



STUDYDADDY

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purchased the stock for \$10 per share in 1960. The stock was valued at \$14.50 per share on the date of the gift. No gift tax was paid on the gift.

7. Judy is required by Xavier University to visit several high schools in the Cincinnati area to evaluate Xavier University students who are doing their practice teaching. However, she is not reimbursed for the expenses she incurs in doing this. During the spring semester (January through April 2013), she drove her personal automobile 6,800 miles in fulfilling this obligation. Judy drove an additional 6,700 personal miles during 2013. She has been using the car since June 30, 2012. Judy uses the standard mileage method to calculate her car expenses.

8. Paul and Judy 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)	1,468
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 Judy's contributions to the United Way	150
Professional dues (Judy)	325
Professional subscriptions (Judy)	245
Fee for preparation of 2012 tax return paid April 12, 2013	500

9. The Vances filed their 2012 federal, state, and local returns on April 12, 2013. They paid the following additional 2012 taxes with their returns: federal income taxes of \$630, state income taxes of \$250, and city income taxes of \$75.

10. The Vances made timely estimated federal income tax payments of \$1,000 each quarter during 2013. They also made estimated state income tax payments of \$300 each quarter and estimated city income tax payments of \$160 each quarter. The Vances made all fourth-quarter payments on December 31, 2013. They would like to receive a refund for any overpayments.

INDIVIDUAL TAX RETURN PROBLEM 6

Required:

- Use the following information to complete Paige Turner's 2013 federal income tax return. If 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 2013). Will provides more than half of Leif's support. Paige pays "alimony" of \$400 per month to Will. The payments are to continue until Leif reaches age 18, when they will be reduced to \$150. 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, ME 04401.

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- Paige's birthday is May 31, 1975.
- Ali's birthday is October 5, 2004.
- Leif's birthday is December 1, 2002.
- Paige's Social Security number is 007-16-4727.
- Ali's Social Security number is 005-61-7232.
- Leif's Social Security number is 004-23-3419.
- Will's Social Security number is 006-45-6333.
- 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 \$3,600 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, 2013, 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 2014 received a statement from her brokerage firm reporting the interest and dividends earned on the investments for 2013. (See Exhibit A.)
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.

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	200

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 2013 tax year

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

12. Paige received a Form 1099-B from her broker for the sale of the following securities during 2013. The adjusted basis amounts were reported to the IRS.

Security	Sale Date	Purchase Date	Sales Price	Commission Paid on Sale	Her Basis
Nebraska state bonds	03/14/13	10/22/07	\$2,300	\$160	\$1,890
Cassill Corp (500 shares)	10/20/13	02/19/12	\$8,500	\$425	\$9,760

13. In addition to the taxes withheld from her salary, she 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, 2013. 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 2012 state and federal income tax returns by the due date (April 15, 2013). In filing her extension on April 15, 2013, she made a federal tax payment of \$750. Her return was eventually filed on June 25, 2013. In August 2013, she received a federal refund of \$180 and a state tax refund of \$60. Her itemized deductions for 2012 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 2013.

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, ME 04473. Local practice is to allocate 12 percent of the fair market value of the property to the land. (See #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 2012 Acura TL. Her car registration fee (based on the car year) is \$50 and covers the period 1/1/13 through 12/31/13. 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 #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. 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 2013. 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, 2013, 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, ME 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. On April 1, 2013, Paige's house was robbed. She apparently interrupted the burglar because all that's missing is an antique brooch she inherited from her grandmother (June 12, 2005) and \$300 in cash. Unfortunately, she didn't have a separate rider on her insurance policy covering the jewelry. Therefore, the insurance company reimbursed her only \$500 for the brooch. Her basis in the brooch was \$6,000, and its fair market value was \$7,500. Her insurance policy also limits to \$100 the amount of cash that can be claimed in a theft.

22. 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, ME 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 2003 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

She has used her Acura TL in her business since July 1, 2013. During 2013, she properly documented 6,000 business miles (1,000 miles each month). The total mileage on her car (i.e., business- and personal-use miles) during the year was 15,000 miles (including 200 miles commuting to and from the real estate office). In 2013, 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.

23. Paige's company has an accountable expense reimbursement plan for employees from which Paige receives \$12,000 for the following expenses:

Airfare	\$4,700
Hotel	3,400
Meals	2,000
Car rentals	600
Entertainment	900
Incidentals	400

24. During 2013, Paige also paid \$295 for business publications other than those paid for by her employer and \$325 for a local CPA to prepare her 2012 tax return.

~~CORPORATE TAX RETURN PROBLEM 1~~

~~Required~~

- Complete Alvin's Music Inc.'s (AMI) 2013 Form 1120, Schedule D, and Schedule C (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



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