

CHAPTER 2

GROSS INCOME AND EXCLUSIONS

Group 1 - Multiple Choice Questions

1. C (LO 2.1)
2. D (LO 2.1)
3. A (LO 2.1)
4. D (LO 2.1)
5. D (LO 2.1)
6. E (LO 2.4)
7. C $\$73,500/210 = \$350 \times 4 = \$1,400$ (LO 2.5)
8. C (LO 2.6)
9. B (LO 2.7)
10. D (LO 2.7, 2.8, 2.9, 2.10)
11. A (LO 2.14)
12. E (LO 2.14)

Group 2 - Problems

1.
 - a. Excluded (LO 2.1)
 - b. Included (LO 2.1)
 - c. Included (LO 2.1)
 - d. Included (LO 2.1)
 - e. Excluded (LO 2.1)
 - f. Included (LO 2.1)
 - g. Included (LO 2.1)
 - h. Excluded (LO 2.1)
 - i. Excluded (LO 2.1)
 - j. Excluded (LO 2.1)
 - k. Included (LO 2.1)
2. The non-cash payment of \$6,000 for services performed is includable income to John. The tax law states that gross income is “all income from whatever source derived.” There is no exception in the law for non-cash items received in exchange for services. (LO 2.1)
3.
 - a. **\$300.** Gross income includes “all income from whatever source derived.” The value of the hair styling is income to Larry for the performance of services. There is no gross income exception in the tax law for “barter” income.
 - b. **\$300.** Gross income includes “all income from whatever source derived.” The value of the tax return is income to Sheila for the performance of services. There is no gross income exception in the tax law for “barter” income. (LO 2.1)
4. Illegal income is still taxable since there is no exception excluding it in the tax code. When there is not an explicit exception, gross income is “all income from whatever source derived.” (LO 2.1)
5. Qualified dividends are taxed at either 0%, 15%, or 20%. The 0% rate applies for taxpayers in the ordinary income tax brackets of 10% and 15%. The 15% rate applies for taxpayers in the ordinary income tax brackets of 25% through 35%. The 20% rate applies for taxpayers in the 39.6% bracket. A 3.8% Medicare surtax on net investment income will be added to the rates for certain high-income taxpayers. (LO 2.2)
6. If no election is made, the interest is not included in income until the EE bond is converted to cash by the taxpayer. If the taxpayer makes an election, however, the income which increases the redemption value but is not paid in cash on the EE bond each year is included in the taxpayer’s gross income. (LO 2.2)
7. See Schedule B on page 40. (LO 2.2)

8. a. (1) **\$450.**
(2) **\$450.**
b. (1) **\$0.**
(2) **\$425,000.** (LO 2.3)
9. Arlen may deduct the alimony of \$2,000 per month on his tax return. He cannot deduct the child support. Jane must report the alimony as income on her tax return. The child support is not taxable income to her. (LO 2.3)
10. No gain is taxable to Cindy on the transfer of the house since it is part of a property settlement related to a divorce. Allen has a basis of \$90,000 in the house for calculating tax on any future sale of the house. (LO 2.3)
11. a. **\$50,000.**
b. **\$350.** A non-qualified plan award may only be excluded up to \$400; thus \$350 is taxable.
c. **\$1,000,000.**
d. **\$50,000.** (LO 2.4)
12. a. **\$4,000.**
b. **\$14,500.**
c. **\$3,500.** (LO 2.4, 2.8)

13. **SIMPLIFIED METHOD WORKSHEET**

- | | |
|---|----------------------|
| 1) Enter total amount received this year. | 1) <u>\$ 8,000</u> |
| 2) Enter cost in the plan at the annuity starting date. | 2) <u>\$39,900</u> |
| 3) Age at annuity starting date | |
| <u>Enter</u> | |
| 55 and under 360 | |
| 56–60 310 | |
| 61–65 260 | 3) <u> 210</u> |
| 66–70 210 | |
| 71 and older 160 | |
| 4) Divide line 2 by line 3. | 4) <u>\$ 190</u> |
| 5) Multiply line 4 by the number of monthly payments this year. If the annuity starting date was before 1987, also enter this amount on line 8; and skip lines 6 and 7. Otherwise go to line 6. | 5) <u>\$ 1,520</u> |
| 6) Enter the amount, if any, recovered tax-free in prior years | 6) <u>\$ 0</u> |
| 7) Subtract line 6 from line 2. | 7) <u>\$ 39,900</u> |
| 8) Enter the smaller of line 5 or 7. | 8) <u>\$ 1,520</u> |
| 9) Taxable amount this year: Subtract line 8 from line 1. Do not enter less than zero. | 9) <u>\$ 6,480</u> |
- (LO 2.5)
14. **\$56,000** = \$100,000 – \$30,000 – \$14,000. Since the policy was transferred for valuable consideration, the proceeds are taxable to the extent that they exceed the sum of the cash value at the time of transfer plus the premiums paid. (LO 2.6)
15. **\$1,300.** A beneficiary, who is a surviving spouse, must include the entire amount of interest received with respect to the policy proceeds in gross income; the \$5,000 principal amount may be excluded from gross income. (LO 2.6)

16. David has received an accelerated death benefit or viatical settlement which is excluded from taxable income. (LO 2.6)
17. None of the payment is taxable. Life insurance proceeds are generally considered to be tax-free and specifically excluded from taxable income. (LO 2.6)
18. **\$7,500**. Inheritances are excluded from taxable income; however, subsequent earnings on inherited property must be included in income. (LO 2.7)
19. \$10,000 is taxable. This gift is clearly bonus income in a business setting so it does not qualify for tax-free gift treatment, even if Gwen's client calls the payment a gift. (LO 2.7)
20. None of the gift is taxable. Gifts are excluded from the taxable income of the person receiving the gift. (LO 2.7)
21. \$8,000 is taxable since there is no exclusion for payments made for room and board. \$12,000 is not taxable, since scholarships for tuition are specifically excluded from taxable income. (LO 2.8)
22. None of the cost of the insurance or amounts paid by the insurance company for surgery or treatment are taxable to Skyler. These amounts are specifically excluded from taxable income under the tax law. (LO 2.9)
23. **\$0**. Taxpayers may exclude the total amount received for payment or reimbursement of medical expenses. Premiums for health insurance paid by the taxpayer's employer are also excluded from the taxpayer's gross income. In addition, the \$1,500 (\$3,500 – \$2,000) not paid by the insurance company is deductible as an itemized deduction on Ellen's return, subject to the medical expense deduction limitations. (LO 2.9)
24. a. No. The meals are furnished by the employer on the business premises of the employer during working hours because the employer limits the employee to short meal periods.
b. No. The meals are furnished by the employer on the business premises of the employer during working hours because the taxpayer must be available for emergency calls.
c. Yes. The meals are not furnished for the convenience of the employer. (LO 2.10)
25. **6.0%** = $4.5\% \div (100\% - 25\%)$. (LO 2.11)
26. She will likely invest in the tax-free bond. At the 35% tax bracket, the equivalent rate of the tax-free bond is 7.69%, or 5% divided by $(1 - .35)$, which is higher than the 7% rate of return of the corporate bond. (LO 2.11)
27. **\$3,250**. Unemployment benefits received are included in gross income. (LO 2.12)
28. **\$4,850** = \$850 + \$4,000. The value of the airline tickets is excluded from gross income under the no-additional-cost services rule for employees and their families. The \$30 of personal typing is excluded under the de minimis fringe benefits rule. The \$850 worth of employee discount coupons for hotel rooms is included in gross income since the hotel division is a different line of business than that in which Linda is employed. The \$4,000 tuition payment must be included in gross income since Richard is working on a graduate degree and not providing teaching or research activities. (LO 2.13)
29. Yes. Tom will be better off reducing his taxable income by \$2,550 by using the medical flexible spending account. Since his income will be \$2,550 less, he will pay less tax than he would otherwise. (LO 2.13)
30. As calculated on the worksheet on page 41. (LO 2.14)

Group 2: Problem 7

SCHEDULE B
(Form 1040A or 1040)Department of the Treasury
Internal Revenue Service (99)**Interest and Ordinary Dividends**

▶ Attach to Form 1040A or 1040.

▶ Information about Schedule B and its instructions is at www.irs.gov/scheduleb.

OMB No. 1545-0074

2015Attachment
Sequence No. **08**

Name(s) shown on return

Charles and Sally Heck

Your social security number

Part I**Interest**

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

- 1** List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▶

*Parcine Bank
River Bank***Amount***1,345
650*

- 2** Add the amounts on line 1
- 3** Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815
- 4** Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶

2 *1,995*

3

4 *1,995*

Note: If line 4 is over \$1,500, you must complete Part III.**Part II****Ordinary Dividends**

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

- 5** List name of payer ▶

*American Express
John Deere
Gene Corporation
Devona Corporation***Amount***800
2,350
3,100
850*

- 6** Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶

6 *7,100***Note:** If line 6 is over \$1,500, you must complete Part III.

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

Part III
Foreign Accounts and Trusts

(See instructions on back.)

- 7a** At any time during 2015, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions
- If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements
- b** If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ▶
- 8** During 2015, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back

Yes	No
	X
	X

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 17146N

Schedule B (Form 1040A or 1040) 2015

Group 2: Problem 30

1. Enter the total amount of social security income	1. <u>\$7,000</u>
2. Enter one-half of line 1	2. <u>3,500</u>
3. Enter the total of taxable income items on Form 1040 except social security income	3. <u>14,000</u>
4. Enter the amount of tax exempt interest income	4. <u>30,000</u>
5. Add lines 2, 3, and 4	5. <u>47,500</u>
6. Enter all adjustments for AGI except for student loan interest, the domestic production activities deduction and the tuition and fees deduction	6. <u>-0-</u>
7. Subtract line 6 from line 5. If zero or less, stop here, none of the social security benefits are taxable	7. <u>47,500</u>
8. Enter \$25,000 (\$32,000 if married filing jointly; \$0 if married filing separately and living with spouse at any time during the year)	8. <u>25,000</u>
9. Subtract line 8 from line 7. If zero or less, enter -0-	9. <u>22,500</u>
Note: <i>If line 9 is zero or less, stop here; none of your benefits are taxable. Otherwise, go on to line 10.</i>	
10. Enter \$9,000 (\$12,000 if married filing jointly; \$0 if married filing separately and living with spouse at any time during the year)	10. <u>9,000</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11. <u>13,500</u>
12. Enter the smaller of line 9 or line 10	12. <u>9,000</u>
13. Enter one-half of line 12	13. <u>4,500</u>
14. Enter the smaller of line 2 or line 13	14. <u>3,500</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15. <u>11,475</u>
16. Add lines 14 and 15	16. <u>14,975</u>
17. Multiply line 1 by 85% (.85)	17. <u>5,950</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18. <u>\$5,950</u>

31. a. **Yes.** Tax-free municipal bond income is added to AGI in the formula to determine the amount of taxable Social Security.
 b. **Zero.** The taxpayer's income is below the threshold amount used in the formula to determine whether Social Security is taxable.
 c. **85%.** High-income taxpayers must include 85% of Social Security receipts in taxable income. (LO 2.14)
32. The blank Alimony Recapture Worksheet is not reprinted here. The purpose of this problem is to familiarize the student with the Internet sites.
33. See the answer to Problem 7.

Group 3 - Writing Assignment

Research Solution:

Whittenburg, Gill, and Altus-Buller, CPAs
 San Diego, CA
 August 3, 20xx

Ms. Vanessa Lazo
 1550 Mesa Rosa Drive
 San Diego, CA

Dear Professor Lazo,

Thank you for requesting my advice concerning the tax treatment of your free trip to Costa Rica. I have researched your question and am sorry to say that the free tour is taxable.

The fair market value of the tour must be reported on Form 1040, under "Other Income." In addition, any expenses that you incurred during the trip cannot be deducted.

My conclusion is based upon the facts that you have provided me. I'm sorry that the news was not more favorable. If you have any questions or would like further explanation, please do not hesitate to call.

Sincerely,
 Trevor Malcolm
 for Whittenburg, Gill, and Altus-Buller, CPAs

Group 4 - Comprehensive Problems

1. See pages 43 through 45.
- 2A. See pages 46 through 47.
- 2B. See pages 48 through 49.

Group 5 - Cumulative Software Problem

The solution to the Cumulative Software Problem is posted on the Internet site for the text at www.cengage.com/login.

Comprehensive Problem 1

Form 1040A		Department of the Treasury—Internal Revenue Service		U.S. Individual Income Tax Return (99)		2015		IRS Use Only—Do not write or staple in this space.																																				
Your first name and initial <i>Ken</i>			Last name <i>Hair</i>			OMB No. 1545-0074																																						
If a joint return, spouse's first name and initial <i>Bev</i>			Last name <i>Hair</i>			Your social security number <i>4 6 5 5 7 9 9 3 4</i>																																						
Home address (number and street). If you have a P.O. box, see instructions. <i>3567 River Street</i>						Apt. no.		Spouse's social security number <i>4 6 5 7 4 3 3 2 1</i>																																				
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>Springfield, MO 63126</i>						Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse																																						
Foreign country name			Foreign province/state/county			Foreign postal code																																						
Filing status Check only one box.		1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see instructions)																																										
Exemptions		6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input checked="" type="checkbox"/> Spouse c Dependents: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table>						(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>	Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶	
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)																																								
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If more than six dependents, see instructions.		d Total number of exemptions claimed.						2																																				
Income		7 Wages, salaries, tips, etc. Attach Form(s) W-2. 7 <i>52,875</i> 8a Taxable interest. Attach Schedule B if required. 8a <i>643</i> b Tax-exempt interest. Do not include on line 8a. 8b <i>1,000</i> 9a Ordinary dividends. Attach Schedule B if required. 9a <i>301</i> b Qualified dividends (see instructions). 9b <i>301</i> 10 Capital gain distributions (see instructions). 10 11a IRA distributions. 11a 11b Taxable amount (see instructions). 11b 12a Pensions and annuities. 12a 12b Taxable amount (see instructions). 12b 13 Unemployment compensation and Alaska Permanent Fund dividends. 13 <i>1,825</i> 14a Social security benefits. 14a 14b Taxable amount (see instructions). 14b 15 Add lines 7 through 14b (far right column). This is your total income . ▶ 15 <i>55,644</i>																																										
Adjusted gross income		16 Reserved 16 17 IRA deduction (see instructions). 17 18 Student loan interest deduction (see instructions). 18 19 Reserved 19 20 Add lines 16 through 19. These are your total adjustments . 20 21 Subtract line 20 from line 15. This is your adjusted gross income . ▶ 21 <i>55,644</i>																																										
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11327A Form 1040A (2015)																																												

Comprehensive Problem 1, cont.

Form 1040A (2015)		Page 2
Tax, credits, and payments	22 Enter the amount from line 21 (adjusted gross income). 22 55,644	
Standard Deduction for— • People who check any box on line 23a or 23b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	23a Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind if: <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind Total boxes checked ▶ 23a <input type="checkbox"/>	
	b If you are married filing separately and your spouse itemizes deductions, check here ▶ 23b <input type="checkbox"/>	
	24 Enter your standard deduction . 24 12,600	
	25 Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-. 25 43,044	
	26 Exemptions. Multiply \$4,000 by the number on line 6d. 26 8,000	
	27 Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. 27 35,044 This is your taxable income.	
	28 Tax , including any alternative minimum tax (see instructions). 28 4,286	
	29 Excess advance premium tax credit repayment. Attach Form 8962. 29	
	30 Add lines 28 and 29. 30 4,286	
	31 Credit for child and dependent care expenses. Attach Form 2441. 31	
	32 Credit for the elderly or the disabled. Attach Schedule R. 32	
	33 Education credits from Form 8863, line 19. 33	
	34 Retirement savings contributions credit. Attach Form 8880. 34	
	35 Child tax credit. Attach Schedule 8812, if required. 35	
	36 Add lines 31 through 35. These are your total credits . 36	
37 Subtract line 36 from line 30. If line 36 is more than line 30, enter -0-. 37 4,286		
38 Health care: individual responsibility (see instructions). Full-year coverage <input checked="" type="checkbox"/> 38		
39 Add line 37 and line 38. This is your total tax . 39 4,286		
If you have a qualifying child, attach Schedule EIC.	40 Federal income tax withheld from Forms W-2 and 1099. 40 5,500	
	41 2015 estimated tax payments and amount applied from 2014 return. 41	
	42a Earned income credit (EIC). 42a	
	b Nontaxable combat pay election. 42b	
	43 Additional child tax credit. Attach Schedule 8812. 43	
	44 American opportunity credit from Form 8863, line 8. 44	
	45 Net premium tax credit. Attach Form 8962. 45	
	46 Add lines 40, 41, 42a, 43, 44, and 45. These are your total payments . 46 5,500	
	47 If line 46 is more than line 39, subtract line 39 from line 46. This is the amount you overpaid . 47 1,214	
	48a Amount of line 47 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/> 48a 1,214	
Direct deposit? See instructions and fill in 48b, 48c, and 48d or Form 8888.	b Routing number <input type="text"/> ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
	d Account number <input type="text"/>	
	49 Amount of line 47 you want applied to your 2016 estimated tax . 49	
Amount you owe	50 Amount you owe. Subtract line 46 from line 39. For details on how to pay, see instructions. ▶ 50	
	51 Estimated tax penalty (see instructions). 51	
Third party designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes . Complete the following. <input type="checkbox"/> No	
	Designee's name <input type="text"/>	Phone no. <input type="text"/>
Sign here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	
	Your signature <input type="text"/>	Date <input type="text"/>
	Spouse's signature. If a joint return, both must sign. <input type="text"/>	Date <input type="text"/>
	Your occupation Student	Daytime phone number <input type="text"/>
Paid preparer use only	Print/type preparer's name <input type="text"/>	Preparer's signature <input type="text"/>
	Firm's name <input type="text"/>	Date <input type="text"/>
	Firm's address <input type="text"/>	Check <input type="checkbox"/> if self-employed
	PTIN <input type="text"/>	Firm's EIN <input type="text"/>
		Phone no. <input type="text"/>

Form **1040A** (2015)

Comprehensive Problem 1, cont.

Qualified Dividends and Capital Gain Tax Worksheet—Line 28

Keep for Your Records



*

Before you begin: ✓ Be sure you do not have to file Form 1040 (see the Instructions for Form 1040A, line 10).

1. Enter the amount from Form 1040A, line 27	1.	<u>35,044</u>
2. Enter the amount from Form 1040A, line 9b	2.	<u>301</u>
3. Enter the amount from Form 1040A, line 10	3.	<u>0</u>
4. Add lines 2 and 3	4.	<u>301</u>
5. Subtract line 4 from line 1. If zero or less, enter -0-	5.	<u>34,743</u>
6. Enter the smaller of:	6.	<u>35,044</u>
• The amount on line 1, or	}	
• \$37,450 if single or married filing separately,		
\$74,900 if married filing jointly or qualifying widow(er), or		
\$50,200 if head of household.		
7. Enter the smaller of line 5 or line 6	7.	<u>34,743</u>
8. Subtract line 7 from line 6. This amount is taxed at 0%	8.	<u>301</u>
9. Enter the smaller of line 1 or line 4	9.	<u>301</u>
10. Enter the amount from line 8	10.	<u>301</u>
11. Subtract line 10 from line 9	11.	<u>0</u>
12. Multiply line 11 by 15% (0.15)	12.	<u>0</u>
13. Use the Tax Table to figure the tax on the amount on line 5. Enter the tax here	13.	<u>4,286</u>
14. Add lines 12 and 13	14.	<u>4,286</u>
15. Use the Tax Table to figure the tax on the amount on line 1. Enter the tax here	15.	<u>4,331</u>
16. Tax on all taxable income. Enter the smaller of line 14 or line 15 here and on Form 1040A, line 28	16.	<u>4,286</u>

* Note: This worksheet does not apply for high-income taxpayers under the ACA or ATRA provisions (See LO 1.9).

Comprehensive Problem 2A

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2015	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.																									
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20																														
Your first name and initial		Last name		See separate instructions.																										
Ray		Gomez		Your social security number																										
If a joint return, spouse's first name and initial		Last name		Spouse's social security number																										
Maria		Gomez		469 21 5523																										
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.																										
1610 Quince Avenue				▲ Make sure the SSN(s) above and on line 6c are correct.																										
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				Presidential Election Campaign																										
Mc Allen, TX 78701				Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse																										
Foreign country name		Foreign province/state/country		Foreign postal code																										
Filing Status																														
<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> 1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ </div> <div style="width: 45%;"> 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child </div> </div>																														
Exemptions																														
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> 6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a 6b <input checked="" type="checkbox"/> Spouse 6c Dependents: <table border="1" style="width: 100%; border-collapse: collapse; font-size: 8pt;"> <thead> <tr> <th style="width: 20%;">(1) First name</th> <th style="width: 20%;">Last name</th> <th style="width: 20%;">(2) Dependent's social security number</th> <th style="width: 20%;">(3) Dependent's relationship to you</th> <th style="width: 20%;">(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table> </div> <div style="width: 35%;"> Boxes checked on 6a and 6b 2 No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶ 2 </div> </div>						(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)																										
				<input type="checkbox"/>																										
				<input type="checkbox"/>																										
				<input type="checkbox"/>																										
				<input type="checkbox"/>																										
Income																														
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> 7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required 8b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15a 16a Pensions and annuities 16a 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20a 21 Other income. List type and amount Texas lottery 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ </div> <div style="width: 35%;"> 7 62,170 8a 603 9a 9b 10 11 12 13 14 15b 16b 17 18 19 20b 21 4,000 22 66,773 </div> </div>																														
Adjusted Gross Income																														
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> 23 Reserved 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ▶ 566 74 8765 32 IRA deduction 33 Student loan interest deduction 34 Reserved 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ </div> <div style="width: 35%;"> 23 24 25 26 27 28 29 30 31a 5,400 32 33 34 35 36 5,400 37 61,373 </div> </div>																														

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Cat. No. 11320B

Form 1040 (2015)

Comprehensive Problem 2A, cont.

Form 1040 (2015)		Page 2		
38 Amount from line 37 (adjusted gross income)		38 61,373		
Tax and Credits	39a Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked ▶ 39a			
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b			
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40 12,600		
	41 Subtract line 40 from line 38	41 48,773		
	42 Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42 8,000		
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43 40,773		
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44 5,194		
	45 Alternative minimum tax (see instructions). Attach Form 6251	45		
	46 Excess advance premium tax credit repayment. Attach Form 8962	46		
	47 Add lines 44, 45, and 46	47 5,194		
	48 Foreign tax credit. Attach Form 1116 if required	48		
	49 Credit for child and dependent care expenses. Attach Form 2441	49		
50 Education credits from Form 8863, line 19	50			
51 Retirement savings contributions credit. Attach Form 8880	51			
52 Child tax credit. Attach Schedule 8812, if required	52			
53 Residential energy credit. Attach Form 5695	53			
54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54			
55 Add lines 48 through 54. These are your total credits	55			
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56 5,194			
Other Taxes	57 Self-employment tax. Attach Schedule SE	57		
	58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
	59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
	60a Household employment taxes from Schedule H	60a		
	b First-time homebuyer credit repayment. Attach Form 5405 if required	60b		
	61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61		
62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62			
63 Add lines 56 through 62. This is your total tax	63 5,194			
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64 9,520		
	65 2015 estimated tax payments and amount applied from 2014 return	65		
	66a Earned income credit (EIC)	66a		
	b Nontaxable combat pay election 66b	66b		
	67 Additional child tax credit. Attach Schedule 8812	67		
	68 American opportunity credit from Form 8863, line 8	68		
	69 Net premium tax credit. Attach Form 8962	69		
	70 Amount paid with request for extension to file	70		
	71 Excess social security and tier 1 RRTA tax withheld	71		
	72 Credit for federal tax on fuels. Attach Form 4136	72		
73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73			
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74 9,520			
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75 4,326		
	76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a 4,326		
	b Routing number c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
d Account number				
77 Amount of line 75 you want applied to your 2016 estimated tax ▶	77			
Amount You Owe	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78		
79 Estimated tax penalty (see instructions)	79			
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No			
	Designee's name <input type="text"/> Phone no. <input type="text"/> Personal identification number (PIN) <input type="text"/>			
Sign Here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Your signature <input type="text"/>	Date <input type="text"/>	Your occupation <input type="text"/>	Daytime phone number <input type="text"/>
	Spouse's signature. If a joint return, both must sign. <input type="text"/>	Date <input type="text"/>	Spouse's occupation <input type="text"/>	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
	Print/Type preparer's name <input type="text"/>	Preparer's signature <input type="text"/>	Date <input type="text"/>	Check <input type="checkbox"/> if self-employed PTIN <input type="text"/>
Paid Preparer Use Only	Firm's name ▶ <input type="text"/>	Firm's EIN ▶ <input type="text"/>		
	Firm's address ▶ <input type="text"/>	Phone no. <input type="text"/>		

Comprehensive Problem 2B

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2015	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20					
Your first name and initial <i>Carl</i>		Last name <i>Conch</i>		See separate instructions.	
If a joint return, spouse's first name and initial <i>Mary</i>		Last name <i>Duval</i>		Your social security number <i>835 21 5423</i>	
Home address (number and street). If you have a P.O. box, see instructions. <i>1234 Mallory Square</i>		Apt. no. <i>64</i>		Spouse's social security number <i>633 65 7912</i>	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). <i>Key West, FL 33040</i>					
Foreign country name		Foreign province/state/county		Foreign postal code	
<div style="display: flex; justify-content: space-between;"> <div> Filing Status Check only one box. </div> <div> 1 <input type="checkbox"/> Single 2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child </div> </div>					
<div style="display: flex; justify-content: space-between;"> <div> Exemptions If more than four dependents, see instructions and check here <input type="checkbox"/> </div> <div> 6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input checked="" type="checkbox"/> Spouse c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions) d Total number of exemptions claimed </div> <div> Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶ </div> </div>					
<div style="display: flex; justify-content: space-between;"> <div> Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions. </div> <div> 7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 16a Pensions and annuities 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 21 Other income. List type and amount 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ </div> <div> 7 <i>67,500</i> 8a <i>302</i> 9a <i>175</i> 10 11 12 13 14 15a 16a 17 18 19 <i>2,700</i> 20a 21 <i>Raffle prize 800</i> 22 <i>71,477</i> </div> </div>					
<div style="display: flex; justify-content: space-between;"> <div> Adjusted Gross Income </div> <div> 23 Reserved 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid b Recipient's SSN ▶ 32 IRA deduction 33 Student loan interest deduction 34 Reserved 35 Domestic production activities deduction. Attach Form 8903 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶ </div> <div> 23 24 25 26 27 28 29 30 31a 32 33 34 35 36 37 <i>71,477</i> </div> </div>					

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Cat. No. 11320B

Form 1040 (2015)

Comprehensive Problem 2B, cont.

Form 1040 (2015)		Page 2	
38 Amount from line 37 (adjusted gross income)		38 71,477	
Tax and Credits	39a Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked 39a		
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here 39b		
Standard Deduction for— • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40 12,600	
	41 Subtract line 40 from line 38	41 58,877	
	42 Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions	42 8,000	
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43 50,877	
	44 Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44 6,709	
	45 Alternative minimum tax (see instructions). Attach Form 6251	45	
	46 Excess advance premium tax credit repayment. Attach Form 8962	46	
	47 Add lines 44, 45, and 46	47 6,709	
	48 Foreign tax credit. Attach Form 1116 if required	48	
	49 Credit for child and dependent care expenses. Attach Form 2441	49	
50 Education credits from Form 8863, line 19	50		
51 Retirement savings contributions credit. Attach Form 8880	51		
52 Child tax credit. Attach Schedule 8812, if required	52		
53 Residential energy credit. Attach Form 5695	53		
54 Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
55 Add lines 48 through 54. These are your total credits	55		
56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56 6,709		
Other Taxes	57 Self-employment tax. Attach Schedule SE	57	
	58 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58	
	59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a Household employment taxes from Schedule H	60a	
	b First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>	61	
62 Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	62		
63 Add lines 56 through 62. This is your total tax	63 6,709		
Payments	64 Federal income tax withheld from Forms W-2 and 1099	64 9,726	
	65 2015 estimated tax payments and amount applied from 2014 return	65	
	66a Earned income credit (EIC)	66a	
	b Nontaxable combat pay election 66b	66b	
	67 Additional child tax credit. Attach Schedule 8812	67	
	68 American opportunity credit from Form 8863, line 8	68	
	69 Net premium tax credit. Attach Form 8962	69	
	70 Amount paid with request for extension to file	70	
	71 Excess social security and tier 1 RRTA tax withheld	71	
	72 Credit for federal tax on fuels. Attach Form 4136	72	
73 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	73		
74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments	74 9,726		
Refund	75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid	75 3,017	
	76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here <input type="checkbox"/>	76a 3,017	
	b Routing number c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
d Account number			
77 Amount of line 75 you want applied to your 2016 estimated tax	77		
Amount You Owe	78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions	78	
79 Estimated tax penalty (see instructions)	79		
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No		
	Designee's name Phone no. Personal identification number (PIN)		
Sign Here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Your signature	Date	Your occupation
	Spouse's signature. If a joint return, both must sign.		Date
	Spouse's occupation		Daytime phone number
Paid Preparer Use Only	Print/Type preparer's name		Preparer's signature
	Firm's name		Firm's EIN
	Firm's address		Phone no.
	Check <input type="checkbox"/> if self-employed		PTIN

Key Number Tax Return Summary

Chapter 2

Comprehensive Problem 1

Adjusted Gross Income (Line 21)	<u>55,644</u>
Taxable Income (Line 27)	<u>35,044</u>
Tax Liability (Line 39)	<u>4,286</u>
Tax Overpaid (Line 47)	<u>1,214</u>

Comprehensive Problem 2A

Adjusted Gross Income (Line 37)	<u>61,373</u>
Taxable Income (Line 43)	<u>40,773</u>
Tax Liability (Line 63)	<u>5,194</u>
Tax Overpaid (Line 75)	<u>4,326</u>

Comprehensive Problem 2B

Adjusted Gross Income (Line 37)	<u>71,477</u>
Taxable Income (Line 43)	<u>50,877</u>
Tax Liability (Line 63)	<u>6,709</u>
Tax Overpaid (Line 75)	<u>3,017</u>