate tax is used to pay for town schools and other municipal services.
17. Paige drives a 2015 Acura TL. Her car registration fee (based on the car year) is $50 and covers the period 1/1/17 through 12/31/17. In addition, she paid $280 in property tax to the state based on the book value of the car.
18. In addition to the medical costs presented in item #11, Paige incurred the following unreimbursed medical costs:

Dentist	$ 310
Doctor	390
Prescription drugs	215
Over-the-counter drugs	140
Optometrist	125
Emergency room charges	440
LASIK eye surgery	2,000
Chiropractor	265

19. On March 1, Paige took advantage of low interest rates and refinanced her $75,000 home mortgage with her original lender. Paige purchased the home in 2015. The new home loan is for 15 years. She paid $215 in closing costs and $1,500 in discount points (prepaid interest) to obtain the loan. The house is worth $155,000 and Paige's basis in the house is $90,000. As part of the refinancing arrangement, she also obtained a $10,000 home-equity loan. She used the proceeds from the home-equity loan to reduce the balance due on her credit cards. Paige received several Form 1098 statements from her bank for interest paid by her in 2017. Details appear below. (See also Exhibit A on page C-11.)

Primary home mortgage	$7,100
Home-equity loan	435
Credit cards	498
Car loan	390

20. On May 14, 2017, Paige contributed clothing to the Salvation Army. The original cost of the clothing was $740. She has substantiation valuing the donation at $360. The Salvation Army is located at 350 Stone Ridge Road, Bangor, Maine 04401. In addition, she made the following cash contributions and received a statement from each of the following organizations acknowledging her contribution:

Larkin College	$850
United Way	125
First Methodist Church	790
Amos House (homeless shelter)	200
Local Chamber of Commerce	100

21. Paige sells real estate in the evening and on weekends (considered an active trade or business). She runs her business from a rental office she shares with several other realtors (692 River Road, Bangor, Maine 04401). The name of her business is Turner Real Estate and the federal identification number is 05-8799561. Her business code is 531210. Paige has been operating in a business-like way since 2006 and has always shown a profit. She had the following income and expenses from her business:

Commissions earned	$21,250
Expenses:	
Advertising	2,200
Telephone	95
Real estate license	130
Rent	6,000
Utilities	600

Paige has used her Acura TL in her business since July 1, 2017. During 2017, she properly documented 6,000 business miles (1,000 miles each month). The total mileage on her car (i.e., for both business and personal use) during the year was 15,000 miles (including 200 miles commuting to and from the real estate office). In 2017, Paige elects to use the standard mileage method to calculate her car expenses. She spent $45 on tolls and $135 on parking related to the real estate business.

22. Paige has qualifying insurance for purposes of the Affordable Care Act (ACA).

CORPORATE TAX RETURN PROBLEM 1

Required:

- Complete Alvin's Music Inc.'s (AMI) 2017 Form 1120, Schedule D, and Schedule G (if applicable) using the information provided below.
- Neither Form 4562 for depreciation nor Form 4797 for the sale of the equipment is required. Include the amount of tax depreciation and the tax gain on the equipment sale given in the problem (or determined from information given in the problem) on the appropriate lines on the first page of Form 1120.
- If any information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

Alvin's Music Inc. (AMI) was formed in 2008 by Alvin Jones and Theona Smith. Alvin and Theona officially incorporated their store on June 12, 2009. AMI sells (retail) all kinds of music-related products including musical instruments, sheet music, CDs, and DVDs. Alvin owns 60 percent of the outstanding common stock of AMI and Theona owns the remaining 40 percent.

- AMI is located at 355 Music Way, East Palo Alto, California 94303.
- AMI's Employer Identification Number is 29-5748859.
- AMI's business activity is retail sales of music-related products. Its business activity code is 451140.
- Officers of the corporation are as follows:
  - Alvin is the chief executive officer and president (Social Security number 123-45-6789).
  - Theona is the executive vice president (Social Security number 978-65-4321).
  - Gwen Givens is the vice president over operations (Social Security number 789-12-3456).
  - Carlson Bannister is the secretary (Social Security number 321-54-6789).
- All officers devote 100 percent of their time to the business and all officers are U.S. citizens.
- Neither Gwen nor Carlson owns any stock in AMI.
- AMI uses the accrual method of accounting and has a calendar year-end.
- AMI made four equal estimated tax payments of $70,000 each. Its tax liability last year was $175,000. If it has overpaid its federal tax liability, AMI would like to receive a refund.
- AMI paid a dividend of $80,000 to its shareholders on December 1. AMI had sufficent earnings and profits (E&P) to absorb the distribution.

The following is AMI's audited income statement for 2017:

AMI Income Statement For year ending December 31, 2017	
Revenue from sales	$ 3,420,000
Sales returns and allowances	(40,000)
Cost of goods sold	(834,000)
Gross profit from operations	$ 2,546,000
Other income:	
Capital gains	$ 8,000
Gain from disposition of fixed assets	2,000
Dividend income	12,000
Interest income	15,000
Gross income	$ 2,583,000
Expenses:	
Compensation	$(1,300,000)
Depreciation	(20,000)
Bad debt expense	(15,000)
Meals	(5,000)
Maintenance	(5,000)
Charitable donations	(27,000)
Property taxes	(45,000)
State income taxes	(60,000)
Other taxes	(56,000)
Interest	(62,000)
Advertising	(44,000)
Professional services	(32,000)
Pension expense	(40,000)
Supplies	(6,000)
Other expenses	(38,000)
Total expenses	(1,755,000)
Income before taxes	828,000
Federal income tax expense	(260,000)
Net income after taxes	$ 568,000

Notes:

1. AMI has a capital loss carryover to this year from last year in the amount of $5,000.
2. AMI's inventory-related purchases during the year were $1,134,000. AMI values its inventory based on cost using the FIFO inventory cost flow method. Assume the rules of §263A do not apply to AMI.
3. Of the $15,000 interest income, $2,500 was from a City of Fremont bond issued in 2016, $3,500 was from a Pleasanton city bond issued in 2017, $3,000 was from a U.S. Treasury bond, and the remaining $6,000 was from a money market account.
4. AMI sold equipment for $10,000. It originally purchased the equipment for $12,000 and, through the date of the sale, had recorded a cumulative total of $4,000 of book depreciation on the asset and a cumulative total of $6,000 of tax depreciation. For tax purposes, the entire gain was recaptured as ordinary income under §1245.

5. AMI's dividend income came from Simon's Sheet Music. AMI owned 15,000 shares of the stock in Simon's Sheet Music (SSM) at the beginning of the year. This represented 15 percent of the SSM outstanding stock.
6. On July 22, 2017, AMI sold 2,500 shares of its Simon's Sheet Music stock for $33,000. It had originally purchased these shares on April 24, 2013, for $25,000. After the sale, AMI owned 12.5 percent of Simon's Sheet Music.
7. AMI's compensation is as follows:
   - Alvin, $210,000
   - Theona, $190,000
   - Gwen, $110,000
   - Carlson, $90,000
   - Other, $700,000
8. AMI wrote off $10,000 in accounts receivable as uncollectible during the year.
9. Tax depreciation was $31,000. None of the depreciation should be claimed on Form 1125A.
10. Of the $62,000 of interest expense, $56,000 was from the mortgage on AMI's building and the remaining $6,000 of interest was from business-related loans.
11. The pension expense is the same for both book and tax purposes.
12. Other expenses include $3,000 for premiums paid on term life insurance policies for which AMI is the beneficiary. The policies cover the lives of Alvin and Theona.

The following are AMI's audited balance sheets as of January 1, 2017, and December 31, 2017.

	2017	
	January 1	**December 31**
Assets		
Cash	$ 240,000	$ 171,000
Accounts receivable	600,000	700,000
Allowance for doubtful accounts	(35,000)	(40,000)
Inventory	1,400,000	1,700,000
U.S. government bonds	50,000	50,000
State and local bonds	140,000	140,000
Investments in stock	300,000	275,000
Building and other depreciable assets	1,500,000	1,600,000
Accumulated depreciation	(200,000)	(216,000)
Land	900,000	900,000
Other assets	250,000	270,000
Total assets	$5,145,000	$5,550,000
Liabilities and Shareholders' Equity		
Accounts payable	$ 250,000	$ 220,000
Other current liabilities	125,000	120,000
Mortgage	800,000	790,000
Other liabilities	200,000	162,000
Capital stock	600,000	600,000
Retained earnings	3,170,000	3,658,000
Total liabilities and shareholders' equity	$5,145,000	$5,550,000

CORPORATE TAX RETURN PROBLEM 2

Required:

- Complete Blue Catering Service Inc.'s (BCS) 2017 Form 1120, Schedule D, and Schedule G (if applicable) using the information provided below.
- Form 4562 for depreciation is not required. Include the amount of tax depreciation given in the problem on the appropriate line on the first page of Form 1120.
- If any information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

Cara Siler, Janna Funk, and Valerie Cloward each own one-third of the common stock of Blue Catering Services Inc. (BCS). BCS was incorporated on February 4, 2010. It has only one class of stock outstanding and operates as a C corporation for tax purposes. BCS caters all types of social events throughout southern California.

- BCS is located at 540 Waverly Way, San Diego, California 92101.
- BCS's Employer Identification Number is 38-4743474.
- BCS's business activity is catering food and services. Its business activity code is 722300.
- The shareholders also work as officers for the corporation as follows:
  - Cara is the chief executive officer and president (Social Security number 231-54-8976).
  - Janna is the executive vice president and chief operating officer (Social Security number 798-56-3241).
  - Valerie is the vice president of finance (Social Security number 879-21-4536).
- All officers devote 100 percent of their time to the business and all officers are U.S. citizens.
- BCS uses the accrual method of accounting and has a calendar year-end.
- BCS made four equal estimated tax payments of $20,000 each. Its tax liability last year was $70,000. If it has overpaid its federal tax liability, BCS would like to receive a refund.
- BCS paid a dividend of $30,000 to its shareholders on November 1. BCS had ample earnings and profits (E&P) to absorb the distribution.

The following is BCS's audited income statement for 2017:

BCS Income Statement For year ending December 31, 2017	
Revenue from sales	$1,800,000
Sales returns and allowances	(5,000)
Cost of goods sold	(350,000)
Gross profit from operations	$1,445,000
Other income:	
Capital loss	$ (15,000)
Dividend income	25,000
Interest income	10,000
Gross income	$1,465,000

BCS Income Statement For year ending December 31, 2017	
Expenses:	
Compensation	$ (950,000)
Depreciation	(10,000)
Bad debt expense	(15,000)
Meals	(3,000)
Maintenance	(6,000)
Property taxes	(11,000)
State income taxes	(45,000)
Other taxes	(44,000)
Rent	(60,000)
Interest	(5,000)
Advertising	(52,000)
Professional services	(16,000)
Employee benefits	(32,000)
Supplies	(5,000)
Other expenses	(27,000)
Total expenses	(1,281,000)
Income before taxes	184,000
Federal income tax expense	(62,000)
Net income after taxes	$ 122,000

Notes:

1. BCS's inventory-related purchases during 2017 were $360,000. It values its inventory based on cost using the FIFO inventory cost flow method. Assume the rules of §263A do not apply to BCS.
2. Of the $10,000 interest income, $1,250 was from a City of Irvine bond issued in 2015, $1,750 was from an Oceanside city bond issued in 2014, $1,000 was from a U.S. Treasury bond, and the remaining $6,000 was from a money market account.
3. BCS's dividend income came from Clever Cakes Inc. (CC). BCS owned 10,000 shares of the stock in Clever Cakes at the beginning of the year. This represented 10 percent of SSM outstanding stock.
4. On October 1, 2017, BCS sold 1,000 shares of its CC stock for $25,000. It had originally purchased these shares on April 18, 2013, for $40,000. After the sale, BCS owned 9 percent of CC.
5. BCS's compensation is as follows:
   - Cara, $150,000
   - Janna, $140,000
   - Valerie, $130,000
   - Other, $530,000
6. BCS wrote off $25,000 in accounts receivable as uncollectible during the year.
7. BCS's tax depreciation was $28,000. None of the depreciation should be claimed on Form 1125A.
8. The $5,000 interest expense was from a business loan.
9. Other expenses include $6,000 for premiums paid on term life insurance policies for which BCS is the beneficiary. The policies cover the lives of Cara, Janna, and Valerie.

The following are BCS's audited balance sheets as of January 1, 2017, and December 31, 2017.

	2017 January 1	2017 December 31
Assets		
Cash	$ 180,000	$ 205,000
Accounts receivable	560,000	580,000
Allowance for doubtful accounts	(60,000)	(50,000)
Inventory	140,000	150,000
U.S. government bonds	20,000	20,000
State and local bonds	120,000	120,000
Investments in stock	400,000	360,000
Fixed assets	140,000	160,000
Accumulated depreciation	(50,000)	(60,000)
Other assets	20,000	21,000
Total assets	$1,470,000	$1,506,000
Liabilities and Shareholders' Equity		
Accounts payable	$ 280,000	$ 240,000
Other current liabilities	20,000	18,000
Other liabilities	40,000	26,000
Capital stock	400,000	400,000
Retained earnings	730,000	822,000
Total liabilities and shareholders' equity	$1,470,000	$1,506,000

PARTNERSHIP TAX RETURN PROBLEM 1

Required:

- For 2017, complete Aspen Ridge limited partnership's page 1 of Form 1065; complete Schedule K on page 4 of Form 1065; complete lines 1 and 2 of the Analysis of Net Income (Loss) at the top of page 5 of Form 1065; and complete Schedules M-1 and M-2 at the bottom of page 5 of Form 1065. Finally, complete Mark Sullivan's Schedule K-1.
- Form 4562 for depreciation is not required. Include any tax depreciation or §179 expense on the appropriate line of page 1 of Form 1065 or Schedule K.
- If any information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

The Aspen Ridge limited partnership was formed on April 1, 2009, by Mark Sullivan, its general partner, and two other limited partners when they each contributed an equal amount of cash to start the new enterprise. Aspen Ridge is an outdoor equipment retailer selling camping, fishing, skiing, and other outdoor gear to the general public. Mark has a 33.33 percent profits, loss, and capital interest and the limited partners hold the remaining 66.66 percent of the profits, loss, and capital interests. Their profits, loss, and capital interests have remained unchanged since the partnership was formed. Mark is actively involved in managing the business while the limited partners are simply investors.

- Aspen Ridge is located at 1065 North 365 South, Ogden, Utah 84401.
- The employer identification number for Aspen Ridge is 85-8976654.
- Aspen Ridge uses the accrual method of accounting and has a calendar year-end.
- Mark's address is 543 Wander Lane, Holliday, Utah 84503 and his Social Security number is 445-27-3484.

The following is Aspen Ridge's 2017 income statement for books:

Aspen Ridge Income Statement For year ending December 31, 2017	
Sales	$ 965,500
Sales returns and allowances	(9,700)
Cost of goods sold	(538,200)
Gross profit from operations	$ 417,600
Other Income:	
Interest from money market account	$ 3,200
Gain from sale of photograph	34,000
Gross income	$ 454,800
Expenses:	
Employee wages	$ 95,400
Interest on accounts payable	2,700
Payroll and property taxes	10,800
Supplies	4,300
Rent on retail building	18,500
Depreciation on furniture and fixtures	4,550
Advertising	8,300
Guaranteed payments to Mark Sullivan	35,000
Utilities	6,400
Accounting and legal services	4,400
Meals and entertainment	2,240
Charitable contribution to the Sierra Club	3,300
Miscellaneous expenses	5,750
Total Expenses	(201,640)
Net income for books	$ 253,160

Notes:

1. Aspen Ridge has total assets of $1,725,800 and total liabilities of $540,300 at the beginning of the year and total assets of $2,065,300 and total liabilities of $806,640 at the end of the year.
2. Partnership liabilities consist of accounts payable, and Mark, as general partner, is legally responsible for paying these liabilities if the partnership does not.
3. Two years ago, Aspen Ridge purchased an original Ansel Adams outdoor landscape photograph with the intent to display it permanently in the retail store. This year, however, the photograph was sold to a local ski lodge where it now hangs on the wall. The $34,000 recognized gain from the sale is reflected in the income statement above.
4. For tax purposes, Aspen Ridge has consistently elected under §179 to expense any furniture or fixtures purchased every year since it was formed. As a result, it does not have a tax basis in any of its depreciable assets. This year, Aspen Ridge expensed $17,300 of signs and display cases for tax purposes.
5. On November 20, Aspen Ridge distributed $180,000 ($60,000 per partner) to the partners.
6. Miscellaneous expenses include a $900 fine for violating a local signage ordinance.
7. Aspen Ridge maintains its books using generally accepted accounting principles.

PARTNERSHIP TAX RETURN PROBLEM 2

Required:

- Using the information provided below, complete Arlington Building Supply's (ABS) 2017 Form 1065 and Schedule D. Also complete Jerry Johnson and Steve Stillwell's Schedule K-1.

- Form 4562 for depreciation is not required. Use the amount of tax depreciation and §179 expense provided in the income statement and the information in item #4 below to complete the appropriate lines on the first page and on Schedule K of Form 1065.
- Form 4797 for the sale of trade or business property is not required. Use the amount of gain and loss from the sale of the truck and forklifts in the income statement and the information provided in items #4 and #5 below to complete the appropriate lines on the first page and on Schedule K of Form 1065.
- If any information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

On January 1, 2007, two enterprising men in the community, Jerry Johnson and Steve "Swiss" Stillwell, anticipated a boom in the local construction industry. They decided to sell their small businesses and pool their resources as general partners in establishing a retail outlet for lumber and other building materials, including a complete line of specialty hardware for prefab tree houses. Their general partnership was officially formed under the name of Arlington Building Supply and soon became a thriving business.

- ABS is located at 2174 Progress Ave., Arlington, Illinois 64888.
- ABS's Employer Identification Number is 91-3697984.
- ABS's business activity is retail construction. Its business activity code is 444190.
- Both general partners are active in the management of ABS.
  - Jerry Johnson's Social Security number is 500-23-4976. His address is 31 W. Oak Drive, Arlington, Illinois 64888.
  - Steve Stillwell's Social Security number is 374-68-3842. His address is 947 E. Linder Street, Arlington, Illinois 64888.
- ABS uses the accrual method of accounting and has a calendar year-end.

The following is ABS's 2017 income statement:

ABS
Income Statement
For year ending December 31, 2017

Sales (on account)	$410,000	
Less: Sales returns	−20,000	
		$390,000
Cost of goods sold		−150,000
Gross profit on sales		$240,000
Operating expenses		
Salaries and wages (including partners' guaranteed payments)	$ 79,000	
Property taxes	1,600	
Payroll taxes	2,450	
Depreciation and §179 expense	40,062	
Advertising	2,000	
Bad debt expense	3,850	
Office expense	1,800	
Repairs	2,150	
Miscellaneous	450	
Fire insurance	4,850	138,212
Net operating income		$101,788

ABS
Income Statement
For year ending December 31, 2017

Other income		
Gain on sale of securities	$ 1,350	
Gain on sale of truck	16,399	
Dividend income	695	
Interest income	4,260	22,704
		$124,492
Other deductions		
Interest on mortgage	$ 5,400	
Interest on notes payable	2,250	
Charitable contributions	5,000	
Life insurance premiums	3,000	
Loss on sale of forklifts	466	16,116
Net income		$108,376

Notes:

1. The partnership maintains its books according to the §704(b) regulations. Under this method of accounting, all book and tax numbers are the same except for life insurance premiums and tax-exempt interest.
2. The partners' percentage ownership of original contributed capital is 30 percent for Johnson and 70 percent for Stillwell. They agree that profits and losses will be shared according to this same ratio. Any additional capital contributions and withdrawals must be made in these same ratios.
3. For their services to the company, the partners will receive the following annual guaranteed payments:

Johnson	$28,000
Stillwell	$21,000

   Johnson is expected to devote all his time to the business, while Stillwell will devote approximately 75 percent of his.
4. Two forklifts were sold in September 2017. The old lifts were purchased new four years ago. Two new forklifts were purchased on September 1, 2017, for $32,000 and the partnership intends to immediately expense them under §179 (see depreciation and §179 expense in the income statement above).
5. The truck sold this year was purchased several years ago. Of the total gain from the sale of the truck, $16,099 should be recaptured as ordinary income under IRC §1245.
6. The partnership uses currently allowable tax depreciation methods for both regular tax and book purposes and has adopted a policy of electing not to claim bonus depreciation. Assume alternative minimum tax depreciation equals regular tax depreciation.
7. The partners decided to invest in a small tract of land with the intention of selling it about a year later at a substantial profit. On January 1, 2017, they executed a $50,000 note with the bank to obtain the $70,000 cash purchase price. Interest on the note is payable yearly, and the principal is due in 18 months. The first interest payment of $2,250 was made on December 30, 2017 (see interest on notes payable in income statement above).
8. The note payable to the bank as well as the accounts payable are treated by the partnership as recourse debt. Assume the total recourse debt is allocated $28,776 to Jerry and $70,224 to Steve.
9. Some years after the partnership was formed, a mortgage of $112,500 was obtained on the land and warehouse from Commerce State Bank. Principal payments of $4,500 must be paid each December 31, along with 8 percent interest on the outstanding balance (see interest on mortgage in the income statement above). The holder of the

note agreed therein to look only to the land and warehouse for his security in the event of default. Because this mortgage is nonrecourse debt, it should be allocated among the partners according to their profit sharing ratios.

10. The partnership values its inventory at lower of cost or market and uses the FIFO inventory method. Assume the rules of §263A do not apply to ABS.
11. During the year, the partnership bought 300 shares of ABC, Ltd., for $6,100 on February 8, 2017. All the shares were sold for $6,650 on April 2, 2017. ABS received a Form 1099-B indicating that the basis of the ABC shares was reported to the IRS.
12. Two hundred shares of XYZ Corporation were sold for $10,600 on September 13, 2017. The stock was purchased on December 1, 2011, and is not eligible for the 28 percent capital gains rate. ABS received a Form 1099-B indicating that the basis of the XYZ shares was $9,800.
13. The following dividends were received:

XYZ (qualified)	$400
ABC, Ltd. (not qualified)	295
Total	$695

14. The partnership received interest income from the following sources:

Interest on Illinois municipal bonds	$3,200
Interest on savings	560
Interest on accounts receivable	500
Total	$4,260

15. The partnership donated $5,000 cash to the Red Cross.
16. Life insurance policies on the lives of Johnson and Stillwell were purchased in the prior year. The partnership will pay all the premiums and is the beneficiary of the policy. The premiums for the current year were $3,000 (see income statement above), and no cash surrender value exists for the first or second year of the policy.
17. The partners withdrew the following cash amounts from the partnership during the year (in addition to their guaranteed payments):

Johnson	$20,000
Stillwell	35,000

The following are ABS's balance sheets as of January 1, 2017, and December 31, 2017.

		12/31/17		1/1/17
Assets				
Cash		$ 70,467		$ 43,042
Accounts receivable		76,000		57,000
Inventories		60,000		50,000
Investment in municipal bonds		50,000		50,000
Investment in XYZ common stock		40,200		50,000
Truck			$ 16,500	
Less accumulated depreciation			13,649	
				2,851
Machinery and equipment	$ 66,000		$ 50,000	
Less accumulated depreciation	58,697		34,376	
		7,303		15,624
Building	$120,000		$120,000	
Less accumulated depreciation	39,875		36,798	
		80,125		83,202
Land		90,000		20,000
Totals		$474,095		$371,719

	12/31/17	1/1/17
Liabilities and Capital		
Accounts payable	$ 49,000	$ 45,500
Notes payable	50,000	0
Mortgage payable	63,000	67,500
Capital: Jerry Johnson	94,553	82,040
Steve Stillwell	217,542	176,679
Totals	$474,095	$371,719

S CORPORATION TAX RETURN PROBLEM

Required:

- Using the information provided below, complete First Place Inc.'s (FPI) 2017 Form 1120S. Also complete Kate Kleiber's Schedule K-1.
- Form 4562 for depreciation is not required. Include the amount of tax depreciation given in the problem on the appropriate line on the first page of Form 1120S.
- If any information is missing, use reasonable assumptions to fill in the gaps.
- The forms, schedules, and instructions can be found at the IRS website (www.irs.gov). The instructions can be helpful in completing the forms.

Facts:

First Place Inc. (FPI) was formed as a corporation on January 5, 2014, by its two owners Kate Kleiber and James Chandler. FPI immediately elected to be taxed as an S corporation for federal income tax purposes. FPI sells mountain climbing gear to retailers throughout the Rocky Mountain region. Kate owns 70 percent of the FPI common stock (the only class of stock outstanding) and James owns 30 percent.

- FPI is located at 4200 West 400 North, Salt Lake City, Utah 84116.
- FPI's Employer Identification Number is 87-5467544.
- FPI's business activity is wholesale sales. Its business activity code is 423910.
- Both shareholders work as employees of the corporation.
- Kate is the president of FPI (Social Security number 312-89-4567). Kate's address is 1842 East 8400 South, Sandy, Utah 84094.
- James is the vice president of FPI (Social Security number 321-98-7645). James's address is 2002 East 8145 South, Sandy, Utah 84094.
- FPI uses the accrual method of accounting and has a calendar year-end.

The following is FPI's 2017 income statement:

FPI **Income Statement** **For year ending December 31, 2017**	
Revenue from sales	$ 980,000
Sales returns and allowances	(10,000)
Cost of goods sold	(110,000)
Gross profit from operations	$ 860,000
Other income:	
Dividend income	$ 15,000
Interest income	5,000
Gross income	$ 880,000
Expenses:	
Compensation	$(600,000)
Depreciation	(10,000)
Bad debt expense	(14,000)
Meals and entertainment	(2,000)
Maintenance	(8,000)
Business interest	(1,000)
Property taxes	(7,000)
Charitable contributions	(10,000)
Other taxes	(30,000)
Rent	(28,000)
Advertising	(14,000)
Professional services	(11,000)
Employee benefits	(12,000)
Supplies	(3,000)
Other expenses	(21,000)
Total expenses	(771,000)
Net income	$ 109,000

Notes:

1. FPI's purchases during 2017 were $115,000. It values its inventory based on cost using the FIFO inventory cost flow method. Assume the rules of §263A do not apply to FPI.
2. Of the $5,000 interest income, $2,000 was from a West Jordan city bond used to fund public activities (issued in 2007) and $3,000 was from a money market account.
3. FPI's dividend income comes from publicly traded stocks that FPI has owned for two years.
4. FPI's compensation is as follows:
   - Kate, $120,000
   - James, $80,000
   - Other, $400,000.
5. FPI wrote off $6,000 in accounts receivable as uncollectible during the year.
6. FPI's regular tax depreciation was $17,000. AMT depreciation was $13,000.
7. FPI distributed $60,000 to its shareholders.
8. FPI is not required to compute the amount in its accumulated adjustments account.

The following are FPI's book balance sheets as of January 1, 2017, and December 31, 2017.

	2017 January 1	2017 December 31
Assets		
Cash	$ 90,000	$143,000
Accounts receivable	300,000	310,000
Allowance for doubtful accounts	(60,000)	(68,000)
Inventory	45,000	50,000
State and local bonds	38,000	38,000
Investments in stock	82,000	82,000
Fixed assets	100,000	100,000
Accumulated depreciation	(20,000)	(30,000)
Other assets	20,000	21,000
Total assets	$ 595,000	$646,000
Liabilities and Shareholders' Equity		
Accounts payable	$ 60,000	$ 55,000
Other current liabilities	5,000	8,000
Other liabilities	10,000	14,000
Capital stock	200,000	200,000
Retained earnings	320,000	369,000
Total liabilities and shareholders' equity	$ 595,000	$646,000

GIFT TAX RETURN PROBLEM

Lamar Grabowski is a prosperous rancher who lives in Crawford (Cherry County), Nebraska. Lamar is 60 years old and has been married to Elouisa (58 years old) for the past 37 years. Mildred and Charles are Lamar and Elouisa's adult children, ages 32 and 36, respectively. Over the years Lamar has considered making gifts to his children. Finally, in 2007 Lamar gave $250,000 each to Mildred and Charles. This year Lamar made the following gifts to Mildred and Charles:

Property	Recipient	Market Value	Adjusted Basis
Cash from joint savings account	Mildred Jones	$1,380,000	
100 acres of ranch land near Crawford	Charles Grabowski	1,640,000	$125,000

In addition to these gifts, this year Lamar also made a gift of 20,000 shares of Acme Inc. stock to State University (a qualified educational institution). The stock is listed on a national exchange (CUSIP = 000123TP) and was valued at $800,000 on the date of the gift. Lamar purchased the Acme stock 34 years ago for $25,000, and he inherited the ranch land from his father in 1992 when it was valued at $125,000. Lamar's cash gifts are made from Lamar and Elouisa's joint savings account, and although Elouisa is a professional accountant, she has not contributed to the joint savings account.

Lamar filed a timely gift tax return for the 2007 gifts offsetting a portion of each gift with his $12,000 annual exclusion and offsetting the remaining $147,640 of gift taxes with a portion of his applicable (unified) credit. Lamar has engaged you to calculate the gift tax and prepare a draft of the 2017 gift tax return (pages 1–3). Lamar and Elouisa have indicated they would like to gift-split.

ESTATE TAX RETURN PROBLEM

Clark Griswold is a wealthy engineer and inventor who retired to his residence in Fort Collins (Larimer County), Colorado. Clark is married to Ellen and they have two adult children, Russell and Audrey. Clark passed away on March 22 of this year at the age of 60, and his executor, Frank Shirley, has hired you to calculate the estate tax and prepare a draft of the 2018 estate tax return (pages 1–3). Clark's estate is being administered through the Larimer County Probate Court.

Frank has inventoried Clark's assets and has listed the value of his assets below. The auto, residence, and checking account were owned jointly (with the right of survivorship) with his wife. Clark also owned a whole life insurance policy with a cash surrender value of $50,000. Ellen and Clark's estate were listed as beneficiaries on the insurance policy, with Ellen receiving $1 million and the estate receiving the remainder of the proceeds. The Ajax common stock, the real estate, and the patent were all owned by Clark rather than joint ownership. Frank also noted that the real estate is subject to an $800,000 mortgage. At his death Clark also owed $1,500 on his credit card.

Property	Value	Adjusted Basis
Auto	$ 20,000	$ 55,000
Personal effects	75,000	110,000
Checking account	250,000	250,000
28,800 shares of Ajax common stock	7,200,000	270,000
Residence	6,800,000	480,000
Life insurance	6,000,000	50,000
Real estate	3,500,000	2,100,000
Patent	8,500,000	100,000

Clark's will instructs Frank to distribute Clark's property as follows: Ellen inherits Clark's personal effects, Russell inherits the patent, and Audrey inherits 20,000 shares of the Ajax stock and the real estate. The will also instructs Frank to distribute 1,000 shares of the Ajax stock to State University (an educational institution). The remaining shares of Ajax are to be sold, and after paying Clark's personal debts, the residual of the estate (if any) is divided equally between Russell and Audrey. The estate paid Clark's personal debts (credit card debt) and $4,300 of funeral expenses associated with Clark's burial. Finally, the estate paid Frank $27,000 in executor's fees associated with the administration of Clark's estate.

Clark's tax records indicate that in 2007 Clark made a $1 million taxable gift to his children. Clark filed a timely gift tax return (Form 709) and paid no gift taxes.