**The Schnappauf Family taxes**

Prepare the 2014 Federal Income tax return for Bill and Joyce Schnappauf. The information provided on the attached files will aid in your computations. You may use a tax preparation software or download the forms you need from [www.irs.gov](http://www.irs.gov). Use 2014 forms and 2014 tax tables. Save the forms as pdf files and upload into Canvas.

In 2014, Bill and Joyce Schnappauf lived in Wakefield, RI. Bill is 53 and Joyce is 51. Bill is a district sales manager for USC Equipment Corporation, a Rhode Island firm that manufactures and distributes gaming equipment. Joyce is a self-employed author of children’s books. The Schnappaufs have three children, Will, 21, Dan, 19, and Tom, 16. In February 2015, he Schnappaufs provided the following basic information for preparing their 2014 federal income tax return. Use 2014 forms and 2014 tax tables.

1. The Schnappaufs use the cash method of accounting and file their return on a calendar-year basis.
2. Unless otherwise stated, assume that the Schnappaufs want to minimize the current year’s tax liability. That is, they would like to defer income when possible and take the largest deductions possible, a practice they have followed in the past.
3. Social Security numbers:
	1. Joyce: 371-42-5207
	2. Bill: 150-52-0546
	3. Will: 373-46-2611
	4. Dan: 377-42-3411
	5. Tom: 375-49-6511
4. The Schnappaufs do not have any foreign bank accounts or foreign trusts.
5. Their address is 27 Northup Street, Wakefield, RI 02879
6. The Schnappaufs do not wish to contribute to the presidential election campaign.
7. Since we are completing the 2014 form, you do not need to worry about the ACA and medical insurance information for that.

For this part, you will need Form 1040, Schedule B, and Schedule D:

1. Bill’s W-2 is provided (exhibit A-1). The 2014 W-2 includes his salary ($96,000), bonus ($57,000), and income from group-term life insurance coverage in excess of $50,000 ($126.98), and is reduced by his 7% contribution ($6,720) to USC’s qualified pension plan. The company matches Bill’s contribution to the plan.
2. The Schnappaufs receive two 1099-INTs for interest (exhibits A-2 & A-3), two 1099-DIVs for dividends (exhibits A-4 & A-5), and a combined interest and dividend statement.
3. Joyce and her brother, Bob, are co-owners of, and active participants in, a furniture-restoration business. Joyce owns 30%, and Bob owns 70% of the business. The business was formed as an S-corporation in 2006. During 2014, the company pays $5,300 in dividends. The basis of Joyce’s stock is $31,000.
4. The Schnappaufs received a 2013 federal income tax refund of $1,714 on May 12, 2014. On May 15, 2014, they receive their income tax refund from the state of Rhode Island. In January 2015, the state mails the Schnappaufs a Form 1099G (exhibit A-7). Their total itemized deductions in 2013 were $21,796.
5. During 2014, Joyce is the lucky ninety-third caller to a local radio station and wins $540 in cash and a Tablet. Despite repeated calls to the radio station, she has not received a Form 1099-MISC. In announcing the prize, the radio station host said that the manufacturer’s suggested retail price for the Tablet was $640. However, Joyce has a catalog from Supersonic Electronics that advertises the Tablet for $525.
6. The Schnappaufs receive a Form W-2G (exhibit A-8) for their winnings at the Yardley Casino in Connecticut.
7. O June 26, 2014, Bill receives a check for $17,050 from the United Insurance Corporation. Though he was unaware of it, he was the designated beneficiary of an insurance policy on the life of his uncle. The policy had a maturity value of $16,600, and the letter from the company started that his uncle had paid premiums on the policy of $3,875 (exhibit A-9).
8. Joyce is active in the school PTO. During the year, she receives an award for outstanding service to the organization. She receives a plaque and two $150 gift certificates that were donated to the PTO by local merchants.

For the next part, you will need Schedule, A, Schedule, C, Schedule SE, and Forms 4562, 4684, 8283, 8606, 8829, and 8863.

1. Joyce writes children’s books for a variety of publishers. She has been self-employed since 2006. As a freelance writer, Joyce incurs costs associated with preparing a manuscript for which she does not yet have a contract. During the year, Joyce makes four business trips, each three days long, to meet with various publishers. For shorter trips that are closer to home, she either drives or takes the train and returns the same day. On December 10, 2014, Joyce receives an advance on her next book. Under the contract, Joyce I scheduled to begin work on the book on February 1, 2015, and must have it completed by November 30, 2015. The Schnappaufs’ home has two telephones. Joyce has a separate phone number for her business. The information on Joyce’s business is listed below:
	1. Royalties (exhibits A-10 to A-12)
	2. Publisher’s advance $6,000
	3. Office supplies 180
	4. Train tickets 640
	5. Airfare (4 trips) 1,900
	6. Lodging (12 nights) 2,650
	7. Meals (12 days) 720
	8. Telephone ($28/month per line) 672
	9. Internet provider 512
	10. Cell phone, including business, calls 841
	11. Business-related postage 77
	12. Printing/copying 153
	13. Legal fees 1,500
	14. Interest on auto 272
2. On January 2, 2014, Joyce purchases a new car to use in her business. The car, a Volster, costs $15,200. Joyce pays $2,200 in cash and finances the balance through the dealer. She uses the car 40% of the time for business and drives a total of 10,800 miles during 2014. The total expenses for the 10,800 miles driven are repairs and maintenance, $240; insurance, $920; and gasoline, $1,900. The correct depreciation expense for 2014 is $608 ($15,200x40%x10%).
3. Joyce’s office is located in a separate room in the house and occupies 375 sqft. The total square footage of the house is 2,500. The Schnappaufs purchased the home on July 7, 2000, for $70,000. The local practice is to allocate 10% of the purchase price to the land. The depreciation percentage of the office is 0.02564. When Joyce started er business on January 1, 2006, the fair market value of the house was $108,000. The total household expenses for 2014 are as follows:
	1. Heat $2,440
	2. Insurance 1,520
	3. Electricity 880
	4. Repairs to kitchen 3,100
	5. Cleaning 1,560
4. Bill began work on his MBA at Denville University. He enrolled in two courses and paid $3,500 in tuition and $310 for books.
5. Bill and Joyce each contribute the maximum to their respective IRA accounts in 2014. The IRA account is Joyce’s only retirement vehicle. Bill’s basis in his IRA before the current year’s contribution is $26,000, and Joyce’s basis is $36,000. The fair market value of Bill’s IRA on 12/31/14 is $41,720, and the fair market value of Joyce’s IRA is $57,200. In addition, Bill and Joyce contributed $2,000 to a Coverdell Education Savings Account for Tom.
6. On June 15, 2014, the Schnappaufs’ 2013 station wagon was totaled in Hurricane Ann. The car was purchased for $28,700 in November 2012. The Schnappaufs receive a check for $21,200 from Zippy Insurance Company that represents the fair market value of the car minus a $750 deductible. On June 26, 2014, they replace the car with a 2014 station wagon. The new car costs $31,400, and the Schnappaufs receive a rebate check from the car’s manufacturer for $2,500.
7. The hurricane also damages part of the Schnappaufs’ house. A tree falls and makes a hole in the roof above the kitchen. Water damages the kitchen, causing the new dishwasher to short out, and it has to be replaced. In addition, the linoleum floor has to be replaced. The cost of fixing the hole in the roof is $3,000. The Schnappaufs receive $2,500 ($3,000 repair cost minus $500 deductible) to fix the roof. Information concerning the dishwasher and the floor is as follows:

Date Original FMV FMV

Property Acquired Cost Before After Reimbursement

Dishwasher 3/30/14 $ 840 $ 840 $0 $380

Floor 3/16/14 $1,800 $1,650 $0 $850

1. The Schnapps incur the following medical expenses (before considering the $700 reimbursement they receive from their health insurance policy):
	1. Medical insurance premiums $3,800
	2. Doctors 1,200
	3. Chiropractor 650
	4. Dentist 1,900
	5. Vet fees (family dog Sandy) 350
	6. Prescription drugs 340
	7. Over-the-counter drugs (aspirin, cough syrup, etc.) 175
	8. In addition, Bill purchases an Exsoaligner machine for $700. The machine was recommended by the chiropractor to help strengthen Bill’s back muscles.
2. The Schnappaufs pay for the following property taxes:
	1. Wakefield House $10,400
	2. Family car used by Bill (ad valorem) 480
	3. Joyce’s car (ad valorem) 520
3. The Schnappaufs receive two Form 1098s for the cost of interest on bank loans. They also pay interest on their personal credit cards:
	1. Jefferson Trust 1098 (exhibit A-13 – Wakefield house)
	2. Jefferson Trust 1098 (exhibit A-14 – home equity)
	3. Dempsey’s Department Store revolving account $191
	4. Brooks’ Bargain Basement resolving account 67
	5. Jefferson Trust Bank card 212
	6. The proceeds from the home equity loan were used to renovate their kitchen and pay for Tom’s tuition to private school. The interest on the portion of the loan used for private school tuition is $640.
4. Bill and Joyce make cash charitable contributions to the United Fund Campaign ($2,500), Adelade University ($400), Tremon University ($2,200) and Christ for King Church in Kingston, RI ($2,700). The Schnappaufs have documentation to verify their cash contributions. They also donate property to the Salvation Army on July 15, 2014:

Property FMV Original cost Date Acquired

Antique table $510 $225 1/1/03

Dishwasher 130 $700 5/6/07

Sofa bed 90 $800 12/14/09

Men’s suits (2) 140 $540 various

The Salvation Army acknowledges that these amounts represent the fair market value of the donated items.

1. The Schnappaufs incur the following expenses:

Type Amount

2013 tax preparation fee (paid In 2014) $ 900

Safety deposit box 60

Investment journals 380

Investment advice 1,250

Business publications (Bill) 675

Gambling losses $3,450

1. Because Joyce is self-employed, they make federal estimated tax payments of $210 per quarter on 4/15/14, 6/15/14, 9/15/14, and 1/15/15. They also make estimated payments of $150 per quarter to the state of Rhode Island on 4/15/14, 6/15/14, 9/15/14, and 12/31/14.
2. Bill and Joyce paid $8,200 in tuition for books, and $9,200 for room and board for Will, a junior, to attend Springbrook State University. They also paid $22,000 in tuition, $950 in books, and $10,100 in room and board for Dan, a freshman at Prescott College.
3. Other information:
	1. Joyce’s business is named Queensbridge Boos, and her employer ID is 05-3456345
	2. The Salvation Army’s address is 15 High Street, Wakefield, RI 02879

To complete the next portion, you will need Schedule E, and forms 462 and 8582.

1. On February 11, 2014, Bill inherits his father’s summer home. The house, located in South Lake Tahoe, Nevada, has a fair market value of $550,000 at the date of his father’s death. His parents had purchased the house in 1975 for $140,000 and made $122,000 worth of capital improvements to it. Twenty percent of the total value of the property is attributable to the land. Because Bill and Joyce ultimately would like to use the property as a vacation home, they decide to rent it out. Bill actively participates in the management of the property The property is first advertised for rent on 3/1/14 but is not rented until 4/15/14. Bill provides the following income and expense information for the Lake Tahoe rental property:
	1. Rent $23,000
	2. Repairs 6,250
	3. Management fee 4,800
	4. Property taxes 13,800
	5. Insurance 3,500
	6. In addition, Bill buys a new stove for $1,800 and a new refrigerator for $1,450 on 3/20/14.
	7. The rental property is located at 100 Paraiso Drive, South Lake Tahoe, NV 88197.
2. The Schnappaufs receive Form 1099 –B (exhibit A-15) from Pebble Beach Investors for the sale of several securities. Details on the securities sales are provided below. The selling price listed is net of brokerage commissions and represents the amount the Schnappaufs actually receive from the sale.

 Date Purchase

Stock Acquired Date Sold Sale price Price

150 shares Pfizer Corp. 5/12/91 8/15/14 $ 6,000 \*

300 shares Texas Instruments 7/30/96 10/25/14 17,100 \*\*

50 shares Alcoa 6/10/08 10/23/14 525 $1,800

25 shares Luminent 4/28/14 9/4/14 900 2,700

60 shares Textron 9/11/14 10/27/14 10,410 9,100

300 shares Hasbro 1/7/03 12/20/14 6,125 3,150

‘\* When Joyce graduated from college on May 12, 1991, her father gave her 150 shares of Pfizer Corporation stock that he had acquired on October 27, 1983, fo $1,300. At the date of the gift, the fair market value of the stock was $1,800. In January 2000, Pfizer Corporation stock split 2 for 1.

‘\*\* The Schnappaufs acquired 500 shares of preferred stock in Texas Instruments for $7,810. Shortly after the purchase, they received a nontaxable 10% stock dividend.

1. On May 18, 2014, Joyce purchased a computer system for $2,700. She also bought a color printer/copier/fax machine for $450. All the equipment is used exclusively in her business.
2. On June 12, 2014, Joyce sells her old computer system for $300 and her printer for $75. She had acquired the computer system and printer on Feb. 18, 2011, for $2,800 and $4225, respectively. When theScjmappaufs prepared their 2011 tax return, they elected to expense the computer and printer using section 179. The computer system and te printer were used exclusively in her business.
3. Joyce receives a Schedule K-1 (exhibit A-16) for her interest in the furniture-restoration business.