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- Bonnie sells Parchment, Inc. stock (adjusted basis \$17,000) to Phillip, her brother, for its fair market value of \$12,000.
- Amos sells land (adjusted basis \$85,000) to his nephew, Boyd, for its fair market value of \$70,000.
- Susan sells a tax-exempt bond (adjusted basis \$20,000) to her wholly owned corporation for its fair market value of \$19,000.
- Ron sells a business truck (adjusted basis \$20,000) that he uses in his sole proprietorship to his cousin, Agnes, for its fair market value of \$18,500.
- Martha sells her partnership interest (adjusted basis \$175,000) in Pearl Partnership to her adult daughter, Kim, for \$220,000.

55. During the current year, Robert pays the following amounts associated with his own residence:

| | |
|---------------------|---------|
| Property taxes | \$3,000 |
| Mortgage interest | 8,000 |
| Repairs | 1,200 |
| Utilities | 2,700 |
| Replacement of roof | 4,000 |

In addition, Robert paid \$1,500 of property taxes on the home that is owned and used by Anne, his daughter.

- Which of these expenses can Robert deduct?
- Can Anne deduct the \$1,500 of property taxes?
- Are the deductions *for* AGI or *from* AGI (itemized)?
- How could the tax consequences be improved?

Decision Making

Cumulative Problems

56. Roberta Santos, age 41, is single and lives at 120 Sanborne Avenue, Springfield, IL 60781. Her Social Security number is 123-45-6789. Roberta has been divorced from her former husband, Wayne, for three years. She has a son, Jason, who is 17, and a daughter, June, who is 18. Jason's Social Security number is 111-11-1112, and June's is 123-45-6788. Roberta does not want to contribute \$3 to the Presidential Election Campaign Fund.

Roberta, an advertising executive, earned a salary of \$80,000 in 2015. Her employer withheld \$9,000 in Federal income tax and \$3,100 in state income tax.

Roberta has legal custody of Jason and June. The divorce decree provides that Roberta is to receive the dependency deductions for the children. Jason lives with his father during summer vacation. Wayne indicates that his expenses for Jason are \$10,500. Roberta can document that she spent \$6,500 for Jason's support during 2015. In prior years, Roberta gave a signed Form 8332 to Wayne regarding Jason. For 2015, she has decided not to do so. Roberta provides all of June's support.

Roberta's mother died on January 7, 2015. Roberta inherited assets worth \$625,000 from her mother. As the sole beneficiary of her mother's life insurance policy, Roberta received insurance proceeds of \$300,000. Her mother's cost basis for the life insurance policy was \$120,000. Roberta's favorite aunt gave her \$13,000 for her birthday in October.

On November 8, 2015, Roberta sells for \$22,000 Amber stock that she had purchased for \$24,000 from her first cousin, Walt, on December 5, 2010. Walt's cost basis for the stock was \$26,000, and the stock was worth \$23,000 on December 5,

Tax Return Problem



TAX SOFTWARE

WWW

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2010. On December 1, 2015, Roberta sold Falcon stock for \$13,500. She had acquired the stock on July 2, 2012, for \$8,000.

An examination of Roberta's records reveals that she received the following:

- Interest income of \$2,500 from First Savings Bank.
- Groceries valued at \$750 from a local grocery store for being the 100,000th customer.
- Qualified dividend income of \$1,800 from Amber.
- Interest income of \$3,750 on City of Springfield school bonds.
- Alimony of \$16,000 from Wayne.
- Distribution of \$4,800 from ST Partnership. Her distributive share of the partnership passive taxable income was \$5,300. She had no prior passive activity losses.

From her checkbook records, she determines that she made the following payments during 2015:

- Charitable contributions of \$4,500 to First Presbyterian Church and \$1,500 to the American Red Cross (proper receipts obtained).
- Mortgage interest on her residence of \$7,800.
- Property taxes of \$3,200 on her residence and \$1,100 (ad valorem) on her car.
- Estimated Federal income taxes of \$3,800 and estimated state income taxes of \$1,000.
- Medical expenses of \$5,000 for her and \$800 for Jason. In December, her medical insurance policy reimbursed \$1,500 of her medical expenses.
- A \$1,000 ticket for parking in a handicapped space.
- Attorney's fees of \$500 associated with unsuccessfully contesting the parking ticket.
- Contribution of \$250 to the campaign of a candidate for governor.
- Because she did not maintain records of the sales tax she paid, she calculates the amount from the sales tax table to be \$994.

Calculate Roberta's net tax payable or refund due for 2015. Use the appropriate forms and schedules. Suggested software: H&R BLOCK Tax Software.

Tax Computation Problem
Decision Making
Communications

57. 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 2017. John's salary in 2016 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 2016. 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



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