

John and Mary Jane Diaz are married, filing jointly. Their address is 204 Shoe Lane, Blacksburg, VA 24061. John is age 35, and Mary Jane is age 30. They are expecting their first child in early 2019. John's salary in 2018 was \$105,000, from which \$20,800 of Federal income tax and \$4,700 of state income tax were withheld. Mary Jane made \$52,000 and had \$3,000 of Federal income tax and \$3,100 of state income tax withheld. The appropriate amounts of FICA tax and Medicare tax were withheld for John and for Mary Jane. John's Social Security number is 111 -11 -1111, and Mary Jane's Social Security number is 123-45-6789.

John and Mary Jane are both covered by their employer's medical insurance policies with four-fifths of the premiums being paid by the employers. The total premiums were \$10,000 for John and \$6,200 for Mary Jane. Mary Jane received medical benefits of \$7,300 under the plan. John was not ill during 2018. Mary Jane paid non-covered medical expenses of \$1,300.

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

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

Other income received by the Diazes was as follows:

<i>Interest on certificates of deposit</i>	\$3,500
<i>Share of S corporation taxable income (distributions from the S corporation to Mary Jane were \$1,100; assume no wage limitation for qualified business income deduction)</i>	1,500
<i>Share of John's limited partnership taxable loss (his basis is \$3,000)</i>	(2,500)
<i>Award received by Mary Jane from employer for an outstanding suggestion for cutting costs</i>	4,000

John has always wanted to operate his own business. In October 2018, he incurred expenses of \$15,000 in investigating the establishment of a retail computer franchise. With the birth of their child expected next year, however, he decides to forgo self-employment for at least a couple of years.

John and Mary Jane made charitable contributions of \$3,700 during the year and paid an additional \$1,800 in state income taxes in 2018 upon filing their 2017 state income tax return. Their deductible home mortgage interest was \$8,200, and their property taxes came to \$4,800. They paid sales taxes of \$2,000, for which they have receipts. They paid a ticket of \$150 that Mary Jane received for running a red light (detected by a red light camera).

Part 1—Tax Computation

Calculate John and Mary Jane's tax (or refund) due for 2018.

Forms to use – 1040, Schedule A, B and E (page 2), 8582 schedules 1-5 as needed.

You should secure the fillable pdf forms from the IRS.gov website.